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Dear Sirs,

RES Response to “Principles of Dispatch and the Design of the Market Schedule in the Trading and Settlement Code” SEM 10-060

Introduction

RES UK and Ireland Ltd is part of the RES group of companies. RES has been developing wind projects on the island of Ireland since the early 1990s, having developed 14 operating wind farms and 1 single turbine in Northern Ireland and 4 operating wind farms in the Republic of Ireland, totalling over 241MW. RES currently owns or operates over 134MW of wind capacity across Ireland. In addition RES has a further 35MW in construction or with planning consent.

RES welcomes the publication of the current consultation paper SEM-10-060 by the SEM Committee.

RES shares the concerns of other industry members that the issues covered by the consultation are being considered in isolation from other important and interrelated topics such as Capacity Payments, Loss Allocation, Ancillary Services, Regional Integration and Demand Side Vision. This paper also does not appear to have been adequately linked to broader energy policy, in particular the Strategic Energy Framework in Northern Ireland and the National Renewable Energy Action Plan in Republic of Ireland. Both frameworks focus upon the delivery of a 40% renewable electricity target. The support systems implemented to deliver the renewable targets are external to the SEM and were designed with particular assumptions on the operation of the SEM. Changing the SEM without due consideration to the impact upon renewable support schemes may threaten the economics of investment and the ability to meet the 2020 renewable targets.

RES's main comments on this paper are:

- 1) There is a need for a broad policy pathway that recognises national and international energy and economic policy.
- 2) The development of additional transmission capacity should be incentivized.

- 3) The market rules should produce a stable regulatory framework. The introduction of the concept of potential major change if a material harm threshold is reached is very dangerous.
- 4) Access rules must be clear and meaningful, the terms on which a party accepts a connection offer should not be changed after the investment is made.
- 5) The potential diminution of support systems identified in the Facilitation of Renewables study must be addressed.

Issue 1 Alignment of MS and Dispatch

RES believes that the current market framework is functioning adequately and that any proposed change should be fully analysed and understood in the broader market and energy policy context and its benefits should be clearly set out. Differences between the Market Schedule (MS) and dispatch are a consequence of the SEM High Level Design and are not in and of themselves any reasons for regulatory change. Discussion of reform is unwarranted unless sufficient analysis has been carried out which clearly demonstrates a need for reform. We welcome the RAs intention to set out the parameters for estimating and assessing a level of 'material harm' and a calculation of the quantifiable impacts reform or no-change might have.

There are, however, broader market concerns at stake, major regulatory change creates investment risks and could undermine confidence in the market. Therefore the impact of a reduction in confidence could prove far more costly than the costs associated with infra-marginal rents being allocated to generating units that were not of value to the real-time operation of the market. The SEM Committee needs to take these broader concerns into account when making decisions on specific detailed issues.

RES believes the current framework should remain unchanged and that stronger incentives should be placed on transmission delivery.

Issue 2 Allocation of Infra Marginal Rents behind Constraints

RES is firmly opposed to all suggested options and thinks the status quo should be maintained. RES considers option 1, ignoring firm access, to be dangerous to the market, creating excessive risks for all participants. Investors require certainty when making investment decisions. Access rights to the market schedule are an important aspect over which investors require certainty. Option 1 removes access rights to the market schedule and will place excessive risks on market participants. Additionally, retrospectively changing the market rules would add huge investment and regulatory risks to the market.

Export constraints are a grid issue and options 1, 2 and 3 may remove some of the incentive for timely grid reinforcements to be made. The party with control over grid developments and the associated risks should be incentivized to efficiently manage them.

RES believes that options 1, 2 and 3 will push up consumer costs and that the current framework is the cheapest way of dealing with export constraints. Though constraint payments may be higher with the current framework, SMP should be lower because generating units will have more output available to be included in the market schedule. This will create a lower total cost of satisfying demand. RES does not see any justification for why option 1, 2 or 3 would be more beneficial for the consumer than the current framework.

Issue 3 Least cost Dispatch

While the concept of Least Cost Dispatch is very attractive it is essential that the imposition of this principle does not compromise the long term efficiency of the market or its ability to meet its legal requirements. Priority Dispatch is an absolute legal requirement under EU law and as such this must take precedence over least cost dispatch. RES is disappointed that there is no reference to this requirement in section 5.3 of the SEM committee's paper, however, we do accept that other sections of the paper have dealt with this issue in a positive fashion.

