

Response to SEM-21-055
Capacity Market Code WG19 Consultation Paper
CMC_05_21

EirGrid and SONI Response
06/08/2021

1 Introduction

1.1 EirGrid and SONI

EirGrid holds licences as independent electricity Transmission System Operator (TSO) and Market Operator (MO) in the wholesale trading system in Ireland, and is the owner of the System Operator Northern Ireland (SONI Ltd), the licensed TSO and MO in Northern Ireland. The Single Electricity Market Operator (SEMO) is part of the EirGrid Group, and operates the Single Electricity Market on the island of Ireland.

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EirGrid and SONI have duties under licence to advise the CRU and UR respectively on matters relating to the current and expected future reliability of the electricity supply. We have also been allocated responsibility for administering the Capacity Market Code through our TSO licences. This response is on behalf of EirGrid and SONI in their roles as TSOs for Ireland and Northern Ireland.

2 EirGrid and SONI views on the Consultation Topic

EirGrid and SONI in our role as System Operators have considered the points raised during the Capacity Market Workshop 19¹ and in the SEM-21-055 consultation paper², in relation to CMC_05_21 'Substitution of Candidate Units'³.

The SOs welcome the flexibility that this Modification will offer to facilitate the delivery of Awarded Capacity when a project is at risk of achieving completion within the original timelines.

It would be appropriate to look at alternative options in such cases including the proposed potential substitution on CMU units as long as new individual or multiple units would reach the original Awarded Capacity in total and would pass the standard Qualification Process.

At this regard the SOs would still have some concerns about:

- 1) The criteria used to approve the substitution in principle:

It is proposed that the RAs in conjunction with the SOs would examine the substitution proposal by the affected Parties resulting in an approval or rejection reason to be provided before they go through the actual formal Application Process. Clarity on the criteria against which the substitution proposal will be assessed to reach this decision is required. In particular should the subsequent Application Process raise unexpected issues following approval of a substitution, is there a mechanism of withdrawing the approval? Should the approval only be granted once all steps are completed?

- 2) Creating an advantage to units that have come to the process late bypassing the standard timelines:

Although this process is intended to be aimed at facilitating flexible units that have the potential to achieve their set up quickly, it might also favour units that did not engage at the appropriate time giving them an advantage with respect to other units that have to incur the risks of an earlier application. At this regard, it is important that the criteria required to be satisfied to avail of this process ensure that this process can only be utilised as a last resort, where the delivery of the Awarded New Capacity could not be otherwise achieved.

- 3) Having to run ad-hoc qualification process for each of these cases:

The System Operators are concerned that the operation of ad-hoc qualification processes may impact on the normal qualification processes that take place for scheduled Capacity Auctions. The qualification process involves a number of stages, all of which are set out in Capacity Auction Timetable. It would appear from the text of the Modification Proposal that a Substitution Application would effectively be a full qualification process. The System Operators would suggest that such an approach

¹ <https://www.sem-o.com/events/capacity-market-modificat-25/index.xml>

² <https://semcommittee.us13.list-manage.com/track/click?u=35760ee9da0c8ccdadfbaa4c8&id=2c21ba5821&e=8c58ed4d26>

³ https://www.sem-o.com/documents/market-modifications/CMC_05_21/CMC_05_21SubstitutionofCandidateUnits.pdf

would have a significant impact on the operation of both the System Operators' and the Regulatory Authorities' processes and is not warranted in this case. As set out in the Modification Proposal, the Participant submits a Substitution Application to the Regulatory Authorities, who, in consultation with the System Operators, approves or rejects the Substitution Application. Rather than requiring the substitute units to go through a qualification process, the Regulatory Authorities could make the qualification decision as part of the decision to approve or reject the Substitution Application and this could be given effect in section E.9.4. where the Regulatory Authorities could approve a Final Qualification Decision based on a Substitution Application.

Finally, in relation to the possibility that the requirement for a Substitution Application could be mitigated by the registration process having regard for the Connection Agreement, we believe there is merit in considering this further. However, a more detailed assessment of the requirements in respect of the De Minimis threshold would be required. Currently, there are a number of Generator Units on the system that would be under a single connection agreement but would be registered separately.

