Integrated Single Electricity Market

Consultation on
CRM 2024/25 T-4 Capacity Auction Parameters and Compliance with Clean Energy Package

SEM-20-006

Consultation Response from

March 2020

1 Context & Summary

Bord na Móna welcomes the opportunity to respond to this important consultation paper which has the potential for significant and unintended consequences, which could result from misalignment between the measures under consideration within the paper, and the intent and legal obligations arising from the Clean Energy Package, and Electricity Regulation 2019/943.

While the paper consults on many aspects there are two issues which are particularly important and which consequently are the main focus of the Bord na Móna response.

The first relates to alternative provisions in relation to 'Compliance with the Clean Energy Package' and Option 1, Option 2 as presented within the paper.

The second, to the level of the Existing Capacity Price Cap and the invitation to comment on potential consideration to reduce it from 0.5 Net CONE to 0.4 Net CONE.

In relation to the choice of options, our belief is that both options are unlikely to comply with either the letter or spirit of Electricity Regulation 2019/943.

The most straightforward solution in relation to application of Article 22(4) (b) is to simply apply the plain English interpretation based on the exclusion from the Capacity Remuneration Mechanism (CRM) of 'existing' Plants exceeding 550g CO2/kWh and more than 350kg CO2 on average per year per installed kWe (based on the ACER methodology).

ACER have a published methodology to determine high CO2 plants[1] and this should be adopted.

Outside of this straightforward solution, only plants that fail this ACER test should be assessed against either option 1 or option 2, if one were to assume these are the only alternatives.

Bord na Móna does not support either option as they are most likely both non-complaint with Electricity Regulation 2019/943, but if there was a least worst choice, then our preference would be for option 1 – subject to the following application in relation to plants that started commercial production before 4th July 2019, i.e. Article 22(4) (b).

The application would strictly need to ensure that there is NO additional de-rating of plants which are in compliance with Article 22(4) (b), i.e., plants which emit more than 550g CO_2 per kWe but which comply with the 350kg CO_2 of fossil fuel origin on average per year per kWe.

This is entirely in keeping with the intent of the of Electricity Regulation (2019/943).

Any provisions for additional de-rating within Option 1 would be entirely inappropriate for such plant.

[1] ACER - OPINION No 22/2019 OF THE EUROPEAN UNION AGENCY FOR THE COOPERATION OF ENERGY REGULATORS of 17 December 2019 on the calculation of the values of CO2 emission limits referred to in the first subparagraph of Article 22(4) of Regulation (EU) 2019/943 of 5 June 2019 on the internal market for electricity (recast) – 'the Agency recommends to consider the average *Annual Emissions* of the generation unit over the last three full calendar years before the prequalification'

Bord na Móna does not support Option 2 in any circumstance, as it's implications are vague, not compliant with the Regulations and seemingly giving rise to the possibility of withdrawal of capacity within very short timeframes or indeed allowing a 'gaming' position to be adopted.

Option 2 looks like a fundamentally flawed option and would need to be teased out in considerable detail were it to be any way considered as a potential option.

The potential consideration to reduce the Existing Capacity Price from 0.5 Net CONE to 0.4 Net CONE needs to be preceded by consideration of what plant now determines BNE, as there is no evidence that the current BNE, an OCGT, firing on distillate fuel, located in Northern Ireland, is compliant with Article 22(4) (a) of the Electricity Regulation 2019/943. Consequently, there is now a requirement to consult and reassess the BNE and associated Net CONE so as to determine what type of plant constitutes a compliant BNE and to calculate the associated Net CONE.

With regard to consideration of reducing the Existing Capacity Price Cap (ECPC) – there is no objective justification, and certainly no justification for any assessment prior to the determination of an EPS compliant BNE and associated Net CONE. Previous submissions from the EAI of which Bord na Móna is a member have in fact shown that there is robust justification for it to have been increased. Any potential reduction would, ironically, not be in keeping with the prime objective of the capacity market which relates to security of supply, due to increased investor risk from regulatory change, raising the cost of capital and overall cost to the consumer.

Lastly, we refer to Auction format D & Other State Aids Considerations. Bord na Móna does not have any issue with Auction format C being used in place of Auction format D for reasons of expedience, even though this is not in strict compliance with the State Aids decision.

