

Submission by Bord na Móna

to the

EU Commission's

*Consultation on Generation Adequacy, Capacity Mechanisms
and the Internal Market in Electricity.*

Date 7th February 2013

Bord na Móna very much welcomes the opportunity to respond to the Commission's *Consultation on Generation Adequacy, Capacity Mechanisms and the Internal Market in Electricity*.

Bord na Móna is an integrated utility company with a unique mixture of assets and experience cross-linking activities in water, resource recovery and energy, including electricity generation. Bord na Móna's generation assets include windfarms, base-load fossil fuel units, and distillate fired peaking plants. As such, Bord na Móna is a participant in the All-Island Single Electricity Market (SEM) in which capacity payments are an integral part of the market design and more importantly the basis upon which many participants, including Bord na Móna, have made investment decisions.

In response to the current consultation, Bord na Móna has played an active part in drafting the detailed submission prepared by the Electricity Association of Ireland (EAI). **Bord na Móna fully endorses and supports all the comments, observations and recommendations contained in the formal submission from the Electricity Association of Ireland to this consultation.** As highlighted and summarised in the EAI paper

- Capacity Remuneration Mechanisms (CRMs) are compatible with the Internal Energy Market and existing regulations. Depending on design and trading rules, it is clear to us that CRMs can be constructed to comply with the internal electricity market, in particular where they are a core feature of market design.
- The choice of market design in a given member state and the level of security of supply that it delivers reflect a range of factors including geography, indigenous energy resources, market size, degree and nature of interconnection, composition and age of current generation portfolio, scale of adjoining market(s) etc.. The specific characteristics of individual markets must play a role in considering whether that market requires a CRM to be adopted as an integral part of its design. Progress towards a harmonised/coordinated approach to CRMs on a pan-EU scale, if necessary or desirable in the long-term, will take investment, experience with the Target Model and must avoid retroactive effect.
- This should not inhibit progress towards an internal market as Bord na Móna considers it is possible to design mechanisms that permit efficient trading across interconnectors between energy-only markets and those with CRMs. As noted above, we would strongly challenge the argument contained in the reference to the SEM in Section 4.3 of the Consultation Paper that the existing capacity mechanism, which is a central feature of the market design, has created difficulties in cross border trade with GB. Interestingly the Commission's own recent communication (COM/2012/0663) '*Making the Internal Energy Market Work*' specifically states that "*the formation of the All-Island market in Ireland in 2007 was a positive contribution to the construction of the internal electricity market*"

- Given the features of the SEM market and the characteristics of its current design, it is crucial to retain provision for CRMs, not least from a security of supply and regulatory stability perspective. This does not prevent moving towards the progression of electricity market integration and general societal benefit from efficient interconnector trading.
- Bord na Móna supports the continued availability of CRMs and does not accept the excessive constraints proposed by the Commission, which amounts to their implicit rejection via a very narrowly defined acceptable form of CRM and the implicit rejection of existing CRMs such as that of the SEM which is both justified and integral to market design and which has been openly endorsed by the EU.
- CRMs are designed to provide generation adequacy. However, plant flexibility to support the high penetration of variable generation is a different characteristic and should be addressed separately. In principle the two mechanisms should not overlap. Clarity on the distinction between ‘generation adequacy’ and ‘flexibility’ is necessary. The former ensures that there is sufficient generation (megawatts) in a market to meet demand at any one time and in certain scenarios. Capacity mechanisms are not, nor should they be, technology specific. However the need for plant flexibility will become an integral service feature of the operation of systems with high penetrations of variable generation in the future. The incentivisation of this service will be crucial in light of existing low carbon and renewable objectives. The capability of a CRM to provide both capacity and sufficient flexibility for a system with significant levels of variable generation is not advisable.

In conclusion, and for the avoidance of doubt Bord na Móna fully endorses the submission made by the Electricity Association of Ireland (EAI). I trust that the above comments will be helpful in the current process. If any queries or comments arise please do not hesitate to contact me.

For and on behalf of

Bord na Móna



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