
Integrated Single Electricity Market

Capacity Remuneration Mechanism (CRM) Parameters for T-4 2022/23 Capacity Auction SEM-18-028

Consultation Response from



June 2018

1 Context & Recommendations

Context:

Bord na Móna welcomes this opportunity to respond to this important consultation.

- We are pleased to have this opportunity to contribute to the design of the CRM for the T-4 2022/23 Capacity Auction

A central theme of our ISEM related responses is that we recognise how critically important it is for the RA's to ensure, at a most fundamental level, that there is a secure level of supply, and to ensure this supply, there needs to be a sufficient level of revenue certainty to financially support the supply¹ base business model – be it for existing or new supply. In this context we would note the dynamic nature of increasing demand going forward driven by datacentres, electric vehicles, the electrification of heat, etc.

- We also recognise that there is a system need for an increasingly efficient economic delivery to maximise social welfare but we realise that that this needs to be achieved by following a path, ie., on an incremental basis so as to ensure security of supply as priority on this transitional journey.

There are clearly just three main revenue streams potentially available to capacity providers: Energy, Capacity and Ancillary services. These are generated using 'existing' technologies and services as well as 'new' technologies and services. We fully understand and embrace that that new technologies, of which BnM will be a provider, will become more prevalent in the future, and our responses are framed within this context.

- The key point we wish to emphasise is that this journey will be a transition which prudence would suggest should involve a degree of caution and surety of foot – where this point applies equally to existing as well as to new technology – and equally to capacity providers and the System Operators/Regulatory Authorities.

Integral to this is the investor case; if there is insufficient commercial surety to capacity providers, there will be insufficient signal for investment (continued existing or new) with the associated threat to Energy security as well as the capacity needed to support achievement of the RES target to 2030 with the necessary ancillary services.

Our most fundamental recommendation is to advocate a no regrets approach which allows a sustainable supply delivery model for both the System Operator and the Supplier/service Provider, while ensuring value to the consumer.

Recommendations:

These recommendations are underpinned by prudence such that both existing and new investors each get the appropriate chance to contribute to the successful transition to a decarbonised power system by supporting secure supply. Addressing each of the Questions:

2.3 Constraints:

1. Transmission constraints need to be reflected; we welcome the RA's approach in supporting the same
 2. Multi-year contracts price determination should be 'Pay as Clear' rather than 'Pay as Bid', provided that there is no consequential budgetary displacement of payments to other participants (new or existing) by adopting a 'pay as clear', in preference to a 'pay as bid' approach.
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3. We see merit in Option 3, allowing multi-year pay-as-bid ROs to compete against single year offers at any price up to the Auction Price Cap.

3.5 Auction Format:

4. Notwithstanding the State Aids decision (SADs) we would firmly support a position to retain Auction Format B, to the exclusion of Format C, for as long as there are significant transmission constraints or lack of take-up by new local capacity; while outside the scope of this consultation, incentivising the TSO to alleviate the constraints, as we transition from a centralised synchronous to a decentralised² and asynchronous power system, needs to become a priority. At present, and ultimately to the detriment of the consumer, there is no visibility of an alternative position to such constraints or take-up for the first T-4 auction. We believe that there is precedent in the SADs which supports this 'Auction Format B' position and recommend that efforts are made to confirm, via an appropriate objective analysis, that Option B be retained until there is visibility of a lack of transmission constraints or take up by new capacity, such that unfair displacement of existing capacity, built with legitimate expectation of a mechanism that delivers the missing money from the Energy market, does not occur.
5. With regard to the TSOs proposed AASM (Alternative Auction Solution Methodology) for implementing the new auction format, as set out in Appendix A, (on the basis of what is presented against the potential Option C auction format) we have no issue that the AASM may reduce the range of combinations of inflexible Price Quantity pairs, however we believe that the specification of two separate N parameters (N1 for the number of offers below the base solution and N2 for the number of offers above the base solution) may be over-complicated at this stage of the process; perhaps needs to be simplified by using the number of offers above the base solution only. Recent examples of poor outcomes from excess complexity in auction design (DS3 combinatorial auctions) is fresh in the collective mind of market participants.

