



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

CEWEP welcomes the opportunity to respond to the CRM Parameters consultation for the first T-4 auction for 2022/23. For the purposes of this response, the focus is section 2 (stable contract terms for year/s of delivery) and the impact of the recently published Decision Paper on Electricity Support Scheme (ESS) I-SEM arrangements by the Department of Communications, Climate Action and Environment (DCCAE).

While beyond the scope of the questions posed in SEM-18-028, the decision paper on ESS and its interactions with the CRM, presents substantial risk for CEWEP members who are only part subsidised for their electrical output, yet fully exposed to penalties.

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 operating conventional generation waste-to-energy facilities, both dispatchable market participants. Both are subsidised under the REFIT scheme in Ireland for the renewable fraction of their output power. Moreover, there are plans for the further development of new facilities in Ireland and in Northern Ireland.

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

Section 2 – Treatment of constraints in the auction

In the context of the number of uncertainties listed in section 2, such as resolving North-South transmissions constraints, constraints in the Dublin area and draft Energy Package proposals, providing stable parameters is of key importance *i.e.* stable parameters that apply from when the auctions are run and will not change before the year of delivery.

It is important to point out that potential contract changes, especially in the context of multi-year pay-as-bid ROs, may invalidate future participation.

Decision Paper on Electricity Support Schemes (ESS) I-SEM

DCCAE's decision on Electricity Support Schemes and its interaction with the CRM RO framework fails to resolve the fundamental issues for managing risk. CEWEP members are only part subsidised for their electrical output. The CRM RO reflects a downside risk to the subsidised energy from the plants with no corresponding revenue. The CRM is an important part of the revenue for the non-subsidised output of the plant. Therefore CEWEP members

have interest in earning capacity revenues for the brown portion of its output, but not its green portion of its output.

In our submission to the DCCAE consultation on the issue, we illustrated how if a CEWEP generator cleared only the "brown" proportion of its capacity, e.g. 45% of a 100MW machine, the capacity revenues (and presumably the penalties as well) will be allocated pro-rata between the green and brown revenues, i.e. 55% of the cleared 45MW revenues would be allocated to the green portion and would be lost, and only 45% of the 45MW of cleared revenues would be allocated to the brown portion of revenues. However, the generator would still be exposed to 100% of the penalties.

In our response to the DCCAE submission we proposed:

- 1) CEWEP members should participate for their full capacity volume, and bid in seeking to secure capacity volumes as if the plant is fully non-renewable, i.e. it should not attempt to bid in the brown percentage of the capacity at a 'normal' price, and the renewable proportion of the capacity at a high price to only part-clear the auction.
- 2) Brown capacity revenues include the capacity revenue for the non-renewable fraction, less pro-rated-to-non-renewable-fraction proportion of a) any capping of the energy price and b) any non-delivery penalties.
- 3) REFIT includes the capacity revenue for the renewable fraction, and a) the capping of energy prices AND b) the penalties for non-delivery of the REFIT proportion, in the calculation of the REFIT support.

DCCAE's decision does not address the fundamental issue of managing 100% exposure to penalties whilst only benefitting from a portion of revenues. While the decision asserts that the "stop loss" mechanism will limit exposure to capacity costs, it fails to tackle the issue faced by CEWEP members. Furthermore, the suggestion in the decision that security standards and the current excess of capacity does not pose "*a high risk of exposure to capacity costs for generators supported by the PSO levy*"¹ fail to mitigate the risk of CEWEP members' participation in the T-4 auction for 2022/23.

According to the decision the SEM Committee, in an effort to find an enduring solution, is reviewing the obligation on PSO supported generation to participate in capacity auctions. Against the backdrop of the wider market uncertainties listed in section 2 of the CRM consultation document, such as demand forecasts and constraints issues, predictable generation require a balanced solution in order to earning capacity revenues for the brown portion of its output.

¹ Department of Communications, Climate Action and Environment, *Electricity Support Schemes I-SEM Arrangements Decision Paper*, June 2018