



Energy for
generations

ESB Generation and Trading's Response to Applicability of Reliability Option Non-performance Difference Charges to Available In-Merit Units (SEM-22-030)

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Contents

1. Introduction.....	3
2. High Level Comments	3
3. Responses to consultation questions.....	4

1. INTRODUCTION

ESB Generation and Trading (GT) welcomes the opportunity to respond to the SEM Committee (SEMC) Consultation Paper on Applicability of Reliability Option Non-performance Difference Charges to Available In-Merit Units (SEM-22-030). The purpose of this Consultation Paper is to request feedback from the TSOs and from stakeholders regarding the circumstances in which Capacity Market Units can be available and in-merit, but not dispatched. The paper also seeks views on a number of different approaches to the application of Non-performance Difference Charges to such units, and requests stakeholders' views on these approaches, or others that they may identify.

ESB GT's response is set out in two sections; the first is ESB GT's High Level comments, and the second lists ESB GT's response to the consultation questions.

2. HIGH LEVEL COMMENTS

ESB GT welcomes this opportunity to respond to the SEMC Consultation Paper on Applicability of Reliability Option Non-performance Difference Charges to Available In-Merit Units (SEM-22-030). Before summarising this response, ESB GT wants to comment on the SEM Committee's intention to re-examine the related area of operation of the Administered Scarcity Pricing mechanism. In the summer of 2021, the SEMC published a consultation seeking similar views from industry. The responding SEMC information note identified that a further assessment of the Reserve Scarcity Price (RSP) was required in order to further understand the impact of any changes relating to: (1) Incentives and prices during times of scarcity, (2) The effectiveness of RSP and ASP to date, (3) Impacts of changes in this area on Dispatch Balancing Costs, bidding levels in future, and (4) Capacity Auctions and Difference Payments and Charges. For future contracts ESB GT is not opposed to changing the Full Administered Scarcity Price (FASP) or RSP, however it believes that getting the scarcity signals correct for the market first would be prudent. Market participants should be given the opportunity to react to the scarcity in an optimal way and have the opportunity to manage their risks in a given situation. For example:

- the RA approved CMC Modification CMC_11_21¹ has still not been implemented by EirGrid and would appear to have been descoped with work not commencing until end of 2022 and potentially be in place in Spring 2023.
- The introduction of Xbid/SIDC could improve liquidity in the intraday continuous market and assist participants in responding to early signals (in order to mitigate penalties from a lack of TSO action in the BM).

¹ CMC_11_21 Extending Current ASTN Form

- The publication of information request as per SEM-21-083.

ESB GT welcomes the review from the Administered Scarcity Pricing Discussion paper and believes the learnings and RA requests from SEM-21-083 are a good starting point and should be progressed and assessed before making any changes to the FASP and RSP. Especially, the compliance of Administered Scarcity Pricing in the SEM with Article 55 of EBGL.

In relation to the option where the “*broadest approach would be for all units which are available and in-merit to be exempt from Non-performance Difference Charges to the extent that their available capacity meets their Capacity Obligated Quantity*” ESB GT would disagree. ESB GT can see merits in addressing unforeseen issues where TSO constraints are unfairly penalising generators (Mod_14_21 and Mod_01_21) that wouldn't have expected to be penalised when submitting bids into the CRM auctions. However, **ESB GT does not see the full justification and evidence, at this moment in time, to removing Non-Performance Difference Charges based solely on availability** (which appears to be opposite to the original SEMC detail design).

When considering changes to the CRM, the issues experienced in GB in 2019/20 due to a JR of the EU State Aid decision needs to be carefully considered. If there is a possibility that the original EU State Aid decision on CRM could be challenged/reviewed in light of any changes made through this consultation ESB GT would urge serious caution to be taken, as having a known and stable income stream is preferable to one that is potentially exposed to revision by the EU.

3. RESPONSES TO CONSULTATION QUESTIONS

1. The SEM Committee requests that the TSOs provide further information regarding all of the possible reasons why, in practice, units may not be dispatched when available and in-merit. This information is required as different scenarios may need to be considered differently in the context of the applicability of Non-performance Difference Charges.

Even though this question is directed at the TSOs, ESB GT would like to acknowledge the significant work that the TSOs contribute to the Market Operator User Groups and the detailed information on the operation of the system provided through these groups. It is not just through the Balancing Market Principles Statement that participants are able to get a greater understanding of the scheduling and dispatch process obligations, but also through the continuous interaction of the TSOs in the MOUGs.

2. Feedback is requested from market participants, with supporting data where possible, as to circumstances in which units have been available and in-merit but not dispatched. While the SEM Committee's particular interest relates to circumstances that occur during an RO event, any other

occurrences are of interest also, as it may be possible that the same circumstances could occur during an RO event.

