



## Response to Consultation by the SEMC

---

### **Capacity Remuneration Mechanism 2023/24 T-4 Capacity Auction Parameters - Consultation Paper SEM-19-013**

Electricity Association of Ireland

Date: June 28th, 2019

#### **A decarbonised future powered by electricity**

##### **Electricity Association of Ireland**

Registered Office: 127 Baggot St Lower, Dublin 2, Ireland D02 F634

Registered No. 443598 | VAT No. IE9682114C

T +353 1 524 1046 | E [info@eaireland.com](mailto:info@eaireland.com) | [@ElectricityAI](https://twitter.com/ElectricityAI)

[www.eaireland.com](http://www.eaireland.com)



The Electricity Association of Ireland (EAI) is the representative body for the electricity industry and gas retail sector operating within the Single Electricity Market (SEM) on the Island of Ireland.

Our membership comprises utilities that represent 90% of generation and retail business activities and 100% of distribution within the market. Our members range in size from single plant operators and independent suppliers to international power utilities.

We believe that electricity has a fundamental role in providing energy services in a decarbonised, sustainable future, in particular through the progressive electrification of transport and heating. We believe that this can be achieved, in the overall interest of society, through competitive markets that foster investment and innovation.

We promote this vision through constructive engagement with key policy, regulatory, technology and academic stakeholders both at domestic and EU levels.

We represent the Irish electricity industry in EURELECTRIC, the representative body for the European electricity industry, and help shape the broader European response to developing policy and legislative initiatives.

### A decarbonised future powered by electricity

#### Electricity Association of Ireland

Registered Office: 127 Baggot St Lower, Dublin 2, Ireland D02 F634

Registered No. 443598 | VAT No. IE9682114C

T +353 1 524 1046 | E [info@eaireland.com](mailto:info@eaireland.com) | [@ElectricityAI](https://twitter.com/ElectricityAI)

[www.eaireland.com](http://www.eaireland.com)



On behalf of the members of the Electricity Association of Ireland (EAI), the following consensus positions have been developed in response to the this SEMC consultation.

In this submission, we echo our considered position regarding Existing Capacity Price Cap which we set out in our response to SEM-19-010<sup>1</sup>. We also comment other parameters and issues including Reserves and Capacity Withholding, Transmission Constraints, Auction Format and Strike Price.

### **Existing Capacity Price Cap**

Consultation SEM-19-010, relating to the 2020/21 T-1 and 2021/22 T-2 capacity auctions, sets out the SEM Committee's proposal to reduce the Existing Capacity Price Cap ("ECPC") for these capacity auctions – with the inference being, to apply also to future auctions.

The current consultation, SEM-19-023, relating to 2023/24 T-4 capacity auction, sets out that:-

*'The SEM Committee is not proposing to amend the Existing Capacity Price Cap for the 2023/24 T-4 capacity auction, but will continue to keep the value under review, taking account of participants' bidding behaviour in auctions and the number of USPC applications received.'*

We wish to reiterate that the level of USPC applications should not act as a driver for considering a reduction in the ECPC. This rationale ignores the costs incurred by a participant who finds that their expected going forward costs exceeds a reduced ECPC and is now faced with the costs, time and tying up of resources to prepare, validate and submit a USPC application and engage in that process. Furthermore, the EAI's view remains that a reduced ECPC is not appropriate, for the reasons outlined in our response to the 2020/21 T-1 and 2021/22 T-2 auction parameters consultation. Fundamentally, a reduction of the ECPC would significantly heighten the perception of regulatory risk in this market (raising the cost of capital), would needlessly interfere with proper market functioning (as explained in EAI's response to SEM-19-010) and would potentially put security of supply at risk, to the detriment of both investors and consumers alike.

Finally, it is worth noting that the risks/costs associated with the recent market events were not properly reflected in the mechanism of the ECPC / USPC. Nor are these risks apparent if considering benchmarks with other markets (e.g. in GB, there is not the same framework in relation to these price caps in the form of ECPC and USPC).

Additionally, we have noted that in relation to the ECPC value proposed, this is calculated on the basis of 2022/23, a year prior to the auction. We would welcome clarity as to the next period in which the SEMC intends to set a new BNE Net CONE. To preserve the transparency of regulation in the SEM, and to maintain incentives for efficient investment, the SEM Committee should commit to an annual process of re-estimating Net CONE to reflect changing cost and financing conditions, following extensive consultation with industry, as was done for the BNE process in the CPM. However, notwithstanding all of this, we expect that should the ECPC be considered for review, that this will be conducted through the normal consultation channels.

