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ar son na hAeráide & Comhshaoil
Department of Communications,
Climate Action & Environment

Electricity Support Schemes: Transitioning to I-SEM Arrangements

Consultation Response from



January 2018

Introduction

Bord na Móna (BnM) welcomes the opportunity to respond to the Department of Communications, Climate Action, and Environment's (DCCA) consultation "*Electricity Support Schemes: Transitioning to I-SEM Arrangements Proposed Decision Paper*".

BnM has previously stated its understanding that the REFIT floor price, is just that, a floor price that qualifying participants will earn for each MWh of generation.

It is noted that this Proposed Decision Paper has been developed after several summer workshops facilitated by the Department, which enabled industry and stakeholders to articulate concerns, pitfalls and potential opportunities in the initial Options Paper. Bord na Móna actively contributed to the positions developed by EAI & IWEA. BnM acknowledges and appreciates these engagements.

Discussion

Following on from this process, BnM are aligned with the Department's regulation of the 100% DAM and the Blend *simpliciter* Options. In the interest of brevity, this submission will make no further comment on Option A (100% DAM) or the earlier 90:10 (simple) Blended Option.

The Decision Paper's substance question, for intermittent wind generators, is whether Option B (lower of DAM / 80:20 blend) achieves a better balance for consumers and investors than Option C (Dutch approach) ?

In the first instance, it must be taken as given that each individual wind farm owner/operator will endeavour to trade commercially, independently and without market collusion. Under no circumstances would BnM be party to a scenario, as articulated by the Department, where "*generators were to agree to trade all their output in the balancing market*", or any other market for that matter.

Secondly, it is noted that the Proposed Decision Paper acknowledges the limitations of its cited modelling such that "*it does not factor in possible arbitrage trading between timeframes*". However, while the limitations are acknowledged, the Paper's conclusions, and in particular the estimated Total Consumer Costs for each of the remaining Options ignores the identified deficiencies. The graph in section 4.1, has an axis that extends to 0% DAM, at which point there is significant divergence between the Options B & C relative to the delta at *circa* 70% DAM. It is, therefore, important to articulate what 0% DAM represents in the real world i.e. wind operators holding back all generation and spilling into the BM. If such a scenario were to transpire (and persist), there would be arbitrage opportunities for suppliers and asset-less traders to exploit the resulting price differential between the DAM & BM which would result in price convergence between the timeframes, reducing the absolute cost of

power traded in the BM. This suggests that in practice, and based on Eirgrid’s own modelling, the difference in total costs between Option B and C is minimal.

Option B

In assessing the Options (B & C), it is necessary to first reiterate BnM’s stated position i.e. the REFIT price floor should be earned for all MWh exported from supported plants.

Fundamentally, the primary concern in relation to Option B is expressly stated in the Proposed Decision Paper, namely that “[Option] B (Blended) are revenue only options, where the balancing costs of being long and short relative to forecast day ahead volumes are not explicitly taken into account”. Hence, Option B incorporates a degree of protection against exposure to the Balancing Market price. However, the absence of any volume considerations effectively disconnects this Option from real balancing costs that an intermittent generator could experience. In such a scenario, where Balancing costs are strongly influenced by factors other than wind’s inherent forecast error (see below), affected generators will have no/limited opportunity to earn the current guaranteed REFIT floor price. This undermines both the business case for that particular unit, as well as general investor confidence in the Irish renewable/flexible sector at a time of increasing mandatory RES targets.

Bord na Móna believe that Option B exposes both supported participants and Ireland’s future RES investment environment to risks that may have long term detrimental consequences.

Option C

Again, notwithstanding BnM’s view on the REFIT floor price, BnM believe that Option C strikes a more appropriate balance between minimising consumer costs while providing participants with a higher degree of ‘investor’ confidence compared to Option B. Option C is designed to incentivise participants to minimise their Balancing costs – an incentive which is also aligned with the best interest of consumers.

Option C pits participants against each other, as by definition, there will be those whose Balancing costs are higher than the average, i.e. there will be winners and losers, again this ensures that there is competitive pressure on participants to continuously improve their trading and forecasting – to the benefit of the consumer. As this Option is constructed around actual balancing costs, rather than a deemed reference price, the Option also provides a higher degree of comfort to participants (and their funders) should external factors (other than wind’s forecast error), e.g. pump-storage outage, IC failure etc result in higher system wide Balancing costs.

Notwithstanding BnM's 'without prejudice' support for Option C, in the interest of clarify and transparency, BnM would respectfully suggest that the following clarifications/clarifications are provided when (or soon after) the final decision is made:-

- Confirmation that the 'period' defining the reference price is a discrete trading period in the DAM
- An understanding that the arbitrarily chosen 80:20 blend would not be arbitrarily changed at a future date
- Early codification of the 'R' Factor methodology, incorporating the above bullets and the mathematics used to calculate the TMR and subsequent REFIT payment.

Supported Co-Firing Plants

The proposed treatment of capacity revenues for Co-Firing plants is simply inequitable. The inclusion of availability-based capacity revenues as part of the TMR in SEM is consistent with the State Aid principle of '*no cumulation of aid*'. However, the Proposed Decision is unilaterally extending this principle to the point that supported plants (which are mandated to offer de-rated capacity in to the RO auction) are required to net off their RO premia while underwriting the PSO consumer against prices above the strike price. Essentially, impacted plants are being exposed to downside risk for no net reward. It cannot be rationally argued that such regulatory 'activism' should flow from the principle of '*no cumulation of aid*'. It is recommended that supported 'Co-Fired' capacity is afforded the choice of opting out its supported capacity from the RO auction.

In summary BnM very much welcomed the opportunity to contribute and respond to the Departments consultation regarding the transition of electricity support schemes to I-SEM. Finally, if you have any queries or require clarification on any point, please do not hesitate to contact me.

For and on behalf of Bord na Móna



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