

SUMMARY INFORMATION

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CAPACITY MARKET CODE MODIFICATIONS CONSULTATION COMMENTS:

ID	Proposed Modification and its Consistency with the Code Objectives	Impacts Not Identified in the Modification	Detailed CMC Drafting to Deliver the Modification
CMC_03_21 v3 Modification to provisions for Substantial Financial Completion	<p>Introduction</p> <p>As the proposer, the DRAI reiterates support for this modification. We welcome the SEMC's consultation on this modification and consider the rationale and justification have been well documented and discussed in:</p> <ul style="list-style-type: none"> - CMC Working Group 18 which considered version 1 of the Modification; - Consultation Paper SEM-21-023 on the Modifications from Working Group 18; - Decision Paper SEM-21-048 which recommended further consideration on the Modification; - CMC Working Group 19 which considered an amended version of the Modification and clarification on the key aspects raised for further consideration; and - Consultation Paper SEM-21-066 (the subject of this response). <p>Accordingly, we will not repeat in this response the detailed justification and rationale already put forwards.</p>		

DRAI RESPONSE TO SEM-21-066



	<p>Summary</p> <p>The DRAI fully support this Modification and the SEMC’s “minded to” position to approve it.</p> <p>The DRAI believes that between the revised Modification and the clarifications discussed in detail at Working Group 20 and elaborated in the Consultation Paper (such as regarding the timing of the election to be made under J.2.1.3, the potential for enhanced Implementation Progress Reporting, and ensuring the legal drafting is robust to changes in the profile of Termination Charges), the SEM Committee has everything required to finalise the legal drafting and approve the Modification.</p> <p>The SEMC has succinctly captured that the Modification aims to strike a careful balance between offering increased flexibility to DSUs, allowing additional capacity to come forward, and the potential increased risk of non-delivery. The DRAI believes the Modification is optimally balanced in this regard, and the proposed measures (in particular significantly increased financial commitment) will ensure the same level of certainty relating to the delivery of New Capacity is in place as it would be under the current arrangements – safeguarding the hedge to consumers and security of supply.</p> <p>The DRAI reiterates that this process, allowing aggregators to recruit new sites closer to delivery, is managed within other capacity markets internationally without issue.</p>		
<p>CMC_12_21 Modification to the methodology for calculating De-Rated Grid Code Commissioned Capacity</p>	<p>Introduction</p> <p>As the proposer, the DRAI reiterates support for this modification. The DRAI believes the rationale and justification for this Modification have been well documented and discussed in the Modification Proposal, CMC Working Group 20, and Consultation Paper SEM-21-066 (the subject of this response). Therefore, the DRAI will not repeat in this consultation response the detailed justification and rationale already put forwards.</p> <p>The DRAI acknowledges the SEMC’s agreement in the Consultation Paper that the Modification proposal raises a valid point and that in the scenarios put forward the determination of the Proportion of Delivered Capacity does not work properly.</p> <p>The SEMC has succinctly articulated the key aim of the Modification proposal: to completely remove the Gross De-Rating Factor (from qualification), for all units, from the process of calculating the Proportion of Delivered Capacity to determine Substantial Completion. This would mitigate significant unintended consequences of the current CMC drafting, in particular for units which – for perfectly legitimate reasons – have Awarded New Capacity less than the de-rated Initial Capacity (New) with which they qualified.</p> <p>The current drafting of G.3.1.4 provides for a unit’s Gross De-Rating Factor to be redetermined if it changes Technology Class or Maximum On Time vs. qualification, and it is important the same flexibility is afforded to</p>		

units which do not make such a change in order to ensure no undue discrimination. This is not currently the case, and could result in a perverse incentive for a unit to change Technology Class or Maximum On Time at the point of commissioning to circumvent the punitive impact of the Gross De-Rating Factor which would otherwise apply to determine Substantial Completion.

Potential retention of G.3.1.4A(b) to cover units with a non-zero INCTOL

The SEMC has highlighted that limb (b) of G.3.1.4A may need to be retained to cover the specific (and exceptional) case where a unit has a non-zero INCTOL value. If this is required, this limb could be retained, with the drafting explicitly clarifying that it only applies to units in this specific situation, vs. the current drafting where G.3.1.4A(b) is a “catch-all” covering all units which don’t fall under the specific requirements covered by G.3.1.4A(a).

Treatment of units that have availed of a voluntary DECTOL factor

The application of DECTOL at Qualification is voluntary and there are a range of reasons why it would be utilised by a Participant (see worked example below). The application of the current CMC algebra appears to be counterintuitive and unduly punitive on Units that have applied it during Qualification.