In the meantime, if Net CONE is not updated, the RAs should apply some form of indexation, for example, based on the Harmonised Index of Consumer Prices (HICP), consistent with the approach taken for the CPM when it was fixed for 3 years as decided in SEM-12-016.

---

<sup>1</sup> SEM-19-010 CRM 2020/21 T-1 Capacity Auction and 2021/22 T-2 Capacity Auction Parameters

### ***Reserves and Capacity Withholding***

EAI supports the inclusion of reserves within the demand curve and LCCAs for the 2023/24 T-4 capacity auction. We recognise the importance that the process of setting the appropriate level of reserves, and withheld capacity, is simple, transparent and bears in mind that it is considerably less costly to have surplus capacity (Expected Unserved Energy priced at the BNE price), than to have a shortage, which is priced at the considerably higher Value of Lost Load (VOLL).

In decision paper SEM-18-173, published 30 November 2018, the RAs gave a commitment to consult on the “proposed level of reserves” in future parameters consultations for T-4 auctions<sup>2</sup>. The commentary on reserves in the current consultation paper does not constitute a consultation on the “proposed level of reserves” which should also cover specific volumes for each of the LCCAs. Effectively what is proposed is a decision without consultation. This cannot be considered good regulatory practice. Given this lacuna in the current consultation paper and the commitment previously given, we urge the RAs to consult separately on the proposed level of reserves to be included within the demand curve and each of the LCCAs for the 2023/24 T-4 capacity auction, including the TSO proposals.

Similar to the position on reserves, the RAs are effectively proposing to make a decision on withholding capacity without consultation. This cannot be considered good regulatory practice. We therefore urge the RAs to consult separately on the specific volumes they propose to withhold for demand uncertainty and DSU participation in the T-4 auction for CY2023/24, both on an all-island level and in LCCAs, including the TSO recommendations. It is EAI’s position that there should be minimal withholding of capacity from the T-4 auction, to avoid inappropriately depressing clearing prices and to avoid undue risk to security of supply.

### ***Capacity Requirement***

EAI believes there may have been a mistake with this part of the consultation paper as it is referencing the T-1 and T-2 auctions instead of the T-4 auction capacity year 2023/24. Assuming that this is a mistake, EAI would have expected to have seen a change to the capacity requirement in the T-4 auction considering the All-Island Generation Capacity Statement is showing an increase for all the different demand scenarios for both Ireland and Northern Ireland.

Apart from the proposed parameters we also comment on:

### **Auction Format D**

Recognising the complexity supporting Auction Format D, EAI proposes that it is introduced only when it is fully tried and tested. EAI does not have any issue with the continued use of Auction Format C.

---

<sup>2</sup> Specifically, para 2.4.14 of SEM-18-173 states the following: “For future T-4 capacity auctions the proposed level of reserves will be considered in the corresponding parameters consultation for each specific T-4 auction”.

**Consultation Period**

Following the EAI submission in relation to SEM-19-010<sup>3</sup> EAI welcomes the reinstatement of the 6 week minimum consultation period allowed for this consultation.

**Conclusion**

In summary, EAI respectfully requests, that at the very least there is no reduction in the current multiple of '0.5 x CONE' used to determine the ECPC. On the contrary, it is arguable that there is an onus on the SEM Committee to assess raising the ECPC, for the reasons outlined above as well as considering that the current netting of DS3 revenues from the BNE calculation process removes the incentive to invest capital in the provision of services necessary to decarbonise the power system. It is also suggested that Net CONE should be indexed if it is not re-calculated for CY2023/24.

Furthermore, EAI believes that the level of Reserves and Withheld Capacity are fully reflective of surplus capacity representing a far lower cost to the consumer than to have a shortage, which is priced at the considerably higher Value of Lost Load (VOLL) vs the BNE price for surplus. EAI would urge the RAs to be prudent in this regard and to consult on their proposals for including reserves and withholding capacity in the T-4 auction for CY2023/24.

Yours sincerely,



Dr John MacNamara

Chair, EAI Markets Committee

**A decarbonised future powered by electricity**

**Electricity Association of Ireland**

Registered Office: 127 Baggot St Lower, Dublin 2, Ireland D02 F634

Registered No. 443598 | VAT No. IE9682114C

T +353 1 524 1046 | E info@eaireland.com | @ElectricityAI

www.eaireland.com



<sup>3</sup> SEM-19-010 CRM 2020/21 T-1 Capacity Auction and 2021/22 T-2 Capacity Auction Parameters