We do however make the point that the paper is notably silent on other State Aids requirements relating to i) cross border participation and the 'interconnector led' model and ii) the realisation of the Secondary Trading market. We believe that this CRM consultation paper should have referred to these, and that there is a need for greater clarity of understanding as to the substance and timing of measures required to realise cross-border participation as envisaged, as well as those required to implement the enduring secondary market trading system.

2 Responses to Consultation Questions

1. **Which of Option 1 (allow high CO_2 emitting plant to participate in the CRM, but be subject to additional derating) and Option 2 (make no changes to the CRM, but ensure that any unit with emissions exceeding 550g CO_2 / kWh comply with CEP annual run-hours limitations) is your preferred approach?**

   The simplest solution in relation to application of Article 22(4) (b) is to apply the plain English interpretation based on the exclusion from the Capacity Market of Plants exceeding 550g CO2/kWh and more than 350kg CO2 on average per year per installed kWe (based on the ACER methodology).

   ACER have a published methodology to determine high CO2 plants[2] and this should be adopted. This involves calculation of the annual total emissions per kWe based on historical averages (last three calendar years – see ACER opinion[3]). For subsequent years, the calculation of the 'average' emissions would be on a rolling basis.

   Outside of this straightforward solution, only plants that fail this ACER test should be assessed against either option 1 or option 2, if one were to assume these are the only alternatives.

   However, in relation to option 1 and option 2, our belief is that both options are unlikely to comply with either the letter or spirit of Electricity Regulation 2019/943. Any alternative that is limited to a choice between Option 1 or Option 2 is too restrictive, but if there was a least worst choice, then this would be option 1 – subject to the following application in relation to plants that started commercial production before 4th July 2019, i.e., Article 22(4) (b).

   The application would need to be that there is NO additional de-rating of plant which in the case of Article 22(4) (b), emits more than 550g CO_2 per kWe but which complies with the 350kg CO_2 of fossil fuel origin on average per year per kWe.

   This is entirely in keeping with the intent of the of Electricity Regulation (2019/943).

   All of the above presupposes that Option 1 is more suitable than Option 2, so this response needs to set out below why Option 2 is unsuitable.

   The Regulation states that any plant which exceeds both limits in Article 22(4) (b) "shall not be committed or receive payments or commitments for future payments under a capacity mechanism".

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[2] ACER - OPINION No 22/2019 OF THE EUROPEAN UNION AGENCY FOR THE COOPERATION OF ENERGY REGULATORS of 17 December 2019 on the calculation of the values of CO2 emission limits referred to in the first subparagraph of Article 22(4) of Regulation (EU) 2019/943 of 5 June 2019 on the internal market for electricity (recast) – 'the Agency recommends to consider the average *Annual Emissions* of the generation unit over the last three full calendar years before the prequalification'

[3] OPINION No 22/2019 OF THE EUROPEAN UNION AGENCY FOR THE COOPERATION OF ENERGY REGULATORS of 17 December 2019 on the calculation of the values of CO_2 emission limits referred to in the first subparagraph of Article 22(4) of Regulation (EU) 2019/943 of 5 June 2019 on the internal market for electricity (recast)

The proposal with Option 2 appears to be that any plant which exceeds its run hours, in relation to not exceeding 350kg CO2 on average in a capacity year, would continue to be exposed to difference payment calls, assuming that it is still participating within the CRM.

However, it is unclear from the consultation whether the Regulatory Authorities expect such a plant (where run hours[4] have been exceeded) to effectively come off the bars for the remainder of that year.

Perhaps the high carbon plant exceeding the 350kg CO2 on average per installed kWe should have the right to not participate in the capacity market and simply trade energy without being classified as CRM capacity per se.

The language used: "shall not be committed or receive payments or commitments for future payments under a capacity mechanism", might indicate that the plant exits the capacity market completely but under what circumstances?

Such a withdrawal/exit of capacity would of course be outside the Grid Code 3 year requirements or is it the case that, now that there is an EPS qualification criteria that the mandatory participation in the Capacity Mechanism is to be reviewed?

This looks like a fundamentally flawed option and would need to be teased out in considerable detail were it to be any way considered as a potential option. It could have significant financial implications.