4.6 Capacity Requirement:

6. Notwithstanding the State Aids decision for displacement we firmly support a position to retain Auction Format B, which involves 'additionality' for as long as there are significant transmission constraints and a call to incentivise the TSO to alleviate these constraints.
7. We set out a case which supports Option B (additionality) by considering the interaction and replaceability of capacity volumes arising from a) transmission constraints in comparison with b) appropriate levels of operational reserves.
The inclusion of transmission constraints in the CY2018/19 auction led to the award of an additional 525MW out of merit ROs in Dublin and Northern Ireland.
In comparison, the appropriate level of operating reserve we would select – as being Option 5, is to include 500MW, the maximum target operating reserve requirement as being most appropriate, based on this quantum representing the largest single infeed from EWIC at times of scarcity, ie, when it is needed most.

This highlights the question as to why one would move from a system (Option B Auction format, with additionality) which provides investor confidence, ensures Security of Supply, and forms a baseline for incentivising removal of system constraints – to one which does not (Options C & D, with displacement).

5.4 Administered Scarcity Pricing Parameters:

8. In consideration of the options for the % value of full ASP we favour Option B, as it seems likely that the ACER consultation, as part of harmonisation within the EU, would correspondingly increase the Euphemia Day-Ahead price above its current €3,000/MWh to €6,000/MWh,

² 'Decentralised' here means say a wind farm in West of Ireland providing power used in Dublin, ie, not close to load

thereby removing the potential incentive for participants to withdraw from the DAM so as to benefit from potentially higher BM prices. This would also reward reliability.

6.5 Auction Volumes and Demand Curve:

9. We believe that the proportion held back for the T-1 CY2022/23 auction should be well in excess of 7.5%. We take the view that more volume should be held back from the T-4 auction for the T-1 auction, thereby ensuring greater likelihood of a more efficient solution for the relevant CY. While we recognise that the purpose of T-4 auctions (vis a vis nearer term T-1 auctions) is fundamentally to encourage new investment, we caution against providing for excessive volumes in those T-4 auctions, which inherently carry more risk given the real risk of non-delivery when auction winners model that necessary future T-4 revenues will not be delivered via the Energy & Ancillary Services markets. T-1 auctions will inherently yield more economically efficient solutions vis a vis T-4 auctions for existing capacity, which as we have mentioned, will largely boost the level of ancillary services required to support high levels of SNSP/Renewables.
10. We believe that the minimum MW in each constrained area should be adjusted for volumes withheld from the T-4 auction to the T-1 auction for CY2022/23; this is sensible; also
11. We support demand curve Options B as the most appropriate for the first T-4 capacity auction, because if less than the Capacity Requirement is bought in the T-4 auction commensurately more will be purchased in the T-1 auction for which there will be greater market visibility and a more efficient outcome.

7 T-4 Auction Price Caps for Capacity Year 2022/23

12. We agree with the proposal to keep the Auction Price Cap (APC) and Existing Capacity Price Caps at their specified multiples of Net CONE for the T-4 auctions, where the new final value of the BNE Net CONE for CY2022/23 is to be used. We believe this is likely to be increased somewhat from the current Net CONE.
13. We propose that there is more clarity of Unavoidable Future Investment (UFI) eligible costs particularly in relation to the smearing forward of historic costs.

8.2 Derating Factors

14. Our views on the proposed EMDF (external market re-rating factor) for the Interconnectors; this proposed rate, as we know is singular, it is 60% - without any further range analysis. Given the sensitivity of EMDF to outage rates (ranging from 32% to 95% from small changes in outage rates) it is surprising that further range analysis has not been brought into the analysis in terms of a measured impact on Ireland's security of supply and LOLE. This omission does not appear sensible and we recommend that this is addressed.
15. On the issues around transitioning from the interim to the hybrid solution for cross-border trading of capacity we realise that the issues are complex and extremely impactful on both existing and new generators in Ireland and firmly recommend that a workshop is required given their importance.

