

Utility Regulator
Queens House
14 Queen Street
Belfast

20th March 2020

FTAO Kenny Dane and Kevin Lenaghan

RE: SEM-20-006 CONSULTATION PAPER (CRM 2024/25 T-4 AUCTION PARAMETERS AND COMPLIANCE WITH THE CLEAN ENERGY PACKAGE)

I am writing to you on behalf of the Demand Response Aggregators of Ireland (DRAI), the trade association representing Demand Side Unit (DSU) and Aggregated Generating Unit (AGU) providers in the all-island Single Electricity Market (SEM). Today, we represent over 700 MW of demand and embedded generation response across hundreds of industrial and commercial customer sites throughout the island of Ireland. These sites are managed by our eight members each of whom actively participate in the Capacity, DS3, and energy markets, within the SEM. Through the DRAI we express a single voice on policy and regulatory matters of common interest to our members.

The DRAI welcomes the opportunity to respond to the SEM Committee's public consultation on the parameters for the 2024/25 T-4 capacity auction and ensuring compliance with the Clean Energy Package and trust that you will consider it in your deliberations.

Overview

Most of the parameters proposed by the SEM Committee to apply for the 2024/25 T-4 capacity auction are the same as those already agreed to be used for the 2023/24 T-4 auction. Therefore, the DRAI will focus its feedback on those items within the consultation where the SEM Committee is proposing a significant potential change / deviation, or where the SEM Committee has explicitly requested responses.

In summary:

- No new evidence has arisen to support the reduction of the Existing Capacity Price Cap;
- The DRAI favours Option 2 in relation to emissions compliance of capacity mechanisms under the Clean Energy Package. The DRAI has some important clarifications as to its implementation for AGUs and DSUs;
- The DRAI is concerned – representing smaller Capacity Market Units – that a move to Auction Format D may lead to unintuitive results. Further modelling is required and it should not be implemented for the 2024/25 T-4 capacity auction.

Finally, while no change is proposed to the Performance Security Rates, the DRAI is of the view that these are excessively high in the context of existing sites (proven and tested) demand response sites moving from one AGU/DSU provider to another. The cumulative effect of performance securities across multiple auction years alongside the high rates applied is providing a bias towards larger market players. The DRAI would like to recommend that the applicability of Performance Securities to multiple auctions and to proven demand side capacity that is moving provider is reviewed by the SEM Committee.

Existing Capacity Price Cap (ECPC):

The SEM Committee is seeking views on whether to reduce the ECPC to 0.4 times NET CONE (vs. the 0.5 times NET CONE used for auctions to date).

The DRAI members do not believe there is sufficient justification to reduce the ECPC at this time, and therefore supports the SEM Committee's proposal to retain the ECPC multiplier at 0.5.

While it is fully appropriate for the SEM Committee to keep the ECPC multiplier under review, the DRAI believes there has not been sufficient change since the SEM Committee's previous conclusion on this matter (Decision Paper SEM-19-018) to justify the reduction of the ECPC multiplier.

The DRAI supports the strong view from across market participants when this issue was last consulted on that the reduction of the ECPC from its current level risks unduly controlling participants' auction bids, interfering in the market maximising fair and efficient competition between all capacity providers, which could result in higher prices for consumers. The fact that the Regulatory Authorities have already had to assess Unit Specific Price Cap (USPC) applications where existing capacity units have requested special permission to be able to exceed the ECPC is further evidence that the ECPC is set at an appropriate level, and any decrease in the ECPC would need to be balanced against the high administrative and cost burden for both participants and the RAs associated with increased USPC applications. The DRAI believes the current ECPC is already striking an effective balance between limiting market power of existing providers and ensuring a fully competitive and properly functioning market where all participants are able to recover their costs.

Compliance with the Clean Energy Package (CEP):

Consultation question 1: *“Which of Option 1 (allow high CO₂ emitting plant to participate in the CRM, but be subject to additional derating) and Option 2 (make no changes to the CRM, but ensure that any unit with emissions exceeding 550g CO₂/kWh comply with CEP annual run-hours limitations) is preferred?”*

The DRAI supports Option 2, requiring operators of plant emitting >550 gCO₂/kWh to manage their own CRM participation to comply with the applicable run hour limitations under the CEP while managing their own Reliability Obligation financial risks.

The DRAI understands that this means that if the 350kg/MW/annum limit is reached, the generator within the DSU or Aggregated Generator Unit that has reached such threshold must no longer contribute to declarations of availability for the DS3 system services and critically the energy markets. It is these reduced declarations in the energy markets that will lead to Reliability Obligation financial risks. For the avoidance of doubt, it is DRAI's understanding that an entire AGU or DSU would not be obliged to declare to zero should only one constituent site in the aggregated entity reaches the threshold limits.

The DRAI would like to confirm that the subsequent management of the Reliability Obligation financial risks will continue to include the right to secondary trade the affected cleared capacity quantity. This would result in a reduced capacity payment.

The DRAI would like to ensure that such downward declarations of availability for non-technical reasons, i.e. compliance with the CO₂ emission limits under the Clean Energy Package, will be compliant with the Grid Code availability declaration requirements.

The DRAI believes the System Operators should retain the ability – if required to ensure security of supply – to instruct capacity providers to participate again in the energy and DS3 system services markets (at no penalty to the providers), where providers are otherwise self-managing Clean Energy Package compliance to avoid exceeding the 350 kg/MW/annum CO₂ emissions limit by reducing their availability in the energy market and for DS3 system services.

