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Ref: Capacity Remuneration Mechanism (CRM) Parameters for T-4 2022/23 Capacity Auction

EirGrid Interconnection Designated Activity Company (EIDAC) welcomes the opportunity to respond to the consultation on “Capacity Remuneration Mechanism (CRM) Parameters for T-4 2022/23 Capacity Auction”.

While our response is focused on a limited number of aspects of the CRM consultation we are keen to participate further with the SEM Committee in CRM T-4 2022/23 developments.

As set out under European regulation and policy, interconnectors play a fundamental role in the successful delivery of EU’s energy and climate objectives. The design of the I-SEM CRM recognises this importance. The current “interconnector-led” design incentivises existing interconnection availability and provides adequate signals to future investors in support of security of supply objectives.

EIDAC takes the opportunity to respond to Section 8, De-Rating Factors and in particular to consultation question 8.2, (3):

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

EIDAC acknowledges the SEM Committee decision (SEM-16-022) which recommends the adoption of a “hybrid” model for cross border participation in the I-SEM CRM. However, developing this solution under the CRM design is a significant challenge:

1. The design of the hybrid solution needs to retain sufficient investments signals for interconnector business development.

SEM-16-022 sets out a high level hybrid design whereby interconnectors do not participate but are represented as a constraint between zones. Following the auction, interconnectors can choose to assume their Reliability Obligation up to their de-rated capacity with a fee based on the difference between envisaged zonal process between GB and I-SEM. Such a high level solution provides insufficient and highly variable investment signals to interconnector developers. This issue is now highlighted in SEM-18-028 where a number of challenges are set out in relation to how cross border generation could participate: Firstly, Article 21 of the latest draft EU regulation prevents capacity from participating in two (or more) capacity auctions.

Secondly renewable generation capacity in GB would not be able to participate and retain its ROC and CfD FiT contracts and would likely not participate in the auctions. These barriers to participation and the risk of very marginal welfare gain from cross border participation in general need to be balanced against the downside risk of design change leading to insufficient signals for interconnector development.

2. Timing of cross border participation

SEM-18-028 notes that the first T-4 auction will not have direct participation by cross border capacity but considers an enduring cross border solution could be implemented by 2020. This would possibly allow cross border participation in the T-1 auction for 2021/22. SEM-18-028 correctly identifies a number of issues with the treatment of interconnector de-rating during this transition and the potentially different role of EMDF under the hybrid design. The paper notes that this could lead to inconsistent signals to external markets. EIDAC acknowledges this risk and highlights that this uncertainty will also provide inconsistent signals to existing interconnectors who are considering participation in the T-1 auctions. To avoid allowing future design uncertainty impact existing auctions, EIDAC recommends that cross border participation only commences at a future T-4 (e.g. in 2020 for Capacity Year 2024/25) once the planned EU approach is agreed and the legal and regulatory framework for Brexit is finalised. This assumption resolves the very challenging consistency issues related to de-rating and economic signalling that will likely if interconnector capacity awarded at T-4 is subject to potential use in a future market design.

3. De-rating Methodology

EIDAC note that the RA's approach to calculating interconnector de-rating factors was set out in SEM-16-082 and associated appendix. It is also noted that in SEM-18-09 the RA's note that it does not propose to revisit these decisions, however, EIDAC regards the planned implementation of the hybrid solution and the establishment of I-SEM as an appropriate milestone to further consider the existing de-rating methodology. As coincidental scarcity is a significant parameter, it is appropriate that the impact of implicit capacity allocation rules established under I-SEM on interconnector flows is further considered. EIDAC has previously suggested that the use of forward looking modelling outcomes under implicit capacity allocation provides a more robust assessment of interconnector flow than historical analysis. EIDAC recommends that the RA's review the existing methodology and consider separate assignment of de-rating factors for the two existing interconnectors as presented in the most recent GB capacity auctions. Under a cross border solution, optimal de-rating methodologies which align with market conditions could support regional cross border participation objectives. EIDAC notes however, that it is unclear under implicit capacity allocation what the localised welfare gain is for awarding capacity to generation parties outside of the region.

4. Regulatory Certainty

SEM-18-028, 8.1.11 also notes that prior to the definition of the full planned EU approach, it would seem sensible to retain the current interconnector de-rating methodology. EIDAC fully agrees with this approach and notes that full clarity on the legal and regulatory conditions for cross border trading under Brexit should



also be a prerequisite for a decision on changes to the existing CRM solution which is currently aligned to the GB interconnector led methodology.

EIDAC is available to discuss this feedback and would welcome the opportunity to do so at the appropriate time.

Sincerely,

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Commercial Manager
EIDAC

