

**Power NI Energy Limited
Power Procurement Business (PPB)**

I-SEM

**CRM
2020/21 T-1 Capacity Auction and
2021/22 T-2 Capacity Auction Parameters**

Response by Power NI Energy (PPB)

2 April 2019.



Introduction

PPB welcomes the opportunity to respond to the RAs consultation on the Auction Parameters for the 2020/21 T-1 and 2021/22 T-2 Capacity Auctions.

General Comments

PPB agrees that the Auction Parameters for the two auctions should be consistent with the transitional auctions already completed and with the first T-4 Auction for 2022/23.

We do not accept that any reduction to the Existing Capacity Price Cap (ECPC) is justified. It was originally set at 50% of Net CONE on the basis of consistency with International benchmarks notwithstanding that the I-SEM CRM is different and carries greater risk than the other benchmark markets. As such, there is good reason for the I-SEM caps to be higher than in other markets rather than contemplating reducing the ECPC below 50% of Net CONE. It would also create a high risk of market distortion when the 50% factor has been used for the first two T-1 auctions and the T-4 auction for 2022/23.

PPB also endorses the response to this consultation that has been submitted by the EAI.

Our responses to the specific questions posed are set out below.

Responses to the Specific Questions

(c) Indicative Demand Curve

PPB agrees with the RA's minded decision to not hold a T-1 auction for 2021/22 but rather to procure all the required capacity in the T-2 auction.

(d) The Auction Price Cap

We agree with the proposal to retain the auction price cap at 1.5 times Net CONE.

(e) Existing Capacity Price Cap

PPB disagrees with the proposition to reduce the ECPC below 50% of Net CONE. The consultation paper restates the key functions of the ECPC as outlined in the SEMC decision following the first CRM parameters decision, namely to limit the scope for the exercising of market power and to limit the number of USPC applications.

In relation to the first, it isn't clear who sets the "expectation" of "*where the market is set to clear*". As for the USPC applications, the current consultation paper takes no account of the burden placed on participants who would have to make USPC applications and hence it is not just the RAs who are affected. While the RAs may have benefited from their

experiences, lowering the threshold would likely draw in participants who haven't previously needed to make a USPC application and therefore who have no experience of the process and would be significantly burdened by having to participate in such a process.

Further, as PPB is disallowed from making a USPC application, any reduction in the ECPC will automatically apply to PPB but leave no scope to seek a USPC and which could impact negatively on NI customers.

We have also previously expressed concerns that the USPC process doesn't provide for full cost recovery and as a result, if that were maintained, it will result in an administered price that results in generators operating at a loss in the market. This would be anti-competitive and unsustainable, and would result in additional risks for investors and ultimately higher costs for customers.

The setting of the ECPC (and USPC) also fails to properly reflect the risk that a unit may not be generating at the time of an RO event, whether through its unavailability or as a result of events outwith its control. This results in an exposure to significant difference payments with no corresponding revenues (with the loss capped on an annual basis to 1.5 times the annual RO payments). This risk is greater than in the benchmark markets and hence there is a strong case for the ECPC to be greater than 50% of Net CONE. The risk of further outcomes similar to those seen when prices spiked on 24 January 2019, when there was no scarcity, highlights the risk of exposure to events outside the participants control, some of which may still be faced by participants over the course of 2020/21 and 2021/22.

PPB therefore strongly disagrees with the proposition to reduce the value of ECPC.

(f) *New Capacity Investment Rate Threshold*

We agree with the proposal to retain the NCIRT at €300k/de-rated kW, consistent with the first two transitional auctions.

(g) *Annual Stop-Loss Limit Factor*

We agree with the proposal to retain the Annual Stop-Loss Limit Factor at 1.5, consistent with the first two transitional auctions.

(h) *Billing Period Stop-Loss Limit Factor*

We agree with the proposal to retain the Billing Period Stop-Loss Limit Factor at 0.5, consistent with the first two transitional auctions.

(i) *The indicative Annual Capacity Payment Exchange Rate*

While we largely agree with the process, there must be a linkage between setting the Annual Capacity Payment Exchange Rate and the Net CONE. The Net CONE is based on a Distillate Unit located in Northern Ireland and therefore a material change in the exchange rate would also affect the value of the Net CONE. If the two were not aligned then if, for example, the exchange rate were to reduce from 0.90 £/€ to 0.75, this would reduce RO payments to NI participants by 20% if the Net CONE were not similarly adjusted.

(j) *Tolerance Levels*

We agree with the proposal to retain the Increase and Decrease Tolerance levels consistent with the first two transitional auctions.

(k) *Performance Securities*

We agree with the proposal to retain the Performance Securities consistent with the auctions already completed.

(l) *Fee Rates for calculating Termination Charges*

We agree with the proposal to retain the Termination Charges consistent with the auctions already completed.

(m) *Anticipated values for the Full Administered Scarcity Price and the Reserve Scarcity Price Curve*

We agree with the proposal to retain the Full Administered Scarcity Price and the Reserve Scarcity Price Curve consistent with those used in the 2022/23 T-4 Auction.

(n) *Anticipated values for the Strike Price parameters*

While we note the proposal to retain the parameters and values consistent with the 2022/23 T-4 Auction, we are concerned that the values proposed reflect figures determined in the Plexos model validation from 2016/17. These will be well out of date by 2020/21 and 2021/22 whereas they should reflect the latest available information. For example, there are changes being implemented in relation to gas transportation that means the rate assumed for “PFUELNG_m Transport” will be too high given the UR’s decision on Harmonised Transmission Tariff for Gas (published 17 December 2018) which will reduce commodity charges in 2020/21 and again in 2021/22.