



Response to Consultation SEM-23-044 by
The Single Electricity Market Committee

Capacity Market Code Modifications Workshop 31
Consultation Paper

Electricity Association of Ireland

Status: Final

Date: 21st July 2023



The Electricity Association of Ireland (EAI) is the representative body for the electricity industry and gas retail sector operating within the Single Electricity Market (SEM) on the Island of Ireland.

Our membership comprises utilities that represent 90% of generation and retail business activities and 100% of distribution within the market. Our members range in size from single plant operators and independent suppliers to international power utilities.

We believe that electricity has a fundamental role in providing energy services in a decarbonised, sustainable future, in particular through the progressive electrification of transport and heating. We believe that this can be achieved, in the overall interest of society, through competitive markets that foster investment and innovation.

We promote this vision through constructive engagement with key policy, regulatory, technology and academic stakeholders both at domestic and EU levels.

We represent the Irish electricity industry in EURELECTRIC, the representative body for the European electricity industry, and help shape the broader European response to developing policy and legislative initiatives.



Introduction

The EAI welcomes the opportunity to respond to this consultation., The EAI response focusses exclusively on CMC_14_23 as EAI members will respond separately to the other modifications included in the consultation paper. At the outset it is important to note that but our members strongly and unanimously oppose modification CMC_14_23 and urges the Regulatory Authorities (RAs) to reject it.

The effect of approving CMC_14_23 would be to give the System Operators (SOs) discretion to allow the capacity auction results to breach the minimum Locational Capacity Constraint (LCC) requirements. This proposal should be firmly rejected by the RAs because:

- Ireland's security of supply outlook is precarious and there remains a genuine risk to system adequacy in the coming years. If future capacity auctions were to breach the minimum LCC requirements, this would further exacerbate the security of supply position and significantly increase the risk of loss of load in Ireland. The RAs are ultimately responsible for security of supply and should not approve a modification such as this that would allow for the minimum LCC requirement to be breached.
- The purpose of the capacity market is to procure capacity in order to maintain security of supply. Protected minimum LCC requirements were embedded in design of the capacity market for that reason. There cannot be any consideration that such a requirement could be relaxed.
- If approved, CMC_14_23 would give the SOs discretion to determine which of the LCC maximum and minimum capacity requirements were breached. The Price Quantity (PQ) pairs for violation of the LCC requirements would be set by the SOs outside of a published and agreed methodology and would not be subject to consultation. This gives the SOs too much discretion in determining the outcome of capacity auctions and is contrary to the RAs requirement to hold the SOs accountable. It also contrary to the requirement of the CMC Code to provide transparency in the operation of the SEM as well as reliability and security of supply and is part of a concerning trend whereby the SOs are seeking further discretion in determining the outcome of a competitive auction instead of resolving the underlying issues in the transmission system.
- It is the view of our members that the setting of a maximum LCC under the previous CMC_08_22, combined with further changes proposed by CMC_14_23, are seeking to resolve essentially a transmission issue. The transmission issue being that networks are unable to handle the additional capacity offered to address a constraint that is not being mitigated, reduced, or addressed through more infrastructure and system services. It is not a generator's commercial or operational risk



whether capacity arrives in sufficient or surplus volumes in a specific capacity constraint area. This is a risk for the TSO. This should not therefore be addressed in measures to change LCC limits.

Background and Proposal

Maximum LCC requirements were introduced in September 2022 when the RAs approved the SO's modification CMC_08_22. At the time, industry participants strongly opposed the introduction of maximum LCCs, arguing that the need for maximum LCCs had not been properly justified and that no significant real-world risks from the over-procurement of capacity existed. Despite industry concerns, the RAs decided to approve CMC_08_22.

In the intervening period, the CRU commissioned EY to review the operation of the CRM. The EY report concluded that in the previous auctions reviewed, there was an ongoing trend of LCC regions failing to even meet their LCC minimum capacity requirement—which poses a direct risk to security of supply.