Response to SEM-21-055
Capacity Market Code WG19 Consultation Paper
CMC_06_21

EirGrid and SONI Response
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3 Introduction

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4 EirGrid and SONI views on the Consultation Topic

EirGrid and SONI in our role as System Operators have considered the points raised during the Capacity Market Workshop 19⁴ and in the SEM-21-055 consultation paper⁵, in relation to CMC_06_21 'NIRO and DSU'⁶.

The SOs welcome the introduction of amendments to the CMC aiming at achieving compliance with EU State Aid legislation and are grateful to the RAs for correcting the Code's Legal Drafting to account for this particular issue.

It is an important requirement of the market that compliance is constantly monitored and maintained.

The SOs are not aware of units currently affected by this issue; however, the SOs will make sure that measures will be taken to prevent cases from happening going forward.

It is the SOs' opinion that the current drafting requires further amendments to make sure that, at all times and not just at Qualification process, units will be considered non compliant with the CMC if holding a NIRO while participating to the Capacity Market.

The current drafting of the Modification does not appear to prevent a unit in receipt of a NIRO to form a CMU. It is our suggestion that additional amendments in chapter I '*OBLIGATIONS ASSOCIATED WITH AWARDED CAPACITY*' should be introduced to make the obligation more effective and explicit by also accounting for the switching of units.

It is also important to clarify the unique circumstances of this Modification that will apply retrospectively and could potentially see Capacity that has already qualified become non-compliant. A process to deal with such potential cases is not yet defined.

The SOs will work closely with all units that have concerns with regards to being affected by the issues addressed in this Modification and all units applying to the Qualification process going forward.

In conclusion, the SOs are in favour if this Modification but request clarity on what constitutes compliance and how to remedy cases of non-compliance should they been discovered after the Qualification process is completed.

⁴ <https://www.sem-o.com/events/capacity-market-modificat-25/index.xml>

⁵ <https://semcommittee.us13.list-manage.com/track/click?u=35760ee9da0c8ccdadbbaa4c8&id=2c21ba5821&e=8c58ed4d26>

⁶ https://www.sem-o.com/documents/market-modifications/CMC_06_21/CMC_06_21NIROandDSU.pdf

Response to SEM-21-055
Capacity Market Code WG19 Consultation Paper
CMC_07_21

EirGrid and SONI Response
06/08/2021

5 Introduction

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6 EirGrid and SONI views on the Consultation Topic

EirGrid and SONI in our role as System Operators have considered the points raised during the Capacity Market Workshop 19⁷ and in the SEM-21-055 consultation paper⁸, in relation to CMC_07_21 'Application for Qualification Update'⁹.

The SOs favour the intention of this Modification that aims at removing duplication of actions where these are not necessary to the Qualification process.

The SOs recognise that the circumstances where this simplified process should apply are limited to those being identified in this Modification where:

- 1) Nothing has changed since the last Qualification process; and
- 2) The unit applying for this already holds an RO for the Capacity Year of the relevant Capacity Auction.

The SOs are mindful that although the Participant might believe that there has been no change since the last Qualification process, a change in de-rating factor could result in additional capacity to be accounted for. To that effect the SOs propose that Participants that consider themselves to be in one of the above categories would opt in to avail of the existing Alternative Qualification Process to be used in such cases. The SOs will then be able to assess the Participant's circumstances for each individual case without the need to create a new additional ad-hoc process. This simplification would prove beneficial for both the Participants and the SOs alike and would still achieve the intended amendment to the Qualification Process.

⁷ <https://www.sem-o.com/events/capacity-market-modificat-25/index.xml>

⁸ <https://semcommittee.us13.list-manage.com/track/click?u=35760ee9da0c8ccdadbbaa4c8&id=2c21ba5821&e=8c58ed4d26>

⁹ https://www.sem-o.com/documents/market-modifications/CMC_07_21/CMC_07_21E.4ApplicationforQualificationUpdate.pdf

Response to SEM-21-055
Capacity Market Code WG19 Consultation Paper
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EirGrid and SONI Response
06/08/2021

7 Introduction

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8 EirGrid and SONI views on the Consultation Topic

EirGrid and SONI in our role as System Operators have considered the points raised during the Capacity Market Workshop 19¹⁰ and in the SEM-21-055 consultation paper¹¹, in relation to CMC_08_21 'Ex-post Verification of Compliance with the CO₂ Limits'¹².

The SOs very much welcome the introduction of clarifications of what data should be submitted by Participants to comply with ACER recommendations to validate the calculation of CO₂ limits.

