



## **Gaelectric Holdings Plc.**

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Response Paper to:

### **SEMC Consultation on CRM Locational Issues**

**Gaelectric Holdings Plc. Response**

22/09/2016

**Public**

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### **Document Details**

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## 1 GAELECTRIC BACKGROUND

Gaelectric Holdings Plc (“Gaelectric”) is an independent wind, energy storage, solar and biomass developer operating within the Republic of Ireland, Northern Ireland, United Kingdom and North America. In addition to our renewable portfolio, Gaelectric are developing Project CAES NI, which has an agreed connection offer in place with SONI and pending approval of planning permission. Project CAES NI will provide 330MW generating capacity with 250MW synchronous demand. Further to our development of Project CAES, Gaelectric and Tesla have announced the purchase and planned deployment of Tesla Energy’s first battery power utility-scale project in Ireland<sup>2</sup>, and we expect to develop a megawatt scale demonstration project in 2016.

## 2 INTRODUCTION

Gaelectric welcome the opportunity to respond to this consultation on locational issues. Throughout our engagements to date with the joint regulatory authorities, we have consistently communicated the need for locational considerations in order to ensure security of supply on the island. Subsequently, we agree that locational issues should be considered *after* the CRM auction has cleared and before contracts are awarded. It is absolutely vital to the integrity of the auction that winning projects are not pulled out of the auction after the fact to accommodate losing offers, but rather that any form of strategic reserve is cleared on a constrained basis.

When addressing these issues, Gaelectric urge the regulators to take a long-term view. The North-South interconnector has been under development for a number of years and the most recent delay from An Bord Pleanála until December is just the latest in a long list of challenges faced by this project. Gaelectric continue to question how realistic it is to complete this project by 2019 and given the impending limitations at Kilroot and Ballylumford, Northern Ireland is facing a profound security of supply issue. We believe the regulators must stop addressing long term security of supply issues by offering short term contracts to incumbent generators and instead provide a clear signal for an enduring solution.

We have also consistently expressed our belief that the capacity and DS3 auctions to be run together or in immediate sequence. New entrant projects will likely depend on both contracts to finance their activities. Should a new entrant successfully participate in a DS3 auction but subsequently fail to clear a capacity auction, they may not be able to achieve financial close. This can cause a potentially arduous process of re-procuring the necessary DS3 system services after the subsequent Capacity auction. This also leave the potential for litigation should the correct DS3 system service providers not be selected. We therefore re-iterate our previous requests that both auctions be run in close proximity with participants having sight of the results of each auction before accepting the contracts.

In this regard, it is now time for the joint regulatory authorities to take due consideration of the drivers for investment. We must avoid the scenario which currently faced in Great Britain whereby poor planning and a desire to minimise spend at all cost has backfired and has resulted in an acute security of supply issue.

We also believe that the wider objectives of both the CRM and DS3 auctions should be more closely aligned. The DS3 auction has been established with the very specific aim of procuring flexible capacity while the CRM is aimed at security of supply. Lessons can be learned from the capacity auctions in GB where no distinction was made between the various forms of capacity allowed to participate in the auction. This resulted in a large influx of small scale diesel generators which did not align with overarching aim of ensuring security of supply while satisfying energy efficiency targets. With this in mind, we believe both DS3 and the CRM programmes should work in tandem to procure capacity that can ensure security of supply but also provide the flexibility to help reach the TSO aims of increasing SNSP, reducing curtailment, reducing the dispatch balancing costs and ultimately helping to reach the 2020 targets.

### 3 CONSULTATION QUESTIONS

***Q1. Do you agree with the assessment of the potential for exit and lack of new entry during the transition period set out in this section, and do you think that the potential for exit creates a security of supply issue given locational constraints?***

Gaelectric agree that some plants without legacy subsidy arrangements that fail to clear the CRM auction may struggle to remain financially viable and subsequently exit the market. However, we have long stated that succession planning is an integral part of any market and this is achieved by implementing a market which features clear entry signals as exit signals. Any security of supply concerns during the transitional period will be adequately managed through the current grid code requirement of three years' notification before plant closure.