9.2 New Capacity Investment Rate Threshold

16. Regarding keeping NCIRT at €300/kW; the €300/kW figure was set at 40% of the gross investment cost of a BNE plant, where this decision was informed by the international benchmarks discussed in SEM-17-022. This approach should be retained and adjusted as

required in line with the decision paper on SEM-18-025 regarding the BNE Net CONE for the T-4 Capacity Auction for 2022/23.

2 SUMMARY OF CONSULTATION QUESTIONS

2.3 Treatment of Constraints in the T-4 Auction

1) Do you agree with the SEM Committee's proposal to reflect transmission constraints in the T-4 auction? Please explain your rationale.

Yes, we agree with the sentiment expressed in the paper which indicates that there is a continued need to (carefully) manage exit and/or entry in the CY2022/23 via the inclusion of transmission constraints in the CRM auction.

The paper itself expresses the reasons, with which we agree, as being due to:

- a) the fact that there remains a significant challenge before assurance that transmission capacity constraints in Level 1 areas of Ireland & Northern Ireland and Level 2 Greater Dublin will be resolved. The SEM itself is threatened. There will be under-capacity in Northern Ireland without SEM, with further potential complications arising from the full impact of Brexit.
- b) the high growth demand forecast for Ireland, with a significant proportion likely to be driven by datacentres locating in the currently constrained greater Dublin area
- c) it being better to have some educated estimate of where locational constraints will arise, based on current market knowledge, than to have none at all

We welcome SEMC's proposal to reflect transmission constraints in this first T-4 auction, and for the foreseeable future which marks a relatively considered and prudent approach by the Authorities.

2) Do you have any comment on the possible inclusion of multi-year pay-as-bid Reliability Options to meet the minimum Locational Capacity Constraint requirement?

While we recognise the merit of facilitating efficient new entry in constrained areas. In general we do not support the principle of pay as bid. The appropriate price determination should be 'pay as clear'. Consultation on DS3 System Services Volume Capped Competitive Procurement of March 2018, in relating to price determination for services in DS3 Volume Capped services stream, acknowledges that:

'A pay-as-bid mechanism is generally seen as preferable in market power scenarios i.e. where market liquidity is relatively low. Conversely, pay-as-clear pricing is generally seen as a more 'market like' approach and given this, is generally favoured by European Framework Guidelines as the means by which to determine a price for services³.'

With regard to liquidity we note from 2.2.6 that 'there is expected to be reasonable scope for competition from new entrants in T-4 auctions, suggesting that, in setting Parameters, that the market is expected to be liquid – therefore why pay as bid?

Our assumption in setting out this position is that, that there is no budgetary displacement of payments to other participants (new or existing) by adopting a 'pay as clear', in preference to a 'pay as bid' approach.

³ '4.2.6 Price Determination' Consultation on DS3 System Services Volume Capped Competitive Procurement DS3 System Services Implementation Project 29 March 2018

3) Do you have a preference between the options set out above in relation to pay-as-bid offers?

Please explain your rationale.

We see merit in Option 3, allowing multi-year pay-as-bid ROs to compete against single year offers at any price up to the Auction Price Cap. This is the most aligned with the Assessment Criteria outlined in 1.2 of the paper given that a stranded asset is less likely to result than in option 2, thereby delivering on the 'Stability' criterion. Also there is some mitigation of the 'Security of Supply' risk associated with Option 2.

Investor confidence will only be realised where there is stability and where there is an appropriately balanced risk between the investor and the authorities, such as with Option 3.

A secondary point is that we favour 'pay as clear' in preference to 'pay as bid' for reasons outlined in response to 2.3.2 above.

Again, our assumption in setting out this position is that, that there is no budgetary displacement of payments to other participants (new or existing) by adopting a 'pay as clear', in preference to a 'pay as bid' approach.

3.5 Auction Format

1) Do you have any comments on the SEM Committee's proposal to move to an auction format based on Auction Format C for the CY2022/23 T-4 auction, following the State aid decision?

