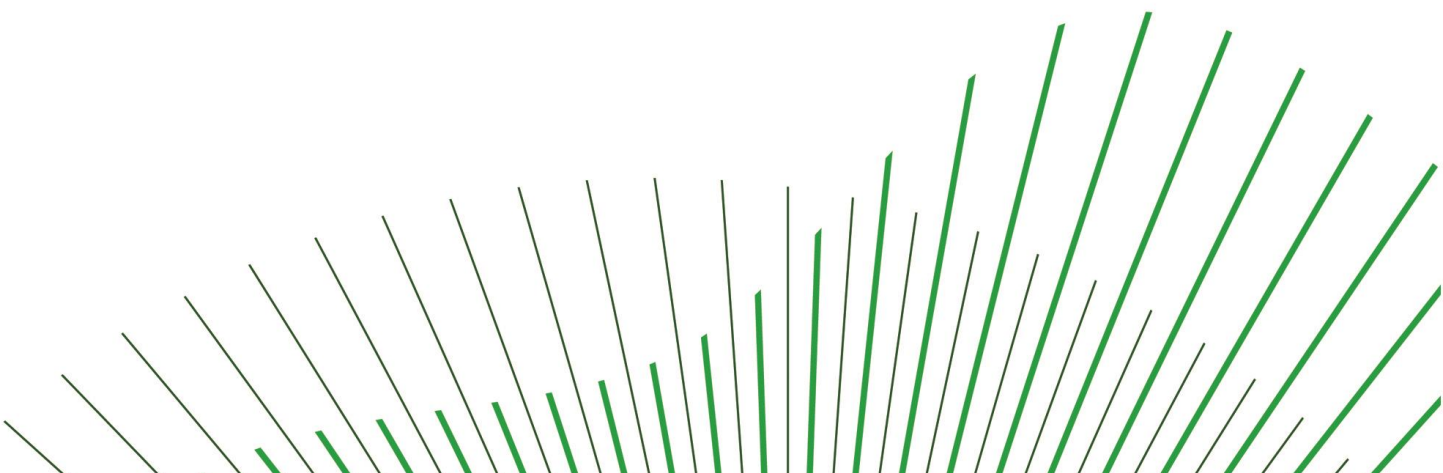


Bord na Móna

**SEMC Discussion paper on Scarcity
Pricing and Demand Response**

Consultation Response

21st July 2021



1. Overview & Summary Response

Bord na Móna is a Climate Solutions company, helping to lead Ireland towards a climate neutral future. Having ceased peat harvesting, our focus is on developing Climate Solutions in renewable energy, sustainable waste management, carbon storage and biodiversity conservation. We are the leading developer of onshore wind in RESS1 and continue to work across wind, solar, biomass, biogas to help achieve Ireland's 70% renewable electricity target by 2030 – to provide Energy Security for the future.

It is within this context that Bord na Móna (BnM) welcomes the opportunity to respond this consultation, and make the following high level points:-

The paper sets out that there have been no ASP triggers accompanying system alerts over recent years and that, because there will be system tightness in 2020/21, it proposes that better market signals will need to be provided to encourage units to be available, as well as to spread load during periods of high demand by using demand side response.

There are two areas that the RAs have identified for potential change – the first relates to the trigger for RSP in order to widen the circumstances under which RSP applies. The second area identified by the RAs for potential change is the Reserve Scarcity Curve.

Among the main measures it discusses/proposes:

- i) linking the Reserve Scarcity Price to a value above or below than the Strike price. To move below would not be in the interests of both existing generators as well as of demand side units;
- ii) adjusting the trigger for Reserve Scarcity Price (RSP) such as to exclude Replacement Reserves which would result in triggering the ASP more frequently, for which there is not a clear rationale, as we do not support the notion that ASP/RSP should be formally linked to Amber alerts, given that Amber Alerts already occur at close to the RO Strike Price and that the signal for additional capacity to be available is not the root issue. Rather, it would be the availability of reserve capacity.
- iii) more closely aligning the CM long term adequacy and BM short term adequacy, by potentially increasing the FASP to greater than its current 25% of VOLL measure¹, where this level was initially set in recognition of lack of a functioning secondary capacity trading platform, which is still the case. Also being mindful of the associated increase in business risk, necessitating a risk premium which translates into higher consumer prices and reduced social welfare.
- iv) supplier interaction with incentives for demand side response; which we comment on below

Feedback on Proposals

In the first instance we believe that the premise on which these proposals are based, ie, that the ASP mechanism does not work, is flawed. ASP is logically linked to a possible Red Alert scenario currently, which is prudent. It is also a scenario that is by its construction, designed to be rare. We can see in the analysis in the appendix that to date it can be seen that there would be no scenarios where an ASP would have triggered. We believe that the effect of the proposals, as explained, if implemented, would be totally disproportionate to any perceived shortcoming.

