Via email to: CRMSubmissions@uregni.gov.uk; CRMsubmissions@cru.ie

15th April 2024

SEM-24-024 CRM Early Delivery Incentives consultation

I am writing on behalf of the Demand Response Association of Ireland (DRAI), a group that represents flexible energy demand customers participating in the all-island Single Electricity Market (SEM). These flexible customers create predictable, reliable, and controllable assets, which provide a valuable source of Demand Side Flexibility (DSF) that can be actively used by system operators to meet the needs of the power system.

Today, the DRAI represents approximately 700 MW of demand and embedded generation response across hundreds of industrial and commercial customer sites throughout the island of Ireland. These sites are managed by our members each of whom actively participate in the capacity, DS3, and energy markets. DRAI members are committed to shaping the future of power system flexibility through advancing DSF on the island of Ireland. As Ireland strives to achieve its renewable generation targets for 2030 and beyond, our promise as an industry-led organisation is to champion the development of innovative DSF solutions that are designed to address the system-wide requirement for flexibility.

The DRAI expresses a single voice on policy and regulatory matters of common interest to its members, and we welcome the opportunity to provide feedback on SEM-24-024 Early Delivery Incentives consultation.

On behalf of the DRAI, I hope that you find our response helpful and constructive.

Your sincerely,

Patrick Liddy, DRAI

Consultation questions:

Q1: The overall design of the early delivery options:

DRAI welcomes the introduction of Early Delivery Incentives (EDI) to encourage the early delivery of projects which can help alleviate the capacity margin deficit over the coming years.

SEM-24-024 refers to “New Capacity Market Unit (CMU)” when describing the design of the EDI. DRAI stresses that any EDI should not be limited to New Capacity Market Units (CMUs), as there are certain technologies which are modular in nature and can supplement their Existing Capacity with New Capacity. It is essential the EDI mechanism be open to all Capacity Market Units which have procured New Capacity.

Given the capacity shortages over the coming years, DRAI believes it is vital that any EDI mechanism is also made available to for participants which secured New Capacity in previous Capacity Auctions, but which have not yet delivered that New Capacity. The latest Generation Capacity Statement (GCS), which was published in January 2024, shows a capacity deficit for every year of the study. Even when accounting for out of market measures from the Security of Supply Programme, a capacity deficit remains for 2025 & 2027, while there were still T-4 Capacity Auctions to be held for years 2028 onwards at the time of the GCS data freeze. However, since the data freeze, there have been several termination notices published which materially impact the capacity margin in the study period. In addition, the 27/28 T-4 Capacity Auction failed to procure sufficient volumes, which further exacerbates the situation.

Given the stark outlook for capacity margins over the coming years, every effort should be made to incentivise the early delivery of all New Capacity, including New Capacity that has already been procured, and irrespective of the Capacity Duration. Letting capacity providers who have already acquired New Capacity in auctions, but not yet delivered that New Capacity, access to the EDI’s, will motivate all capacity providers to commission early and help alleviate the impending capacity shortage in the upcoming years.

Q2: The minded to position to restrict eligibility for early delivery payments to multi-year New Capacity:

DRAI strongly disagrees with the proposed approach to restrict eligibility for early delivery payments to multi-year New Capacity. System adequacy is achieved by having sufficient MW to meet the system demand. At a given point in time, there is no difference between multi-year capacity and single-year capacity when in terms of contribution to system adequacy. To exclude single-year capacity would be discriminatory and unjustified.

As outlined in Question 1, given the anticipated capacity deficit projected by the GCS, compounded by subsequent termination notices and the failure of the 27/28 T-4 Capacity Auction to procure sufficient volumes, the SO’s urgently required every potential MW to attempt to meet the Capacity Requirement in the forthcoming years. Excluding single-year Capacity limits the SO’s ability to procure sufficient volumes and therefore increases the changes of system black outs which ultimately puts the consumer at risk.

DRAI acknowledges the gaming concerns of the SEMC, whereby units from previous auctions might be perversely incentivised to terminate their existing contracts and replace them with contracts secured in upcoming auctions. However, there already exists provisions within the Capacity Market Code (CMC) to prevent this type of behaviour. Under J.4.2, a Participant with Awarded New Capacity must submit an Implementation Progress Report which contains a director declaration to, among other things, confirm the information is not misleading or deceptive. If a director signs a misleading or deceptive Implementation Progress Report, the grounds for recourse are already clearly outlined in section B.13 (“Default, Suspension and Termination”) of the CMC.

