



**Energia response to SEM Committee
Consultation Paper SEM-19-048**

***Capacity Remuneration Mechanism 2023/24 T-4
Locational Capacity Constraint Areas Consultation
Paper***

25 October 2019

Executive Summary

This response raises significant concerns about the lack of justification and arbitrary nature of the proposal in the Consultation Paper. In summary, the reasons for introducing an additional LCCA for the 'Rest of Ireland' are unclear and unconvincing. It is not justified as a targeted and proportionate measure to address security of supply concerns, nor can there be any justification for abandoning the established and approved LCC methodology which already applies to Dublin in favour of the arbitrary and highly questionable approach proposed and applying it to the 'Rest of Ireland'. Taken together, these deficiencies have the effect of:

- Introducing an additional LCCA where inadequately justified and that does not seem necessary for security of supply reasons;
- Defining the LCCA too broadly to include every node in Ireland outside Dublin within which there is (well-publicised) internal network constraints and areas of "excess generation";
- Likely overestimating the minimum MW requirement within the LCCA actually required for security of supply;
- Creating a risk of procuring excess generation capacity, for the region and / or for the system as a whole;
- Distorting market outcomes by over-specifying constraints in the capacity auction;
- Being unduly discriminatory in the (dis)application of the established and approved LCC methodology; and
- Heightening the perception of regulatory uncertainty about how LCCAs will be defined and adjusted in future.

Accordingly, we do not believe it would not be consumers' interests to proceed as proposed.

The Consultation Paper is unclear on whether the purpose of the proposal for a 'Rest of Ireland' Locational Capacity Constraint area (LCCA) is to address:

- (a) a perceived potential excess of generation within the Dublin area, or
- (b) a potential shortage of generation within (all or parts of) the Rest of Ireland

The former is not in itself a security of supply issue, and certainly does not fall within the scope and remit of the CRM design. It would also seem completely at odds with recent CRU direction to EirGrid and ESBN on 4 October 2019 instructing the companies to issue a connection offer to any applicant within the Dublin region Level 2 LCCA that is successful in the forthcoming T-4 Capacity Auction for 2023-24 because of ongoing security of supply concerns.

If there is a perceived or potential shortage of generation within the Rest of Ireland (or subset(s) of it), and if (and only if) the issue relates to circuit capacity limitations, then:

- one or more Level 2 areas should be defined;
- minimum local generation requirements should be calculated using the Level 2 methodology already established for that purpose.

Energia is not in a position to determine definitively whether there are local security of supply issues within all or part(s) of the suggested “Rest of Ireland” area, however it seems unlikely given that the CRU limited the above direction to capacity locating within the Dublin LCCA. In any event, we note that in order to merit being addressed within the CRM, the issues should meet the required criteria, including:

- they should relate to local security of supply issues based on “power transfer constraints” or significant circuit capacity issues only (and not other “technical or connection challenges”¹)
- the locational need should be “clear and significant”.

If such a need is demonstrated consistent with the CRM scope and remit, then Energia has no difficulty with additional Level 2 areas being defined to address it. However, the current proposal has not demonstrated such a need, and the proposed methodology is inappropriate and inconsistent with the scope and design of the CRM. The application of the proposed methodology for setting a “maximum” generation level with reference to the Dublin area (and not to other areas some of which are likely to already have a problem with excess generation), would also be inappropriate and discriminatory.

¹ As referred to (but not further defined) on page 9 of the Consultation Paper

1. Introduction

Energia welcomes this opportunity to respond to the SEM Committee (“SEMC”) Consultation Paper SEM-19-048 titled “Capacity Remuneration Mechanism 2023/24 T-4 Locational Capacity Constraint Areas” (the “Consultation Paper”).

We conclude that the proposal in the Consultation Paper is inadequately justified, arbitrary and inappropriate and that it would not be in consumers’ interests to proceed as proposed.

The remainder of this brief response is structured as follows. Section 2 provides our overall comments, leading to the above conclusions, and section 3 responds to the specific questions in the Consultation Paper.

2. Overall Comments

We have endeavoured in section 3 of this response, to present our comments under the three specific questions posed by the SEM Committee within the Consultation Paper. However, a number of the issues raised are closely related, so in this section, we present an overview of our response.

The Consultation Paper is unclear on the specific problem which the proposal is trying to address. On the one hand, it is presented as a problem of potential excess generation within the Dublin area, while on the other hand, it is stated to be a problem of potential shortage of generation within the “Rest of Ireland” (ROI) area. In this response, we provide comments on each of the issues in turn.

