

**IWEA Response to the Joint Regulatory Authority Consultation on the Incentivisation of All-Island
Dispatch Balancing Costs**

July 29, 2011

IWEA welcomes the opportunity to respond to this consultation on the Incentivisation of All-Island Dispatch Balancing Costs.

IWEA notes the significant increase in constraint costs and the resulting increase in dispatch balancing costs in the coming tariff year. We are concerned at the increasing trends in these costs and believe that it is essential that measures to mitigate these increases are taken.

IWEA believes it is essential that a robust incentivisation programme is introduced to promote more aggressive management of dispatch balancing costs.

We believe that there should be increased focus on measures that would systemically reduce these costs. Particular areas of focus should include:

- the encouragement of increased flexibility from generators, e.g. through ancillary services;
- faster development of grid infrastructure; and
- increased usage of demand side measures.

As progress in these areas has the potential to substantially reduce balancing costs we believe that this should be recognized in the regulatory assessment of proposed developments. It must be ensured that the SOs are incentivised to minimise constraint and not just to provide accurate forecasts.

IWEA notes that the curtailment of wind which has firm access contributes to DBC. IWEA proposes that an incentive mechanism is introduced to minimise the levels of wind that are dispatched down, particularly in light of the priority dispatch status of wind. This could also be linked to the values that are in the PGOR reports, with incentives in place to predict the values in these reports accurately.

It is important that the TSOs are not incentivised to take any perverse action as a result of the incentive mechanism. For example by constraining down non-firm wind generation ahead of firm, they could save on constraint costs (since non-firm is not compensated). The incentive mechanism shouldn't be designed so that there is a transfer of the DBC from the TSOs to market participants (through new charges, penalties, or changes in rules or operating principles etc.).

The consultation paper proposes a number of areas where incentivisation may be possible. It notes that the Northern Ireland Utility Regulator's consultation paper on SONI Costs 2010-2015 points out the possibility of an incentive around accurate forecasting of both demand and wind generation. IWEA supports this proposal and believes that this should be considered on an all-island basis.

IWEA also notes that the TSOs, working with the TAOs and Generators in their jurisdictions, can establish measures to effectively manage outages both planned and unplanned, therefore improving transmission system availability, which in turn effects Constraint costs outturn. This is another area that should be incentivised.

IWEA welcomes the comment that any DBC incentive mechanism must be administered by both RAs and across both TSOs to be effective and non-discriminatory. It cannot be introduced in one jurisdiction and not in the other, without being to a certain degree discriminatory.

IWEA also welcomes the introduction of reporting on constraints in order to increase transparency around DBC. We welcome the SEM Committee proposal that the TSOs develop a report template for submission to the SEM Committee, which outlines a regular update on levels of constraints, drivers behind constraints, mitigating measures being taken and other information or commentary which the TSOs believe will aid transparency in this area. Following approval of this report template by the SEM Committee, the TSOs would be required to publish the report on a quarterly basis on their websites.