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15-12-2016

Thomas Quinn  
Commission for Energy Regulation  
The Exchange  
Belgard Square North  
Dublin 24

Mary O'Kane  
Utility Regulator  
Queens House  
14 Queen Street  
Belfast  
BT1 6ED

Dear Thomas and Mary,

Lumcloon Energy Limited (LEL), new entrant developer of a new 300MW flexible CCGT near Tullamore Co. Offaly and a parallel project to develop utility scale battery storage, both with a view to providing DS3 services, welcomes the opportunity to respond to the SEM Committee consultation "Capacity Remuneration Mechanism Parameters", SEM-16-073.

There are several moving parts to this consultation which interact with the other workstreams in the I-SEM. We are interested in developing our view of the regulatory impact on market entry and exit signals for new generation (and storage) investment.

Most of the capacity parameters under discussion have an impact on the signals for plant entry and exit.

In a centrally dispatched market with no long-term contracting from a TSO, it is not possible for a generator to invest on the assumption of ongoing constrained operation. Therefore, we believe the policy of the I-SEM should be an economic competition based on efficiency of energy production in the energy market and the cost of capital to deliver reliable capacity in the capacity market. These are the signals sent by the SEM today.

Our preferred options on the consulted capacity parameters reflects that design aim for the I-SEM. We note that the SEM Committee has never published any regulatory impact assessment regarding the emerging detail of the I-SEM design on the market entry and exit signals. It is left to the market to ascertain any overall policy direction underpinning its decisions.

For example, we are disappointed in the long-term direction of travel decided by the SEM Committee within the Locational Signals decision paper (SEM-16-081). **Blurring locational constraint issues which are non-market based (being as they are under the ultimate control of EirGrid) creates investment uncertainty. We have also queried constraint/locational issues within the short and long-term signals within the energy market in our response to SEM-16-075.**

There have been weak locational investment signals in the SEM (GTUoS, TLaFs), and at the start of the High Level Design it was affirmed that there would be no policy change in this regard. This now appears to be gradually changing with every consultation, without open discussion or consultation on this matter across many workstreams in the I-SEM programme. Constraint is becoming king.

Our response to the parameter consultation is summarised in the table following this letter, and supports what LEL understands to be the original documented intent of the I-SEM HLD.

The lack of a public statement from the SEM Committee regarding the basic desire for I-SEM outcomes for the market leads to concerns that it has no overall direction or it is beginning to favour certain (non-market, constraint-based) outcomes. At the very least, this silence means that the market outcomes cannot be judged against any metric other than compliance with the EU Target Model. It also means that participants cannot point to the required risk management tools needed to manage a position within the I-SEM until the overall design emerges at the end of the process, newly formed, perhaps functional, but a surprising stranger relative to what has come before with unforeseen investment outcomes.

In summary, we have a concern that the overall I-SEM design is being taken over by short-termism, i.e. get the market up and running, hide generators which have locational market power within “market mechanisms” which are unpredictable and subject to change, continue to avoid strong incentives on the TSOs to resolve underlying constraints, and let medium term investment signals for new entry remain uncertain, unpredictable and uninvestible (based as they are around constraints, and suggested future regulatory locational signal changes).

We strongly ask the SEM Committee to reaffirm whether they believe the I-SEM should send entry and exit signals for generators based on commercial merit, or based on within-bidding zone locational requirements of the electrical system. If it is indeed the latter, the SEM Committee have not provided any risk management tools to new investment generation to manage those non-market locational risks (e.g. a financially firm right to be scheduled, or in other words, pure self-dispatch). New investment will arrive later than needed, more expensive than needed, and likely with some form of negotiated state-backed guarantee to be viable in the absence of such risk management tools.

We hope our assessment is incorrect, but in any event look forward to an explicit regulatory impact assessment from the SEM Committee as to how they see the emerging entry and exit signals for new capacity in the I-SEM.

This response is not confidential and may be published in full.

Yours faithfully,



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**Nigel Reams**  
**Director**  
**Lumcloon Energy Ltd.**

<b>Parameter</b>	<b>Preference</b>	<b>Rationale</b>
Shape of Partial ASP Function	Some form of Option 2, as close to the “real cost” as possible.	Penalties for non-delivery penalise non-reliable capacity. This should improve exit signals for such capacity.
DSU Price	The value of €500 seems reasonable, but we question whether it is indexed (we prefer that it is) and static over the duration of the contract.	For clarity in formulation of RO offer price, noting the RO fee is not indexed.
Strike Price: Choice of Indices, Carbon Intensity Factors, Transport Adders	Whatever indices are chosen, we have a preference that such parameters come from a public source, and will endure for at least the length of any new CRM contract (both in terms of being published and available, and the same parameters being used in the contract subject to their ongoing quality).	To support capacity market new entrants price their RO offer.
Billing Period Stop Loss Limit	Set at 0.2 x Annual Fee, for a weekly billing period	As there is no guarantee of generator liquidity in the capacity secondary trading market, the potential of losing all capacity revenues and moving into net penalty territory within a few working days is not acceptable.
Substantial Financial Commitment	Support proposal.	Have no evidence to suggest alternative threshold.
Termination Fees	Support proposal.	Have no argument against rationale to suggest alternative threshold.
Termination Fees for all Capacity	Believe that all capacity should be either a) required to performance bond in the event that they disappear before the delivery year, or b) be required to still be bound by the difference payment arising	There is no rationale as to why failed delivery of a capacity project is materially different in terms of consumer costs to a sudden non-flagged exit from the capacity market
Auction Price Cap	Support proposal.	Have no evidence to suggest alternative threshold.
Existing Capacity Offer Cap	Support proposal.	Have no evidence to suggest alternative threshold.

<b>Parameter</b>	<b>Preference</b>	<b>Rationale</b>
Demand Curve Parameters	Support Option B	<p>In general, procuring up to 20% more capacity than is needed for 2020 in the 2018 auction seems generous with consumer's money to a fault. While this can only happen with lower cleared prices, it beds in the existing suite of non-reliable, inefficient generation which is coasting on its locational blessings. Medium term, the consumer will have to wait a further generator development cycle (e.g. generation will arrive late and expensive) with generous capacity demand curve.</p> <p>It is time for a smaller subset of generators to deliver reliably.</p>
Load Following Parameters	Support proposals.	<p>LEL notes that there is no "market maker" obligation for secondary trading in the wholesale market, and this absence creates the possibility for non-portfolio generation to be left exposed during maintenance and outages relative to competitors.</p>