We reiterate that the SEM Committee cannot permanently prevent inevitable plant exits. They must begin to exercise options to ensure the next generation fleet is capable of withstanding the pressures currently challenging the existing fleet.

***Q2. Do you agree that locational constraints should be incorporated in the CRM? Please elaborate your rationale in your response.***

Gaelectric realise the inevitability of provisions considering locational constraints in the capacity auction, and we do not object **provided** it is managed in a manner that provides an enduring solution to the constraint in question. This is most effectively done through making it available through both T-1 and T-4 auctions to incumbent generators and new entrants.

We do not believe the North-South constraints represent a short term concern, but rather are symptomatic of an enduring challenge for energy sovereignty in Northern Ireland.

***Q3. Feedback in relation to the specific Grid Code requirements are sought in respect of the following:***

- 1. The extent to which the Grid Code requirements can be relied upon to manage exit of plant which does not obtain a Reliability Option***

Gaelectric believe that a grid code requirement of 3 years is reasonable to maintain system security while a plant exits the market. The impending closure of a plant should act as a market entry signal for new entrants to enter subsequent capacity auctions and the TSOs and SEM Committee should them immediately ensure that incentives are in place to re-balance system security via procurement of increased capacity in the subsequent auction. The grid code notification time should prevent scenarios such as those in GB where the supplemental balancing reserve was required to keep plants that had failed to clear the capacity auction online to ensure security of supply.

**II. *Whether it is appropriate to provide assurances that generators which do not obtain a Reliability Option in the transitional auctions (which happen on a T-1 basis) be released from their obligations to give 3 years notice in accordance with the Grid Code;***

See answer above

**III. *Whether the Grid Code requirement should be extended from 3 years notice, to say 3 years 6 months to align with T-4 auction timings.***

We see the merit in extending the timeline such that the SEM Committee are not forced to put in place a “band aid” whilst new entrants are being procured in the T-4 auction.

***Q4. Do you agree with the key principles proposed for any locational capacity framework within the CRM?***

Gaelectric are comfortable with the high-level guidelines as proposed in this consultation when attempting to address system constraints. It is our view that these high-level principles require long term contracts to be considered to satisfy any security of supply issues that may arise as a result of system constraints.

The detail in which constraint located plants are procured is of utmost importance and should remain transparent and avoid the risk of legal challenge. We do not believe this is achieved by “Option C” as suggested by the SEM Committee.

***Q5. Do stakeholders agree that clear and large existing capacity delivery constraints should be reflected within the CRM auction, for example limiting this to the North-South constraint and the Dublin area constraint?***

Gaelectric believe that consideration of the North-South and Dublin constraints are sufficient and there is no requirement to consider any other locational constraints.

***Q6. Do stakeholders agree with the high level proposed solution for dealing with locational capacity issues?***

Gaelectric agree that the auction design should remain close to the high level design insofar as it should initially be run on an unconstrained basis with that clearing price used as the final auction clearing price. Gaelectric request further clarity on the statement “the SEM Committee also see merit in further developing the relevant transmission locational signals”. To us, the only way of effectively developing these transmission locational signal is provide the financial certainty required for market participants to invest.

***Q7. If you do not agree with or have further view any of the proposals or assessment set out in this section, please outline why and where relevant suggest alternatives.***

Gaelectric have already expressed our view about accessibility for new entrants.

***Q8. Which option do you prefer for the Auction Design Framework and why?***

Should the CRM auction be amended to include locational considerations, it should reduce the potential for pay-as-bid contracts as much as possible (by first providing opportunity for projects to clear in auctions under a pay as clear methodology). Any participant in receipt of a pay-as-bid contract above the auction clearing price has a competitive advantage when participating in the electricity market. They can afford to bid lower and be scheduled more often, thus increasing the inframarginal rent they can earn. For this reason **our preference is for Option B** – to run an unconstrained auction with any further decisions being taken after the auction has been given a chance to clear. Furthermore, eliminating participants that would have otherwise been in-merit based on their location amounts to unfair penalisation based on system inadequacies. Taking such action may leave the authorities open to potential litigation.

