BY EMAIL ONLY

SEMC

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SEM-22-054 Call for Comments on the EY Review of the performance of the SEM CRM

Dear Merin, Dear Donna,

Thank you for providing RWE Renewables Ireland the opportunity to respond to the above consultation. RWE Renewables has been active in Ireland since 2016 and now has two offices: one in Kilkenny City and one in Dun Laoghaire, County Dublin. RWE Renewables has already earmarked up to €1.5 billion [gross] for Ireland up to 2030 through current projects already being developed. The investment will be across its portfolio of renewable energy businesses in onshore wind, offshore wind, solar, and battery storage.

We welcome the review undertaken by EY into the performance of the SEM Capacity Remuneration Mechanism, and the positive approach undertaken by the SEM C to proceed with many of the recommendations. We would very much welcome further clarity on the outcomes and timings related to the recommendations that are already proceeding.

Our main comments relate to the additional proposals the SEM Committee is considering further. If you have any questions regarding these, please do not hesitate to contact me or our Senior Regulatory Affairs Manager, Kate Garth (kate.garth@rwe.com).

Yours sincerely

Cathal Hennessy

RWE Country Chair
RWE Renewables Ireland

EY Recommendations to Improve the Design (and thereafter performance) of the SEM CRM

1. ***Greater transparency of target setting through a panel of technical experts assessment of EirGrid recommendations, with findings published and explanation of process by which TSO forecasts are translated to Target Volume to procure in capacity auctions.***

We firmly support the approach of an **independent** Technical Expert Panel[1], which would be similar to the approach used in the UK, as the panel provides an independent, technical review of the approach by the UK's TSO in setting likely volumes required for the UK capacity market, as well as providing scrutiny and challenge. We agree that the set-up of a similar panel would help to remove future risk of both over and or undersupply of future capacity and would provide the necessary support to the SEM C in the setting of and procurement of future Target Volumes.

2. ***More explicit accounting of non-delivery in setting target volume, with two options for implementation.***

a) ***Introduce process to monitor progress reports for early indication of non-delivery, OR***
b) ***Apply a standard adjustment to the capacity requirement to account for the likelihood of non-delivery and review inputs to adjustment % periodically***

Of the two options for implementation, we strongly suggest option a) would deliver greater benefit and provide the TSOs with the ability to have early visibility of the project's progress and to utilise that information effectively. This information provided, in a timely fashion would also provide the baseline for changes to the expected project delivery plan, which would be crucial in order for the TSOs and Regulatory Authorities to be able to determine and grant [where appropriate] requested extensions to the project's delivery date.

The requirement for project's to provide progress reports already exists but based on our recent experience, to date, there appears to have been less of an action by the TSOs to act on the information presented within the progress documents.

We do not support option b) as we are concerned this would then undermine the benefit of having an independent Technical Expert Panel overseeing the initial TSO recommendations and would also risk creating uncertainty around potential changes to target setting and derating factors.

3. ***Increase lead time to at least 4 years from the announcement of auction results to the start of the relevant capacity delivery year.***

[1] https://www.gov.uk/government/groups/electricity-market-reform-panel-of-technical-experts

We support the approach as it would also have the benefit of ensuring the future timings become more consistent and would ensure projects can price properly assess when they would expect to meet the project milestones with greater certainty that these would be in line with the start of the relevant capacity delivery year. In line with recommendation 2a above, it would also ensure there could be consistency of milestones and therefore the associated progress reports that would reveal any risk of non-delivery in a timely way.

4. ***Requirement of new prospective capacity to have all necessary consents to prequalify for auction. This remedy is potentially of less importance if auction lead times are extended***

We agree that, as a principle it would be better if each new prospective capacity project already had all the necessary consents at prequalification, but we acknowledge this isn't always possible, particularly regarding the necessary grid consents. We do however agree that if recommendation 3 were implemented, this recommendation 4 would likely deliver less additional benefit.

5. ***Increase performance securities following the auction***

We agree that for new build projects which have been successful in the auction that an increase to the current performance securities would be of benefit, to encourage best endeavours to meet all the associated project milestones. These could also be tied in with recommendation 2a [better monitoring of project progress] to ensure neither the developer, EirGrid nor SEM C are at risk of unanticipated delays in delivery for new CRM projects.

6. ***A permissive approach to requests for extensions from new build projects***

We very much agree that the regulatory authorities and TSOs should be able to consider the individual needs and merits of any individual request for extension, rather than the current approach. We are aware that this would likely require significant additional and expert resources within the TSOs and regulatory authorities to ensure that any extensions granted provide the best possible outcome in terms of delivering the anticipated capacity. For this recommendation to deliver the best outcomes, we would strongly suggest it would need to be implemented together with recommendation 2, in order to ensure the TSOs and regulatory authorities already have visibility of any potential delays and can then adjudicate from an informed position as to whether the extension request is in line with progress reports and therefore likely to result in the capacity being delivered within a realistic timeframe.

7. ***Recalibrating the administrative scarcity pricing function so BM pricing better reflects market scarcity and causes a higher frequency of periods with prices above the RO Strike Price.***

We support this, as this would help the deployment of longer duration assets.

8. ***Redefining the principle of flagging interconnector actions from SEM BM prices to drive prices that are more likely to exceed the RO Strike Price and more reflective of the value of generation.***

We agree that the redefinition of the interconnector actions because it would be beneficial, both from the perspective of the TSO (in terms of achieving lower BM prices) and also from developers, as this would provide greater visibility of and ability to react to the market signals.

9. ***Greater monitoring of technology performance in stress events to inform future de-rating factor setting***

We agree that greater monitoring of performance during stress events would be of benefit, and we believe this should be part of the remit of the independent Technical Expert Panel, who would then be able to assess the assumptions and methodology used by the TSOs to consdier and thereafter accept or decline proposals to amend the current de-rating methodologies.

10. ***Applying Administrative penalties for non-delivery to plants in specific locations where an amber alert has been raised and a plant is unavailable.***

It is difficult to assess to what assess this recommendation would amend behaviour, without at least knowing what the level of penalties would be and whether this would be applied on a market-wide basis. On general principle, we do not support the introduction of additional penalties (or incentives) outside of a wider review, given the risk for unintended consequences.

11. ***Implement a baseline methodology for assessing the contribution of DSUs in reducing energy demand***
12. ***Pay DSUs for negative generation up to the RO Strike Price***

As RWE Renewables is a generator / battery storage developer, we do not comment on impacts on alternative technologies, such as DSUs.

13. ***Determine energy only stack within balancing market and compensate generators if instructed not to run for system reasons.***

We would agree with this, as it would promote the growth of longer duration battery assets, thereby reducing Storage assets' current reliance on DS3 revenues, and in the future (post the implementation of Future Arrangements for System Services) will support the lower cost for grid services for the TSOs. However, we note the ongoing need to ensure battery storage units are able to fully participate across all markets (wholesale, capacity and system services). More clarity of potential services and revenues for system services would be very much welcomed.

14. ***Greater focus on delivery of infrastructure to enable more competitive all-island market, and to reduce pressure for new builds to be situated in particular locations.***

We agree with the recommendation that there should be a greater focus on the delivery of infrastructure (in particularly the network devleopment) to enable more competitive all-Ireland market and to reduce pressure for new builds to be situated in specific regions. However, that said, we do not believe a change in the Capacity Market Remuneration rules and approach would be the right vehicle to deliver this, especially given the recent market updates from DECC.

Faster and more efficient decision-making and delivery of infrastructure; including but not limited to the delivery of the North-South interconnector, are primarily the concern of the National Governments, the National Planning Authorities and National Regulatory Authorities.