



Gaelectric Holdings Plc.

Response Paper to:

CRM Parameters Consultation

Gaelectric Holdings Plc. Response

21/12/2016

Public

Confidentiality Classifications

- Strictly Private & Confidential: The highest level of classification, the document is for the recipient only
- Commercial in Confidence: The document is commercially sensitive, it should not be disclosed outside of the recipients organization and is subject to any active non-disclosure agreements
- Internal use only: The document is to be disclosed to Gaelectric employees only
- Public: The document contains no sensitive material and is suitable for disclosure to general public

Document Details

Document Name:	CRM Parameters Consultation
Revision:	Rev_1 Final
Status:	Final
Classification:	Public

1 GAELECTRIC BACKGROUND

Gaelectric Holdings plc (“Gaelectric”) are currently one of the largest independent owner and operator of windfarms on the island of Ireland. In addition to our operational assets, we are developing a number of solar projects and energy storage projects. Our storage development pipeline includes lithium ion batteries and a 330MW Compressed Air Energy Storage (CAES) project in Larne, Northern Ireland. This project has been designated a Project of Common Interest by the European Commission and has received approximately €14 Million in funding from the Connecting Europe Facility.

The capacity auction will be of the upmost importance for financing these projects, in particular our energy storage projects. For new entrant projects seeking to enter the energy market, revenue certainty is fundamental. Energy payments received over the lifetime of a project are unlikely to cover projects costs due to the issue of missing money. In any case, it is virtually impossible to finance a project on this basis alone. Project financiers need stable revenues. One of the key sources of stable revenues are capacity payments. The parameters implemented in this auction will have a profound effect on the clearing price of this auction, and subsequently will be of significant importance of when financing our projects. Therefore, we are extremely keen to see parameters that will provide both an effective entry and exit signal in the market while ensuring security of supply.

2 CONSULTATION QUESTIONS

Q1. The SEM Committee welcomes views on all aspects of this section, including whether you prefer Option 1 (as set out in Section 2.2 above), Option 2 or some intermediate option for the shape and slope of the ASP function, and why?

Gaelectric believe that option 1 should be implemented as an intermediary step before the introduction of full Administered Scarcity Pricing. After I-SEM go-live participants will be exposed to balancing risk which they have not been previously. Furthermore, there may be issues with market algorithms that require addressing similar to the GB EMR scheme after the imbalance price calculation reform. For these reasons we believe that it is prudent to adopt a conservative approach initially.

Q2. Which of Options 1 to 3, as set out in Section 3.2, do you think is most appropriate, and why? Alternatively, what other definition of the Supplier Charging Base would you chose and why?

Gaelectric believe that supplier charging should occur between 7am-11pm. There is no discernible trend in LoLP values therefore it cannot be justified to target supplier charging at any specific hours.

Q3. Which LIBOR (or other such reference rate) should be used as the BIR, and what the values of the SPR and DPR should be?

Gaelectric have no preference for which LIBOR interest rate should be used.

Q4. Do you agree with the SEM Committee’s proposed approach to set the DSU floor price at €500/MWh?

Gaelectric support the introduction of a DSU floor price of €500.

Q5. Do you agree with the approach to setting transport adders set out in section 4.4?

The transport adders as set out in the consultation are consistent with other CER modelling and we are comfortable with their use for the RO strike price.

Q6. Do you think that the Billing Period Stop-Loss Limit should be set to 0.5 times the Annual Stop-Loss Limit (i.e. 0.75 times the Annual Option fee)?

Gaelectric believe that the billing stop-loss period is too high. We believe that it presents significant cashflow risk to projects and should be lowered. Having a stop-loss this high also presents systems security concerns. While admittedly unlikely, theoretically a generator could use up their entire stop-loss in the space of two weeks. This effectively eliminates their RO incentive to generate during future stress events. Furthermore, depending on the auction clearing price, incurring losses of this magnitude in such a short period of time could threaten the future operation of a project. We therefore suggest that the billing period stop loss should be reduced to .33 times the annual stop loss limit (.5 times the annual option fee). We believe this strikes a better balance between ensuring adequate incentives for generation while providing some protection against the cashflow risk.