The DRAI is strongly opposed to Option 1, based on implementing additional derating for high CO₂ emitting plant, and does not believe this option has merits / justification.

The DRAI view is that Option 2 entails minimal intervention in the current competitive market design, while delivering full CEP compliance, and sending an appropriate market exit signal to the highest CO₂ emitting plant (via run hour limits in conjunction with other market signals e.g. carbon prices).

The DRAI would like to highlight that:

- Some capacity providers are already managing their market participation within run hour limits (for example imposed by the Industrial Emissions Directive) and managing themselves the associated risks (e.g. associated with Reliability Obligation Difference Charges exposure if they exceed their run hours). This is highly similar to the proposed Option 2 for allowing participants to manage their own participation and risk exposure.
- The CRM already has derating factors depending on technology, unit initial capacity (MW) and duration (hours storage). Additional derating factors based on emissions limits / run hours (which depend on fuel type, plant efficiency, etc.) would significantly increase complexity.
- Some units (such as DSUs which can only run for 2 hours) are already heavily de-rated in the CRM based on their constrained run hours. Further derating based on restricted run hours due to emissions limits would not reflect the true value of the capacity which such units provide.
- A facility already exists within the CRM market design to enable some units (e.g. DSUs) to apply Decrease Tolerance factor, effectively voluntarily increasing the derating factor applied to their specific unit to manage their market participation / Reliability Obligation risk exposure. Making this facility available to all unit types could be a way to enable participants to manage their risk exposure.

Whilst of course the CRM needs to fully comply with CEP Regulation 2019/943, it is important that the exit signal sent to high CO₂ emitting plant is balanced vs. the significant system benefit that some such dispatchable, flexible plant can provide, especially during a period which the SEM Committee acknowledges is expected to see a very significant exit of existing capacity from the system.

Going forward, as the electricity generated within the SEM continues to decarbonise, higher levels of flexible generation will be required to maintain overall system stability. Such generators also provide for low-cost forms of capacity to deliver on security of supply. The DRAI would like to emphasise the need to carefully balance any market restrictions on CO₂ emitting plant beyond realising the requirements of the CEP with minimal market distortion, against the positive system benefit accruing from maximally utilising existing capacity, especially during the upcoming period when system margins are projected to significantly reduce.

Consultation question 2: *“If additional de-rating is applied, should it be applied for the 2024/25 capacity year, or held until CY 2025/26? Alternatively, should CY 2024/25 be reduced to nine months duration?”*

As above, the DRAI does not support the application of additional derating factors as the best solution to ensure the CRM achieves compliance with the provisions of Article 22 of the Recast Electricity Regulation implemented as part of the CEP. In addition to the belief that this is not the optimal solution to ensure CRM compliance with the CEP, the DRAI members believe the significant complexity associated with implementing a complete new set of CRM derating factors in time for the 2024/25 T-4 auction (currently scheduled to take in less than 1 year, in January 2021, with qualification etc. in advance) is unrealistic, if appropriate consultation and consideration of all potential impacts (including interrelation with other derating factors) is to be achieved and factored into the design.

On this basis, if it is decided to apply additional derating factors based on CO₂ emissions, it is proposed that this should be deferred for implementation until 2025/26 T-4 auction.

The DRAI believes there is a significant risk of unintended consequences and market distortion (resulting in unfair treatment of certain units, lower competition, and potentially higher prices for consumers) if additional de-rating factors are implemented, especially if this process is rushed. The DRAI believes the alternative solution Option 2 is preferable.

Consultation question 3: “Should the Long Stop Date be reduced from 18 months to e.g. 12 or 6 months?”

The DRAI does not support reducing the Long Stop Date from 18 months which would increase the risk faced by New Capacity providers in the unlikely event of significant project delivery delays. Increasing the risk faced by New Capacity providers could reduce the finance-ability of new projects, either increasing overall costs to consumers or restricting the amount of New Capacity brought forward. The DRAI’s view is 18 months already provides a sufficiently strong incentive to deliver New Capacity on-time, without placing excessive risk on providers in case of significant delays beyond their control.

Auction Format:

In the consultation paper, the SEM Committee has set out its proposal to utilise Auction Format D for the 2024/25 capacity auction, in place of the current Auction Format C. The DRAI does not support the change to Auction Format D and recommends that Auction Format C is retained until significant further work and evaluation has been completed.

In particular, the DRAI members have concerns the shift to Auction Format D is likely to result in less transparent and intuitive auction results, with a disproportionate negative impact on smaller units as the algorithm searches to remove deeper in merit offers to reach higher Net Social Welfare overall outcomes. This would especially be the case if a large unit has been awarded a capacity contract partially out of merit to satisfy an auction constraint and the algorithm chose very low cost but small MW capacity in-merit units to remove in order to deliver the highest overall Net Social Welfare.

The DRAI would like to reiterate some of the strong arguments against shifting to Auction Format D made by EirGrid / SONI in their public response to Consultation Paper SEM-19-023. In particular that the shift to Auction Format D should not be pursued until there is a clear conclusion that the potential benefits (potentially higher Net Social Welfare auction outcomes) outweigh the costs, risks and complexity associated with its implementation.

Yours sincerely,



Emeka Chukwureh
DRAI Chairman