

Submission by Bord na Móna PowerGen

on

CPM Medium Term Review

Work Packages 6,8,9,10

SEM-11-019

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CPM Medium Term Review Response to Consultation

Introduction

Bord na Móna welcomes the opportunity to make a submission on the third and final series of work packages which form the basis of the consultation process for the Medium Term Review of the SEM Capacity Payments Mechanism (CPM).

As stated previously, in responses to earlier parts of the CPM Medium Term review consultation process, Bord na Móna agrees with the Regulatory Authorities expressed view that the CPM is a key component of the SEM design. It is the market mechanism which acts to provide efficient investment signals to the market to deliver the optimal capacity and mix of generation required to ensure an efficient and secure electricity supply. It also acts to remove some of the significant volatility which can occur in energy only markets, in periods where dramatic movements in primary energy prices, such as has been observed over the three and a half years since the SEM has been in existence.

It is acknowledged that the forthcoming challenges, including the evolving generation mix which will see much higher levels of intermittent renewable generation, with priority dispatch rights over conventional generation, and the drive for increased regional harmonisation in European energy markets, will challenge the efficacy of the existing market structures in the medium to long term. In this context, the review of the CPM with regard to the RES-E target for wind is appropriate at this juncture, as the timeline for the roll out of new RES capacity to 2020, and the impact on existing market structures is relatively well understood. By contrast, there is much greater uncertainty around the timelines and evolutionary path of the SEM as it seeks to harmonise in a greater regional market. In the context of the CPM medium term review, it is probably not realistic to assess the implications of regional market harmonisation on the CPM until a clearer picture emerges of what these changes will mean for the high level SEM design.

The rest of this paper gives Bord na Mona's response to some of the key questions posed in certain sections of the consultation paper.

Work Package 6 – Treatment of Generator Types in the CPM

Bord na Móna does not believe that there should be a separate pot of capacity payments for wind or any other generation type. The original concept of the capacity payment system was to provide capacity adequacy and this should still be the primary function of the mechanism regardless of generator type. Poyry, in their analysis of the medium term performance of the CPM, showed that though wind changes the distribution of aggregate capacity payments, it does not materially mitigate or exacerbate the overall performance of the mechanism in future years of increased wind penetration.

Bord na Mona have previously argued in response to the first part of the CPM consultation process, (Work Packages 1-5) that wind power should be paid from the capacity payment pot in proportion to its contribution to capacity adequacy. The contribution of wind to capacity adequacy is assessed using a capacity credit estimation for wind in the determination of the deemed capacity requirement which is then used as a factor in calculating the value of the Annual Capacity Payment Sum (ACPS). In effect, while the eligible availability of wind power is based on actual generation (notwithstanding that the ACPS is calculated with capacity credits for wind), the effective capacity payments for wind generation is greater in proportion to its contribution to generation adequacy than for any other form of generation.

It is appropriate that wind generation gets paid for its actual output where this generation acts to improve the capacity margin in any particular trading day, (i.e. setting the eligible availability for wind generation as the actual generation for the ex-post variable capacity pot). However, Bord na Mona believes that it is more appropriate to calculate the eligible availability of wind for the ex-ante pots, (both fixed and variable) using a capacity credit factor which more accurately reflects its contribution to generation adequacy.

In relation to the treatment of interconnector units with respect to capacity payments, Bord na Mona feels that this question is better addressed to the wider issue of the evolving nature of regional market structures between SEM and neighbouring markets. In this regard, it is important that any such changes act to maximise the flexibility offered by the interconnector capacity to balance the intermittency of wind and new demand patterns driven by new smart network technology.

Bord na Mona do not see any compelling reasons why the current methodology for the treatment of pumped storage and energy limited plant should be changed.

Work Package 8 – Incentives for Generators

Payments for Flexibility

Bord na M6na believes that the function of the CPM should be twofold, to recognise the contribution of all capacity providers and to ensure that capacity is available when required. Payments to generators should be made on the basis of their contribution to these goals. Bearing these objectives in mind, we do not believe that the capacity pot should be used to fund payments specifically for flexibility.

Bord na M6na acknowledges that it is important to incentivise flexibility. The market will need increasing levels of flexible generation going forward, in line with the increased penetration of intermittent renewables. There will also be a requirement for new types of services, such as inertia, and synchronising torque, to maximise the dispatch of non-synchronous generation sources such as wind turbines and interconnectors. The range of services required will require a diverse portfolio of conventional generation, which will require adequate market revenues to ensure their commercial viability. As the capacity factors and the inframarginal rents which these plants depend on to earn margin from the pool market decline with the increase in the

dispatch of intermittent renewables, the conventional portfolio will increasingly rely on capacity payments and ancillary services for revenue adequacy.

