



***Response to Integrated Single Electricity Market (I-SEM)
Capacity Remuneration Mechanism
Parameters for T-4 2022/23 Capacity Auction Consultation
Paper***

SEM-18-028

**On behalf of
AES Kilroot Power Ltd and AES Ballylumford Ltd**

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Capacity Remuneration Mechanism Parameters Consultation Paper

AES welcomes the publication of the consultation on I-SEM Capacity Remuneration Mechanism (CRM) Parameters Consultation paper (SEM-18-028) and the opportunity to provide comments on the issues raised. Pursuant to the request, AES would like to submit the following consultation response to the Regulatory Authorities.

The SEM Committee should reflect the transmission constraints in the T-4 auction.

As noted in the consultation paper, the SEM Committee decided to reflect transmission constraints in the transitional T-1 auctions via the CRM Locational Issues decision (SEM-16-081). The results of the CY 2018/19 auction reflect the importance of including locational capacity constraints within the capacity auction when a significant transmission constraint exists. An unconstrained auction would not have delivered the minimum MW required for capacity adequacy in both the Greater Dublin area or in Northern Ireland. The inclusion of transmission constraints in the CY 2018/19 auction led to the award of an additional 399MW of out of merit Reliability Options in the Dublin area and 126MW in Northern Ireland.

AES shares the opinion of the SEM Committee that we cannot be sufficiently confident that transmission constraints will not be alleviated prior to the T-4 auction. Specifically, the impasse on restoration of the government in NI and the decision that Ministerial approval is required for sign off on major infrastructure projects provide little confidence that a decision on the North-South Interconnector and resolution of transmission constraints of the Level 1 areas for Ireland and Northern Ireland are unlikely to be resolved prior to the CY 2022/23 auction.

Promoting a stable and reliable system necessitates the SEM committee constructing an auction based upon known parameters which at this time includes reflecting the known transmission constraints in the T-4 auction.

The SEM Committee should allow multi-year pay as bid Reliability Option to compete on the same basis against single year offers, but only where the multi-year offer is priced at or below Net CONE (Option 2, Section 2.2.7)

AES supports the decision to allow a change in the rules which previously prevented a new entrant from gaining a multi-year contract in the transitional auctions and that this is possible provided the bid price is at or below Net CONE – Option 2. Limiting the bid to Net CONE and the delivery period of 1 year will curtail who can apply for this option in any case and reduce the impact of any stranded asset. This also allows for the acceptance of a multi-year bid above NET CONE if there were no other option to meet the minimum MW requirement.

The generation mix of Ireland and dispatch profiles have undergone significant transformation in recent years with further change anticipated this is leading to ongoing reviews on what form new generation should take. Given that new generation may well be required for system security and that it is unfeasible at this late stage to reverse previous commitments to the EC regarding state aid, AES believes there is a significant risk of incentivising the construction of what could become stranded assets. Therefore, AES agrees that in order to protect the consumer, additional limits on new generation are required until transmission constraints are alleviated.

In regard to the CR Methodology, the SEM Committee should tighten the Loss of Load Expectation (LOLE) to a 3 hour standard and include a 500 MW operating reserve in the Capacity Requirement (CR).

The CR is a key input to the Auction Demand Curve. The two key policy decisions being taken up by the SEM Committee are the Loss of Load Expectation (LOLE) and whether to include reserves in the Capacity Requirement. AES supports moving to both a 3-hour LOLE standard and including 500MW of operating reserve in the CR. As noted in the consultation paper, both a 3 hour LOLE requirement and inclusion of operating reserves moves to harmonize the CR across the European Commission (EC). Furthermore, a 3-hour LOLE would be similar with most markets in that same regional co-ordinated zone (CORESO).

Additionally, AES believes a 500MW operating reserve margin is more practical. The inclusion of operating reserves in the CR is a necessity given the importance of market reforms considering the EC State aid decision preventing the over procurement of capacity due to location constraints as was allowed in the previous auction. Ensuring reliability should be paramount and inclusion of a 500 MW operation reserve margin provides sufficient reserves to cover the event which would apply if the largest infeed, EWIC, is operating at full capacity.

The SEM Committee should move to the option of a 25% of Value of Loss Load (VoLL) value for Full ASP and move to setting VoLL on the October to September year.

Retaining both parameters to the aforementioned would be consistent within the context harmonization across the EC and will align the parameter with the ISEM Capacity Year. Furthermore, ISEM is still a transitioning market. A percentage of VoLL for the Full ASP greater than 25% would put additional financial risk on the system's generation during both a transition to ISEM and as the Islands energy markets transitional to a larger renewable and intermittent generation footprint. When initial Full ADP was proposed and aligned with the Euphemia Price Cap in the CRM design process it was envisaged that participants would have a substantial transition period to adjust to the new arrangements and to manage risk. However, with the two subsequent delays of I-SEM Go Live this transition period has been significantly reduced and AES supports the retention of the initial Full ASP for at least the 2019/20 T-1 Auction. AES recognises the desire to align with GB and EU parameters in due course but also that GB will only move to £6000 /MWh in November of this year following a decision taken in April 2015 and significant period of operation at £3000/MWh.

The SEM Committee should eliminate any Holdback from the T-4 Capacity Auction. At the very least, the holdback should not be increased from 5% to 7.5%.

The very nature a holdback is to foster participation in the capacity auction for short-lead time resources and environmentally friendly demand side response. As evidenced in the results of the first T-1 auction, participation of DSU has grown significantly. In the T-1

auction a total of 619 MW of DSU capacity qualified for the first auction, of which 372 MW was from existing DSU capacity and 248 MW of new DSU capacity. The total Qualified DSU represented 8.8% of the total Capacity Requirement. Clearly this growth signals that the original holdback parameter is serving its purpose. Furthermore, the very nature of the holdback itself represents price suppressive behaviour and conflicts the very purpose of a forward capacity procurement in the first place, which is procuring capacity three years into the future ensure certainty that there will be sufficient resources to cover demand, while sending a clear market signal for the entry/exit of generation. Lastly, the consultation paper mentions that the experience of the US market has been that it is difficult for DSUs to compete at the T-4 stage. Evidence from the PJM markets in the US would point to the contrary. In PJM's submission to The Federal Energy Regulatory Commission (FERC) PJM filed for elimination of the holdback¹.

¹ See, PJM Interconnection, L.L.C. filing for revisions to OATT and RAA re Capacity Performance, FERC Docket No. ER15-623-000 Submittal: 20141212-5126, pp 75-77.