Integrated Single Electricity Market (I-SEM)

Capacity Remuneration Mechanism Parameters
Consultation Paper SEM-18-028

A Submission by EirGrid and SONI

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EIRGRID SONI

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1 INTRODUCTION

1.1 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 CRU 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.

2 EIRGRID AND SONI VIEWS ON THE CONSULTATION TOPICS

2.1 GENERAL COMMENTS

EirGrid and SONI welcome the opportunity to respond to the consultation on the parameters for the 2022/23 T-4 Capacity Market. Our response reflects our views both as operators of the Capacity Market but also more broadly as the Transmission System Operators with responsibility for the safe, secure, reliable and economic operation of the power systems of Ireland and Northern Ireland. In this regard, we consider a well-functioning T-4 Capacity Auction to be of utmost importance.

In the following sections, EirGrid and SONI respond to a number of the questions that we set out in Capacity Remuneration Mechanism Parameters Consultation Paper (SEM-18-028). Where no response is provided, it can be taken that we have no comment on the question.

In general, the TSOs consider it important that the capacity auctions are designed to ensure maximum participation, which will facilitate a well-functioning auction. With this in mind, it is also important that the qualification requirements are comparable between the two jurisdictions, including the requirements in relation to offers for grid connection. This may merit further examination as part of the qualification criteria for the forthcoming T-4 Capacity Auction.

2.2 TREATMENT OF CONSTRAINTS IN 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.

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 these constraints to be included 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.

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?

We consider that there may be merit in such an approach as it would introduce greater levels of competition in these areas. Allowing multiyear offers to compete with single year offers from exiting units may introduce an important level of competition in these areas. Notwithstanding this, careful consideration of issues relating to market power and also on the likely duration of the constraint would be important. In this regard, there may be merit in allowing shorter duration multi-year offers to compete out-of-merit to satisfy Locational Capacity Constraints.

2.3 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?

The TSOs agree with the necessity of the proposed changes to the auction format and the development work for the changes is planned to commence in Q4 2018 to be completed in time for the T-4 auction in March 2019. Careful consideration needs to be given to the number of combinations to be considered for each stage of algorithm calculation.

The SEMC may wish consider setting the Offer Price Clearance Ratio such that offers that are considerably less than the clearing price are automatically cleared. The risk of displacement of such "deep-in-the-money" offers is reduced in the case of Auction Format C due to the use of a limited set of combinations. Nevertheless, the Offer Price Clearance Ratio would reduce the likelihood of non-intuitive outcomes.

2.4 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?

We consider it appropriate to consider reserve scarcity as loss-of-load as the risk of load shedding at these times is significant. Therefore, the operating reserve requirement should be included in addition to the demand when calculating the Capacity Requirement. This is consistent with the approach taken in the Medium-Term Adequacy Forecast. It would be important to consider the contribution of units not participating in the Capacity Market to meeting the operating reserve requirement.

- Whether the 8-hours LOLE standard should be tightened (reducing the LOLE target). What level do you consider to be appropriate and why?

Considering the increasingly pivotal role electricity has in society and the economy, we believe that a higher security standard is in the interest of consumers and that a tighter LOLE might deliver an appropriate trade-off between cost and reliability.

It is worth highlighting that incorporating operating reserve into the calculation of the Capacity Requirement and/or tightening the security standard may not directly translate into a higher Capacity Requirement as the Least Worst Regrets approach may choose a lower demand scenario to compensate for the additional cost arising.

We consider this to be the desired outcome, i.e. security standard and treatment of reserves should confirm a commitment to a reliable electricity supply, with the Least Worst Regrets striking the balance between this reliability and the cost to consumers.

Current calculations see higher demand scenarios being chosen to reflect the propensity of consumers (based on Value of Lost Load or VoLL) for increased reliability over risk of over procurement (at Net Cost of New Entry or Net CONE). Put another way, the capacity to meet an 8 hour LOLE standard without reserve based on, say, demand scenario 8 may be equivalent to the capacity required to meet a 3 hour LOLE standard with reserve based on, say, demand scenario 5. In this way, it is possible to send a strong signal that consumers in Ireland and Northern Ireland require reliability standards, at least, in line with other European countries without necessarily incurring significantly higher costs.

2.5 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?

The TSOs would like to clarify that the value of Full ASP does not apply to the Capacity Auction, it applies in the Balancing Market under section E.4 of the Trading and Settlement Code. Where the RAs wish to apply a higher Full ASP, it is important that their decision is specified in the terms set out in the TSC to ensure that the values can be enforced.

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?

This would seem sensible. There is no strong reason of which we are aware that would suggest that the setting of VoLL should be on a calendar year basis. Considering VoLL's impact on the capacity requirement (based on the Least Worst Regrets approach), it would be important to continue to review the value of VoLL on a regular basis to ensure it accurately reflects the value that consumers place on a reliable electricity supply.

2.6 AUCTION VOLUMES AND DEMAND CURVE

1) Should the proportion of the Capacity Requirement 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?

Considering the uncertainty that exists four years out in relation to the future demand and the generation portfolio, we consider it prudent to hold back a higher portion of the Capacity Requirement.

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?

For similar reasons to question 1 above, we believe there is merit in either option 2 or 3, where a component of the minimum MW requirement for a Locational Capacity Constraint is held back for inclusion in the T-1 Capacity Auction.

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?

Option B is superior, in our view, as it allows the auction to buy less if capacity is expensive and hold off for the T-1 auction. Option B is also more stable from a pricing perspective as it does not feature any vertical sections. Vertical sections may give rise to large price jumps for small changes in Awarded Capacity.