

IWEA response to the Consultation on CRM Locational Issues (SEM-16-052)

21 September 2016

The Irish Wind Energy Association (IWEA) welcomes the opportunity to respond to this consultation on the Capacity Remuneration Mechanism (CRM) – Locational Issues. The CRM has been a fundamental part of the market design on the island of Ireland to date, and the move to the Reliability Option (RO) is a significant change which presents a serious challenge to the wind industry. From a wind perspective Reliability Options are problematic because they create implicit penalties when market prices go high in the reference market, likely making it uncompetitive.

IWEA has significant concerns in relation to some of the proposals in the consultation paper outlining that projects which are in merit in the capacity auction will not be awarded capacity, or compensation, while capacity providers in constrained areas will be awarded contracts. This approach undermines the auction approach, and is not consistent with efficient market operation. If the market has a high number of constraints which will impact the efficiency of the market outcomes, this needs to be reflected in the market design. IWEA calls on the regulators to revisit the design of the capacity mechanisms to ensure that the design is fit for purpose. As we have outlined in previous consultation responses, we do not believe that the design is appropriate for a market with high levels of renewables. It now also appears that it is not suitable for a market with the level of constraints which exist in the Single Electricity Market (SEM).

The locational issues being addressed in this consultation paper also highlight the need for grid infrastructure development. The North-South Interconnector is an essential piece of infrastructure which has seen significant delays. It is essential that this, and other important pieces of infrastructure are built in appropriate timeframes. The additional cost to the consumer associated with these constraints needs to be highlighted and communicated to assist in the case for development on infrastructure. While there have previously been constraint costs associated with the energy aspect it appears that this is now to be augmented with capacity costs which is not appropriate.

IWEA has previously highlighted concerns in relation to the participation of wind energy in the capacity mechanism. There may be instances where the capacity of wind is of more benefit in some locations but due to the inherent risk in the design, this capacity credit is not taken into account. IWEA has previously called for the capacity credit of wind to be recognised and rewarded. As a result of the administered scarcity price (ASP), wind alone carries an uncapped exposure to the risk for forecast errors, while conventional generation plant are protected through stop loss limits. It is an unfair penalty on windfarms that they must pay this price for forecast error, if they deliver less than forecast.

IWEA would like to re-state our position which is that the CRM precludes wind from participating in the market and supports an unconstrained capacity market auction. The proposals set out in this consultation run a risk of distorting the market and are unfavourable to wind, which would have to account for this unjust penalty into its RO offer, likely making it uncompetitive.

In terms of the options presented for the Auction Design Framework, IWEA does not have a strong preference for any of these. We strongly request that the SEM Committee reviews the overall programme to ensure that the market supports the policy objectives of moving to a market with 40% renewables in 2020, and further decarbonisation beyond 2020.

We remain available to discuss these comments with you further.