



## **Gaelectric Holdings Plc.**

---

Response Paper to:

**SEM Committee Consultation on the Capacity Market Code**

**Gaelectric Holdings Plc. Response**

24/02/2017

**Public**

### **Confidentiality Classifications**

- Strictly Private & Confidential: The highest level of classification, the document is for the recipient only
- Commercial in Confidence: The document is commercially sensitive, it should not be disclosed outside of the recipients organization and is subject to any active non-disclosure agreements
- Internal use only: The document is to be disclosed to Gaelectric employees only
- Public: The document contains no sensitive material and is suitable for disclosure to general public

### **Document Details**

Document Name:	SEM Committee Consultation on the Capacity Market Code
Revision:	Rev_1 Final
Status:	Final
Classification:	Public

## 1 GAELECTRIC BACKGROUND

Gaelectric Holdings plc (“Gaelectric”) welcome this opportunity to provide feedback to the SEM Committee consultation on the I-SEM Capacity Market Code Amendments. Gaelectric are one of the largest independent energy businesses in Ireland. Our company consists of Wind, Energy Storage, Solar & Biomass development divisions, each of which are highly active in the development of large scale projects in Ireland and Northern Ireland. Gaelectric’s wind development division (Gaelectric Developments Ltd) is amongst the most successful in Ireland having completed the development of over 200MW of onshore wind assets. Gaelectric recently sold our interest in the operational and near operational wind projects to China General Nuclear Europe Energy. We continue to develop a significant portfolio of wind projects and remain heavily focused on the efficient operation of the operational fleet via our continuing relationship with CGNEE via our Trading & Markets division and Asset Management Division who are charged with operating the CGNEE fleet in the SEM and I-SEM.

Gaelectric’s Energy Storage team (Gaelectric Energy Storage Ltd) are currently developing a 330MW Compressed Air Energy Storage project in Northern Ireland. The project progressing through detailed design, with a planning application having been submitted in December 2015. The project has been designated as a Project of Common Interest (PCI) by the European Commission and has recently been awarded a grant for works of €90 million from the Connecting Europe Facility, highlighting the strategic importance of the project to the island of Ireland and indeed the European Union. In addition, this division is responsible for the development of battery projects throughout Ireland, and has recently been awarded planning permission for a 1MW project based in Portlaoise.

Gaelectric also operate a Trading and Markets division (Gaelectric Trading and Market Services Ltd), the focus of which is to provide route to market services for all technologies on the island. Gaelectric Trading and Market Services Ltd have successfully developed their offering to 3rd parties and now hold contracts of approximately 330MW including supplier lite services and PPAs in both Northern Ireland. The trading team are actively trading both East West and Moyle interconnectors in addition to the Day Ahead, Intraday and Balancing markets in Great Britain. The trading and markets division are now highly focused on providing a route to market and balancing service for our numerous partners in ISEM, and in that regard, this consultation process is an integral element.

## 2 INTRODUCTION AND GENERAL COMMENTS

The capacity mechanism has been introduced with the purpose of ensuring security of supply in the I-SEM market. Security of supply is not something that can be assessed on a short term-basis, this is affirmed by running capacity auctions 4 years in advance. We therefore believe that capacity auction should be used to ensure security of supply in the long term. Ensuring long-term security of supply requires an element of certainty for new entrants generators looking to provide this systems security by entering the market. While we accept that competitive procurement via auction is a pre-requisite for state aid approval, design of the RO product contains significant uncertainties, particularly over a 14-year timeline between the T-4 auction and final delivery year. Factors such as strike price fluctuations and fixed exchange rates introduce significant uncertainties over the lifetime of the project and pricing these into auction bids will be challenging. We have detailed certain issues on which we would welcome greater degrees of clarity than have been proposed in the consultation document

The delay to I-SEM go-live has mandated an associated change in the implementation of the capacity auctions which require amendments to accommodate this in the code. Notwithstanding this, Gaelectric support measures that will decrease any consequential changes in the Trading and Settlement/Capacity Market Code. Shortening the CY 2017/18 to 4 months and including it is the auction for the capacity year 2018/19 is a welcome compromise.

Gaelectric acknowledge that state aid approval remains a significant milestone to be achieved however waiting for State aid approval may compromise the on-time delivery of the capacity auction. Should the consultation proposal that Accession, Registration and Qualification packs should begin before state aid approval is agreed, the regulators need to be far more transparent that they have been in communicating the progress of the state aid application. Should publication of the Auction Information Pack be delayed due pending State Aid Approval all participants, particularly new entrants, must be given detailed descriptions of the information they require to successfully navigate the qualification process.

### 3 KEY POINTS

#### Party/Participant Registration

I-SEM CMC Reference	Short Title
M.4.1.1	Local Capacity Constraints

For the T-4 auction, an auction participant should only have to register as a party. Registering as a unit in the energy market is an involved process. A new entrant participating in the T-4 auction must provide Commercial and Technical Offer Data of which there is little value in submitting over four years in advance of delivery as it may be subject to change. Other key data sets submitted as part of the unit registration process (MEC, FAQ etc.) are also required as part of the capacity auction qualification and therefore are of little value in informing qualification decision making.