It would appear that the undermining issue driving these proposals is the lack of capacity and the under-procurement of capacity over recent auctions, which is exacerbated by the rate of prospective growth in

¹ We would also note the negative impact from increasing the BM %VOLL to align it with the Capacity Market in that the 100% VOLL used in the Capacity Market is used for establishing Capacity volumes, and so is benign in terms of financial impact on market participants. This is in sharp contrast to the effect of increasing the BM % VOLL beyond its current 25% level.

demand linked to datacentres. While these proposals are being explored, we welcome that they are not being presented as 'minded to' positions, as we believe that they are not appropriate.

However, we are concerned in that there is no indication of the term of these proposals, noting that the premise for these proposals is stated as to address market tightness in 2020/21, which would be an interim measure, which would appear to be amiss.

All of these impacts², as proposed and highlighted, will be to introduce increased business risk to both existing and new generators, as well as negatively impacting on consumer pricing, ie, they would harm social welfare due to the risk premium needing to be factored in across the three revenue streams, Energy (to only some degree, and in so far as would be allowed under BMCOP), Capacity and Ancillary services.

Furthermore, a changing of pricing level treatment of RSP, ASP, and FASP, as well as MW trigger points, could represent a very significant shift in the business model for existing plant as well as for existing contracts for new plant which is already signed up to the delivery of RO contracts up to 14 years in the future – with what would be changed terms and conditions, before projects even commence. This creates a need for separate treatment between existing contracted units and new units, if any of these proposals should proceed.

Very significantly, the absence of a properly functioning secondary trading platform, does not provide the appropriate level of risk mitigation which could be expected for such levels of change as are proposed.

Clearly, the increase in business risk resulting from most of the changes proposed for existing as well as new plant and technologies, exacerbates the already heated Security of Supply prevailing issue, thereby increasing the risk of unintended exit.

Most of the proposals would decrease investor confidence at the very time that investment is so acutely required.

In relation to the position of DSR (and Conventional Plant)

In relation to the proposal to potentially reduce the Reserve Scarcity Price below the Strike Price, we note that the SEM Committee decided in SEM 15 103 that it may be appropriate to include a fixed floor price element in the Strike Price formula, which captures the cost of most DSUs, set at just over €500/MWh, ie, a robust decision affirming this level has already been made by SEMC. If this strike price level was to reduce below this, then some DSUs would be committed to having to pay back difference payments which would include their costs – therefore being forced to operate below cost.

In relation to increasing triggering of the RSP/ASP by reducing the MW, there have been a number of instances of RO events where the strike price was breached and generators that were available but not dispatched were subject to punitive difference payments. Increased calling of the ASP threatens to unfairly penalise generators that are, at no fault of their own, not dispatched during such instances. Should be recognised that a large part of this is currently being addressed within Mod 01-21 within the BM modifications.

In considering and evaluating the consultation proposals, and mindful of Ireland's somewhat unique electricity positioning and market characteristics within the EU, and the significant progress that has been made to date on the path to decarbonisation, BnM believes that much of what already is in place in relation

² Assuming that the consideration would be to reduce the Reserve Scarcity Price to below the Strike Price

to these proposals already serve the market well. We have emphasised in our response our many concerns in relation to the proposals.

A concluding high-level point is that it is very clear that in order to proceed further that there is very much a need for Grid and for additional Capacity.

2. Consultation Questions: (we have chosen to respond to a selection only)

Call for Evidence Questions:

To help inform the RAs consideration of potential revisions to ASP, responses are invited to the following questions:

1. *Do you have any views on the way in which RSP has been implemented in the TSC and the potential issues discussed in Section 2.2?*

We believe that the premise on which the proposals are based; that the ASP is not working as expected, is flawed. ASP is logically linked to a possible Red Alert scenario currently, which is prudent. It is also a scenario that is by its construction, designed to be rare. We can see in the analysis in the appendix that to date it can be seen that there would be no scenarios where an ASP would have triggered. We believe that the effect of the proposals, as explained, if implemented, would be totally disproportionate to any perceived shortcoming.

2. *Section 2.2 has outlined a number of specific areas that could be considered further related to the trigger for RSP and the parameters that define the Reserve Scarcity Curve. The RAs are interested in respondents' view as to whether:*

a) the trigger for RSP should be amended such that the qSTR would include only Tertiary Operating Reserve Band 2 and not Replacement Reserve, or whether another amendment could be made that would bring this trigger more into line with the triggers for System Alerts in the SEM.

