

**Power NI Energy Limited  
Power Procurement Business (PPB)**

**I-SEM**

**CRM**

**Reserves**

**Response by Power NI Energy (PPB)**

2 November 2018.



## **Introduction**

PPB welcomes the opportunity to respond to the RAs consultation on the Capacity Remuneration Mechanism (CRM) reserves for the T-1 2019/20 and T-4 2022/23 Capacity Auctions.

## **General Comments**

The CRM is a critical element of the I-SEM that is essential to ensuring the long term stability and security of supply (SoS) in a small island market. Reliability Options (ROs) are relatively complex instruments that incorporate both a hedge against high spot market prices and scope to recover money that is missing more generally from the energy market. Their operation is further complicated in the context of a small system that is targeting high levels of intermittent generation.

We welcome the decision to increase the capacity requirement to cover a measure of reserves which is a step towards recognising that customers now expect a higher security of supply and the operational requirements in a small system where the reality is that the TSOs will always hold a buffer margin in reserve by disconnecting customers prior to all the reserve being exhausted.

A key failing of the proposals is that they continue to target an 8 hours LOLE standard when the actual security standard in Northern Ireland is higher. The derivation of both the capacity requirement and the determination of the uplift for reserves in Northern Ireland must reflect that higher security standard since otherwise NI customers will not be provided with the capacity required to deliver that legal standard which leaves a gap that would need to be resolved through an alternative capacity arrangement. That risks being a less transparent process and it would be better to address the issue transparently through the CRM arrangements.

Our responses to the specific questions posed are set out below.

## **Responses to the Specific Questions**

### ***Chapter 2. Reserves in CY2022/23 T-4 Auction***

***Q1: Do you agree with the proposal to include reserves in Locational Capacity Constraint Area minimum MWs for the T-4 CY2022/23 capacity auction?***

PPB agrees with the proposal. Where there are locational constraints then by default there are security of supply concerns within that constrained area and hence the capacity requirement must be set to ensure that security of supply can be reasonably assured within that constrained area to the level of the required security standard.

**Q2: *If reserves are to be included across the Locational Capacity Constraint Areas, which of the above approaches (or other approaches do you favour and why)?***

We consider that the bottom-up approach (Option 1) is the only viable approach to ensure a consistency and equality of security of supply for customers in those constrained regions and to reflect the conditions in those locational areas.

It isn't clear why further analysis has not been completed or cannot be completed as such analysis would appear to be a minor extension of the generation adequacy analysis that is completed by the TSOs on an ongoing basis.

Options 2A and 2B will not provide an appropriate level of reserve to ensure consistency of security of supply for customers within the constrained areas (although Option 2A would be better than 2B) and hence we do not believe these options address the underlying objective.

### **Chapter 3. *Inclusion of Reserves in CY2019/20 T-1 Auction***

**Q3: *Do you agree with the proposal to include reserves in the forthcoming T-1 capacity auction for CY2019/20?***

The principle that reserves should be included in the derivation of the capacity requirement is at least as important, if not more so, for the forthcoming T-1 auction for CY2019/20. It is also vital that a reserve margin is similarly determined and applied to the capacity requirements in the LCCAs. This is a further transitional auction and it is important to ensure a managed and orderly transition. It is not obvious why the fact that there may be excess capacity has any bearing on the need to reflect the need for a reserve margin in the capacity requirement. That will not of itself increase the overall capacity but may just reduce the excess margin with little impact on cost.

**Q4: *Do you agree with the view that the case for including significant reserves in the all-island demand curve is relatively weak?***

No. As noted in our response to Q3, the principle is correct and hence it is better to reflect that principle rather than to ignore it simply on the basis that the RAs may feel they can ignore it for the year. This approach manifests as regulatory risk which would not be in the long term interests of customers.

**Q5: *If reserves are to be included across the Locational Capacity Constraint Areas, which of the above approaches (or other approaches do you favour and why)?***

As for the T-4 auction we believe the bottom-up approach is the only viable approach that delivers the required outcome. i.e. security of supply met for all customers.

**Q6: *Are there reasons to use different approaches for the CY2019/20 T-1 auction and the CY2022/23 T-4 auction?***

The principles should be the same in all auctions. However, there may be additional factors (for example as outlined in paragraph 3.1.7 of the consultation paper) that need to be reflected in the T-1 timeframe to reflect events that are more certain and which may specifically impinge on security of supply in that year.