Q7. You agree with the approach of setting the New Capacity Investment Rate Threshold at around 50% of the gross investment cost of the BNE plant, currently estimated at €310/kW?

Gaelectric believe that this is an appropriate threshold and is in line with other capacity auctions.

Q8. You think that the SEM Committee's indicative schedule of termination fees set out in paragraph 5.3 is appropriate? Please provide evidence for your answer.

Gaelectric support the indicative schedule of termination fee's, in particular that the performance bond should not increase until after the T-1 auction. We believe that earlier increases would be unfounded as the increase in performance bond should be linked to the cost of re-procuring an equivalent volume of capacity which will likely not be done until the T-1 auction.

Q9. It is appropriate to place termination fees on capacity that does meet the definition of New Build, and if so, at what level, including:

The new capacity threshold has been introduced to determine which units are eligible for long-term contract and which are limited to 1-year contracts. While existing plants may not be required to undergo the same reporting requirements as new build units, the TSO must ensure that the consumer is not exposed to any cost should the unit be unable to deliver on its contract. We therefore believe that existing plants that receive contracts should be forced to post some bond that is surrendered should they fail to deliver on their contract.

Q10. Do you agree with the proposed adjustments to the BNE calculation approach set out in section 6.2.8 to 6.2.10? If not, explain why.

The calculation laid out in this section are in keeping with the current BNE calculation methodology and Gaelectric are happy for this methodology to continue.

Q11. Do you agree with the choice of multiple of 1.5 x Net CONE in setting the Auction Price Cap?

Gaelectric believe that setting an auction price cap of 1.5 x Net Cone will not cover all new entrant projects that may be of benefit to the system and looking to participate in the capacity auction. For

this reason we welcome the opportunity for plants that can demonstrate net going forward costs in excess of the auction price cap to bid in at that level.

Q12. Which of options A, B or C with respect to the demand curve set out in Section 6.4 do you think is appropriate for the first transitional auction, and why?

Gaelectric support the implementation of option B for the first transitional auction as we believe that it is a good balance between simplicity while not over-procuring capacity.

Q13. If the SEM Committee proceeds to incorporate locational requirements within the I-SEM CRM, do you agree that the costs/risk of implementing local demand curves (as opposed to a minimum requirement) outweighs the benefits?

Gaelectric believe that attempting to implement locational demand curves would over complicate the auctions therefore we advocate sticking with the minimum requirement when considering locational parameters.

Q14. Do you have any comments on the approach to setting the load following parameter set out in the section? Specifically do you agree with the granularity of the parameters, the proposed historically based methodology, and proposed governance approach? If not, why not and what other arrangements would you propose?

Gaelectric support the measures for secondary trading outlined in the consultation document. We believe that there will be no need for finer granularity definition of the load following parameters as there will be no discernible trend at a finer granularity.

Q15. Do you think that capacity providers should be able to trade against load following margin in calendar year +2 and any subsequent years, and should the parameters for subsequent years be scaled to 75% of the calendar year Y+1 values or some other percentage?

Gaelectric are wary of formulating load following factors for secondary trades too far in advance as system conditions may change after trades have been locked in. For this reason, we believe a prudent approach should be adopted when formulating the secondary trading load following factors for further than one year.

3 CONCLUSION

We believe that the CRM parameters will have a profound impact on the eventual auction clearing price and subsequent market entry and exit signals. Therefore, it will be fundamental to efficient functioning of the market. Gaelectric would like to thank the regulators for taking this opportunity to engage with industry on this issue and we hope that our comments will be considered in the final decision. If there are any further questions on the any points we have raised, please do not hesitate to contact us.