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SUBMISSION IN RESPONSE TO

Single Electricity Market

Principles of Dispatch and the Design of the Market Schedule in the Trading and Settlement Code SEM Committee Proposed Position Paper and Request for Further Comment

**2nd September 2010
SEM-10-060**

Meitheal na Gaoithe, the Irish Windfarmers Cooperative Society Ltd, established in 2000, seeks to represent the interests of the smaller independent windfarm project developer in Ireland.

Meitheal na Gaoithe welcomes the opportunity to comment on the SEM Committee's proposed position paper, and appreciated the opportunity to address the Workshop in Dundalk on this matter on Oct 12th.

Background

The context of the discussion is:

- the need to urgently address climate change and the consequent EU and Member State emission reduction targets;
- the growing insecurity and rising cost of fossil and nuclear energy supplies;
- the resulting EU and Member State targets for energy efficiency, and those within the RES Directive for penetration of renewables in all uses of energy, and the Member State support schemes for this purpose, coupled with the grid and other rules within that Directive;
- EU and regional electricity market integration, reflected in the EU third package, aimed at encouraging competition and competitive energy pricing, as successfully represented by the SEM itself.

SEM in context

SEM has to be seen as a mechanism that forms part of the implementation measures necessary to achieve the aims mentioned in the above context. Any consideration or revision of the SEM's role, design and function must be made with a view to achieving those aims.

The two jurisdictions concerned, North and South, have addressed 40% RES-E consumption targets to themselves, and would prefer to achieve those targets in the most economic fashion possible. Indeed, this is a requirement of policy in the South, set out under the Better Regulation approach, where any excess economic cost has to be justified. Given that a specific quantum of renewable generation is required to meet those targets, any approach which has the effect of raising their cost, or even reducing their real output and thus raising the quantum required to meet the target, will have to be carefully analysed and properly justified.

Furthermore, SEM needs to provide efficient market price signalling, preferably in advance, so that efficient generation and demand decisions are made by market participants, ensuring minimal energy use and maximal renewable generation.

Cost of achieving targets

As outlined previously by MnaG and other market participants, the risk to RES-E project revenue engendered by the SEM Committee's proposals, and even the effect of the uncertainty caused by the discussion itself, coupled with the opened ended questions and proposals before us, is already having an effect on these projects, so that costs are already rising.

Any implementation of a rule where output is lost and not compensated, either through the market or the support mechanisms, will raise the cost of projects, and force a revision of the supports to enable targets to be achieved. The key point is that the overall effect will be a higher cost of support and thus greater cost on the consumer to achieve the targets. It appears to us that the SEM Committee is quite oblivious to this issue, and is rather focussed on a primarily economic task of reducing costs within the SEM, ignoring the wider implications.

Supports and SEM

The support mechanisms are in place to provide certainty for projects, given that a pure market cannot do so. This enables sufficient projects to be financed efficiently, and targets to be achieved. The role of the support mechanism is this to cover off the risks not covered by the market. Any loss of output and revenue within the SEM will lead to a corresponding cost on the support mechanism, so that this cost ends up on the consumers bill one way or another.

We thus need two things:

- A support mechanism which genuinely picks up all reasonable costs incurred by projects (available output less indicated constraint during non-firm), so that the support prices are minimized, while being as efficient as possible, minimizing overall cost to the consumer for achieving the targets;
- A set of SEM rules which fully reflect the grid rules in Article 16 of the RES Directive, namely: priority/guaranteed access, priority of dispatch (which we believe also applies to scheduling) and guaranteed transmission, subject to grid stability. Such rules would maximize market revenue to renewable projects, and therefore minimize PSO costs, which tend to act as a political barrier to renewables, thus undermining the achievement of targets. Any costs falling on the market for renewable electricity not actually produced can be treated, at least in part, as reserve payments for operating on standby at reduced output, and will act to encourage the development of grid, as required by the RES Directive, designed to reduce non-dispatch, constraint and curtailment and thereby those same costs.

But we may also need to examine the tension between such an obligatory approach to managing and rewarding renewables, which will potentially create disparities between schedules and actual dispatch on the one hand, and the need for precise *ex ante* market price signals to ensure market efficiency and demand side management. Since the grid rules for renewables are EU law based, the approach adopted in the present paper is not the right one. So it may instead be necessary to consider SEM design review, in order to cope with growing low marginal cost generation (such as wind) in a manner that reflects RES-E grid rules and yet correctly addresses this tension.

Conclusions

While we have read the IWEA submission, and agree with its contents, we would like to highlight some specific issues:

1. the current SEM proposed position paper leaves too many unanswered questions, and indeed very dangerously leaves open possible fundamental changes based on future 'material harm' analysis. It is necessary for any decision paper to clearly state that any such future changes will fully reflect EU grid rules for RES-E, and thus NOT compromise RES-E revenue.
2. The RES Directive grid rules afford renewables considerable rights, which they will defend. The best approach within SEM is to structure market payments so as to compensate RES-E where their output is reduced for anything other than immediate system stability, thereby minimizing PSO costs.
3. Any costs falling on the market for renewable electricity not actually produced can be treated, at least in part, as reserve payments for operating on standby at reduced output, and will act to encourage the development of grid designed to reduce non-dispatch, constraint and curtailment and thereby those same costs.
4. While the support mechanisms are not SEM functions, their implementation as regards payments falls within the role of the RAs. Meitheal na Gaoithe is insisting that the payments under the support schemes be based on available output (except non-firm constraint, limited to the level in the constraint report up to the connection offer deep date), which we believe is an industry consensus. That will provide for the most efficient funding of RES-E projects, minimizing overall costs to the consumer.
5. We take this opportunity to repeat again our long standing position that making projects fund and pay for grid they will not own (usually 'shared assets') makes no economic sense, and raises cost to the consumer, as demonstrated by NOW Ireland to DCENR. Better Regulation policy in the South requires that the RAs justify this approach for this reason, otherwise they have to change to a 'who own pays' policy.

Thomas Cooke, Chairman