Furthermore. such a provision could give rise to the possibility of plant emitting in excess of limits described in Article 22(4)(b) being able to trade on the secondary trading market – which would surely be outside the spirit of Electricity Regulation (2019/944).

2. **If the additional de-rating is applied, should it be applied for the 2024/25 capacity year, or held until the 2025/26 capacity year? Alternatively, should the duration of the 2024/25 capacity year be reduced to nine months?**

   Any prospective changes relating to the EPS should be held until the 2025/26 capacity year. We do not see any advantage in over-complicating provisions unnecessarily, with no apparent benefit.

3. **Should the Long Stop Date be reduced from 18 months to (for example) 12 months or 6 months?**

   There was an original rationale for choosing an 18 month Long Stop Date. We have not been presented with any substantive argument which would support its reduction therefore we do not consider that there is any need to reduce it.

Existing Capacity Price Cap - Reduction

The Fundamental Question which is not consulted directly within the Q&A is that concerning the Regulatory Authorities' invitation for comments on reducing the Existing Capacity Price to 0.4 x Net CONE.

[4] supporting the 350kg CO_2 on average per year per installed kWe restriction

First observation is that the existing BNE which is related the CONE is no longer fit for purpose – because it applies to an OCGT which is likely outside the requirements of the Emission Performance Standard and the provisions set out under Article 22(4)(a).

Because of this there is now a requirement to consult and reassess the BNE and associated Net CONE so as to determine what type of plant constitutes a compliant BNE and to calculate the associated Net CONE.

While this is important, the substantive issue is the Regulatory Authorities' consideration to reduce the Existing Capacity Price Cap (ECPC) – with no objective justification. The EAI, of which Bord na Móna is a member, has twice recently furnished evidence that there was no rationale to decrease the ECPC. In fact, it presented robust arguments for it to be adjusted upwards. A reduction of the ECPC would potentially put security of supply at risk, to the detriment of both investors and consumers alike.

The consultation paper notes that in all of the auctions to date "a considerable volume of capacity has bid at or just below the auction price cap". This is hardly surprising as the determination of the ECPC was benchmarked against international best practice, and set at a level that allows the majority of plants recover an element of 'missing money'.

There is no objective reason, noting that there is a single clearing price for the auction, for any downward revision of the ECPC, and certainly no justification for any assessment prior to the determination of an EPS compliant BNE and associated Net CONE.

Auction format D & Other State Aids Considerations

State Aids considerations bring into question the requirement to incorporate Auction format D, with its full combinatorial function. Bord na Móna recognises the complexity of Auction format D, the short time span required to deliver what is a very technically challenging solution, and does not have any issue with the continuation of the use of Auction format C.

However, State Aids considerations extend beyond auction format to include other commitments on which the consultation is largely silent, such as i) cross border participation and ii) the realisation of the secondary market trading system.

Within the Commission's paper:

"(38) As regards cross-border participation, the CRM will follow a so-called "interconnector led" model, which means that interconnectors can directly participate to the CRM, with the amount of their (de-rated) capacity. Generators located outside the island of Ireland cannot directly participate, but the authorities have committed to endeavour to implement **the full explicit participation model for capacity auctions that take place in 2020**, subject to satisfactory and committed cooperation with the British counterparts."

Also

"(51) Reliability options will be tradable on the secondary market, provided the buyers and sellers make use of a mandatory centralised market. Secondary trading is expected to be a useful tool for CRM participants to manage planned outages by suspending both option fees and difference payments in relation to the affected unit for the duration of the outage. Due to technical issues in implementing the enduring **secondary market trading system, it is not expected to be operational until Q4 2018**. In

advance of this an interim solution has been put in place where capacity providers are relieved of their obligations for planned outages that have been agreed with the TSOs."

We believe that there should have been some reference to these obligations in this CRM consultation paper, and that there is a need for greater clarity of understanding as to the substance and timing of measures required to realise cross-border participation as envisaged, as well as those required to implement the enduring secondary market trading system.

We hope that you find these comments of use and submit them for your consideration. We would be pleased of course to discuss any aspect of our responses should you so wish.

For and on behalf of Bord na Móna

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