The SOs recognise that the RAs are the Competent Authority in this matter and would be the ultimate approver of the reports provided by Participants. For consistency and transparency the SOs would support the publication by the RAs of acceptable sources of data in order to facilitate the industry in providing the required data.

If the criteria for the type of data required is laid out with absolute clarity and tailored to the individual unit types, the submission could be incorporated within the existing verification process. However, to avoid delays in assessing exceptions and duplication of analysis between the Participants, the RAs and the SOs, we recommend that the reports are issued directly to the RAs.

As raised during Workshop 19 and recognised in the consultation paper, it is not clear if the range of the source data should vary depending on the unit type or should be fixed at either one or three years. The SOs views on the matter are neutral and we will adhere to guidelines specified by the RAs and with the interpretation as agreed with ACER.

¹⁰ <https://www.sem-o.com/events/capacity-market-modificat-25/index.xml>

¹¹ <https://semcommittee.us13.list-manage.com/track/click?u=35760ee9da0c8ccdadbbaa4c8&id=2c21ba5821&e=8c58ed4d26>

¹² https://www.sem-o.com/documents/market-modifications/CMC_08_21/CMC_08_21Ex-postVerificationofCompliancewiththeCO2Limits.pdf

Response to SEM-21-055
Capacity Market Code WG19 Consultation Paper
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9 Introduction

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The SOs welcome the clarification provided in the consultation paper with regard to where the extension in the new paragraph J.5.2.5 should be applied from.

Based on this, the SOs have no further comments and support the Modification with the current legal drafting.

¹³ <https://www.sem-o.com/events/capacity-market-modificat-25/index.xml>

¹⁴ <https://semcommittee.us13.list-manage.com/track/click?u=35760ee9da0c8ccdadbbaa4c8&id=2c21ba5821&e=8c58ed4d26>

¹⁵ https://www.sem-o.com/documents/market-modifications/CMC_09_21/CMC_09_21TimeframetoconsiderSFCExtensions.pdf

Response to SEM-21-055
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11 Introduction

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The SOs are supportive of the intent of these modification proposals to allow the greater flexible capability of the IDS' that make up a DSU aggregators portfolio to be realised.

Demand Side Units are already aggregations of demand response capacity of the underlying Demand Sites and allowing combinations of DSUs at a Capacity Market Unit level could be seen as an extension of an existing principle.

There is a considerable amount of administrative overhead on the part of the Participants, the Market Operator and the System Operators in moving Demand Sites between Demand Site Units in order to implement different levels of Awarded New Capacity in different years on different Demand Side Units.

If we consider a reasonably high level analysis of the likely impact of this Modification Proposal using the Final Capacity Auction Results from the 2024/2025 T-4 Capacity Auction, we can see that there are a total of 51 DSUs with Awarded Capacity, 30 with Awarded New Capacity.

Allowing these DSUs to be combined into a single Capacity Market Unit at the Participant level taking into the account the Locational Capacity Constraint Areas of the DSUs, would reduce the number of Capacity Market Units to 17 (and 12 with Awarded New Capacity) with a maximum unit size of 103.48 MW and an average size of 24.73 MW. Even taking into account future growth in this area, we do not consider that these values would impact significantly on the efficiency of the auction.

The benefit of such a move would be to reduce the number of Implementation Progress Reports and the processing and verification of Substantial Financial Completion and Substantial Completion accordingly. Most significantly, however, would be the removal of the need to move Demand Sites between DSUs in order to satisfy Awarded Capacity at a DSU level. As this varies from year to year, it can result in the need to retest sites and re-issue operational certificates for the outgoing DSU and the incoming DSU both of which are under the same Participant. From a DSU perspective, we understand that these imperatives often do not align with grouping of Demand Sites to maximise their potential contributions to System Services. By measuring the Awarded Capacity at a combined DSU level, it would mitigate the need to move these Demand Sites for this reason alone.

There are however, a number of aspects of the current proposals that we feel warrant further consideration.

