



Energy for
generations

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ESB Generation and Trading Response:

Capacity Remuneration Mechanism 2023/24 T-4 Locational Capacity Constraint Areas Consultation Paper (SEM-19-048)

25th October 2019



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1. INTRODUCTION

ESB Generation and Trading (ESB GT) welcomes the opportunity to respond to the CRM 2023/24 T-4 Locational Capacity Constraint Areas Consultation Paper (SEM-19-048). In 2017, the SEM Committee developed a Locational Capacity Constraint Methodology in conjunction with the TSOs (SEM-17-040 and appendix SEM-17-040a) which defined a boundary for a constrained area of the transmission system by identifying network capacity constraints which limit power transfers and for which generation in an area would be required to mitigate those concerns. The purpose of this Consultation Paper is to consult on the creation of the principle, proposed calculation and existing methodology compliance of a new Locational Capacity Constraint Area, Level 2 Rest of Ireland.

ESB GT's response to the Consultation Paper (SEM-19-048) is broken into two sections; the first is an executive summary of ESB GT's response to the Consultation Paper and the second section lists ESB GT's response to the consultation questions.

2. EXECUTIVE SUMMARY

At a high level, ESB GT wants to draw attention to (1) the low level of detail presented in the Consultation Paper that has made it difficult for ESB GT to fully assess the differences in the proposed methodology for LCCA Level 2 Rest of Ireland and the methodology for LCCA Level 2 Dublin, and (2) the timing of the Consultation Paper overlapping the T-4 Qualification period. In light of the significant change it could have on market participants entering the auction and the fact that one of the TSO's concerns that formed the basis of the consultation is the volume of capacity that entered the T-4 CY 2022/23 auction, which was known since Q1 2020, this issue should have been raised in advance of T-4 Qualification.

ESB GT does not agree with the need for a Level 2 Rest of Ireland LCCA. The Consultation Paper highlights the TSO's rationale "*for this additional Level 2 Locational Capacity Constraint Area (L2-2 Rest of Ireland) is linked to the anticipated significant demand growth within the greater Dublin area and the volume of new capacity which entered the T-4 capacity auction for capacity year 2022/23*" and that the concern "*is that an excessive amount of new generation in the Greater Dublin LCCA could create technical and connection challenges*". Considering the rationale provided in the Consultation Paper, it could be asked if the recent CRU direction to EirGrid¹ and ESN², which was at the request of EirGrid³, has contributed to the basis of the concerns and rationale for a new LCCA Level 2 for the Rest of Ireland.

ESB GT is concerned that the introduction of the LCCA Level 2 could distort the market and creation of exit signals. The inclusion of Locational Constraints Areas and Auction format that creates unhappy winners (plants that clear in an unconstrained auction, below or at the clearing price, are replaced with units required for constraint areas) already have a distortionary influence on the auction results. The introduction on a new LCCA based on a concern of over-supply in one area rather than identifying network capacity constraints which limit power transfers and for which generation in an area would be required to mitigate those concerns, could unnecessarily further compound the distortion of exit signals.

In relation to the TSO's concerns on a shortage of resource in the "Rest of Ireland Region", the CRU's framework of the Targeted Contracting Mechanism (TCM)⁴ which sets out the CRU's approach to taking actions to address local security of supply issues, including in the event of a potential disorderly exit, should

¹ CRU19124a

² CRU19124b

³ CRU19124c

⁴ Regulatory Approach to Maintaining Local Security of Supply in Electricity (CRU/17/346)

be sufficient to address the TSO's concerns rather than implementing an additional complexity and distortionary change to the auction.

3. RESPONSE TO CONSULTATION QUESTIONS

In this section ESB GT has listed its response to the question from the Consultation Paper.

Question 1: Do you agree in principle with the need for a Level 2 Rest of Ireland LCCA within the T-4 CY2023/24 capacity auction (being proposed by the TSOs in the T-4 CY2023/24 Initial Auction Information Pack and referenced in the RAs T-4 Parameters decision paper published 10 September 2019 (SEM-19-043)? Please provide rationale.

ESB GT does not agree with the need for a Level 2 Rest of Ireland LCCA. The Consultation Paper highlights the TSO's rationale "*for this additional Level 2 Locational Capacity Constraint Area (L2-2 Rest of Ireland) is linked to the anticipated significant demand growth within the greater Dublin area and the volume of new capacity which entered the T-4 capacity auction for capacity year 2022/23*" and that the concern "*is that an excessive amount of new generation in the Greater Dublin LCCA could create technical and connection challenges*". Considering the rationale provided in the Consultation Paper, it could be asked if the recent CRU direction to EirGrid⁵ and ESNB⁶, which was at the request of EirGrid⁷, has contributed to the basis of the concerns and rationale for a new LCCA Level 2 for the Rest of Ireland. ESB GT is not convinced that the introduction of a new LCCA Level 2 in this manner, which does not appear to be in line with the SEM Committee approved methodology (SEM-17-040), is appropriate as it doesn't fully prevent an over procurement of capacity in the Dublin Region. For example, the demand curve allows for the procurement of extra capacity depending on the price therefore it may be possible that more than the maximum requirement in the Dublin region is procured.

