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SEM Consultation on the Principles of  
Dispatch & Market Scheduling

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Gaelectric would like to take this opportunity to thank the Regulatory Authorities (RAs) for the opportunity to respond to this consultation.

The Gaelectric group of companies, founded in 2004, is engaged in the development of renewable energy projects. The Gaelectric group has interests in a large portfolio of wind projects in the planning and permitting process in Northern Ireland and the Republic of Ireland and in the USA. In addition, Gaelectric is assessing the potential for compressed-air energy storage (CAES) in Northern Ireland and at a number of sites in the USA.

We are concerned about the far-reaching implications of this consultation and see it as unnecessarily complex. We feel the issues would be better served if the RAs engaged with participants in a more in depth manner.

**Firstly we would like to set out some general observations with regards to this consultation:**

- The SEM is less than two years old and we consider the proposed modifications to be unnecessary at this time. Furthermore we are concerned at the lack of transparent discussion such as took place during SEM design.
- The proposals outlined in the consultation document are not all encompassing and many potential solutions to perceived problems appear to have been ruled out prior to the consultation process.
- Government policy in both the Republic of Ireland (RoI) and in Northern Ireland (NI) is for a significant increase in the proportion of electricity demand to be met from renewable energy sources.
- These targets imply a significant and rapid increase in the quantity of renewable generation capacity.
- This will have a significant impact on the way the market operates and on the arrangements that need to be put in place to ensure efficient market functioning.
- The RAs must design and implement an electricity market that both facilitates the achievement of the Governments targets and manages the resulting increase in generation from renewable sources, much of which is likely to be wind powered generation.
- It is vital that the RAs put in place mechanisms that provide appropriate incentives for investment not just in renewable capacity but also in the other system elements that are essential to help manage large quantities of wind generation. If not, either the Government's policies will not be met, or they will be met but at an unnecessarily high cost to consumers.
- In this regard, we note the absence of any discussion of storage solutions from the consultation paper. We are extremely concerned at this omission as energy storage has the potential to play a significant role in delivering security of supply and in reducing price volatility in a system with high renewable penetration.
- We are alarmed that this consultation is taking place without any clarity regarding the arrangements for Gate 3 support scheme. The market cannot adequately assess the implications of the proposed changes in this consultation without confirmed knowledge of the renewable support mechanism going forward.

The following are our comments on specific proposal in the consultation document:

**Proposal 1 - Provision of information by TSO and asset owners**

Greater transparency on system and network issues is welcome. We would want TSOs to outline methods for dealing with technical issues that result in constraints on renewable dispatch, as per RES Directive.

**Proposal 2 – Compliance with Grid Code**

Provide greater certainty on grid code enforcement. While such a proposal may increase cost to non-compliant units, improvements in grid stability may allow increased wind generation. We believe that the focus should be on ensuring grid compliance, which should be non-discriminatory and transparent.

**Proposal 3 – Limitation of access to the market schedule for plant situated behind export constraints.**

Option 1 is somewhat preferable on the grounds that Option 2 and Option 3 would be economically disastrous for wind farms and would be likely to delay wind farm development.

However, Option 1 has a serious implication in eliminating the difference between firm and non-firm access. Thus:

- Infra marginal rent transfer from export-constrained plant (even if it has firm access) to the previously 'constrained on' plant.
- SMP would be higher as the previously 'constrained on' plant will enter the market.

In principle we are happy with Option 1, it could allocate infra-marginal rent more efficiently. However, it is an unnecessary departure from the SEM principle of Unconstrained Schedule after less than two years.

**Proposal 4 – “No Introduction of Deemed Firm Access”**

The RAs are proposing that no Deemed Firm Access be introduced into SEM. Such a decision is likely to delay future wind plant connections. Deemed firm access can be a useful tool in providing security against the risks of infrastructure delays. The RAs should focus on ensuring that the network is developed in a timely manner and offer deemed firm access where appropriate.

**Proposal 5 – Options for Priority Dispatch**

We understand that this is under review, as SEM rules need to comply with provisions for priority dispatch in EU RES directive. The existing legal basis for priority dispatched as practiced by TSO and implemented in the SEM is not legally robust.

In the consultation the RAs ask 4 questions. Our response to these questions are as follows:

- (1) Correct interpretation is ultimately down to legal advice. From an economic perspective, qualified priority is more appropriate than absolute priority. One potential qualification could be not to displace existing renewable generation.
- (2) The consultation document presents four options for 'qualified' priority dispatch. We would advocate a combination of 2(c) in which renewables are encouraged to act as price makers

and select their own price, and for the residual price takers a variant of 2(d), in which price taking generation would be treated both in the schedule and dispatch as having a price equal to PFLOOR. Different wind farm portfolios have different strategies. Allowing them to become price makers will allow them to adopt their preferred strategy.

(3) No comment.

(4) While there may be a need to review SEM priority dispatch arrangements, the proposed changes may contravene EU law. For priority dispatch plant registered in the SEM as price takers which have significant variable costs (e.g. Peat/Biomass), the absence of a price signal in a centrally dispatched market means that they might run when SMP is below marginal cost - therefore they need to be free to self dispatch off. We believe priority dispatch plant should continue to be able to receive 'quantity certainty' (price takers) or 'price certainty' (price makers).

### **Proposal 6 – The treatment of Hybrid Plant with respect to priority dispatch**

At the moment a Hybrid Plant is not allowed to register as a price taker (must be 100% renewable). If qualified priority is adopted, it seems appropriate to take into account the Renewable proportion of hybrid plant. Hybrid plants are likely to have significant variable costs so are likely to register as Price Makers and forfeit priority dispatch rights.

#### **In conclusion we would like to make the following points:**

- The fundamental problem is that the transmission system is not built. Efforts would be best served having consultations on building transmission and delivering it rather than attempting to deal with this issue via unnecessary market modifications.
- We are very concerned that the proposals contained in the consultation document introduce a major element of uncertainty and a serious increase in regulatory risk in an already difficult financial environment.
- Qualified Priority Dispatch may contravene relevant EU law.
- We have a simple market at the moment where generators are neutral to TSO actions if firm. We consider the proposed modifications to be unnecessary and non-progressive.
- A lot of projects are financed on the basis of last on-first off between gates. The current proposals do not take cognisance of this fact and ignore the impact of changing this financing structure on existing and contracted plant.
- Some form of deemed firm access is useful. The proposals appear to dismiss this without due consideration.
- Non-firm access is also a useful construct, allowing projects to get built. Some elements of this consultation effectively make non-firm useless.
- Plants of less than 5MW should not be subjected to negative pricing.
- The consultation document gives no consideration to the impact of AER plants.
- The consultation document does not consider the need to address current inadequate/incorrect algebraic calculations for REFIT.
- No consideration is given to the integration of REFIT and SEM.

- It is impossible for the industry to deal with the proposals without knowing what is to follow REFIT. We are essentially in a vacuum considering the majority of Gate 3 projects will be in a post-REFIT scheme.
- With respect to the future of wind, the RAs should consider export markets, particularly integration with UK market. The consultation document ignores this aspect.
- To address the requirements for wind, flexibility in both generating plant and demand side must be given adequate incentives. This should include improved ancillary services payments to encourage flexible plant. The proposals do not address this important issue.
- Before continuing with any modifications to the market rules as part of this consultation, we suggest that the RAs need to consider seriously whether the existing consultations papers will allow the RAs to take a sufficiently overarching view of the system changes required to support government policy objectives and to ensure value for money for consumers.

We thank you for the opportunity to reply to this consultation and we trust you will give serious consideration to our concerns.

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