
Response to the SEM Committee's
Consultation Paper

on

Capacity Remuneration Mechanism
Capacity Market Code

(SEM-17-004)

from

BORD  **MÓNA**

24th February 2017

Executive Summary – Substantive Comments

Bord na Móna (BnM) welcomes this opportunity to respond to the SEM Committee's Consultation paper on Capacity Remuneration Mechanism, Capacity Market Code (SEM-17-004). As has been the tenor of BnM's previous responses to recent consultations BnM remains very concerned about 'the missing money' from not recovering sunk fixed costs from within the capacity market for existing plant (ref. definition of Net Going Forward Costs in E.5 and Glossary), and for this reason we single this point out for specific comment.

In addition, there appear to be differing treatments and assumptions with regard to the make-up of SRMC, between energy and capacity consultation papers, with no clarity as to where these sunk fixed costs (and other variable costs) will actually be covered.

Our understanding is that:-

- The SEM Committee's CRM philosophy, as proposed, expressly precludes existing plant from recovering sunk fixed costs through the capacity market.
- The SEM Committee has proposed a very restrictive definition of Short Run Marginal Costs in the proposed bidding controls in the balancing market which would not allow fixed cost recovery.

Bord na Móna is an active member of the EAI and has contributed to the EAI submission to this consultation, and are aware of recent correspondence in relation to this difficulty for industry. While we share a common view on what has been submitted we also have specific emphases which we outline.

Expanding on this central issue, consistent with international norms, the current SEM is an internally consistent market design which, in general, provides all generators the opportunity of recovering their Long Run Marginal Cost (LRMC) of participating in the market. The SEM Committee's proposals for I-SEM appears to have the effect of specifically prohibiting this necessary opportunity for LRMC recovery. This does not satisfy a key criterion of any market which, by design should be both competitive and equitable.

Based on this understanding, we therefore request that the SEM Committee outline where they envisage the opportunity to recover total costs (including both fixed and variable costs) will exist.

Clearly caution is required given the scale of the potentially unintended inequitable consequences which could result depending on whether and where these fixed sunk costs are allowed to be recovered.

We are acutely aware that many impactful rules are in flux at a time when parties are being required to amend extant licence conditions ahead of I-SEM, against a background where there is simply insufficient information to make responsible informed commitments.

In this context we believe that greater clarity and legal certainty needs to be provided, in particular, relative to this singular issue and propose that there should be a further consultation to ensure that

such an important issue is dealt with in a balanced and appropriate manner in recognition of its scale and importance to the industry as a whole, as well as to specific members.

Regarding other matters which deserve to be highlighted in this consultation on the Capacity Market Code we would highlight again that BnM, as an active member of the EAI, has contributed to EAI's submission to this consultation, and in the first instance supports the comments, amendments and issues/recommendations detailed within their submission except for comment relating to Net Going Forward costs, in that BnM comment may be more specific in this submission.

Given this, and in the interests of streamlining the process, the proposals/comments listed in the 'Appendix A Response Template' table below should be read in conjunction with the EAI submission. By and large, they represent a resume of the EAI submission relative to all topics.

To single out three more areas briefly, i) we believe that the lead-up to the first capacity auction needs to be set out with far greater clarity and there is a pressing need for a detailed timetable such as deployed by the GB Capacity Market Code ii) we particularly share industry concerns regarding current drafted Force Majeure provisions and iii) we fully support the EAI preference to have all transitional auctions, ie, up to CY2021/22 before the first T-4 auction for CY2022/23 so as to provide greater certainty for participants from learnings.

Finally, given the importance of LRMC recovery, BnM would signal its interest to participate in a workshop and to respond to a further consultation to discuss various options, should the Regulatory Authorities decide to put forward their proposals in this most important matter. This would be useful in facilitating generators to enter the new licencing arrangements in a responsible manner by being in an informed position.