We would strongly argue a position to retain Auction Format B for as long as there are significant transmission constraints, for which there is no visibility of an alternative position or take-up by new local capacity, for the first T-4 auction.

We believe that the assumption that it is better to displace a unit which clears at auction by one which does not, flies against the laws of legitimate expectation – and we note that the State Aids Documents (SADs) has much to say in this regard.

While the SAD provides for moving towards a displacement format it appears to do so very reluctantly. We note the balanced paragraphs (49) and (152) in the SAD which highlight real concerns which support the retention of Auction format B.

- a) Para 49 expresses concerns that by not displacing the marginal capacity provider but being contracted on top of it better reflects the long term needs of the system as it awards a contract to the marginal capacity which is competitive and will be needed once the transmission constraints are removed.
- b) Para 152 recognises the threat to system security, expressing that it must be recognised that without the additional capacity the reliability standard might not be met on a regional level. It continues that, because of the existing capacity constraints in the transmission network, the normally procured capacity might not be able to prevent loss of loads events.

In this regard we would note the dynamic nature of increasing demand going forward driven by datacentres, electric vehicles, the electrification of heat, etc.

It is really only paragraph (156) which talks about reducing the total amount of capacity to offset the additional capacity required to meet locational constraints. It actually concedes the limited inefficiency of Option B by indicating that the authorities underline that the expected over procurement is limited to 4% to 5% of the total capacity requirement.

One would have to sensibly conclude that there should be sufficient manoeuvre within the legal interpretation of the SAD, and that there is a legitimate case to justify the retention of Option B for the future period, ending only when there is visibility of a lack of transmission constraints or make-up by new capacity, such that unfair displacement of clearing plant does not occur.

Inherent within the response above is our support for the Locational Capacity Constraints methodology in parallel with Auction Format B.

Lastly we re-inforce the point which we have made in many previous responses that there is a journey to be taken in delivering the desired solution. In addition to the displacement issue the current context is that there is a clear threat to existing assets which may financially expose them ahead of the availability of new technologies and services, which could threaten grid supply security, RES targets and overall consumer welfare. Likewise the degree of revenue uncertainty places a significant risk of under investment for new technologies and services.

The key recommendation is to take a prudent approach by transitioning from existing to new technologies/suppliers at a pace such the existing technologies/suppliers will underpin this transition by adding much needed security of supply – rather than going for the perfect solution day 1, risking load shedding, shortfall in RES attainment, reputational damage and non-optimal solutions for the consumer.

This rationale underpins our responses and recommendations with regard to choice of Auction format, and particularly our responses relating to Interconnector capacity.

2) Do you have any comments on the TSOs proposed AASM for implementing the new auction format, as set out in Appendix A, or the RAs' proposed change to the N parameter?

In our response to 3.5.1 above we have already expressed our support for Option B.

We have no issue that the AASM may reduce the range of combinations of inflexible Price Quantity pairs, however we believe that the specification of two separate N parameters (N1 for the number of offers below the base solution and N2 for the number of offers above the base solution) may be over-complicated at this stage of the process; perhaps needs to be simplified by using the number of offers above the base solution only.

Consistent with our remarks in 3.5.1 we believe that the assumption that it is better to displace a unit which clears at auction by one which does not flies against the laws of legitimate expectation from a capacity provider investor perspective.

3) Do you have any comment on the proposed change to the format to accommodate multi-year pay-as-bid Reliability Options?

Without prejudice to our stated preference for Option B, we support the rationale presented to address locational issues within Option C.

In relation to the treatment of lumpiness we support the position whereby a multi-year offer could only be considered (purely) for lumpiness reasons if it was priced at or below the unconstrained clearing price.

4.6 Capacity Requirement

1) What are your views on the potential changes proposed to the CR methodology i.e:

- **Incorporate some measure of operating reserves in the CR? What MW value?**
- **Whether the 8-hours LOLE standard should be tightened (reducing the LOLE target). What level do you consider to be appropriate and why?**

It is abundantly clear that given increased demand and uncertainty in same (especially given the four year lead time) allied to the unreliability of the interconnectors, as well as the relative lumpiness of supply (given the relatively small marketplace), that there is a need for a substantial capacity buffer.