¹⁶ <https://www.sem-o.com/events/capacity-market-modificat-25/index.xml>

¹⁷ <https://semcommittee.us13.list-manage.com/track/click?u=35760ee9da0c8ccdadbbaa4c8&id=2c21ba5821&e=8c58ed4d26>

¹⁸ https://www.sem-o.com/documents/market-modifications/CMC_10_21/CMC_10_21ModificationtotheprovisionsforMarketRegistrationofDemandSideUnitsDRAI.pdf

With respect to Proposal 1, the SOs observed that in its current drafting, each PQ pair would be limited to the size of the largest constituent Candidate Unit, in this case, a DSU. We believe that this may sit better under Chapter F within the CMC, where offers are validated. Implementating the proposal this way would require changes to the Capacity Market Platform to enforce these limits at the offer submission stage. Considering the figures above from the 2024/2025 T-4 Capacity Auction, we are not sure that the combining of DSUs at the current levels is likely to impact markedly on the efficiency of the auction. If the Modification Proposal was implemented without any limits, the largest combined Capacity Market Unit that would result, based on the 2024/2025 T-4 Capacity Auction, would be 104 MW, with the next largest being 62 MW and the remaining would be less than 40 MW.

With respect to Proposal 2, it is not clear to the System Operators whether the proposed drafting achieves the desired objectives of the Modification Proposal as the current drafting doesn't update the Awarded Capacity for each DSU so each individual DSU would be required to deliver on their own individual Awarded Capacities, both from the perspective of Awarded New Capacity under the Capacity Market Code but also in the settlement rules in the Trading and Settlement Code. We would consider the approach being considered in Proposal 2 to be significantly more complex to implement from a Capacity Market Code perspective. We therefore would favour an approach based on Proposal 1.

The SOs agree with the SEM Committee's minded-to position to take the responses to this consultation as the basis for a revised Modification Proposal. However, the SOs believe that the drafting needs to ensure the quality of delivery performance does not diminish by allowing grouping sites with different characteristics, such as run hour limitations, in order that this does not impact the ability to deliver the awarded capacity when called upon by the SOs.

The SOs note the points raised that this proposal could be seen to provide DSUs / Aggregators with additional benefits and flexibility that isn't afforded to other technology types. The SOs do also note that DSUs / aggregators have a number of different characteristics to contend with when compared to those of a more 'traditional' unit. It is important that any change in this area does not lead to inequitable treatment but also that appropriate and beneficial differences in treatment can be applied where they are justified and do not lead to unfair advantage or disadvantage.

The System Operators would like to highlight issues with availability of Generator Units including Demand Side Units, where the declared availabilities of some units are significantly below what System Operators consider is necessary to deliver on their obligations. It is imperative that any changes to the obligations on Generator Units including Demand Side Units enhance, and at a minimum do not reduce, the incentives to be available and deliver energy when required.

The SOs agree that it may be appropriate to take a revised Modification back to a future working group, prior to a further consultation ahead of a final implementation decision, in order to ensure that due consideration has been given in arriving at the most appropriate approach.

Response to SEM-21-055
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13 Introduction

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The SOs still retain their original concerns with regards to the risks to the system by having any form of Secondary Trading above the de-rating capacity which would be considered capacity that could not be relied from in terms of security of supply, even more so particularly as the limit of 70 days as been removed in both versions of the Energia proposal.

Nonetheless, the SOs will proceed to an impact assessment of the system changes required to implement this solution once agreement has been reached over the final design this should take, including the item previously proposed by Participants and further discussed at Workshop 19 about the reduction of notice period from 5 to 1 Working days if automatic validations could be introduced.

Some key elements, such as the 70 days limit, have been removed in the current version from what previously approved by the RAs in decisions SEM-16-022²² and SEM-20-064²³, and this would make it difficult for the SOs to progress a change request until agreement is reached in a final SEMC decision on which solution to implement.

¹⁹ <https://www.sem-o.com/events/capacity-market-modificat-25/index.xml>

²⁰ <https://semcommittee.us13.list-manage.com/track/click?u=35760ee9da0c8ccdadbbaa4c8&id=2c21ba5821&e=8c58ed4d26>

²¹ https://www.sem-o.com/documents/market-modifications/CMC_11_21/CMC_11_21Modification-Proposal-ExtendingCurrentASTNFormversion2.0.pdf

²² <https://www.semcommittee.com/sites/semcommittee.com/files/media-files/SEM-16-022%20SEM%20CRM%20Detailed%20Design%20Decision%20Paper%202.pdf>

²³ https://www.semcommittee.com/sites/semc/files/media-files/SEM-020-064%20CMC%20Mods%20WG12%20CMC_09_19%2007_20%2008_20%20Decision%20Paper.pdf