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APPENDIX A RESPONSE TEMPLATE

SUMMARY INFORMATION

Respondent's Name	Bord na Móna Powergen
Type of Stakeholder	Generator
Contact name (for any queries)	
Contact Email Address	
Contact Telephone Number	

I-SEM CMC COMMENTS

ID	I-SEM CMC Reference	Short Title	Commentary / Explanation	Suggested Drafting Change to the CMC	Relevant Cross-Reference for any impacted section
1	B.10/11	Capacity Auction Monitor and Auditor	There is a potential for conflict if both Monitor and Auditor roles are carried out by the same entity. The CMC drafting should be amended to reflect this in the Terms of Reference for each role. We are aware of a separate parallel consultation on these ToRs under SEM-17-007.		

ID	I-SEM CMC Reference	Short Title	Commentary / Explanation	Suggested Drafting Change to the CMC	Relevant Cross-Reference for any impacted section
2	B10	Role of Monitor	It has been highlighted by other parties that it is inappropriate for the CRM Dispute Board to be present at meetings between the RAs and the Monitor. Ref B.10.1.5	Rather than the SO's having an entitlement to attend it would be appropriate that they might attend such meetings at the request of the RAs.	
3	B.12	Modifications	Within the proposed process there is inconsistency in respect of how modifications are treated under the TSC and CMC		
4	B.13.6.1	Termination	We believe that termination due to a TSC energy issue should not automatically trigger termination from the Capacity Market. A transparent set of rules should apply before termination from the DAM/IDM transfers to the capacity market.		

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5	B.16	Force Majeure	<p>BnM shares the concern that parties to the CMC will be exposed to RO exposure in circumstances beyond their reasonable control. We share the particular concern that within the current provisions that parties to the CMC will not be afforded protection under the CMC in circumstances where their counterparties (typically TSOs) will be afforded such protection under industry codes and agreements in respect of the same event. For example issues could arise if there was any unavailability of relevant energy network infrastructure at any time.</p>	<p>Such protections should be harmonised in the drafting of Force Majeure provisions of the CMC.</p>	

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6	D.2	Timetable	<p>We support industry comment that there is a pressing need for a detailed timetable for each auction and that a timetable, similar in format to Section 2.2 of the GB Market Code, adapted to I-SEM, should be applied to Appendix C of the CMC.</p> <p>The EAI response has also made a number of comments with regard to suggested amendments to the code, with which we agree.</p>		

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7	E.5 and Glossary	Net Going Forward Costs	<p>We have outlined in our Substantive Comments our concerns around the lack of clarity for the Generator with regard to recovery of its LRMC due to the SEM Committee's CRM philosophy, as proposed, expressly precluding existing plant from recovering sunk fixed costs through the capacity market as well as the very restrictive definition of Short Run Marginal Costs in the proposed bidding controls in the balancing energy market which would not allow fixed cost recovery.</p> <p>This needs to be addressed, and we look forward to further consideration in this regard from the Regulatory Authorities' upcoming decisions on the Capacity Parameters in the first instance.</p>		
	E.3	Opt-Out Notifications	Opt out (E.3) accounts for plant that opts out of qualification. However, it is too limited.	An additional clause should also be included to allow a generator to opt out of the auction covering 'other circumstances, once notified to the Regulatory Authorities'	

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8	F	Determination of Local Capacity Constraints for a Capacity Auction	<p>We note under F.4.1.5 'Where as a result of an assessment under paragraph F.4.1.1, the System Operators determine that a Local Capacity Constraint is not expected to be satisfied by Existing Capacity or New Capacity from a Capacity Market Unit or a combination of Capacity Market Units, then the System Operators shall propose a reduction in the MW minimum de-rated capacity quantity for the area to which that Local Capacity Constraint applies to the level that they determine can be satisfied.'</p> <p>We believe that the process for determining and sharing the minimum de-rated capacity for local constraints should be subject to industry engagement and approval by the Regulatory Authorities.</p>		

ID	I-SEM CMC Reference	Short Title	Commentary / Explanation	Suggested Drafting Change to the CMC	Relevant Cross-Reference for any impacted section
10	M.4.1.1	Local Capacity Constraints	<p>We note that within the current provisions that the System Operators shall not determine local capacity constraints in respect of any Capacity Auction other than a T-1 Auction until such times as the Regulatory Authorities require the System Operators by written notice to commence doing so.</p> <p>We believe that the uncertainty for participants could be reduced by broadening this provision such that all auctions should take into account Local Capacity Constraints unless notified otherwise by the Regulatory Authorities in writing.</p>		