If the goal is to address a **potential excess of generation within the Dublin region**:

Firstly, we are strongly of the view that this is not within the remit and scope of the CRM design and Locational Issues policy in SEM-16-081. The scope of the LCC methodology has previously been defined and limited to security of supply issues relating to “local capacity deliverability constraints”, as determined in SEM-16-081 (emphasis added)²:

The SEM Committee has further decided that the following principles should impact the way in which locational constraints are reflected in the CRM:

- *Any locational constraints taken into account within the CRM mechanism would only be used to represent local capacity deliverability constraints;*
- *A locational need would only be included in the CRM mechanism where the need is clear and significant;*

These points have been repeated in a number of subsequent consultation and decision papers, as being fundamental to the CRM Locational design.

It is important to note that while a deficit of generation in a local area can result in the need to disconnect customers and associated failure to meet supply continuity standards, an “excess” of generation in an area is not a security of supply issue as it

² SEM-16-081 Capacity Remuneration Mechanism – Locational Issues – Decision Paper (8th December 2016).

can readily be addressed in dispatch by adjusting downwards the amount of generation running in the relevant area.

While arguably secondary to the point that a perceived excess of generation in an area is not within the remit of the CRM LCCA mechanism, we would make a number of observations on the derivation of the “maximum generation” level defined for the Dublin area.

- The Consultation Paper suggests an indicative “cap” in Dublin generation in the range of 2,100 to 2,300 MW (de-rated). The minimum capacity requirement for Dublin for the T-4 CY2022/23 auction was set at 1,682 MW. However, it should also be noted that the “pre-adjustments”³ minimum requirement identified for the Dublin area was 1,900 MW⁴. Thus if the underlying projections turn out to be valid, at least an additional 250 MW of Dublin capacity will be procured for CY2022/23, giving a minimum requirement of 1,932 MW. The total minimum capacity requirement for CY2023/24 is likely to exceed 2,000 MW. This suggests that the difference between the minimum generation requirement and the maximum permissible, is only 100 to 300 MW. To have such a small margin between the minimum and maximum generation levels lacks credibility, especially in considering the large volume of transmission capacity between Dublin and the remainder of the network.
- The method by which the “maximum generation” level is calculated is not described in the Consultation Paper. The CRM locational methodology has been limited to “power transfer” or “circuit capacity” issues only. The Consultation Paper (page 9) notes that “*a concentration of generation in the Greater Dublin LCCA may at some point breach circuit capacity limits*”, but also refers to additional “*technical and connection challenges*”. Although these are not defined further, they would appear to go beyond power flow/circuit capacity issues:- “connection challenges” for example, would certainly appear to be an entirely different issue.
- The Consultation Paper (page 10) acknowledges that Specific details regarding the calculation of the “maximum generation level” have not been set out, but suggests a pragmatic approach. In that context, it is difficult to envisage a pragmatic set of tests which would indicate power-transfer concerns exporting generation from Dublin at the level of 2,100 to 2,300 MW installed generation. It is possible that if all the generation capacity in Dublin were dispatched to full output at times of minimum demand, then transmission capacity would be approached, or (perhaps) breached. However, that is not a “pragmatic” test as such a dispatch is not credible, given the make-up of generation in the Dublin area and its merit order position in the overall generation portfolio. If a similar test were applied in other regions of the system (e.g. south-west area, or Northern Ireland), the

³ i.e. prior to adjustments for reserve (+70 MW), non-participating capacity (0 MW), DSUs (-38MW) and “uncertainty” (+250 MW).

⁴ From SEM-19-021 Information Note on the T-4 CY2022/23 Capacity Auction Volumes (9th May 2019).

transmission export capacity from those regions would be breached much more severely. In conclusion:

- on a “pragmatic” basis, the maximum level of generation which can be accommodated in Dublin is likely to be much higher than the range indicated in the Consultation Paper;
- the tests (however defined) should not be applied uniquely to the Dublin region; other regions (some of which have significantly greater “excess generation” issues already) should be similarly tested.

Alternatively, if the goal is to address a **potential shortfall of generation within the “Rest of Ireland” area:**

If the problem is real and demonstrable, then it would be appropriate to address it within the CRM mechanism provided always that

- a) the security of supply issue falls within the scope and remit of CRM, including that the local security of supply issue relates to “local capacity delivery constraints”, and the need is “clear and significant”;
- b) the definition of the Level 2 area(s) is appropriate and consistent with the design and actual requirements;
- c) the minimum MW within the Level 2 area(s) is calculated by applying the established methodology within CRM, which has been designed for the purpose and already used to define a minimum MW requirement for the Dublin Level 2 area.

In that context, there are a number of problems with the proposal within the Consultation Paper.

The proposal calculates the “Rest of Ireland LCCA min MW” by inference from the “Ireland min MW” and the “Dublin Maximum MW”.

Level 2 Rest of Ireland LCCA min MW = Level 1 Ireland min MW – Dublin Maximum MW

This is not an appropriate method to calculate the minimum MW within an LCCA Level 2 area under the CRM, and is not the way it is done for the Dublin Level 2 area. The established methodology involves reducing the amount of MW in the target area until transmission system security and planning standards (TSSPS) - associated with circuit capacity only - are breached.

