

Integrated Single Electricity Market (I-SEM)

Capacity Remuneration Mechanism Parameters Consultation Paper SEM-18-009

A Submission by EirGrid and SONI

19th April 2018



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1 EXECUTIVE SUMMARY

EirGrid and SONI welcome the SEM Committee's consultation on the I-SEM Capacity Market Parameters. The values at which these parameters are set are an important component of the overall Capacity Market design.

We welcome the greater clarity provided by the indicative timetable and broadly agree with the timings with some concerns outlined below. We support the inclusion of the LCC analysis in all future Capacity Auctions to ensure that where locational capacity constraints exist, they can be considered as part of the Capacity Market. In this regard, we are confident that the changes to the Capacity Auction algorithm for Option C can be delivered by Mar 2019.

Beyond this we would have some concerns about the timelines for the enduring arrangements in that the areas of change – the algorithm, the treatment of DSUs and the treatment of cross zonal capacity are among the more challenging and complex areas of the Capacity Market. To implement these changes by Mar 2020, work needs to begin immediately on the requirements.

We agree with the proposed approach for the parameters for the T-1 Capacity Auction for 2019/2020 including on the proposals for Long Stop Dates and Termination of Capacity. As a general point in respect of Long-Stop Dates, we believe there may be merit in allowing New Capacity offers with short to medium length Maximum Duration Offers (e.g. three years) to be considered when satisfying Locational Capacity Constraints.

2 INTRODUCTION

2.1 EIRGRID AND SONI

EirGrid holds licences as independent electricity Transmission System Operator (TSO) and Market Operator (MO) in the wholesale trading system in Ireland, and is the owner of the System Operator Northern Ireland (SONI Ltd), the licensed TSO and MO in Northern Ireland. The Single Electricity Market Operator (SEMO) is part of the EirGrid Group, and operates the Single Electricity Market on the island of Ireland.

Both EirGrid, and its subsidiary SONI, have been certified by the European Commission as independent TSOs, and are licenced as the transmission system and market operators, for Ireland and Northern Ireland respectively. EirGrid also owns and operates the East West Interconnector, while SONI acts as Interconnector Administrator for both of the interconnectors that connect the island of Ireland and GB.

EirGrid and SONI, both as TSOs and MOs, are committed to delivering high quality services to all customers, including generators, suppliers and consumers across the high voltage electricity system and via the efficient operation of the wholesale power market. EirGrid and SONI therefore have a keen interest in ensuring that the market design is workable, will facilitate security of supply and compliance with the duties mandated to us and will provide the optimum outcome for customers.

EirGrid and SONI have duties under licence to advise the CER and UR respectively on matters relating to the current and expected future reliability of the electricity supply. We have also been allocated responsibility for administering the Capacity Market Code through our TSO licences and the MO is responsible for settlement of the Capacity Market through the Trading and Settlement Code. This response is on behalf of EirGrid and SONI in their roles as TSOs and MO for Ireland and Northern Ireland, including as operators of the Capacity Market.

3 EIRGRID AND SONI VIEWS ON THE CONSULTATION TOPICS

3.1 GENERAL POINTS

EirGrid and SONI agree with the proposed approaches set out in the sections on *Capacity Year 2019/20 T-1 Parameters* and *Long-Stop Date and Termination of New Capacity*.

As a general point in respect of Long-Stop Dates, we believe that there may be merit in considering whether offers from New Capacity with a short to medium length Maximum Capacity Durations (e.g. three years) could be considered to satisfy Locational Capacity Constraints. Currently, these offers cannot be considered unless they are exempted by the RAs. This may require modest changes to the Capacity Market Code but could provide the necessary certainty to promote further investment in New Capacity.

We have no comments to add on the section on *De-Rating Factors*. Our views on the section on *Auction Timings* are set out in the next section.

3.2 AUCTION TIMINGS

1) *Do you have any comments on the indicative auction timetable set out in this section?*

EirGrid and SONI are broadly supportive of the indicative auction timings set out in the consultation paper. It is clear that the proposed dates factor in a number of requirements arising from the State Aid Decision. Nevertheless, the three areas where changes are required represent some of the more complex changes to the Capacity Market and we would suggest that the dates for the each auction are not finalised until clear plans are in place to develop and implement the proposed requirements.

While we understand from the consultation this will be the subject of a separate consultation, the System Operators believe that it is appropriate to include the Locational Capacity Constraint analysis as part of the T-4 auction process. Carrying out this analysis ensures that the RAs are in a position to make an informed decision about the need for Locational Capacity Constraints based on a clear well defined methodology.

Rather than presume that no capacity constraints exist in the 2022/23 Capacity Year, the System Operators believe that it would be prudent to carry out the Locational Capacity Constraints analysis and allow this process to identify if constraints are likely to exist. If the analysis does not identify any constraints then the auction proceeds unaffected without Locational Capacity Constraint areas defined; if however constraints are identified, then it is possible for the RAs to include these constraints in the auction.

It is therefore important for maintaining security of supply in Ireland and Northern Ireland that the T-4 auction include the Locational Capacity Constraint analysis. In this regard, we have considered changes to algorithm necessary to implement the Option Format C and we would be confident that, were this required, the necessary changes could be implemented by Mar 2019.

Beyond this, further work is necessary to define what is required for the Option Format D and any Mar 2020 date would need to be considered against the time required for implementation.

Regarding the proposed March 2020 date for the 23/24 T-4, we would consider it ambitious to deliver the enduring arrangements for DSUs and cross zonal capacity by this time. While elements of the enduring arrangements for DSUs already exist in the I-SEM arrangements, this is an area of considerable complexity that has the potential to impact on the wholesale energy market, the retail market and the various metering arrangements. We believe that this work needs to be undertaken and therefore it is important that clear implementation plans are established early between all the relevant parties.

Similarly, the complexity of enabling the participation of GB capacity in the I-SEM Capacity Market is considerable. In particular, any implementation would need to be agreed with our counterparts in the GB Capacity Market. Again, given nature of the changes and the broader uncertainties involved, it is critical that clear implementation plans are established between all the relevant parties.

In the medium term, as operators of the Capacity Market, we would be keen to establish a biannual auction cycle as soon as possible where T-1 auctions take place 6 months in advance of the beginning of the Capacity Year in March and T-4 auctions take place 4 years in advance of the relevant Capacity Year in Sept. This avoids overlap between the approx. six month processes that precede each Capacity Auction. In this regard, we welcome the greater clarity provided by the indicative timetable.