



Energy for  
generations

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## **ESB Generation and Trading Response:**

### **Capacity Remuneration Mechanism DSU Compliance with State Aid (SEM-19-010)**

**2<sup>nd</sup> May 2019**

## 1. INTRODUCTION

ESB Generation and Trading (GT) welcomes the opportunity to respond to the Capacity Remuneration Mechanism DSU Compliance with State Aid Consultation Paper (SEM-19-013). The purpose of this Consultation Paper is to consult on the interim and enduring solutions in order for CRM to be compliant with the State Aid requirements and the draft Electricity Regulation.

ESB GT's response is separated into three sections; the enduring solution, interim solution and comments on the supplier charging.

## 2. ENDURING SOLUTION

ESB GT agrees with the proposed approach and key features of the enduring solution. However, considering the number of known issues currently existing within the TSO's IT systems (settlement issues are optimistically forecasted to be implemented by Q4 2019) and the upcoming Day+2 projects, the prioritisation of implementing the enduring solution should be ranked accordingly if the interim solution is acceptable until the other key lingering ISEM issues are fixed. In the November PMG, the prioritisation of Day+2 projects was discussed and it was proposed that industry would be consulted with when determining the ranking. Unfortunately, no such discussion has been held. In the interest of transparency, ESB GT believes the opportunity to further engage on the prioritisation of Day+2 issues before any decision of implementing changes is necessary to ensure participants are aware of when the changes will be implemented and the potential impact on participants, as there are other issues that may impact on participants greater than the implementation of the enduring solution proposed in this Consultation Paper.

## 3. INTERIM SOLUTION

ESB GT sees merit in the interim solution, however, there are three issues with the current proposal. Firstly, ESB GT does not understand how the SEMC has come to propose an approach which assumes that all DSUs have delivered the demand response as requested from the TSOs. This assumption would seem to be at odds with the evidence available as presented by the TSO at a DSM industry forum in November;18 where it was detailed that when dispatched on the 27<sup>th</sup> of June'18 the demand reduction delivered in Ireland by DSM was 65% of the declared availability and in Northern Ireland the demand reduction was 41% of the declared availability. Notwithstanding the questionable nature of this assumption, this approach manifestly discriminates against all other balancing market units. ESB GT believes continuous testing (monthly or quarterly), by issuing dispatch instructions as per the market processes, should be applied to establish a benchmark for the DSU response performance. This benchmark should be applied as it would maintain some equitable degree of treatment for all market participants.

Secondly, the potential safeguard of reviewing the de-rating factor for DSUs if there are any issues with compliance is not proportional to the risk exposure for other generators with Reliability Options (RO). If the non-performance of a DSU results in higher RO prices and CRM charges to other RO holding generators, a review of the de-rating factor for DSUs in the next T-1 and T-4 auction does not alleviate the issue of more potential risk in capacity years already auctioned. Nor is it proportional for the DSU classification if the DSU de-rating for all DSUs is reduced because of a small number of DSUs not being compliant.

Thirdly, it is unclear how the SEMC envisage the changes to the T&SC settlement (Chapter F) that will transfer funds from the socialisation fund to the TSO. Greater clarity needs to be provided as to how this will occur. Furthermore, the potential unintended consequences for the hole of the hedge needs to be clearly identified.

#### **4. BASIS FOR SUPPLIER CHARGING**

As this Consultation Paper is mindful of the drafting of the Electricity Regulation requirements, ESB GT would like to take this opportunity to enquire about the progress of moving the basis for supplier charging from the Net Demand Approach to the Gross Demand Approach<sup>1</sup>. The SEMC decision was to not implement any enduring solution changes earlier than January 2020. Incorporation of system changes for the supplier charging with the system changes for the proposed enduring solution as per this Consultation Paper may be an efficient approach to solving both issues.

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<sup>1</sup> Energy Trading Arrangements Basis for Supplier Charging Decision Paper SEM-16-010