ESB GT is concerned that the introduction of the LCCA Level 2 could distort the market and creation of exit signals. The inclusion of Locational Constraints Areas and Auction format that creates unhappy winners (plants that clear in an unconstrained auction, below or at the clearing price, are replaced with units required for constraint areas) already have a distortionary influence on the auction results. The introduction on a new LCCA based on a concern of over-supply in one area rather than identifying network capacity constraints which limit power transfers and for which generation in an area would be required to mitigate those concerns, could unnecessarily further compound the distortion of exit signals.

Furthermore, the CRU's framework of the Targeted Contracting Mechanism (TCM)⁸ which sets out the CRU's approach to taking actions to address local security of supply issues, including in the event of a potential disorderly exit, should be sufficient to address the TSO's concerns rather than implementing an additional complexity and distortionary change to the auction.

Question 2: Do you have any views as to the proposed calculation of the Level 2 Rest of Ireland LCCA minimum MW level?

The minimum MW level is meant to be determined on network capacity constraints which limit power transfers and for which generation in an area would be required to mitigate those concerns. As further

⁵ CRU19124a

⁶ CRU19124b

⁷ CRU19124c

⁸ Regulatory Approach to Maintaining Local Security of Supply in Electricity (CRU/17/346)

discussed in response to the Question 3, the proposed calculation does not appear to be in line with the existing methodology.

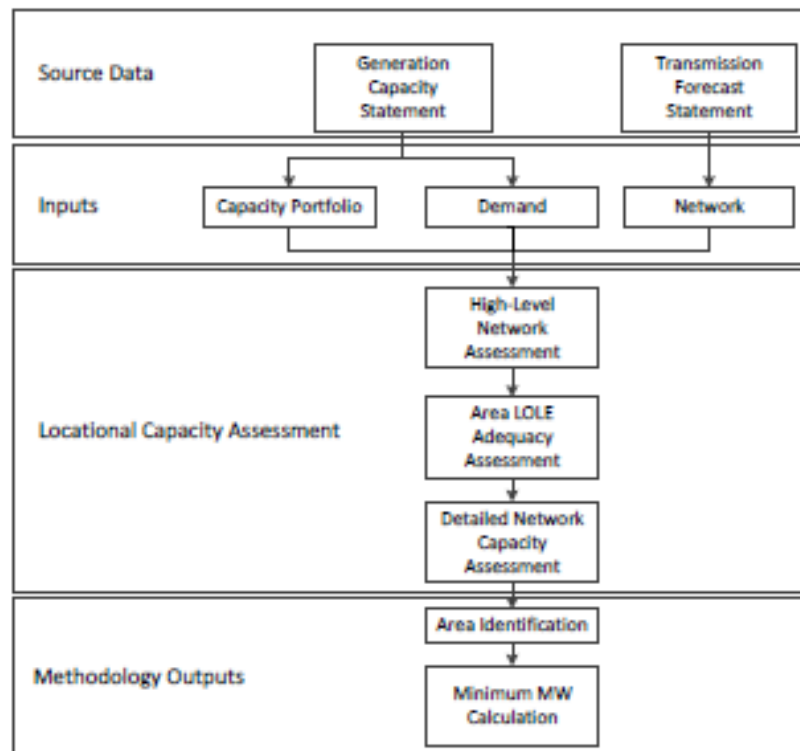
It would have been informative to market participants when developing views on the proposed calculation of a MW value if the MW values using the existing methodology (SEM-17-040) applied to the Rest of Ireland Region was presented in the Consultation Paper (could still be provided in the Decision Paper).

ESB GT is restricted in terms of responding to this question as there is limited information on the scenarios, model and methodology that will be used to determine the maximum de-rated value for Dublin. Further clarity is required on the assumptions used in determining a maximum de-rated value for Dublin based on the constraints and circuit capacity limits within Dublin. For example, the rationale for the application of specific scenarios, will the LOLE remain the same, what are the load flow constraints etc.

Question 3: Do respondents view the addition of a Level 2 Rest of Ireland LCCA as being appropriate within the methodology set out in SEM-17-040a? Please explain.

From this new capacity the TSO's concern is that *"should a significant concentration of Ireland's capacity be served in Dublin, there could be a risk of excessive plant exit in the Rest of Ireland, precipitating an operational shortage of resources in that region"*. The Locational Capacity Constraint Methodology (SEM-17-040) defines a boundary for a constrained area of the transmission system by identifying network capacity constraints which limit power transfers and for which generation in an area would be required to mitigate those concerns, as shown in the figure below.

Figure 3: Overview of the Methodology



The proposed methodology for the LCCA Level 2 Rest of Ireland, as per page 9 of the Consultation Paper, is not in line with methodology for defining LCCAs as it doesn't appear to be determined as per the bottom up approach decided in SEM-17-040. Instead the proposed method for the LCCA 2 Rest of Ireland determines the maximum MW calculation as the final step rather than minimum MW calculation.