# Submission in Response to PUO Public Consultation

## Position Paper on reforms to the Reserve Capacity Mechanism

## Standing

Community Electricity is:

a a licenced Electricity Retailer and a provider of Electricity Retail Services and Market Consultancy;
b a member of the Independent Market Operator's Market Advisory Committee;
c a member of the Economic Regulation Authority's Technical Rules Committee;

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## Submission

Community Electricity supports the broad thrust of the proposals on the grounds that they support the Market Objectives, albeit with a recast emphasis on Market Objective (c) (non-discrimination).

The majority of the proposals were either previously approved by the IMO after extensive consultation and planning, or are otherwise incremental to the former IMO Market Evolution Plan. The notable exception is the reform of DSM participation, which we consider constitutes reinterpretation of Market Objective (c); where it had previously protected DSM, the emphasis has now been recast on protecting Scheduled Generation. We support this change as improving efficiency and effectiveness.

Community notes the statement by the PUO that submissions pertaining to Sovereign Risk matters are not welcome. We also note that the new rules for the Reserve Capacity Mechanism are presented largely in conceptual form but are to be implemented within 67 business days of closure of the 'consultation' period.

Consequently, we confine our submission to making the following suggestions for incremental improvement to what is evidently going to be progressed regardless of the "consultation", and outside the normal rule change process that has applied to all the previous 150 rule changes.

1. Speaking as a MAC member representing Market Customers, we support the proposal to cycle capacity refunds between capacity providers to the prima facie detriment of Market Customers. We perceive that the 'demand' side of the capacity market creates a pool of money and that the supply side allocates the pool to the capacity suppliers. We agree that failure to perform on the supply side does not

warrant a transfer of funds to the demand side but, rather, reallocation of funds on the supply side to those suppliers that are performing. We suggest that:

i) any supplier that is not available for any reason should have its funds reallocated to those who are available; where an outage is authorised, this should be at the basic capacity rate, and where the outage is forced, it should be at the penalty rate. This would incentivise efficiency of planned outages by benefiting suppliers whose planned outages are of lower duration. It would also apply immediately, in contrast to the proposed 3 year rule.

ii) capacity refunds arising from authorized outages should be allocated to all eligible suppliers, and refunds arising from forced outages should be allocated to the suppliers that are actually online at the time of the outage. We perceive that this would incentivise suppliers to bear the risk of failing in service and thereby reduce energy prices.

iii) We suggest that the amount of the capacity refunds should be published in the ESOO as a component of the remuneration of capacity suppliers, and thereby as part of the price signal for entry. Noting the discussion of possibly retiring Mujas 5 to 8, we suggest that there is an equity problem akin to that of the DSM issue in that non-performing capacity leaches funds from the capacity pool and thereby diminishes the funds available to performing capacity and new entrants. We consider that the Market Objectives are served by the retention of occasionally performing units that can fund themselves through their energy income supplemented by partial capacity payments.

iv) We suggest that consideration be given to loss factor adjusting certified capacity; we note that there is ~20% spread of loss factors across the SWIS, but all capacity is treated as of equal contribution.

2. In respect of the proposed changes to DSM capacity, we suggest:

i) DSM capacity certification should be capped at the IRCR or Median peak Load.

ii) There should be proper checks on availability and penalties for non-performance.

3. In respect of the actual dispatch of DSM capacity, we note that there is a need to decide which supplier will be dispatched where the portfolio supply exceeds the quantity required at the time. We perceive that there is a presumption that suppliers will be reluctant to be dispatched and that actual dispatch will be by lot. We suggest that instead, the proposed value of DSM capacity should serve as an offer cap and that suppliers should be enabled to voluntarily offer a lower price if they seek to be dispatched in preference to other suppliers.

4. We interpret the provisions relating to DSM participation as very substantially reducing that component of the market; the paper estimates that the new baseline rule will remove 220MW of the 560MW in the business as usual case. In addition, the impact of the 88% reduction in the payments and the substantially increased availability requirements will further reduce participation. Given that there is a

substantial industry momentum, we suggest that the DSM remnant should be enabled to participate wherever it reasonably can to the advantage of the market. Though not strictly a capacity market matter, we suggest that the review should more generally enable participation of DSM in both the Balancing Merit Order and the Ancillary Services markets.

# Contact

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