

Response: Balancing Market Principles Code of Practice (BMPCOP) (SEM-17-026)

About CEWEP

CEWEP is the umbrella association of the owners / operators of Waste-to-Energy Plants, representing approximately 400 Waste-to-Energy Plants from 18 European countries. Our members make up 86% of the Waste-to-Energy capacity in Europe.

CEWEP Ireland is the Irish branch of CEWEP Europe and has two members: Indaver, which operates the Meath Waste-to-Energy Facility and is proposing to develop similar facilities in Belfast and Cork; and Covanta, which is currently commissioning the Dublin Waste-to-Energy Facility. By 2020 it is anticipated that members will have a total treatment capacity of over 1,070,000 tonnes per annum residual waste and export more than 90MW electricity and/or heat.

Introduction

As per our consultation response to SEM-16-059, CEWEP members were against the formulaic rules approach, given the following rationale:

“We are concerned that the uniqueness of CEWEP members’ facilities from a cost-base perspective will lead to the latter scenario arising, i.e. insufficient recovery of costs arising from an inadvertent omission/oversight of allowed costs within a formula.”

In general, with the growth in new generation technologies (e.g. storage mixed with conventional generation) we believe that the governance of these rules will become incredibly onerous, and if not sufficiently flexible a barrier to alternative production methodologies of energy.

Nevertheless, given the decision in SEM-17-020 to utilise formulaic rules, we hold some serious concerns with the drafting of the opportunity cost provisions in the Code of Practice. We focus specifically on the co-generation elements, where we believe waste-to-energy should be considered.

39. *Where the generation of electricity is associated with additional processes other than generation, the OC of generating electricity for delivery to the [Single Electricity Market] shall reflect the value of the use of electricity, or heat used to generate electricity, or both, in those associated processes.*

40. *In accordance with paragraph [39], the Eligible Cost Items that a co-generation unit may include in the calculation of its Commercial Offer Data shall reflect, as relevant, the cost of generating heat using alternative processes or the value of lost production.*

Section 39

Firstly, the production of electricity is secondary to the requirement to process waste for CEWEP members. Changes to the level of exported energy will ultimately result in foregone gate fees for the production of energy. This is a legitimate short-run cost associated with changes in electrical generation, so Paragraph 39 should acknowledge that these costs are not necessarily linked just to the use of the electricity or heat foregone. Changes are proposed in **bold**.

*39. Where the generation of electricity is associated with additional processes other than generation, the OC of generating electricity for delivery to the [Single Electricity Market] shall reflect **either***

*a. the value of the use of electricity, or heat used to generate electricity, or both, in those associated processes; **or***

b. the incremental cost of disruption to those associated process arising from a change in the level of generation delivered to the [Single Electricity Market].

Paragraph 40

Secondly, energy revenues are an important consideration in the setting of those gate fees. Lost production of electricity revenues (where this would occur) would ultimately be reflected in a change in gate fees. This is complex and circular, with cumulative dispatch over periods longer than a Trading Period impacting future short-run costs that most certainly can be expressed over a Trading Period. It has certain parallels with variable maintenance costs in that regard. We do not believe Paragraph 40 adequately captures such effects. We also believe that paragraph 40 should also refer back to Section IV for clarity as currently co-generation costs are not explicitly linked to the creation of the three-part offer in that Section. Alternatively, Section IV should make references to all the special provisions throughout the document. Changes are proposed in **bold**:

*40. In accordance with paragraph [39], the Eligible Cost Items that a co-generation unit may include in the calculation of its Commercial Offer Data shall reflect, as relevant, the cost of generating heat using alternative processes or the value of lost production **of the associated processes referred to in paragraph 39. The value of lost production in this paragraph 40 refers to any short-run incremental cost increase or short-run revenue foregone impacting the commercial operation of those associated process, and shall be attributable to the price quantity cost component, no-load costs component and start-up costs components incremental to those items listed in, and under the same principles as other eligible cost items, in Section IV.***



Conclusion

CEWEP wishes to ensure that the short-run impact of changes to the generation running levels on the waste management business can be adequately captured in a three-part offer on an equivalent basis to other conventional plant. We believe that the requested changes are proportionate and reasonable, and would welcome further discussion with the SEM Committee should the SEM Committee have concerns with these proposal, so CEWEP can better under the SEM Committee's position and potentially reach consensus (or a degree of comfort) with alternative drafting.