Despite the intent of Modification CMC_06_19 to clarify the calculation of the Proportion of Delivered Capacity should be measured against the Awarded New Capacity secured in the auction, a strong link to qualified values remains, including for units that have, for perfectly legitimate reason, voluntarily derated their unit using a DECTOL factor (despite achieving no commercial advantage by doing so). This effectively places a different value on Delivered Capacity depending on how it was qualified. For example, two DSUs could be awarded exactly the same quantity of De-rated Capacity in an auction and commission and deliver identical capacity but, the current CMC algebra could deem one Substantially Complete, while the other if it had applied a DECTOL factor may not achieve Substantial / Minimum completion. This is clearly inconsistent with the market design and de-rating principles.

The SEMC has questioned the potential impact of applying G.3.1.4A(b) to units using a DECTOL factor. The DRAI believes that to do so is wholly inappropriate. As per the DRAI’s detailed response to SEM-20-071 regarding the change in technology class for Awarded New Capacity, the drafting of this important part of the CMC needs to ensure the fair and equitable treatment of all units – including those which have availed of a voluntary DECTOL factor – when assessing the delivery of Awarded New Capacity.

Further detail is set out in the worked example in the appendix below for the severely punitive nature of the impact on any unit which avails of a voluntary DECTOL factor.

DRAI RESPONSE TO SEM-21-066



Summary

The DRAI fully support this Modification and the SEMC’s “minded to” position to approve it.

The DRAI believes the delivery of (de-rated) Awarded Capacity is paramount, and providing Participants maximum flexibility to do so is in the best interests of all parties. As the derating methodology ensures 1 MW of de-rated capacity is of the same value to the system, irrespective of Technology Class, Maximum Down Time, or how a unit was qualified. The DRAI recommends Modification CMC_12_21 is approved to ensure this equitability of treatment, including for units which have availed of a voluntary DECTOL factor.

As this Modification impacts the achievement of Substantial Completion for units delivering New Capacity, the DRAI reiterates the high importance that this Modification is approved and effective prior to the Long Stop Date (31.10.2021) for New Capacity with a one year duration secured in the 2122T-2 Capacity Auction for Capacity Year 2021/22. This is aligned with the published timetable for the Modifications considered at CMC Working Group 20 which envisages the SEM Committee will publish its decision on the two Modification proposals by 18.10.2021. If, in line with their “minded to” position, the SEM Committee approves Modification CMC_12_21, the DRAI believes it is highly important that the effective date specified in this decision is prior to 31.10.2021.

The SEMC acknowledges that this Modification tackles a real issue in the drafting of the CMC which impacts all classes of capacity and causes negative consequences for both capacity providers and consumers. Based on this, the DRAI believes it would be inappropriate for the effective date for the Modification to be after 31.10.2021, allowing the underlying issue which the Modification seeks to address to persist, and further negative consequences to impact the delivery of capacity for an additional Capacity Year.

APPENDIX: Worked example illustrating the counterintuitive and unduly punitive impact on Units that have applied a voluntary DECTOL factor during qualification:

The DRAI has developed a worked example based on two DSUs which are identical at the point of commissioning, but one of which applied a voluntary DECTOL factor during qualification to reflect 4 MW of capacity it knew would retire prior to the Capacity Year. This is presented in the table below and considers two scenarios:

- (i) **DSU-A:** 8 MW Existing Capacity (of which it is known 4 MW will be leaving the DSU's portfolio prior to the Capacity Year in question) plus 2 MW New Capacity. To best reflect its portfolio the DSU has qualified the full 8 MW of Existing Capacity plus 2 MW New Capacity, and has then voluntarily de-rated its unit, by only nominating a part of its eligible Existing Capacity. Due to the mandatory requirement to qualify all Existing Capacity, voluntarily de-rating using a DECTOL factor is the only method available to such a unit to account for a portion of its Existing Capacity leaving at the same time as also bringing in New Capacity. It is not possible for such a unit to use the well-established process for generators seeking to derate or close their plants.
- (ii) **DSU-B:** 4 MW Existing Capacity plus 2 MW New Capacity. N.B. This is exactly the same position as DSU-A, but without the 4 MW of additional Existing Capacity registered to the unit at the point of qualification which is due to no longer participate during the Capacity Year for which the auction is being held.

