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Utility Regulator
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James Curtin
Commission for Energy Regulation
The Exchange
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18th November 2016

Dear Brian and James,

Confederation of European Waste-to-Energy Plants (CEWEP) Ireland is pleased to respond to the SEM Committee consultation on Offers in the I-SEM Balancing Market (SEM-16-059).

CEWEP is the umbrella association of the owners / operators of Waste-to-Energy Plants, representing approximately 400 Waste-to-Energy Plants from 18 European countries. Our members make up 86% of the Waste-to-Energy capacity in Europe.

CEWEP Ireland is the Irish branch of CEWEP Europe and has two members. Indaver operates the Meath Waste-to-Energy Facility and is proposing to develop similar facilities in Belfast and Cork. Covanta is currently constructing the Dublin Waste-to-Energy facility. By 2020 it is anticipated that members will have a total treatment capacity of over 1,070,000 tonnes per annum residual waste and export more than 90MW electricity and/or heat.

In general we support retaining the existing mechanism of bidding principles under a Bidding Code of Practice with minimal changes required for the I-SEM. While we acknowledge the extra work involved in administrating such a regulation, it is out-weighed by the pragmatic downsides to the alternative solutions proposed within the consultation paper.

Question 1: *Do you agree with the proposed approaches to offer controls in the Balancing Market for I-SEM outlined above? If a respondent does not agree with any part of a proposed approach, please specify why and provide detailed alternative.*

Short Run Marginal Costs

Certain generators will be in receipt of a capacity payment, and some may not. The capacity payment rate may clear at a value that does not allow for full recovery of long-run costs. Therefore, the binding of these rules to Short-Run Marginal Cost principles (particularly if the SEM Committee

trigger these bidding controls for a long period) may be non-sustainable. Whether short-run marginal costs are the appropriate metric should be considered in the first instance.

Interaction with DS3

We note the discussion around the commitment model within the most recent DS3 consultation paper, which required auction winners to factor in adjustments to their INC and DEC prices as appropriate relative to the value of the ancillary services won or foregone. While this auction design and commitment model are due for a re-evaluation, care must be taken with codifying any future bidding strategy within the context of DS3.

Three Part and Simple Offers

We understood from the Market Power Decision Paper (SEM-16-024) that there will be a framework put in place for both simple and complex offers. The proposals in this paper for the Options appear to deal almost exclusively with three part complex bids. Since CEWEP members are likely to be settled on the basis of simple offers in the balancing market, it renders our ability to comment on the detail of the consultation difficult.

Question 2. *Which of the options identified within this Consultation Paper would be most appropriate for the introduction of offer controls under I-SEM? If a respondent does not agree with any of options identified, please specify why and provide detailed alternative. If a respondent has a preferred option, please indicate whether any aspect of the preferred option should be amended?*

Issues with Formulaic Rules

In general, we have certain concerns around formulaic bidding principles. We believe that it will be difficult to get an appropriate formulaic set of rules that will cover all generation types, from AGUs to DSUs, to single shaft CCGT, to multiple generator unit sites, to storage and to base-load priority dispatch plant such as Waste- to-Energy which produce electricity as a by-product from the processing of waste.

While formulaic rules create an element of certainty for the market, they can fail in one of two ways:

- A generator learns how to manipulate the rules in the creation of its offer to its advantage while staying within the letter of the regulations; or
- A generator is prohibited from including a heretofore unconsidered cost / benefit into its offer, leading to issues of discrimination enshrined in the formulaic rules.

We are concerned that the uniqueness of CEWEP members' facilities from a cost-base perspective will lead to the latter scenario arising, i.e. insufficient recovery of costs arising from an inadvertent omission/oversight of allowed costs within a formula.

Alternatively, if the formula is actually complete, it results in the potential for reverse-engineering commercially sensitive information of individual CEWEP member's businesses.

Issues with Bidding Limits

Overall, as electricity is produced as the by-product of a waste management process (cogeneration), bidding limits would have to include some recognition of the processing revenues associated with the Waste-to-Energy business. Not only does this delve into commercially sensitive information for individual CEWEP members; different plant will have different temporal constraints with regard to material deviations from planned waste processing throughput.

We do not believe that bidding limits are fundamentally workable with Waste-to-Energy plant within a wider technology class including other forms of generation. It even poses problems with just CEWEP members within a “Waste-to-Energy” class due to their different underlying, commercially sensitive and bilaterally negotiated costs. We believe that either:

- a) the published bands would be too wide with too few generators within the group for the out-come regulation to have meaningful effect, or
- b) the published bands would be too narrow, leading to potential for unfair treatment of certain generators.

Bid limits calculated on an individual basis appears to be rules-based regulation of bids and offers with an allowed tolerance, and our concerns regarding the formula utilised in determining that bid-offer range above apply again. If the limits are calculated off the back of a defined formula it also increases the possibility of reverse engineering precise commercially sensitive information.

If you are regulating individual plant (or a small group of plants), we believe that the principles-based regulation is the more appropriate mechanism. However, it is important to underline our concerns regarding the proposed principles-based regulation methodology mentioned in the paper which could preclude the recovery of legitimate cost items such as variable maintenance costs, foregone revenues and heretofore unconsidered costs.

Conclusion and Recommendation

Due to the unique nature of CEWEP members’ cost base and the risk that formulae might lead to disagreement on the appropriate inclusion of costs or issues with commercial sensitivity, it is CEWEP’s preference to transpose the current principles-based regulation under the BCOP to the regulation of balancing bids and offers in the I-SEM. Furthermore, the rule and limit methodologies do not lend themselves well to the regulation of simple bids and offers, where start up and no load costs are bundled into a single INC/DEC offer.

Yours faithfully,



Jackie Keaney

President, CEWEP Ireland