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## **ESB Generation and Trading Response:**

### **Capacity Remuneration Mechanism (CRM) Parameters for T-4 2023/24 Capacity Auction Consultation Paper (SEM-19-023)**

**28<sup>th</sup> June 2019**



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## 1. INTRODUCTION

ESB Generation and Trading (GT) welcomes the opportunity to respond to the CRM Parameters T-4 2023/24 Capacity Auction Consultation Paper (SEM-19-023). The purpose of the Consultation Paper is to consult on specific parameters of the T-4 capacity auction for capacity year 2023/24. This Consultation Paper sets out a complete set of T-4 capacity auction parameters for the capacity year 2023/24.

Considering there were no specific questions asked in the Consultation Paper, ESB GT's response is broken into two sections; the first is an executive summary of ESB GT's response to the Consultation Paper and the second section the main comments ESB have on auction parameters proposed in the Consultation Paper.

## 2. EXECUTIVE SUMMARY

Firstly, ESB GT welcomes the decision by the SEM Committee (SEMC) to provide a six week consultation period for this consultation. Even though this Consultation Paper isn't proposing to alter any of the auction parameters a six week consultation period is an appropriate length of time for all market participants to review the Consultation Paper and potential implications. ESB GT hopes to see the continued approach to a six week consultation period for all future consultations.

ESB GT would like to take this opportunity to respond to the SEMC's decision, from SEM-19-018, that in relation to changing the Existing Capacity Price Cap (ECPC) they will continue to review this approach for future auctions' and the position in this Consultation Paper to "*continue to keep the value under review, taking account of participants' bidding behaviour in auctions and the number of USPC applications received*". ESB GT highlighted, in its response to SEM-19-010, a number of key issues with the SEMC's proposal for justifying the need for a change to the ECPC that still stand and should be considered when reviewing the ECPC.

ESB GT is concerned with the continue approach of including DS3 revenues in the BNE revenue calculation. The inclusion of DS3 revenues in the BNE Net CONE methodology / USPC process removes any incentive for participants to invest in DS3 products. The cost based regulation approach applied to I-SEM, DS3 and CRM means any DS3 investment decisions results in a zero sum game as any impact on revenues from a DS3 investment is offset in the CRM IMR bid determination. ESB GT believes a more holistic value based approach must be applied I-SEM, CRM and DS3 in order to ensure customers get the full benefits of I-SEM. ESB GT believes the BNE Net CONE needs to be revised to ensure investment in much needed DS3 products is encouraged while at the same time provide a proficient BNE Net CONE that can be used in the CRM auctions.

## 3. MAIN COMMENTS

This section contains the comments ESB have on a number of the T-4 Auction Parameters and two relevant consultations for auction parameters (BNE and supported capacity mandatory participation decision (SEM-19-027))

### 3.1 Existing Capacity Price Cap

ESB GT would like to take this opportunity to respond to the SEM Committee's (SEMC) decision, from SEM-19-018<sup>1</sup>, that in relation to changing the Existing Capacity Price Cap (ECPC) they will continue to review this approach for future auctions' and the position in this Consultation Paper to "*continue to keep the value under review, taking account of participants' bidding behaviour in auctions and the number of USPC applications received*". In ESB GT's response to SEM-19-010, a number of key issues with the SEMC's proposal for justifying the need for a change to the ECPC were highlighted, please see below, that still stand and should be considered when reviewing the ECPC;

- The existing ECPC = 0.5xAPC is already creating too much of a burden on market participants.
- Modelling assumptions used for determining the revenue component of ECPC calculation.
- Treatment of DS3 in CRM

ESB believes that a review of the above issues would highlight the need for an increase in the ECPC and would appreciate a review of the initial ECPC assumptions considering the market experience gained to date since the start of Go-Live.

### 3.2 Capacity Requirement

ESB GT 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, ESB GT 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. If there is no change to the Capacity Requirement clarity should be provided.

### 3.3 Indicative Demand Curve (Shape)

ESB GT is still concerned with the new indicative demand curve that will reduce the amount of capacity procured in the T-4 auction and potential outcomes. It may only be following the T-1 auction CY 2022/23, that it is possible to perform a review of both the T-1 and T-4 along with any potential subsequent issues (i.e. the ROI LRSA and NI System Services Contract) to determine if the benefits identified in SEM-18-155<sup>2</sup> outweighed the risks.

### 3.4 Indicative Demand Curve (Operating Reserve )

ESB GT welcomes the additional information on the alterations to the demand curve (operating reserve, withheld capacity) as it provides transparency to the determination of a fundamental component of the Capacity Auctions.

SEM-18-173 points to a reserve requirement of 50 MW in Northern Ireland for the T-4 auction CY 2022/23, however, SEM-19-021 highlighted that 150 MW was allocated as a reserve requirement for Northern Ireland. In this Consultation Paper, Northern Ireland reserve requirement is proposed to be set at 100 MW, a decrease of 50 MW. Greater transparency on the determination and change to the operating reserve (i.e.

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<sup>1</sup> CRM T-1 CY 2020/21 and T-2 2021/22 Auction Parameters

<sup>2</sup> (1) Not committing to procure capacity at T-4 stage, if expensive, when that capacity may not be necessary if higher case demand forecasts do not materialise; and (2) being able to procure cheaper at T-3, T-2 and T-1 stage if necessary.

the 50MW reduction) would provide the certainty that new investors are seeking when looking to participate in future T-4 auctions.

### 3.5 **Dec Tolerance (Supported Capacity Mandatory Participation)**

ESB GT would like to take this opportunity to express its surprise at the recent SEMC decision to retain the mandatory participation requirement on supported mechanism participants considering the desire from industry to see a change the current mandatory status of supported capacity in the Capacity auctions. As stated in ESB GT's response to SEM-18-176, a cost benefit analysis<sup>3</sup> would have been appropriate to support the decision considering the industry position on wanting a change.

### 3.6 **APC and ECPC (Best New Entrant Assessment)**

Both the Auction Price Cap and Existing Capacity Price Cap are determined from the Best New Entrant decision paper T-4 CY 2022/23 (SEM-18-156). ESB GT is concerned with the continue approach of including DS3 revenues in the BNE revenue calculation. The inclusion of DS3 revenues in the BNE Net CONE methodology / USPC process removes any incentive for participants to invest in DS3 products. ESB GT believes the design of I-SEM (DS3, energy markets and CRM) must be done in a holistic approach and not in the current silo approach. ESB GT is of the view that the current procedures for the calculation of the BNE Net CONE and USPC strips away the incentive to provide additional system services when the DS3 commercial advantage is removed from the potential capacity payment this is further magnified for plant that are being processed to get a USPC. If the net sum position of a plant's "allowable" cost recovery, due to BMPCOP, NIV tagging in the Balancing Market and BNE Net Cone/USPC less DS3 revenue, is zero the incentive to invest in other services no longer exists.

The cost based regulation approach applied to I-SEM, DS3 and CRM means any DS3 investment decisions results in a zero sum game as any impact on revenues from a DS3 investment is offset in the CRM IMR bid determination. ESB GT believes a more holistic value based approach must be applied I-SEM, CRM and DS3 in order to ensure customers get the full benefits of I-SEM.

For the reasons described above, ESB GT believes the BNE Net CONE needs to be revised to ensure investment in much needed DS3 products is encouraged while at the same time provide a proficient BNE Net CONE that can be used in the CRM auctions.

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<sup>3</sup> Impact on PSO costs + increased burden of forecasting v value of market power concerns