This need for these additional services is distinct and separate from the issue of capacity adequacy which is funded from the CPM and as such remuneration for flexibility requires a discrete incentivising and funding mechanism. In conclusion, the capacity pot should be used only to pay for capacity adequacy not system flexibility.

Capacity Penalties

Bord na Móna believes that there may be merit in penalising generators for not providing capacity when they have declared that they would. This should in theory serve to give an efficient exit signal to serial offenders who cannot provide the capacity they are paid for when called to do so.

However, we believe that such a system would need to be reasonable, in that it cannot be so severe that extreme financial penalties are placed on generators due to forced outage events. The scheme would require a right of appeal and other safeguards associated with 'due process'.

Bord na Móna agree with the idea of a points system whereby a generator would receive penalty points based on the severity of the failure, points could be accrued over time and the number of points a generator would receive would increase with increasing number of failures to provide capacity when required. Points garnered would have a finite lifetime and would dissipate after a defined period.

Upon reaching a designated number of points, the generator would be obliged to make a penalty payment. The financial penalties so collected should be redistributed to the generators that provided capacity during the period in question, thus rewarding those units availability.

New Entrant Scenario

Bord na Móna do not believe that new entrants should be treated differently to incumbents in the CPM. The context of a separate scheme for new entrant generators would mean that the SEMC would have the role of determining the timing of new generation capacity through the settings they choose for the new entrant capacity scheme.

In the context of providing the appropriate certainty for new entrant and incumbent generators alike, it is more important that the RAs take on board some of the options for increasing the forecast horizon and decreasing the potential volatility of the annual pot calculation methodology. The market would then determine what is the most efficient way of delivering the required capacity to provide generation adequacy, either through efficient use of existing capacity, demand side participation or new generation.

Work Package 9 – Timing and Distribution of Capacity Payments

Bord na Móna do not believe that the design of the distribution allocation should be materially changed.

Work package 1 (Historical Analysis of the SEM) of the CPM medium term review analyses the long term ex-ante, short term ex-ante and short term ex-post disbursement of the capacity sum and it shows that these factors are working as designed.

Bord na Móna believes that the current 30%/40%/30% ratio of respectively the Fixed Ex-ante, Variable Ex-Ante and Variable Ex-Post weighting components gives the appropriate balance between a short term signal to provide the required capacity during periods of tight capacity margin, and the longer term certainty over capacity revenues for generators.

The RAs consulted in great detail on the formation of the CPM to get the appropriate balance between longer term revenue certainty for generators, and the short term signal for generators to react to tight capacity margins. In this context, Bord na Mona believe that some of the proposals modelled, including the SOCAP proposal, upset this balance which will ultimately impact the make up and diversity of the portfolio mix.

The capacity payment weight factors have been consulted on every year since the SEM has come into operation and Bord na Mona believe that it is appropriate to continue to monitor the efficacy of these weighting factors on a regular basis to ensure that they are continuing to meet their intended objectives. However, Bord na Mona see no compelling case at the moment to change the weighting of these factors.

Work Package 10 – Impact of CPM on Suppliers

Bord na Mona are not directly involved in the supply side of the SEM, and have no comment to make on this part of the consultation.

Summary

Bord na Móna see the Capacity Payment mechanism as a key component of the SEM design

- Bord na Móna do not believe that there should be a separate pot of capacity payments for Wind. Payments to wind generators should more accurately reflect their contribution to capacity adequacy.
- Capacity payments should be used primarily to incentivise capacity adequacy, and alternative mechanisms should be put in place to reward flexibility and other system services required to safely and securely operate the transmission system.
- A form of penalty system may be appropriate to penalise generators for continually failing to providing capacity when declared available. It should allow a reasonable approach to failure to provide capacity due to forced outages.

- Bord na Móna do not believe that new entrants should be treated differently to incumbents in the CPM. The emphasis on the CPM review should be to reduce the volatility and uncertainty in forecasting future market revenues for all participants in the SEM.
- Bord na Móna believes the current weighting components for fixed, variable and ex post payments are appropriate and do not see a case for them to be changed.

For and on behalf of
Bord na Móna PowerGen,



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