The current consultation paper proposes that no cognisance of firmness will be taken in dispatch decisions. The executive summary comments that "No convincing case to the contrary emerged in the consultation exercise". RES is very concerned at this assertion. We fully respect the obligation of the SEM committee to make decisions in accordance with their objectives and understand that there will be occasions where such decisions will vary from our preferred positions. However, we believe that the SEM committee should ensure that it is fully aware of material concerns in the formation of such decisions. This statement strongly suggests that this was not the case in regard to least cost dispatch.

The Irish Wind Energy Association (IWEA) has repeatedly stressed the importance of providing a credible investment framework in the SEM market. In both jurisdictions renewable generators have connected based on constraint information that indicated that earlier connectees would have precedence over subsequent generators. This enabled all investors to assess the financial viability or otherwise of their investments. This framework and the issuing of offers on this basis was overseen by the regulatory authorities in each jurisdiction. We believe that it is incumbent on the regulators to have regard to their previous policy in the consideration of this issue. It is RES' view that firmness and precedence must be respected in the dispatch process.

RES acknowledges that there appears to be significant challenges to implementing this proposed policy. If it is not possible to implement this position physically at this time then generators' current commercial position should be protected through the SEM and external policy mechanisms. In particular we consider that all generators should receive firm access rights at the date of their original expected date. We also consider that arrangements in the market should be made that allow generators receiving the REFIT and ROC systems to receive the envisaged levels of support from their firm access date onwards. I.e. even if transmission upgrades had not been finished by the firm access date, generators should not lose their renewable support benefits due to transmission constraints.

Issue 4 Interpreting Priority Dispatch

RES welcomes the acknowledgement of the legal status of Priority Dispatch in this paper. RES supports the SEM Committee's preferred view of an absolute notion of priority dispatch limited by a cost boundary that will not put renewable targets in danger.

Any barriers and undue costs to registration or operation as a price maker should be investigated. In particular the restrictions around appointing intermediaries should be removed. Intermediaries must have a sustainable position in the market if small and independent wind generators are to register as price makers.

Issue 6 Deemed Firm Access

Generation developers currently face 100% of the risk of delays to transmission development; this includes risks specifically within the direct control of the asset owner and/or operator. For example, the system operator may choose to re-optimize a set of reinforcements originally designed for earlier connections if they have not yet been built. It is clear that the generator has minimal powers to influence or manage these risks. RES believes that deemed firm dates should be introduced to better align risk with the party that may control it. The paper has taken a negative view of deemed firm, apparently on the basis that generators should not receive early firm status at an arbitrary future date. However, RES suggests that deemed firm dates should reflect a "reasonable" date for completion of reinforcements for a specific project. This will allow more efficient project management by developers and network companies and will assist them in prioritising works that have the most significant economic impact.

RES believes that all new and existing generators should be granted firm access from the scheduled date of completion of necessary network upgrades as envisaged at the time of connection offer acceptance. This will lower market prices as new, more efficient (and therefore cheaper) plant will have access to the market earlier. This will help achieve renewable targets, and increase the incentive for the system operator to achieve timely grid upgrades.

Issue 10 Determination of SMP when Demand met by Price Takers

The barriers to renewable generators registering as a price maker must be removed to allow renewable generators to protect themselves from negative prices should they wish to do so. However, given the current structure of support systems they may be reluctant to pursue this opportunity. This misalignment of incentives increases the costs of operating the system. In particular the following barriers should be removed:

- Variable Price Makers should be allowed to appoint an intermediary. This is a practical requirement of the REFIT support system structure.
- The overheads associated with acting as a Variable Price maker should be reviewed to ensure that the option is as accessible as possible.
- The SEM committee must pursue options that will better integrate SEM with neighbouring markets and that will facilitate action by demand users.

Issue 11 Quantity of Generation paid PFLOOR

RES agrees that the quantity of generation paid PFLOOR should not exceed system demand.

Issue 12 Treatment of Variable Price Takers in the Market Schedule

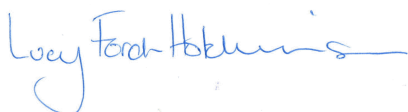
RES believes that certainty over access to the market schedule is important for investor confidence in the development of new generation capacity. RES would be supportive of the ruling if deemed firm access, or a similar alternative, is introduced to the market that provides certainty over access to the market schedule for new generation capacity.

Conclusion

RES encourages the SEM committee to allow further consultation with industry on these matters by issuing either a revised consultation or a proposed decision ahead of any final outcome. We also consider that any decision should complement work by the government departments in developing the National Renewable Energy Action Plans and the Strategic Energy Framework in Northern Ireland.

If any points made in this response require further clarification, please don't hesitate to contact RES.

Yours sincerely,



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