Each DSU has Maximum On Time > 6 hours, and the de-rating factors used are from the T-4 2024/25 Initial Auction Information Pack. Both units effectively desired to bid the same physical capacity into the auction (4 MW Existing Capacity plus 2 MW New Capacity) and both successfully cleared the auction with 5.37 MW Awarded Capacity.

As can be seen from the table, with the application of the Gross De-Rating Factor from qualification, DSU-A would need to deliver 10 MW of Grid Code Commissioned Capacity in order to achieve 100% delivery of the 1.79 MW Awarded New Capacity, vs. DSU-B which would only need to deliver 6 MW. For DSU-B, the capacity required to be delivered matches that which is intuitive from what the unit qualified and bid into the auction for. However, this is not the case for DSU-A which, despite having attempted to qualify its capacity the way which best reflects the status of its current / planned capacity portfolio, and having prudently derated its unit to reflect the 4 MW of Existing Capacity it knew would retire (via the only method available to it).

In the scenario set out, if DSU-A retained the planned 4 MW of Existing Capacity and brought in the 2 MW of New Capacity as was envisaged when bidding into the auction, this would result in the unit failing to achieve Minimum Completion. This would have a material financial impact on the unit, including the termination of all of the unit's Awarded New Capacity under CMC J.6.1.4, with the associated Termination Charge as well as foregone Capacity Payments associated with this capacity.

As can be seen from the bottom of the table below, if the Gross De-Rating Factor is not applied, the two DSUs are treated identically, and both require the delivery of 6 MW of Grid Code Commissioned Capacity to meet 100% of Awarded New Capacity. The DRAI believes this is the fair and intuitive outcome that treats the two units equitably in such a case.

DRAI RESPONSE TO SEM-21-066



	Acronym	Unit	DSU-A	DSU-B	
Initial Capacity (Existing)	ICE	MW	8	4	Based on Existing Capacity at qualification
Initial Capacity (New)	-	MW	2	2	Based on New Capacity
Initial Capacity (Total)	ICT	MW	10	6	
De-Rating Factor Existing (DRFE)	DRFE		0.895	0.895	
De-Rating Factor applicable to the Technology Class, Initial Capacity (Total) and Initial Maximum On Time (Total)	DRFT		0.895	0.895	2 hours in this case for both examples
Increase Tolerance Factor	INCTOL		0	0	0% for DSUs, as per IAIP
Decrease Tolerance Factor	DECTOL		1	1	100% for DSUs, as per IAIP
Gross De-Rated Capacity (Existing) nominated in the Application for Qualification in respect of Existing Capacity	NDRVE	MW	3.58	3.58	Nominated value as part of Qualification Application
Gross De-Rated Capacity (New) nominated for Application for Qualification in respect of New Capacity	NDRVN	MW	1.79	1.79	Nominated value as part of Qualification Application
Gross De-Rated Capacity (Existing)	GDRCE	MW	3.58	3.58	Determined as per CMC E.8.2.1
Gross De-Rated Capacity (New)	GDRCN	MW	1.79	1.79	Determined as per CMC E.8.2.4
Gross De-Rated Capacity (Total)	-	MW	5.37	5.37	Determined as per CMC E.8.3.1(c)
Gross De-Rating Factor (for the sum of Existing and New capacity)	-	%	0.537	0.895	Determined as per CMC E.8.8.1(c)
Awarded Existing Capacity	-	MW	3.58	3.58	From auction results
Awarded New Capacity	-	MW	1.79	1.79	From auction results
Awarded Capacity	-	MW	5.37	5.37	From auction results
Grid Code Commissioned Capacity to deliver 100% of Awarded New Capacity	-	MW	10	6.0	Determined as per CMC G.3.1.4A
Grid Code Commissioned Capacity to deliver 90% of Awarded New Capacity (for Substantial Completion)	-	MW	9.666	5.8	Determined as per CMC G.3.1.4A
Grid Code Commissioned Capacity to deliver 50% of Awarded New Capacity (for Minimum Completion)	-	MW	8.333	5.0	Determined as per CMC G.3.1.4A

Comparison had the two DSUs not had to apply the Gross De-Rating Factor when determining Substantial Completion					
Grid Code Commissioned Capacity to deliver 100% of Awarded New Capacity	-	MW	6	6	Determined as per CMC G.3.1.4A
Grid Code Commissioned Capacity to deliver 90% of Awarded New Capacity (for Substantial Completion)	-	MW	5.8	5.8	Determined as per CMC G.3.1.4A
Grid Code Commissioned Capacity to deliver 50% of Awarded New Capacity (for Minimum Completion)	-	MW	5.0	5.0	Determined as per CMC G.3.1.4A