CMC_14_23 was submitted by the SOs citing CMC_08_22 as a rational basis for this modification to be proposed. However, where CMC_08_22 only sought to include an unjustified maximum LCC threshold, CMC_14_23 will introduce a mechanism whereby either the Minimum or the Maximum LCC requirement could be breached. In the event that the outcome of a Capacity Auction could not satisfy both. The explanation in the modification proposal is that where a Capacity Auction could not satisfy both, both minimum required and maximum threshold should be relaxed. The SOs would calculate a notional cost of violation, using PQ pairs for the violation of the minimum and maximum LCCs that were set by the SOs – (which, in passing, is a questionable approach, ignoring that the cost of Lost Load, which is far more material a cost, than that of over-procurement of capacity). CMC_14_23 was discussed at CMC Workshop 31, and industry participants raised significant concerns at the time.

Security of Supply

If approved, the calculation in CMC_14_23 would mean that a capacity auction may result in an outcome that breaches the minimum LCC requirement. This would be entirely contrary to the RAs responsibility for ensuring



security of supply in Ireland and contrary to what is currently a security of supply emergency necessitating emergency generation and other measures.¹

LCC requirements exist due to ongoing constraints in the transmission system (which are not being actively mitigated even where there are obligations to do so).² LLC required capacity was also a design feature of this market to ensure that defined areas in Ireland have sufficient generation to meet expected demand in line with the Loss of Load Expectation parameters. A capacity auction outcome that does not meet the minimum LCC requirement means that there is an unacceptable risk to system adequacy on the island of Ireland. It is inconceivable that at a time when Ireland is facing a security of supply crisis and is having to rely on temporary emergency generation, that the RAs would consider allowing capacity auctions to under-procure capacity.

In contrast, the risks arising from the over-procurement of capacity or breaching the Maximum LCCs are negligible, particularly in the context of forecast increases in demand and in the context of decarbonisation ambitions. The risk of a fault or short-circuit due to excessive generation within an LCC area is theoretical. It is based on SOs assumptions that model on the basis that all generators are running simultaneously. This ignores the SO's ability and responsibility to be proactive in system management and to use their function in dispatch to prevent impacts to their system. Furthermore, concerns regarding over-procurement are contrary to the recommendation included in the EY Review to increase the amount of contingency that the RAs include when procuring capacity, due to the demonstrated trend of under-procurement in all previous auctions examined.

The RAs have ultimate responsibility for security of supply in Ireland. They must ensure that the first priority of capacity auctions is to secure sufficient capacity for system adequacy, and not allow the CRM to be used to try and resolve other shortcomings in the transmission system or as a means for the SOs to modify connection policy. By effectively removing the minimum LCC as a hard requirement, as through CMC 14_23, it can be relaxed where the capacity auction has been unable to satisfy both min and max requirements. This proposed modification is entirely contrary to what is required from the RAs in the current environment, and the design and purpose of the CRM. The need for a max LCC should be re-examined and justification provided for why this parameter is proposed when the EY report clearly demonstrated the strong risk towards under-procurement over successive auctions. Following from that, CMC 14_23 should also be rejected on the basis of the risk it poses to system adequacy.

¹ <https://www.cru.ie/publications/27388/>

² Article 13 Clean Energy Package sets out annual obligations for the reduction of constraints, as well as KPIs for the TSO under price control to reduce constraints



In addition to the introduction of maximum requirements and to these previous LCC modifications mentioned, the SOs have also put forward a further urgent proposal (CMC_17_23) that would allow LCC areas to be changed at short notice prior to an auction but after the auction process qualification. This proposed urgent modification would also allow for maximum requirements to be set without reference to a published methodology. This modification was discussed at CMC Workshop 32. EAI members are equally concerned with this modification and made these concerns known at the workshop. This separate modification is part of a concerning trend, highlighted above, whereby the SOs are seeking further discretion in the CRM to address what are in fact transmission system shortcomings, not capacity issues. However, at the same time by using the CRM to address these external issues, the SOs are potentially putting security of supply at risk. We would not be in favour of this additional proposed urgent modification.

Conclusion

In the context of Ireland's very serious security of supply situation and the function of the Capacity Auction to procure for security of supply in, it would be extremely unwise to approve this modification proposal, for the reasons outlined above. To re-iterate, our members are unanimous in the view this modification should be rejected. The EAI urges the RAs in the strongest possible terms to reject this modification.

