Energia response to SEM Committee Consultation Paper SEM-19-013

Capacity Remuneration Mechanism (CRM)
DSU Compliance with State Aid

02 May 2019

1. Introduction

Energia welcomes the opportunity to respond to SEM Committee Consultation Paper SEM-19-013 titled “Capacity Remuneration Mechanism (CRM) DSU Compliance with State Aid” (the “Consultation Paper”).

We note the context of the Consultation Paper is to comply with both State Aid and the European Union “Clean Energy for all Europeans” draft Electricity Regulation by ensuring that DSUs are treated the same as other generators and are fully integrated into electricity markets. In order to achieve this outcome the Consultation Paper has outlined proposals for both an enduring solution (which will not be achievable in line with the timelines of the State Aid and European Electricity Regulation respectively) and an interim solution which is proposed to be used until the enduring solution is ready for implementation.

Energia has concerns over both the interim and enduring solutions proposed in the Consultation Paper. In respect of the interim solution we are concerned that there is a disparity in the treatment between DSUs and conventional generators and therefore that is does not achieve the desired outcome of being compliant with State Aid. Furthermore the proposal to socialise costs across supplier units through the socialisation fund is unfair and discriminatory to those suppliers who do not provide energy to Individual Demand Sites (IDSs). In respect of the enduring solution we note that there is a lack of detail in how this is to be implemented, the timelines for doing so and the impact on suppliers in meeting these obligations. Accordingly we would welcome the opportunity for further engagement in respect of the proposed enduring solution.

The remainder of this response contains Energia’s comments in respect of the interim and enduring solutions proposed in the Consultation Paper.

2. Response to Proposals in the Consultation Paper

Interim Solution

Energia note the proposed interim solution is to use dispatch quantity rather than the metered quantity to calculate DSU energy payments. However this approach creates a discrepancy between how other capacity providers (including conventional generators) and DSUs are treated in the electricity markets. Therefore whilst the objective of the changes are to ensure DSUs can participate alongside other market participants in a non-discriminatory manner, this approach will actually serve to discriminate against other participants whose Reliability Obligation difference payments will be based on actual measured delivery rather than dispatch quantity. Paragraph 2.2.23 of the Consultation Paper acknowledge the flaws with this approach stating that *"…it may be appropriate for the RAs/TSO to monitor compliance of DSUs with dispatch instructions…"* and if *"issues with compliance are identified for DSUs then additional safeguards may be considered such as a review of the de rating factor for those units".* Given the potential impact of these changes on bidding strategies in upcoming capacity auctions this is wholly inappropriate and any subsequent changes to future de-rating factors that come into effect years down the line, as a means to guard against lack of performance of DSUs, will be ineffective.

Furthermore the interim solution proposes to socialise the costs of energy payments to DSUs through the socialisation fund across all suppliers. This will result in an increase to the Difference Payment Socialisation Multiplier and is therefore unfair to those suppliers which are not providing energy to IDSs that are associated with a DSU.

If the SEMC is minded to progress with an Interim Solution, based on there not being time to implement an enduring solution, then it appears that there would need to be a further State Aid derogation given there is ongoing disparity of treatment. Further, given the above flaws with the proposed interim solution Energia strongly recommend that the option outlined in paragraph 2.2.28 should be the approach used when implementing this solution. By limiting the energy payments to DSUs to times only when Reliability Option Difference Payments are triggered, it minimises the differential treatment between DSUs and traditional generators that is being created. Furthermore this approach will have the least cost impact on the payments being made out of the socialisation fund and therefore the costs that are being impinged on consumers.

Enduring Solution

In respect of the enduring solution proposed, whilst noting that this will likely achieve the desired outcome of being compliant with the State Aid decision by actively measuring the performance level of IDSs and DSUs which we recognise the benefit of, there is a lack of detail in the Consultation Paper on how this is to be implemented and the timelines for doing so. In particular, some of the requirements on suppliers in respect of new contracts that may be required if they are supplying an IDS and other obligations that may be required of them will be extremely onerous but there is limited detail in the Consultation Paper on how this process is to work. In addition there is no timeline given in the Consultation Paper for when the enduring solution would likely be ready for implementation.

Given these points Energia would welcome further engagement with the RAs in respect of the proposed enduring solution.