DRAI believes the existing provisions within the CMC to prevent gaming are sufficient to deter any such behaviour. The risk of gaming already somewhat exists in respect of T-1 Capacity Auctions. To date, not a single market participant has terminated Awarded New Capacity secured in a T-4 Capacity Auction and “replaced” it with Awarded New Capacity of a higher price in a subsequent T-1 Capacity Auction for the same Capacity Year. If the SEMC started to see this type of behaviour being employed by market participants, corrective action could then be taken to further limit the likelihood of gaming. DRAI believes that excluding single-year New Capacity from the EDI would be premature and ultimately not in the best interest of the consumer as this would limit the volume of capacity that would be incentivised to deliver early.

If the RA’s were still minded to further limit the likelihood of gaming, rather than excluding single-year contracts, and restricting the SO’s ability to procure sufficient volumes, the EDI could be designed such that multi-year contracts could avail of the EDI mechanism up to one year in advance of their current contract start date whereas single-year contracts could avail of the EDI mechanism up to 6-months in advance of their current contracts. This would achieve the SEMC’s objective of further limiting gaming without unfairly discriminating against single-year capacity and would send a strong signal to all capacity providers to deliver as early as possible.

Q3: The minded to position to allow early delivery payments to start no more than a year before the start of the capacity delivery year for the auction in questions:

DRAI acknowledges that certain measures need to be put in place to limit gaming potential. DRAI supports the minded to position to allow early delivery payments start no more than a year before the start of the capacity delivery year for the auction in question.

However, as noted in question 2, DRAI strongly opposes the proposed approach to restrict eligibility for early delivery payments to multi-year New Capacity. DRAI proposes that rather than excluding single-year capacity from the EDI mechanism, a more equitable solution could be devised.

The EDI could be designed such that multi-year contracts could avail of the EDI mechanism up to one year in advance of their current contract start date, while single-year contracts could avail of the EDI mechanism up to 6-months in advance of their current contracts. This would make the financial case for gaming less attractive and should address any remaining SEMC concerns regarding gaming, without completely discriminating against single-year capacity.

Q4: The minded to position to not employ payment multipliers for early delivery:

DRAI supports the minded to position not to employ payment multipliers for early delivery. The proposal to apply a multiplier of greater than 1 to capacity that delivers early in the previous winter but less than 1 for capacity that delivers early, but only in the previous summer, could discourage early delivery. For example, if a market unit failed to deliver before the previous winter, there would be limited incentive to deliver early before the start of the original capacity year in which the unit won a capacity contract for. A uniform distribution of the EDI ensures there is a consistent incentive for units to deliver early.

Q5: Whether there are any changes required to Qualification & Exception Application rules or processes:

DRAI does not believe the introduction of the Early Delivery Incentives necessitates any changes to Qualification or Exception Application rules or processes.

Q6 The minded to position to apply early delivery incentives to all auctions until further notice.

DRAI agrees with the minded to position to apply early delivery incentives to all auctions until further notice. To maximise the incentive for capacity providers to deliver capacity early, the proposed EDI should apply for any Awarded New Capacity which achieves Substantial Completion after the effective date of any CMC Modification implementing the EDI.

As previously mentioned, considering the projected capacity deficit highlighted in the latest GCS, which has been exacerbated by subsequent termination notices and the failure of the 27/28 T-4 to procure sufficient volumes, DRAI advocates the EDI mechanism should be employed across all auctions, including auctions which have already concluded but have pending capacity delivery. Incentivising this capacity come online early would be of value to the SO's and warrants inclusion in the EDI mechanism.

Q7 Any other incentives that may be appropriate to promote early delivery of capacity.

During a recent Capacity Market Code workshop, CMC_02_24 was raised to reduce the barriers to entry for single-year New Capacity by reducing the Performance Security Requirement. As detailed in the mod, the recent increases in Performance Security Requirement have unintentionally created an additional barrier to delivering single-year New Capacity. This is because the Performance Security Requirement as a percentage of the overall Capacity Payment secured by a participant is disproportionally high for single-year New Capacity when compared to multi-year New Capacity. At a time when the SO's & RA's need explore every possible mechanism to procure additional capacity in upcoming years, this is a straightforward change which could potentially unlock additional capacity which could be delivered within the tight timelines.