Energy for generations

ESB Generation and Trading's Response to Administered Scarcity Pricing Review

SEM-23-047

22/09/2023

Contents

1. INTRODUCTION

ESB Generation and Trading (GT) welcomes the opportunity to respond to the SEM Committee (SEMC) Administered Scarcity Pricing Review Consultation Paper (SEM-23-047). The purpose of this Consultation Paper is to get market participants' views on the proposed options to alter the trigger ASP events and any other further view regarding ASP and its application in the future.

ESB GT's response is laid out into two sections; the first is an executive summary of ESB GT's response to the Consultation Paper and the second section lists ESB GT's comments on the questions raised in the discussion paper.

2. EXECUTIVE SUMMARY

ESB GT is concerned with the impact from the options proposed[1] on security supply as these issues have not yet been solved. The issue still exists, and we are about to go into a winter where the system will once again be stressed so it is unclear why there is a desire to increase the Balancing Market costs on the customer at this time. Additionally, any change to the ASP triggers at this moment may only increase costs to the consumer as incentives with related penalties already exist in terms of the Short Notice Declarations and trip charges. Therefore, **<u>ESB GT does not support any of the options in the Consultation Paper and would urge caution in implementing any of the options especially without any Cost Benefit Assessment for the consumer</u>**.

ESB GT does not support any of the options proposed in the consultation paper. To improve the efficiency of the Capacity Market and mitigate the hole in the hedge (socialisation fund), the SEMC need to review, and implement, (1) CMC_11_21[2] that allows shorter notice periods for secondary trading (M.12.3.1 and M.12.3.2 of CMC); (2) CMC_11_21 that allows secondary trading above the gross de-rated capacity (M.12.6.3 and following of CMC); and (3) TSC Mod_02_22[3] that allows the unit under test costs to be recovered. If all of these mods are approved the reliability of assets should improve as well as reduced risk of unhedged capacity in the energy markets.

3. RESPONSE TO CONSULTATION PAPER QUESTIONS

In this section ESB GT has set out its responses to some of the questions raised in the consultation paper.

[1] Option 1 – Adjust the definition of qSTR in the TSC to comprise Replacement Reserve only, Option 2a – Amend the trigger to account for the impact of the North-South constraint, Option 2b – Adjust the qORR to account for the impact of constraints across the system

[2] CMC_11_21ApprovedModificationTextDrafting.pdf (sem-o.com)

[3] DecisionLetteronMod_02_22.pdf (sem-o.com)

1. The SEM Committee has proposed three options for altering the existing trigger for RSP. Please state if you have a preference between these three options, providing reasons for your preference.

Firstly, it is not clear what the SEMC are trying to address with the proposals within the consultation paper. Reliability is mentioned throughout the Consultation Paper, and it is unclear what plant reliability issues have occurred in the past year that need to be addressed as the paper does not mention / present any such data or information. Reliability could be viewed more as the ability of the unit to respond to TSOs instructions during times of scarcity whereas this Consultation Paper would appear to be more about availability. Considering the TSOs Short Notice Declaration and trip charges already exist to "incentivise" reliability, it is unclear how increasing the number of ASP events will positively impact on the customer or improve a units' availability/reliability.

It should be recognised that the security of supply issues that have impacted SEM have not yet been solved. They still exist as we are about to go into a winter where the system will once again be stressed so it is unclear why there is a desire to increase the Balancing Market costs on the customer. Furthermore, with no Cost Benefit Assessment performed it is not clear what, if any, net benefit the consumer will receive from the three proposed options. The impact of arbitrarily increasing the number of ASP events (no longer linked to the original high level design) may have a negative impact on the consumer therefore a Cost Benefit Assessment / Regulatory Impact Assessment should be provided alongside any such decision to implement any of the three options.

In terms of option 2a and 2b, it would appear to be a complete move away from the fundamental basis of the CRM being designed for an all island market. The premise of the double trigger for ASP, and all the modifications raised to date on the CRM non-performance/difference charges, is that if a unit couldn't solve the issue due to a transmission constraint it shouldn't be held to account. Yet both options 2a and 2b are effectively going in the opposite regulatory direction.

The Consultation Paper is in effect creating the following scenario;

(1) the auction has been designed (and subsequently modified) to procure a TSO determined capacity in TSO/RA defined locations (LCCAs), at an all island market price not at a zonal price,
(2) the TSOs' schedule the assets based on constraints in which an RoI unit cannot solve the NI issue, and
(3) an ASP should be set across the island even though it may be a locational issue. It seems strange to expose a customer/CRM contract holder in a different jurisdiction to an ASP when there is no issue in its area, and it cannot solve it. If the volumes procured in the LCCAs are not sufficient then this needs to be addressed.

There is a real risk that Option 2a and 2b could have the negative consequences of being so difficult to forecast and understand that market participants will not be able to respond to the signals. It must be recognised that participants do not have the same information/understanding that the TSOs have on the tie-line constraints and transmission constraints. Therefore, market participants are at a significant disadvantage if ASPs are triggered by events in jurisdictions that are limited, at that time, due to the transmission network. If any of these options are to be implemented the TSOs will need to materially increase the transparency on the transmission network managements at real time.

If the SEMC are to adjust the ASP mechanism to administratively increase the number of RO events greater clarity on the volumes procured by the RAs/TSOs in the demand curve is needed. The adjustments to the demand curves for all auctions have never been published therefore it is difficult to determine how much capacity has been procured by the SEMC in order to allow outage planning/maintenance works. This is importance considering the amount of new capacity that is envisaged to need testing over the next 2 years. With the options proposed in this Consultation Paper there could be a real risk due to the under-procurement in previous auctions and the significant increase in commissioning test headroom having a greater than expected negative impact as the testing window has not been experienced in the 2023 data.