Furthermore, not all unit types are adequately accounted for in the Trading and Settlement code. Compressed Air Energy Storage has operational characteristics different to all other storage technologies, in particular relating to part-load efficiency therefore it cannot register under an appropriate unit classification. Gaelectric have previously been involved in implementing a TSC modification for the inclusion of CAES however we paused this process with the impending introduction of I-SEM. We intend on resuming this process after I-SEM go-live.

Therefore we see no value in mandating new entrant projects to complete a unit registration in the balancing market. We believe a party registration is sufficient with BM unit registration included as a condition subsequent in the Implementation Agreement.

### Aggregation of Candidate Units

I-SEM CMC Reference	Short Title
E7.7.1	<b>Requirements for Combining Candidate Units into a Capacity Market Unit</b>

Gaelectric welcome the functionality to aggregate variable Price Taker units above the De-Minimis threshold however in practice there are a number of issues that make this difficult. Chief amongst these is the requirement for units to be registered under the one participant in the Balancing Market. This effectively prevent supplier lite projects from being aggregated in the RO auction. Regulators have consistently offered their support to the supplier lite financing model and we request that greater consideration be given to how these projects can be accommodated in the market.

### Suspension

I-SEM CMC Reference	Short Title
B13.3.1 (h) Suspension	<b>Suspension, Default and Termination</b>

Gaelectric strongly disagree with provision of cross market suspension. We believe that should a participant be suspended from the ex-ante market, then suspension from the capacity market should not automatically ensue. Similarly, suspension under the Trading and settlement code should not automatically result in suspension from the capacity market.

### Qualification Decisions

I-SEM CMC Reference	Short Title
E.9.2/3	<b>Qualification Decisions</b>

Gaelectric accept that disputing both the provisional and final qualification results can lengthen the process leading up to capacity auctions. However, we are not comfortable with the System Operators not consulting with the regulators on the approval of provisional qualification results. Given the plans to construct the Celtic Interconnector and the potential for this to compete with other new entrant projects, we believe there may be a conflict of interests and therefore adequate consultation with the Regulators should be considered.

Any fears of auction delay should be considered in the scheduling of the auction and qualification timelines with these being brought forward to accommodate potential delays. Furthermore, any ambiguity around qualification eligibility should be accounted for through the release of detailed qualification criteria in the auction information pack.

## Local Capacity Constraint

I-SEM CMC Reference	Short Title
M.4.1.1	<b>Local Capacity Constraints</b>

Gaelectric believe that local capacity constraints should be considered in each capacity auction unless instructed otherwise by the regulators. Procurement of capacity should not be limited to satisfying capacity constraints, it should be used to alleviate capacity constraints. In many instances, new projects are required to alleviate these capacity constraints therefore an appropriate signal should be sent to allow this new capacity be built. Only implementing these constraints through a T-1 auction will not allow new entrant capacity to be built due to inadequate project lead times. Therefore Gaelectric believe this should be re-worded to allow local capacity constraints be considered in all auctions unless otherwise stated.

## De-Rating

I-SEM CMC Reference	Short Title
D.3.1.2	<b>Capacity Auction Information Pack De-Rating</b>

Gaelectric believe some recourse should be given to technologies to challenge their de-rating factor considering Compressed Air Energy Storage has the operational characteristics of an OCGT. Therefore we believe a de-rating methodology which was calculated mainly on the basis of pumped hydro is not reflective of CAESs' availability/reliability and we therefore believe should have the same de-rating factor as a Gas Turbine. The suitability of using pumped hydro storage de-rating is something that has already been challenged under the GB capacity market and we believe should be considered in the reliability option consultation. We would welcome further engagement with the System Operator on this topic.

## Secondary Trading

I-SEM CMC Reference	Short Title
H	<b>Secondary Trading of RO Contracts</b>

Gaelectric welcome the clarity that has been provided on the auction and clearing of secondary traded RO contracts. However, Gaelectric seek more clarity on how the trading and settlement arrangements will be made for secondary trading of RO contracts, particularly trading arrangements and settlement.

While product granularity will impact any potential for credit cover, Gaelectric would like clarification on whether the secondary market will act as

- A broker between participants who must then arrange credit cover etc. amongst themselves (similar to current Tullet Prebon)
- A central counterparty with whom participants buy and sell contracts.

## Exchange Rates

I-SEM CMC Reference	Short Title
K.2.1.6	Annual Capacity Exchange Rate

Gaelectric object to a exchange rate being locked in for the entire duration of the capacity contract. For a new entrant this means that 14 years of Exchange Rate risk must be managed. This introduces significant exchange rate risk for new entrant projects which is not the case for existing projects receiving one year contracts under the RO Auction.

We believe that the current auction design allows for the implementation of annual exchange rates to be applied to long term contracts on a yearly basis. We propose that for long-term contracts, the annual capacity exchange rate published in the auction information pack for the T-1 auction should be used for settlement. This would be easy to implement and will reduce currency risk on both Market participants and the system operator.

## 4 CONCLUSION

Gaelectric would like to thank the regulators for taking this opportunity to engage with industry on these topics. As stated previously, capacity auctions are key to ensuring the long term security of supply on the system and should therefore allow for long term solutions. These long-term solutions will not arise without adequate investment signals which are a directly impacted by both the product and procurement design. Should the regulators have any further queries, please do not hesitate to contact us.

Kind Regards,

Peter Grogan  
Regulatory Analyst  
[pgrogan@gaelectric.ie](mailto:pgrogan@gaelectric.ie)  
+16430883