

PrePayPower Response to SEM-22-054 A: Performance of CRM

4th November 2022

PrepayPower welcomes the opportunity to respond to this consultation.

The consultation proposes 4 questions in an attempt to frame a more general question – which appears to be “is the CRM able to mitigate against security of supply shortages?”. Before considering this general question we consider it important to address the question of what is the CRM designed to do?

What should the CRM do?

It is our belief that the CRM should:

- (In combination with renewables policy) Incentivise the right generation mix at the right time
- Protect the energy consumer
- Promote competition in generation capacity
- Provide a balance between the cost of procuring capacity vs. the extremely damaging costs of insufficient supply

Broadly speaking the Capacity Mechanism should protect energy consumers from an imperfect market and ensure a stable balance between the extremes of pure energy economics and over-procured capacity.

Structure of the energy market vs Reality

The ISEM design provides for a set of aligned markets which work on a uniform marginal pricing basis which assume that sufficient capacity is available on the transmission grid to transport power to demand regardless of location of generation or demand. In reality however, the transmission grid on the Island that provides the backbone for the ISEM is severely restricted with these constraints limiting the amount of power that can be transported across the Island. Some constraints are jurisdictional in nature, some are highly localised affecting a geographical area as small as a county. If the ISEM were a geographically bigger market it would almost certainly be based on Locational marginal pricing (LMP) rather than Uniform or System marginal pricing. The CRM has recognised the locational nature of constraints in the market in recent years seeking to procure capacity on both a locational and market wide basis. However despite its constraints the Balancing market remains based on a uniform marginal price for the entire Island.

The CRM review fails to recognise this critical piece of information and proceeds to suggest several changes to the balancing market structure in particular related to administered scarcity pricing which will not fix the underlying issue of lack of alignment between Market realities and the CRM. The only fixes short of widespread market restructuring that can resolve this are the build out of high capacity transmission and accompanied preferably by the construction of further Independent new generation capacity (IPPs).

Historic Performance of Capacity Mechanisms on the Island

In the period between the inception of the Single Electricity Market and the ISEM, the Island of Ireland enjoyed stable, affordable energy prices and strong levels of security of supply as a result of the instruments of energy policy delivering several new clean gas CCGT along with increasing levels of renewables. We have seen that rewarding the right capital investment has resulted in substantial benefits in the ISEM energy markets. As demand has grown recently and is projected to continue to grow we have not seen energy policy and the CRM evolve to meet those needs.

We are now in a position where our energy policy and its instruments such as the CRM makes it unaffordable or extremely risky to build the large, clean gas fleet necessary to first transition and then align via clean fuels to a decarbonised world.

Instead we see signals to build only peaking gas generators. The CRM rewards these generators as they will fill a security of supply hole in the next 3- 10 years in the cheapest fashion. However we appear not to have considered the true cost of this particular generation mix and whether these plant are the right fit for the energy system over their 30 year lifetime.

The CRM must correctly weigh the long run costs of failure to deliver sufficient generation capacity vs the shorter term costs of the energy market. We are in a position now where the All Island energy consumer is having to pay a high cost for emergency and short term generation measures in order to maintain security of supply. It is likely that this capacity could have been procured cheaper had previous capacity auctions been more ambitious in scope and design.

Consumer Costs

The CRM review posits falsely that the absence of scarcity pricing events despite the frequency of Amber alerts had led to 'perverse' outcomes in the market. It then goes onto suggest that market rules should be adapted so that future amber alerts are accompanied by higher prices. In contradiction the review also recognises that the strike price of the reliability option inherent in the CRM design is a hedge for the energy consumer which plays an extremely important role in capping consumer prices.

The position taken on scarcity pricing fails to account for the fact that the majority of amber alerts did not reflect an All Island shortage of generation capacity. Indeed in a number of alerts there has been a surplus of generation capacity as a whole available on the Island with generators not committed or dispatched to maximum generation.

Increasing the costs of energy for consumers by interfering with the market rules on administered scarcity pricing is not the correct solution. Consumers are already paying for the failures of market design by paying hundreds of millions of euros per annum to pay for Grid inefficiencies and lack of transmission buildout via imperfections costs. In addition, consumers are now being asked to pay further hundreds of millions of euros to cover the cost of emergency generation measures. We estimate the additional cost in the 2022/23 tariff year to be €1 Billion. Energy consumers should not have to pay for Grid constraints on the double by changing the market rules around scarcity pricing.

Measures Proposed in Review

We have commented here only on measures on which we hold a position. Absence of comment should not be considered agreement.



We are in favour of the following measures:

- Longer duration for delivery of capacity – we support the proposal to allow minimum 4 years lead time to capacity delivery
- Continued investment in relieving regional constraints
- Procuring a contingency for projects that fail to delivery
- Moving to tighter reliability standards in line with European markets
- More permissive approach to requests for extensions from new build projects (where likelihood of delivery is high).
- Allowing longer term contracts for more capially intensive projects – indeed we think longer term contracts should be tied to the ability to power CCGT with renewable or low carbon fuels

We are not in support, or we do not fully support the following measures:

- Increased scrutiny of volume decisions – there would appear to already be significant interference in the volume setting process. There does not appear to have been any gain evident from those changes.
- Amendment of administered scarcity pricing rules to strengthen RO incentives for generators
- Greater incentives for DSU participation – we believe that DSUs are still untested in a scarcity of supply emergency situation and that any increase in DSU participation should be accompanied by analysis to prove DSUs are a reliable source of capacity

Best Regards,

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