Response to SEM-11-048

Incentivisation of All-island Dispatch Balancing Costs Consultation Paper

on behalf of

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Queries to

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Introduction

AES Ballylumford Limited and AES Kilroot Power Limited (collectively "AES") welcome the opportunity to respond to the Single Electricity Market Committee's ("SEMC's") "Incentivisation of All-island Dispatch Balancing Costs Consultation Paper ("the Consultation Paper").

AES supports the principle of Dispatch Balancing Cost ("DBC") incentivisation. The Transmission System Operators ("TSOs") play a crucial role in the smooth and efficient operation of the SEM and their operations can have significant cost implications for consumers. The application of financial incentives should encourage the TSOs to consider investment in systems and resources and look for innovative ways to reduce costs and help ensure that TSO actions are efficient provided an appropriate risk/reward balance is struck. Given the structure of the Single Electricity Market ("SEM") AES agrees that any incentive mechanism should be applied on an all-island basis.

As the Consultation Paper points out DBC are almost entirely made up of constraint costs. At the 28th July 2011 year-to-date constraint costs for 2010/11 were €132m (almost 6% of the value of the SEM) and yet there is very little information published regarding the nature of the constraints and none published regarding their relative costs. AES strongly believes that constraint costs should be broken down by category and location and published on a monthly basis with a detailed explanatory commentary whether or not an incentive mechanism is introduced. This will assist in the scrutiny of the origin and duration of constraints and highlight the constraint locations/conditions which should be alleviated as a priority. The current magnitude of constraint costs does however mean that consumers are likely to benefit significantly from the introduction of an incentive mechanism and that this should be done at the earliest opportunity.

AES recognises that the make-up of constraint costs is complex and that as the TSOs are not the transmission asset owners and do not maintain the transmission assets they have limited ability to alleviate constrains through system reinforcement or maintenance management. AES also recognises that constraints can result from both planned and unplanned outage work on both the transmission system and generation plant over which the TSOs have limited or no control. However as the Consultation Paper notes complementary incentives can be used to reduce those costs which fall under joint responsibility.

Potential Incentive Design

It is important that any incentive methodology is open, transparent and robust with an appropriate balance of risk and reward. It must also be based on elements that the TSO can control and influence within the incentive timescale.

The Consultation Paper suggests that the Regulatory Authorities ("RAs") could introduce an incentivise for constraint costs similar to that employed for National Grid. It also suggests introducing an incentive for the forecasting of both demand and wind generation on the basis of the format set out in section 12.4 of the SONI Price Control 2010-15 Consultation Paper. While AES would welcome the introduction these incentive mechanisms from 1 October 2011 AES does not know whether this is realistic as the mechanism will need to be set out in detail and subject to consultation. AES would also suggest that the RAs consider introducing a complementary incentive for the transmission asset owner.

AES agrees with the principle that the ex-post review should take into account any external factors which materially influenced the DBC outturn however it is essential that the adjustment mechanism is robust and transparent. Since National Grid has been subject to incentive mechanisms for a number of years and that these were recently reviewed by Ofgem it would seem sensible to consider the learning points from this process in the establishment of any TSO incentive mechanism for the SEM.

AES welcomes the SEM Committee proposal that the TSOs develop a report which provides a regular update on the levels of constraints, drivers behind constraints, mitigating measures being taken and other relevant information. AES believes this should be implemented immediately as it is independent of the introduction of any incentive mechanism and that it should be produced monthly rather than quarterly.

AES notes that the Consultation Paper does not extend to the incentivisation of all-island ancillary services. AES strongly believes that robust, predictable ancillary service payments need to be introduced in order to support the increasing levels of intermittent generation in the SEM and that the efficient procurement of appropriate ancillary services should result in a reduction in constraint costs. AES would therefore urge the SEM Committee to consider the matter of ancillary service procurement and incentivisation as a matter of urgency.