To date the required capacity standard is expected to be delivered in the form of additionality in the first T-1 auction in addressing locational constraints. This reached an efficient solution whereby the inclusion of transmission constraints in the CY2018/19 auction led to the award of an additional 399MW of out of merit ROs in Dublin and 126MW in Northern Ireland, equals 525 MW total.

It is quite evident from the questions asked that a similar capacity standard will be required to ensure security of supply, with perhaps only marginal economic gain from the proposed change in methodology. However the existing Option B auction format, with additionality, provides investor confidence to new and existing capacity providers, while options C&D only provide confidence to new capacity under the multi-year bid proposals.

This begs the question as to why one would move from a system (Option B Auction format, with additionality) which provides investor confidence – to one which does not (Options C & D, with displacement).

In direct response to the questions we would welcome inclusion of an operating reserve requirement in the Capacity Requirement in tandem with tightening of the 8-hours LOLE standard, which is out of sync (by 4 to 5 hours) with the majority of developed economies in the EU.

This recognises moves to harmonise the definitions of the Capacity Requirement (CR) across the EC as well as acknowledgement that not even the 'theoretical' 8 hour LOLE standard will be achieved in practice unless at least some proportion of the operating reserve requirement is included in the CR. Naturally this point becomes all the more pointed/acute in consideration of Ireland's benchmarked capacity requirement vs other EU countries which have much greater cross border interconnection, and therefore greater supply security. We note from the international benchmarking study that of the 9 countries with an explicit LOLE that 5 have a tighter standard (less than 8 hours) and that the only market with which the I-SEM is directly connected to, GB, has a tighter standard, at 3 hours LOLE. The I-SEM 8 hour standard is acknowledged as not being as tight as most markets in the same regional co-ordination zone (CORESO), including GB, Belgium and France, which countries, despite enjoying considerably higher cross border connectivity than Ireland, all employ a 3 hour standard.

In consideration of the appropriate level of operating reserve we would select Option 5, to include 500MW, the maximum target operating reserve requirement as being most appropriate, based on this quantum representing the largest single infeed from EWIC at times of scarcity, ie, when it is needed most. We believe that for security of supply it is not relevant that this level would be above the 'theoretical' levels required to deliver a 3-hour standard.

5.4 Administered Scarcity Pricing Parameters

1) Which of the options for the value of Full ASP do you consider most appropriate for the first T-4 capacity auction, and why?

We favour Option B, as it seems likely that the ACER consultation, not yet complete, would likely correspondingly increase the Euphemia Day-Ahead price above its current €3,000/MWh to €6,000/MWh.

This would provide better alignment between pricing between Ireland and GB, notwithstanding that I-SEM ASP provision at 50% of VOLL, at €6,000/MWh would be a price floor while the administered cash out price in GB BM will be a cap, moving to €6,000/MWh on 1st November. Furthermore, we do believe that reliability should be rewarded – by option B, with option C (100% of full ASP) being too penal, and with conflicting and non-optimal impacts on the other relevant factors which the SEM Committee will take into account – set out on p43 of the consultation.

2) Should we move to setting VoLL on an October to September year, rather than the current Calendar Year basis, so that a single value of VoLL pertains within a Capacity Year?

Yes. This alignment makes sense.

6.5 Auction Volumes and Demand Curve

1) Should the proportion of the CR the SEM Committee hold back from the T-4 CY2022/23 auction for the T-1 CY2022/23 be increased from 5% to 7.5%, and why?

We believe that the proportion held back for the T-1 CY2022/23 auction should be well in excess of 7.5%.

While we recognise that the purpose of T-4 auctions (vis a vis nearer term T-1 auctions) is fundamentally to encourage new investment we caution against providing for excessive volumes in those T-4 auctions, which inherently carry more risk given the multitude of moving parts between revenues from energy, ancillary services and capacity, out over such an extended period. These risks equally apply to the SEMC, in their role as the Regulatory Authority, as they do to the Capacity providers.