This is a very broad question that may have many different drivers. Like the modifications² raised to date via the T&SC Modifications Committee, ESB GT believes any future changes to the CMC or T&SC should be targeted and address a specific issue. A sample of circumstances in which units have been available and in-merit but not dispatched can be taken from the modifications raised to date and the disputes that have occurred:

- N-S tieline overflagging (Feb 2019),
- Differences between physical word and RTD theoretical SO and NM flags (Oct 2018),
- TSO Transmission constraints preventing units from being utilised (2020),
- SO-SO interconnector trades (Feb 2021)

It should be recognised that most of these issues above, outside of the TSO transmission constraints, have been addressed by targeted modifications after the events.

3. Under what circumstances, if any, beyond being flagged for providing Replacement Reserve, should units be exempt from Non-performance Difference Charges that would otherwise apply? Please provide supporting rationale for your response.

When considering this question, the issues experienced in GB in 2019/20 due to a JR of the EU State Aid decision needs to be carefully considered. If there is a possibility that the original EU State Aid decision on CRM could be challenged/reviewed in light of any changes made through this consultation ESB GT would urge caution to be taken and for risks to be minimised before proceeding.

As a generator member of the T&SC Modifications Committee ESB GT supported Mod_01_21 as it removed the unintended consequence of exposing plants holding a Reliability Option to Capacity Market difference payments, in circumstances where they are in merit, available to deliver, **constrained by a specific TCG** and not dispatched by the System Operator. From the RAs decision on the modification and also referenced in this Consultation Paper, ESB GT is unclear why it was rejected by the RAs and would seek further clarification now. In the Consultation Paper it is stated “*The RAs were also of the view that if the Modification were implemented, then where a unit was constrained but that constraint did not impact on its ability to deliver its Obligated Capacity Quantity, this would remove any obligation on the unit to pay Difference Charges which could impact on incentives to deliver*

² Mod_09_19, Mod_01_21, Mod_02_21 and Mod_14_21

any of its Obligated Capacity Quantity, despite this quantity not being constrained". Modification_01_21 removes the Non-Performance charge and does not impact the Difference charge calculation (F.18.5 of T&SC). Therefore, Mod_01_21 should have no impact/remove the difference charge on an asset that has traded ex-ante as referenced by the RAs decision. Greater clarity on the decision to reject Mod_01_21 would be welcomed.

ESB GT can see merits in addressing unforeseen issues where TSOs' constraints and actions are unfairly penalising generators (Mod_14_21 and Mod_01_21) that would not have expected to be penalised when submitting bids into the CRM auctions. However, **ESB GT does not see the justification, at this moment in time, to removing Non-Performance Difference Charges based solely on availability** (which appears to be opposite to the original SEMC detail design and we believe requires greater information and review).

4. Is there any interaction with the incentives for units to trade in the ex-ante markets as a consequence of your preferred approach, or any of the approaches proposed?

In relation to the Mod_01_21, ESB GT still supports this option as it reduced generators exposure to non-performance charges for periods where TSO actions and current flagging and tagging methodology creates the perverse situation that a generator in merit is not selected due to transmission constraints. This was not a scenario that was envisaged when designing the CRM and one that needed to be remediated.

ESB GT believes the proposed Modifications (Mod_01_21 and Mod_14_21) will have no impact on generators incentives to be available and to generate. During normal trading days generators are not in a position of knowing in advance if there will be a constraint binding on (a) the system and (b) specific to their unit. It is not until after the pricing has been determined that generators will know if a constraint was binding on the 5 minute period. Subsequently, there is no guarantee that a constraint flag will be binding at the time of an RO and thus it is not something that generators can rely on post the RO period. Therefore, in the time frame that generators have the ability³ to react to future RO prices⁴ the incentive to generate is not reduced as the exposure to the difference payment is still as real as if this modification wasn't implemented.

³ This is one of the key problems facing generators as there is limited ability to trade ex-ante as the liquidity and cross trade functionality is poor.

⁴ Another key problem for generators is that the RO price signals are after the gate closure which severely exposes generators to the lack of a TSO action.

5. Could these approaches introduce a detrimental locational signal into the Capacity Market (e.g. by exempting units bound by a Locational Constraint from Non-performance Difference Charges, could this send a signal to Capacity Market Units to locate behind a constraint)?

ESB GT does not believe Mod_01_21 and Mod_14_21 introduce a detrimental location signal into the capacity market. There is a significant flaw in this argument in that the investment signal could be weighted more heavily towards building a generator in the area where there are no export constraints and thus the possibility of increased physical running during periods of system stress rather than in an area where there is an export constraint, reduced physical running possibilities and instead the hope of reducing CM charges by getting a SO flag when an RO event occurs. ESB GT does not believe that the modifications would drive the investment decisions for new build capacity. There are other significant driving interactions such Firm Access Methodology, introduction of minimum LCCAs, and maximum LCCAs nested within minimum LCCA, and the CRU's direction to provide grid connections to CRM auction winners that will have a greater impact.