

I-SEM Capacity Remuneration Mechanism - Parameters Consultation Paper

SEM-16-073

Moyle Interconnector Ltd response

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INTRODUCTION

Moyle Interconnector Ltd (Moyle) once again welcomes the opportunity to respond to this consultation. Appropriate parameter values are critical to the success of the CRM. As an existing interconnector unit, our remarks address a subset of the questions posed in the consultation paper, including the scarcity pricing, demand curve and stop-loss parameters.

Generally, we note that the parameters will need to be reviewed for each auction, especially during the transitional period, to take account of the changing capacity requirement, outcomes from previous auctions and experience gained from parameters applied in previous periods.

CONSULTATION QUESTIONS

2. ADMINISTRATIVE SCARCITY PRICING PARAMETERS

2.3.1 [...] 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?

We recommend option 1 – the simple linear function. While the RAs argue that the curve presented by option 2 more accurately reflects LoLP, the very large step option 2 delivers at initial ASP (much larger than the step to initial ASP in option 1) distorts that relationship and creates a sudden, very large exposure when the available reserve at just below 500 MW has only changed by a small amount, compared to the non-ASP price when slightly more than 500 MW reserve is available.

If a curve is required to follow the shape of a LoLP curve, then it should begin at a much larger reserve margin and much lower price, potentially as low as the strike price. Alternatively, and if the RAs are minded not to use a linear function, we recommend a piecewise linear function should be used to produce a relationship between option 1 and option 2, avoiding the sudden stepwise exposure that does not accurately reflect the continuum of the reserve - LoLP relationship.

RELIABILITY OPTION PARAMETERS

A) Do you agree with the SEM Committee's proposed approach to set the DSU floor price at €500/MWh?

Yes, since DSU is an increasingly important component of capacity and its costs needs to be reflected in the CRM.

B) On the assumption that the gas index will be a reference price related to gas obtained from the GB system, do you agree with the carbon intensity factor? Do you have another comments on the approach to setting the gas or oil carbon intensity factors?

No comment.

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

Generally yes, the maximum of the transportation costs to Ireland and Northern Ireland should be applied.

However, we note that care needs to be taken when considering gas transportation costs in I-SEM generally in order to avoid distorting the market in gas generation. Relevant aspects are the availability of short term gas capacity products and the components of transportation costs that are permitted to be included in short run marginal cost balancing mechanism bids.

D) Do you agree 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)?

Based on the RAs' own expectations of a total of 8 hours of FASP and 4 other hours of other ASP, we do not consider it likely that all these periods in a year will occur in a single billing period, or even two (consecutive) billing periods. Rather we anticipate a wider spread of events. Setting a billing period stop loss limit so high will, as the RAs suggest in the consultation paper, for a unit suffering losses gradually reduce its incentive to be available in scarcity events in subsequent billing periods.

Further, the effect of the ASP is such that, especially when demand control is triggered, a unit which is unavailable will reach its billing period stop loss limit so quickly that it has no incentive to be available later in the same billing period, which is hardly a desirable consequence.

While there is a balance to be achieved, we recommend a billing period stop loss limit that is significantly lower, perhaps around 10-20% of the annual limit. Such a limit would ensure that a unit which has faced penalties for non-delivery in a billing period would retain a clear incentive to be available in subsequent periods.

AUCTION PARAMETERS

Demand curve parameters

6.6.8 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?

For the first transitional auction we recommend option A. In that option, as the RAs acknowledge, the higher zero-crossing point is likely to lead to greater competition in the long term. Option C would be our second choice, for similar reasons. However, we acknowledge that the demand curve in auctions for subsequent years should be kept under review and revised based on an up to date capacity requirement and learning from previous auctions.

LOAD FOLLOWING FOR SECONDARY TRADING

7.2.1 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?

We agree that an annual approach to secondary trading parameters is appropriate and agree that prudent generators will want to manage their outages in the secondary market early, so that having approved load following parameters available for the complete calendar year by September is suitable.

It would be advantageous if the parameters could be aligned with the CRM year.

While the TSOs are best placed to calculate parameters based on the demand forecast, we recommend that at least the approach should be approved by the SEM Committee, since the parameters are of great importance to managing exposure in the CRM.

7.2.2 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?

In principle we agree that capacity providers should be able to trade against load following margin in Y+2 and we acknowledge that a prudent approach is required until the demand forecast becomes more reliable closer to the delivery year. We suggest that 75% figure should be reviewed each year.