In seeking to link the RSP to Amber Alerts, the RAs are effectively confirming that frequent non-scarcity events will carry with them much higher penalties for generators. It is inappropriate to consider lowering the trigger for the RSP without further clarity on why alerts are being called at times when there is no scarcity. Moreover, we have not been provided with information to say that existing capacity is not responding during Amber Alerts. Effectively the lack of existing capacity in terms of MWs being there to offer a response is more the issue.

b) the RSP curve should begin at a point above or below the RO Strike Price.

We note from SEM 15 103 that

'The consultation document set out some of the risks associated with setting the Strike Price too low, namely that:

- (where set at a) 'Low level, in which case it may interfere with the energy market and disincentivise high marginal cost generators to be available at times of scarcity.'

-Effectively many DSUs could be run at below cost; which needs to be avoided if DSM as a vital part of a solution is to be encouraged.

c) the FASP value should be increased to a level closer to 100% of VoLL.

To do so would fail to recognise a) the significant increase in business risk for both existing as well as new generators, and the consequential need to treat both separately, given that existing providers' business risk profile would be changed from their investment model, whereas new providers would have

the opportunity to price in risk premium b) that the 25% VOLL rate took into account that there was not a fully functioning secondary market trading platform, and that this issue still persists.

Clearly, the increase in business risk resulting from most of the changes proposed for existing as well as new plant and technologies, exacerbates the already heated Security of Supply prevailing issue, thereby increasing the risk of unintended exit.

Most of the proposals would decrease investor confidence at the very time that investment is so acutely required.

3. Closing

We look forward to further engagement on this and on other matters to help affect a well-functioning market towards decarbonisation.

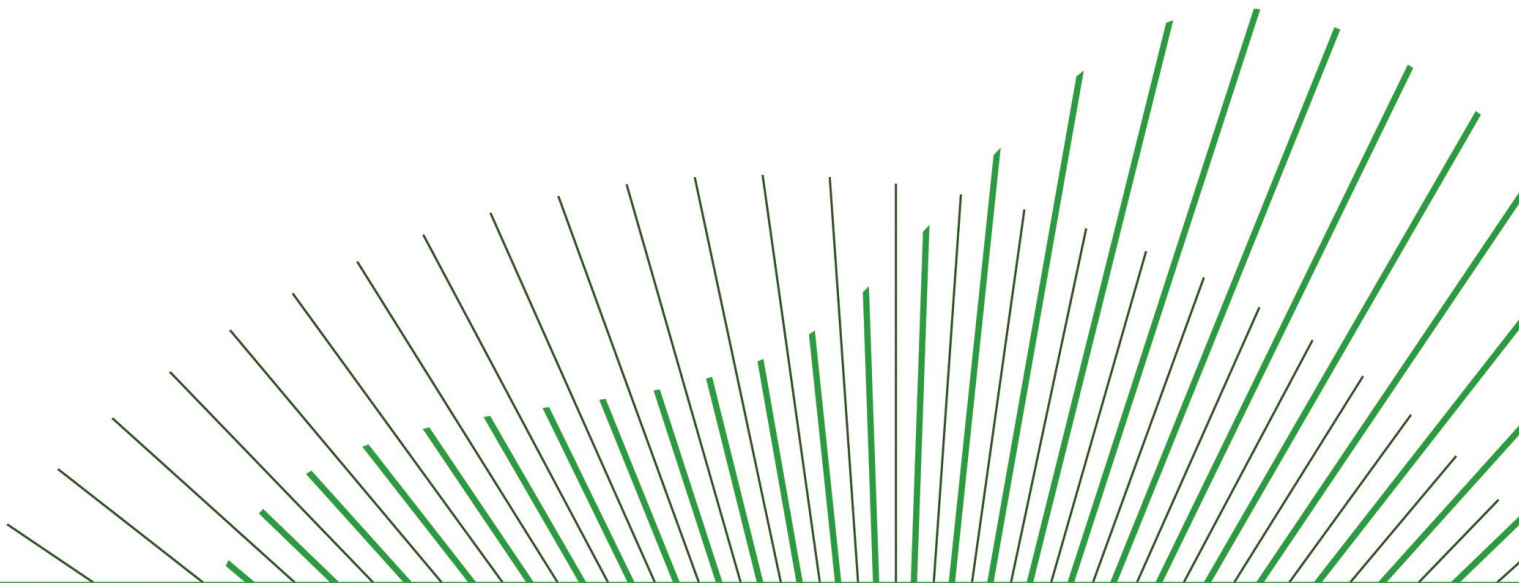
If you have any queries or require clarification on any point, please do not hesitate to contact me. We would be pleased of course to discuss any aspect of our responses should you so wish.

For and on behalf of Bord na Móna,



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