Additionally, over the last year there have been conflicting messages from the RAs and TSOs on the availability of assets and the concepts in this consultation paper. In MOD_02_22 it was identified that conventional assets seeking to returning from outage are facing period of low prices (due to high renewable penetration) and not being able to recover the costs of testing. The mods committee unanimously voted to approve the mod but the RAs decided to reject the modification in favour of the TSOs proposal (which still hasn't been progressed yet the TSOs have subsequently consulted on the testing tariffs for the next year). It should be recognised that the TSOs advised that conventional assets seeking to perform testing should just "*look at the price and you take everything into consideration*"[4] and for the TSOs proposal '*if there was no pressing need for the unit to return it would be left at the discretion of the generator to test when conditions were favourable.'* Effectively asking the conventional units to postpone returning and therefore resulting in lower availability percentages. This is clearly at odds with what this Consultation Paper is seeking.

Finally, it is unclear what the period of 4th March to 8th June 2023 was only used. If the options were assessed over the life time of ISEM (Oct 2018 to June 2023) how different would the assessment be?

2. Respondents are invited to provide any other views they hold regarding the contents of this consultation paper, including any alternative proposal for the modification of the ASP mechanism that has not been set out in this paper. If proposing an alternative approach, please clearly set out the rationale and explain why it would be preferable to either of the proposed options.

Market Changes Needed

To ensure greater cover from a potential hole in the hedge of the socialisation fund for suppliers ESB GT believes the SEMC must address the following three issues:

1. Secondary trade notice period (CMC_11_21)

If ASP events are to become more frequent in times of system tightness, market participants need to have an option to secondary trade the obligated capacity in a short notice. Currently secondary trading is only available up to 5 working days in advance which does not provide a sufficient flexibility to the market participants to react on reliability issues in the real/near time. The SEMC approved the reduction of this notice period to 2 hours in decision regarding CM_11_21[5] however it's still pending a confirmed implementation scheduled and deployment date following a TSO assessment. This decision was made in December 2021 and industry is still waiting the TSOs assessment. It is not clear why there has been such a significant delay in this assessment.

2. Secondary trade above gross de-rated (CMC_11_21)

[4] FRRMOD_02_22version2.0.pdf (sem-o.com)
[5] WP-05: Institutional Arrangements (sem-o.com)

In addition to more flexible timelines for secondary trading arrangements, trading above gross de-rated capacity should be also implemented in order to allow Alternative Secondary Trading to take place. Similar to the point above, this was also in a CMC modification that was approved by the SEMC but is still waiting for implementation. The CMC was written to allow this functionality, but the market finds itself five years into ISEM and the functionality is still not implemented. Trading above the gross de-rated capacity allows a generator/DSU/interconnector to take on more capacity obligation (subject to the Product Load Following Factor) which at the same time ensures no hole in the hedge for the consumer.

3. Unit under test costs (both mods) (Mod_02_22 and Mod_01_23)

As mentioned above, Mod_02_22 raised a serious issue for all conventional assets seeking to perform testing in a market/system dominated by zero cost renewables. In the modifications committee the clear risk was identified by the generator members as well as the supplier members, however, the Market Operator/TSOs did not agree. The Modifications Committee voted to approve the modification, but it was subsequently rejected by the RAs. The modification highlighted an issue that will become more prevalent as the penetration of renewables increases; the price in the Day-Ahead Market does not cover the testing costs of conventional assets and therefore places the conventional asset in a difficult place to perform testing. Considering what is being proposed in this Consultation Paper, the TSOs and RAs position/decision on Mod_02_22 needs to be reconsidered as it is direct conflict with what the SEMC are trying to achieve. Market limitations that are incentivising conventional assets to withhold capacity until prices are high (scarcity pricing) in order to perform testing seems a perverse incentive and one that needs to be addressed.

ESB GT believes the three requirements above are needed as soon as possible (and if the SEMC decide to proceed with any changes proposed in this consultation paper they must be implemented in advance of such changes).

Unit Specific Price Cap Assessments

Greater consideration of the application of the USPC is needed under the current proposals. For example, if more RO events are to occur the applicability of the RO risk within a USPC application needs to be considered.

Relationship between the need for Capacity Markets and Scarcity Pricing

In the consultation paper, the SEMC state "*Due to this design, there is a disincentive for many market participants to trigger the RO given that many market participants hold an RO for at least part, if not most, of their capacity*". This statement seems counterintuitive to the need for a capacity market. A basic premise of introducing capacity markets is that it removes the need for participants to rely on scarcity pricing as participants recover such forecasted revenues via their Capacity Market bids. Additionally, there are considerable penalties involved with REMIT if a participant was deemed to have (or attempted) manipulated the market or set the price at an artificial level. Finally, it should be noted that the previous RO event pricing that occurred were triggered by SO-SO trades when there was sufficient capacity on the island. These trades were performed across the interconnectors in which interconnectors are not exposed to any such penalties once available. Therefore, it is not clear how creating greater ASP events will encourage a different participation from CRM contract holders.

Investor Confidence

Finally, ESB GT is concerned with the suggested approach in the consultation paper that "*As set out in the Section D.3.1.4 of the Capacity Market Code, where a curve, value or item included in the Initial Auction Information Pack (IAIP) is referred to as "anticipated", it is included "for information only, and may change or vary from time to time". The SEM Committee notes that the values for FASP and the RSP Curve are anticipated values.*" When market participants (new investors and existing) are considering entering the capacity market, certainty and confidence is critical. From some auctions to date, the FAIP has been delayed and it has been the market participants who have been squeezed rather than the auction delayed. Changing information from the IAIP should only be done as a last resort as it creates unnecessary risk on participants and erodes confidence in the information/signals provided.