I-SEM – Capacity Remuneration Mechanism (CRM) State Aid Update, 2019/20 T-1 Capacity Auction Parameters and Enduring Storage De-rating Methodology (SEM-18-009)

Moyle Interconnector Limited response

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Preamble

As an interconnector owner, we welcome the efforts of the regulatory authorities to develop arrangements for cross-border participation in the I-SEM CRM. In the I-SEM detailed design stage we submitted significant comments on these matters in response to the SEM Committee paper on cross border participation (SEM-15-104 CRM Consultation Paper 2). While the remarks we made at that time remain valid, we do not reproduce them in full here. Rather, we focus on the principle of cross-border participation and the specific questions posed by the SEM Committee at this time.

In the I-SEM design interconnector flows are determined at day ahead by the EUPHEMIA algorithm and adjusted by the results of two cross-border GB-SEM auctions run by the power exchanges, so that flows are based on the price spread between the interconnected markets. Unlike the current SEM arrangements, no participants are directly linked to the interconnector flows. The outturn market prices, which determine the interconnector flow, will be determined by the balance of supply and demand in each market as a whole. It is therefore difficult to see the security of supply value in targeting capacity agreements at a limited number of specific market participants, particularly in a market that does not support explicit nominations across an interconnector.

Cross border capacity benefit is supplied by the interconnector providing access to the entire cross border generation fleet. This, together with the complexity of any other arrangement and the desire to have some consistency with neighbouring capacity mechanisms, leads us to the view that an interconnector led approach is the appropriate route for cross border participation in the I-SEM CRM until a consistent approach can be delivered across the EU rather than in an ad hoc manner across a limited number of borders.

The significant advantages of the interconnector-led approach as an interim measure are that it does take account of the security of supply contribution from the interconnected market and is a proven approach in use at this time.

As detailed proposals for explicit cross-border participation are developed, we shall look forward to reviewing those through further consultation papers and providing feedback on their feasibility, efficiency and compatibility with long term European arrangements.

CONSULTATION QUESTIONS

AUCTION TIMINGS

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

Our only comment is to agree with the SEM Committee's assessment that cross-border participation in the CY2022/23 T-1 auction requires further consideration, since it should be expected that interconnectors will already have acquired reliability options for that year in the T-4 auction. In reality it does appear to be unlikely that a solution for explicit cross-border participation can be developed and implemented in time for the T-4 auction for that capacity year, so the logical consequence is that interconnector participation at T-4 is appropriate and therefore that that explicit cross-border participation is unlikely to be feasible in the T-1 auction.

CAPACITY YEAR 2019/20 T-1 PARAMETERS

Do you agree with the SEM Committee's minded to position to keep the parameters (excluding capacity requirement and de-rating factors) for the CY2019/20 capacity auction consistent with the CY2018/19 parameters?

We are content with the SEM Committee's minded to position.

DE-RATING FACTORS

1) Do you agree with the proposed modification to the treatment of outages for small and embedded capacity in GB in the interconnector de-rating methodology?

We would be concerned that the forced outage rate for small and embedded capacity in GB is too high, and we note that the SEM Committee considers 7% to be a 'conservative assumption'. The effect of a higher forced outage rate is that the effective contribution to security of supply available from the interconnected market is reduced. In turn that increases the costs of procurement of sufficient de-rated capacity from the local market, pushing prices higher for consumers.

The growth in small scale and embedded generation in GB is a very significant evolution of that market so that this forced outage rate is applied to a large portfolio of generation. Further, outages in a large number of small units have a reduced effect on security of supply compared to outages of large plant (as each the small unit outages would need to be coincident to have the same effect as a large plant), as recognised in the current approach to de-rating curves in the I-SEM CRM.

It is therefore important that a prudent rather than conservative approach is taken in order to more accurately represent cross-border contribution to security of supply and reduce costs to SEM consumers.

2) Do you agree with the use of a least-worst regrets approach to the choice of GB generation scenario used to set EMDF?

We are content with use of the least-worst regrets approach, which is both a reasonable approach and consistent with the method used in the GB Capacity Market, for example.

3) Do you agree with the approach that the EMDF need only be determined for the GB market for CY2019/20 in the absence of interconnection with other markets?

Yes, in the absence of an interconnector to another market this is a sensible approach.

4) Do you have any response to the storage related questions raised by the TSOs in their paper, which are listed in paragraph 6.3.3 above.

We broadly agree with the SEM Committee that a specific de-rating approach is necessary for storage, since units with that are able to deliver for shorter periods may be significantly less likely to deliver through the duration of a stress event, but we offer no detailed comment on the storage related questions.

5) Do you have any response to the other energy and run-hour limited generation related questions raised by the TSOs in their paper which are listed in paragraph 6.3.5 above.

We broadly agree with the SEM Committee that a specific approach is required for energy and run-hour limited units, since the additional running constraints on these units may affect their ability to deliver in a stress event, but we offer no detailed comment on the energy and run-hour limited generation related questions.

LONG-STOP DATE AND TERMINATION OF NEW CAPACITY

Do you agree with our revised proposals for Long Stop Dates and Substantial Financial Completion dates as set out in the section, and summarised in Table 4?

We offer no comment on the SEM Committee's revised proposals.