We recognise the scope for far from optimal solutions afforded by over dependence on extended timelines (such as T-4) – most particularly for existing capacity.

More economically efficient solutions will be found for existing capacity with T-1 auctions in preference to T-4 auctions.

Allied to this while we would note the considerations expressed regarding capacity volume uncertainty around DSU participation we do not share the view expressed in the paper that this could give rise to a security of supply issue by being unable to procure sufficient capacity at T-1 stage if there are less than expected data centres for instance. We would take the completely contrasting view that more volume should be held back from the T-4 auction for the T-1 auction, thereby ensuring greater likelihood of a more efficient solution for the relevant CY.

This is supported by the expressed concern that withholding larger volumes from the T-4 auction mitigates the risk of over-forecasting.

2) Should the minimum MW in each constrained area be adjusted for volumes withheld from the T-4 auction to the T-1 auction for CY2022/23? Which of Options 1, 2 and 3 do you prefer, and why?

Yes, we believe so.

Option 3 is more likely to reflect market conditions and thereby to lead to a more secure and efficient solution. It is more efficient than option 2 by being market specific.

We believe that the unnecessary purchase of expensive capacity some four years out far outweighs the certainty – as represented under option 1.

3) Which of the demand curve options, Options A or B, in your view is the most appropriate for the first T-4 capacity auction, and why?

We agree with what appears to be the 'minded to' position which favours Option B. This is mainly because it concurs that if less than the Capacity Requirement is bought in the T-4 auction commensurately more will be purchased in the T-1 auction for which there will be greater market visibility and a more efficient outcome.

7.4 T-4 Auction Price Caps for Capacity Year 2022/23

1) Do you agree with the proposal to keep the Auction Price Cap (APC) at 1.5 x Net CONE for the T-4 auctions? If not, please explain. Is your response in any way contingent upon the final value of BNE Net CONE for CY2022/23?

We agree with the above proposal to keep the APC at 1.5 x Net CONE for the T-4 auctions for the new final value of the BNE Net CONE for CY2022/23 which we believe is likely to be increased somewhat from the current Net CONE. There is no need to change the logic which was used in setting the original APC.

2) Do you agree with the proposal to keep ECPC at 0.5 x Net CONE for the T-4 auctions? If not, please explain. Is your response in any way contingent upon the final value of BNE Net CONE for CY2022/23?

In parallel to the preceding response we agree with the above proposal to keep the ECPC at 0.5 x Net CONE for the T-4 auctions for the new final value of the BNE Net CONE for CY2022/23 which (as above) we believe is likely to be increased somewhat from the current Net CONE. There is no need to change the logic which was used in setting the original APC⁴.

3) USPC setting: Do you agree with the proposed approach for UFI submissions?

We understand that the issue being consulted concerns CY2020/21, CY2021/22, CY2022/23 as part of the CY2022/23 T-4 auction Exception Application process. We also recognise that there is significant uncertainty about the likely running regimes for individual units between now and 2022/23. That said, we believe that the main relevant point is that where a USPC application is not made in a particular historic year there should be recourse for earlier Unavoidable Future Investment (UFI) Costs to be spread from a fixed number of years previous. Our understanding is that there is not full clarity around this. For instance what recourse is there for a plant with substantial UFI in CY2019/20 to recover this in the T-4 CY2022/23 auction where there was no USPC made in CY2019/20?

4) USPC setting: Do you agree with the proposal to apply 2% p.a. inflation projection for estimating costs for CY 2022/23?

Yes, in the current absence of an alternative proposal.

8.2 Derating Factors

1) Do you have any views on the proposal of EMDF value of 60% subject to review and update of the analysis for the decision paper?

From the indicative results set out in 8.1.13 of the paper it is apparent that a small change in forced outage rates has a very large influence on EMDF values, where a 7% and 10% assumptions for forced outage rates in GB yielded a range of EMDF between 32% to 95%. The implication is that overall interconnector de-rating values will have a large spread and a selection of one value seems to be somewhat unrepresentative.