As a point of clarity, Gaelectric strongly believe there is no commercial merit in the other options presented particularly where there is a potential for an ex-post “editing” of the results to come up with a preferred solution, i.e. removing plants that have cleared on an economic basis.

We perceive the risk of litigation to be extremely high in these options given the lack of real commercial consideration to the options. Furthermore, it seems that the complications and resulting appeals that would be created has the potential to delay the procurement exercise.

***Q9. Should the capacity price be set equal to:***

***a) the highest-priced bid accepted in the unconstrained merit order; or***

Gaelectric strongly believe that the CRM auction should be run on an unconstrained basis with the unconstrained clearing price used as the market clearing price. This feeds into our previous point about limiting the number of participants receiving pay-as-bid contracts and limiting the subsequent distortion on the other I-SEM markets.

***B) the highest-priced bid which is both: accepted in the unconstrained merit order; and selected as a winning bid after lumpiness and locational considerations have been resolved?***

See answer above.

***Q10. Should a bidder that would have been accepted in an unconstrained auction but which is not awarded an RO receive a “constrained-off” payment in the CRM? If yes, how should the “constrained-off” payment be determined, and why?***

Should our preference for design option B be chosen, this issue will not arise. Providing compensation to an otherwise in-merit participant because a contract was awarded to an out-of-unit participant based on a system issue is an inefficient and uneconomical use of funds. The SEM Committee would be better served offering a contract to participants and procuring the service rather than paying them compensation and receiving nothing in return.

**Q11. How should local capacity deliverability constraints be defined?**

Gaelectric agree that establishing the locational requirement on a MW basis rather than unit basis is a cleaner mechanism and support the regulators proposal to decide on this basis.

**Q12. Should the inclusion of locational capacity delivery constraints in the CRM occur in T-1 auctions, T-4 auctions, or both?**

Should locational constraints be considered in the capacity auction they must be considered in the T-4 auction with long-term contracts being made available. The current design suggests that contract length will not be a consideration when clearing the auction. Once a participant has proven they are a new entrant, they must only bid in their annual fee and if they clear they receive a contract for up to 10 years. Gaelectric believe that when considering locational issues, a similar approach should be adopted whereby should select participants based on the bid price in the given year rather than considering the cumulative cost of the duration of the contract.

**Q13. What circumstances or criteria should be considered in relation to the T-4 auctions being conducted without explicit consideration of locational capacity delivery constraints?**

As stated previously, should locational issues be considered in the CRM auctions, participants should be given the opportunity to participate in the T-4 auctions.

**Q14. Are there any further considerations that should be taken account of regarding the longer term management of locational capacity delivery constraints? If so please detail your rationale for these.**

The requirement to consider locational constraints arises due to inadequate system infrastructure. Therefore we believe that any consideration of locational issues should serve to provide a market signal to provide an enduring solution to these system constraints.

**Q15. Do you believe that the suite of market power controls set out in CRM Decision 3 are sufficient to address any additional market power issues raised by local security of supply considerations? If not, what additional measure would you propose, and why?**

Gaelectric have consistently stated that we are comfortable with bid regulation where it is thought market power may be an issue. Where bid regulation may be required, participants should be given the opportunity to engage with regulators and to ensure that their auction bid is a fair reflection of their net going forward costs and that a plant is not forced to operate when making a loss. Once this opportunity is available, Gaelectric support measures taken by the regulators to ensure competitive auction bids by all market participants.

## 4 CONCLUSION

Gaelectric would like to take this opportunity to thank the regulators for giving us this opportunity to provide feedback on this consultation. We trust our comments will be given due consideration in the decision making process and look forward to receiving the decision. In the meantime, should there be any questions on the points made above please do not hesitate to contact us.