In essence there is no direct correspondence between the conceptual maximum MW for the Dublin area, and the minimum requirement for the Rest of Ireland area. While in theory the alternative methodology proposed in the Consultation Paper may produce a higher or lower MW requirement (for Rest of Ireland) than the established CRM methodology, intuitively it is likely to be higher. This could create a potential for over-procurement of generation within the designated Level 2 area(s), or for the system as a whole.

Further, we consider it highly unlikely that the “Rest of Ireland” area would be an effective Level 2 area in any case, due to its size and the (well-publicised) internal network constraints. Security of supply and network capacity limitations are not independent of the location of generation within the area, so an assumption that “all

MW are equal” regardless of location, is not valid. It is likely that if there are genuine concerns regarding security within the area, it would require the definition of more specific Level 2 areas to address the concerns. This is discussed further in response to Question 1 below.

3. Response to Specific Consultation Questions

The following section addresses each of the specific questions posed in the Consultation Paper in turn.

Q1. Do you agree in principle with the need for a Level 2 Rest of Ireland LCCA within the T-4 CY2023/24 capacity auction (being proposed by the TSOs in the T-4 CY2023/24 Initial Auction Information Pack and referenced in the RAs T-4 Parameters decision paper published 10 September 2019 (SEM-19-043)? Please provide rationale.

Energia believes that a Level 2 “Rest of Ireland” LCCA should only be included if it can be clearly demonstrated that there are security of supply issues affecting the area, that fall within the scope and remit of the CRM Locational Issues policy decision and framework. That is, that there are local transmission capacity delivery constraints affecting security of supply within the area, and that the need is “clear and significant”.

While we are very doubtful that this is the case, it also seems likely that the “Rest of Ireland” area is too large to be an effective Level 2 area in any case. It covers a very large area and location of generation resources within the area would be of critical importance (even in Dublin, which is a much more compact area with a relatively strong internal transmission network, the location of generation within the region is important, and the treatment of it as a single zone is a necessary simplification). The issue of network constraints within the proposed “Rest of Ireland” region has been repeatedly highlighted in EirGrid reports and papers, which identify (for example) a major “west to east” transmission constraint.

This strongly indicates that if there are security of supply issues associated with transmission capacity limitations, they would need to be approached by defining more specific Level 2 regions, so that generation capacity is secured where it is needed, and not in areas of the Rest of Ireland which already have a local excess of generation capacity.

Finally, the definition of a Level 2 area for Rest of Ireland cannot be based on a (real or perceived) potential excess of generation within the Dublin area. That does not in itself create a security of supply issue in Dublin, and does not present a valid basis for identifying a security of supply issue within the Rest of Ireland.

Q2. Do you have any views as to the proposed calculation of the Level 2 Rest of Ireland LCCA minimum MW level?

If there is a legitimate concern about security of supply in the “Rest of Ireland” area, or subset(s) of it, associated with local transmission capacity delivery constraints, then a minimum generation requirement should be calculated using the already established LCC Level 2 methodology. This methodology has been the subject of a long series of SEM Committee consultation and decisions. As there is an

established methodology for calculating minimum generation requirements for Level 2 areas, it would be entirely inappropriate at this stage to introduce a new (and largely undefined) methodology.

Further, the derivation of a minimum generation requirement for Rest of Ireland based on a supposed maximum generation level for the Dublin Level 2 area, is inappropriate. This may yield a very different MW figure for the Rest of Ireland from the minimum generation levels actually required for security of supply. While in theory the figure derived for Rest of Ireland could be higher or lower than that which is actually needed for security of supply, intuitively it is likely to be higher. This also creates a risk of procurement of excess generation capacity, for the region and/or for the system as a whole.

In summary, if and when there is a legitimate concern regarding security of supply in the Rest of Ireland (or parts of it), it should be addressed using the CRM Level 2 methodology already established for that purpose. The application of a new methodology which has not been described or consulted upon, is arbitrary and entirely unnecessary.

Q3. Do respondents view the addition of a Level 2 Rest of Ireland LCCA as being appropriate within the methodology set out in SEM-17-040a? Please explain.

Energia does not believe that the requirement for a Rest of Ireland LCCA area has been demonstrated. As discussed above, if there is a legitimate concern regarding security of supply within the area which is consistent with the remit and scope of the CRM locational design, then the definition of the Level 2 area(s) and the calculation of the minimum MW requirements within the area(s), should be undertaken using the methodologies already established. These methodologies have been established and implemented following a long series of consultations and decisions.

Accordingly, Energia is of the view that the proposed approach is not appropriate within the policy framework of SEM-16-081 and methodology set out in SEM-17-040a.