This proposed rate, as we know is singular, it is 60% - without any further range analysis. Given this sensitivity it is surprising that further range analysis has not been brought into the analysis in terms of a measured impact on Ireland's security of supply and LOLE. This omission appears to be incongruous and needs to be addressed.

⁴ SEM-17-022 set out the SEM Committee's rationale for setting the ECPC at 0.5 x Net CONE for the first transitional auction.

Furthermore we are surprised, given the historical higher outage rates (forced and scheduled) for the interconnectors for CY2022/23 vs CY2018/19 that the EMDF values are the same. Lastly, we observe that the Estimated Forced and scheduled outage rates for CY2022/23 are less than those for the CY2019/20 estimate with no reserve⁵ - with no apparent explanation.

2) Do you expect to be applying to qualify a new interconnector between the I-SEM and an external market other than GB?

No

3) Do you have any feedback on the issues around transitioning from the interim to the hybrid solution for cross-border trading of capacity?

The paper sets out many high level fundamental issues which will have a direct and, as yet unquantified large impact on existing and new generators in Ireland as a result of how Interconnector capacity is treated under the interim interconnector approach or the enduring hybrid solution.

Our view is that there needs to be a workshop and further consultation around what is an extremely important area.

9.2 New Capacity Investment Rate Threshold

1) Do you agree with keeping NCIRT at €300/kW, in the light of new evidence on BNE gross investment costs? Does your view depend on the choice of BNE reference plant resulting from the Best New Entrant consultation (SEM-18-025)?

The €300/kW figure was set at 40% of the gross investment cost of a BNE plant, where this decision was informed by the international benchmarks discussed in SEM-17-022.

We now understand that the Best New Entrant consultation could arrive at a higher BNE Net CONE mainly as a result of change of reference technology and believe that this should be reflected in an increased NCIRT should this technology be chosen. Should there be no change in technology we understand that the rate should increase to €305/de-rated kW.

10.2 Summary of Parameters (already responded to in previous sections)

1) Do you have any comments on any of the parameter summarised in Table 6, which are not already covered in your responses to other consultation questions?

Not at present.

2) Do you agree with the proposal to keep ECPC at 0.5 x Net CONE for the T-4 auctions? If not, please explain. Is your response in any way contingent upon the final value of BNE Net CONE for CY2022/23?

In parallel to the preceding response we agree with the above proposal to keep the ECPC at 0.5 x Net CONE for the T-4 auctions for the new final value of the BNE Net CONE for CY2022/23 which we believe is likely to be increased somewhat from the current Net CONE. There is no need to change the logic which was used in setting the original APC⁶.

⁵ SEM-18-009 March 2018 CRM State Aid Update, 2019/20 T-1 Capacity Auction Parameters and Enduring Storage De-rating Methodology Consultation Paper

⁶ SEM-17-022 set out the SEM Committee's rationale for setting the ECPC at 0.5 x Net CONE for the first transitional auction.

3) USPC setting: Do you agree with the proposed approach for UFI submissions?

We understand that the issue being consulted concerns CY2020/21, CY2021/22, CY2022/23 as part of the CY2022/23 T-4 auction Exception Application process. We also recognise that there is significant uncertainty about the likely running regimes for individual units between now and 2022/23. That said, we believe that the main relevant point is that where a USPC application is not made in a particular historic year there should be recourse for earlier Unavoidable Future Investment Costs to be spread from a fixed number of years previous. Our understanding is that there is not full clarity around this. For instance what recourse is there for a plant with substantial UFI in CY2019/20 to recover this in the T-4 CY2022/23 auction where there was no USPC made in CY2019/20?

4) USPC setting: Do you agree with the proposal to apply 2% p.a. inflation projection for estimating costs for CY 2022/23?

Yes, in the current absence of an alternative proposal.

We hope that you find these comments of use and submit them for your consideration. We would be pleased of course to discuss any aspect of our responses should you so wish.

For and on behalf of Bord na Móna



Justin Maguire
Regulatory and Compliance
Bord na Móna PowerGen
Main Street
Newbridge
Co Kildare