



TO: Mary O’Kane(mary.okane@uregni.gov.uk) and Thomas Quinn (tquinn@cer.ie)

RE: EAI Response to CRM Parameters (SEM-16-073)

Date: 21st of December 2017

Dear Mary and Thomas,

On behalf of the members of the Electricity Association of Ireland(EAI), please see below consensus positions with respect to a number of the parameters and further relevant observations on a number of others. The response is made without prejudice to outstanding concerns in relation to the overly restrictive approach to cost recovery across the ISEM Markets, as highlighted in the EAI response to the recent consultation on Offers in the ISEM Balancing Market (SEM-16-059).

1. Administrative Scarcity Price (ASP) function

- EAI supports the use of option 1 to calculate ASP during the transition period but requests further confirmation and clarification on the duration of the transition.
- EAI requests clarification on the implication in the ongoing T&SC consultation that Option 2 is a 'fait accompli'¹.
- EAI requests that a consistent approach to the pricing of partial scarcity be pursued;
 - The calculation of the notional price floor of the auction (€26/kW/p.a.) has assumed 4 hours of partial scarcity at a price of €2,000 (see section 6.3.13). This calculation assumes that the ASP option 2 was chosen. Option 1 is assumed in the calculation of the Net CONE, where there is an adjustment made for the impact of the reliability option payments and ASP. The IMR is adjusted for partial scarcity of 4 hours in the year using the price of €1,500 (see section 6.2.12). Net CONE is then used to set the auction price Cap and the existing capacity price cap.

2. Supplier Charging Base

- EAI supports Option 3 as broadly consistent with the status quo and the most efficient from a cashflow management perspective i.e. the charging base is spread throughout the year and aligned with the payment of the option fee over 12 monthly instalments.

¹ "At the request of the Regulatory Authorities, the Market Operator shall prepare and submit to the Regulatory Authorities for approval a proposed Reserve Scarcity Price Curve based on the product of Full Administered Scarcity Price (PFAS) and Loss of Load Probability (LOLP) as a function of the Short Term Reserve Quantity"(SEM-16-075, p.105, para 4.3.1)

3. Carbon Intensity Factors for Gas (CIG) and Oil (CIO) in Strike Price Formula (points apply also to calculation of Transport Adders)

- Consulting on CIG and CIO is meaningless without also consulting on the reference fuel index proposed.
- RO Strike Price should be updated daily. Using a monthly index unnecessarily increases “scheduling risk”, because within a month the fuel price which dictates the short run marginal cost of a generator may rise above the level used to set the RO Strike Price at the start of the month.
- The RAs should check that the index closely reflects the price at which a generator would buy fuel trading in the market.
- It is difficult to understand why the CRM Delivery Body has been charged with this task. At the very least, the RAs should not rely solely on the views of the CRM Delivery Body, but should also seek expert input from companies involved in trading, as well as independent third party consultancies with relevant expertise.
- It is stated in para 6.2.50 of CRM3 Decision Paper (SEM-16-039) that the choice of indices “...should be judged by appropriately qualified experts to be a reasonable indicator of prices that can be accessed by traders in the market”.
- EAI would suggest that this is only achievable by consulting with market participants on the appropriate choice of fuel indices.

4. Performance bonds

- Setting performance bond at a level greater than potential revenue is perverse and would expose participants to unreasonable risk

5. Auction Price Cap

- Base BNE cost should be re-calculated and derived for the specific circumstances of I-SEM, and should be objectively and transparently determined following a due consultation process (repeated annually). Necessary revisions include:

(1) Revised term of 10 yrs versus 20 yrs (consistent with max 10 yr RO contract);

(2) Revised WACC to reflect significantly higher risk of investment under I-SEM;

(3) Higher credit and working capital requirements under I-SEM

(4) Unrealistic IMR assumption needs corrected - i.e. should be reviewed and made consistent with the demand curve; and

(5) Forced Outage Rate (4.91%) should be reviewed and aligned with reality

6. Bid Limits (Existing Capacity Price Cap)

- EAI does not support proposals that would prevent cost recovery, undermine efficient investment incentives, threaten security of supply and that are full of regulatory risk. Under

the current proposals, the RAs' principled position that existing generators shall not recover sunk costs in the definition of Net Going Forward Costs (NGFC) is a major flaw which undermines efficient investment and the sustainability of the market.

- The proposed level of the ECPC does not allow for cost recovery, given the notional price floor required to allow for the risks associated with the change for the capacity contract to a reliability option,
- On that basis, EAI believes that the existing capacity price cap should be higher

7. Locational parameters

- EAI agrees with the RAs that the costs/risk of implementing local demand curves (as opposed to a minimum requirement) outweighs the benefits

8. Load following for secondary trading

- EAI support load following on secondary trading

In addition, EAI would also make the following observations in relation to DSU floor price in the Price Cap and billing period stop loss limits.

- The stop loss limit must balance providing Capacity Providers a performance incentive without placing excessive risk on them. The proposal in the consultation doesn't achieve this balance. The incentive to provide a hedge for suppliers across the entire Capacity Year is not strong enough and the risk is too high.
- Similarly, in relation to the DSU floor price, we feel that the proposal could be improved further.

To conclude, EAI welcomes the opportunity to provide input on the parameters of the CRM and looks forward to continued engagement on ISEM issues in 2017.

Yours sincerely,



Stephen Douglas
Senior Advisor
Electricity Association of Ireland (EAI)