



Gaelectric Energy Storage Ltd.

Reply to Proposed Decision:

**Implementation of the European Target Model for the
Single Electricity Market**

Next Steps Proposed Decision Paper

SEM-12-105a

Strictly Private and Confidential

1 Summary

Gaelectric Energy Storage (GES) welcomes the opportunity to respond to the European Target Model proposed decision. As an organisation developing grid scale energy storage assets, we are mindful of the future needs of the Irish system, and are committed to engaging and contributing to the process.

2 Response to Proposed Decision Paper

Gaelectric Energy Storage welcomes the review of the consultation process to date by the SEMC committee. It is our opinion that the initial consultation was attempting to progress in a vacuum with respect to a structure for the wider European programme, this was a strange approach given the level of industry engagement that preceded the High Level Design for SEM. We commend the high level approach of the SEMC in coming to this decision, and learning from the responses to date.

We would however make the point that the responses of consultees in the previous consultation were made based upon the information available to them, which was minimal. It is clear that in this process, those thoughts will be refined as more information is presented. In this regard we would encourage the SEMC to ensure that a structure is in place which allows consultees to build upon their initial concerns, and base future decisions on this clarified position. It is not advisable to use the responses from an inadequate consultation to build the foundations of a new market.

The following sections of this response comment on areas of concern/interest to Gaelectric Energy Storage. Given that the market designs are not in question currently; this response does not focus on the market itself, but rather the process moving forward.

2.1 Market Integration Project and the Performance of the SEM to Date

GES welcome the SEMC acknowledgment that a 'bottom-up' approach is unsuited to efficiently meeting the objectives of the EU Target Model, and we are encouraged that the decision has been made to approach the market design from a 'top-down' approach. Furthermore the order of re-design seems to be a prudent approach.

The proposed decision mentions the inclusive manner in which it is intended that the project will continue to develop. GES request that the SEMC step out how they intend to ensure the project is to be carried out in an inclusive manner.

At the earliest stage, we request that a project timeline consisting of high level dates for further consultations, workshops, and bilateral meetings is published. Furthermore the detail of the input of the market outside of these public forums should be examined. Are the SEMC proposing to set up a Rules Liaison Group in a similar vein to SEM Design? It is possible that this would mitigate what is perceived as a gap between the processing of consultation responses and the resulting decision that is made. Such an approach will also go some way to alleviating concerns in the market that parties such as the TSO are not afforded more weight in the decision making process than a generator,

demand side customer, supplier or developer. In addition, a more open and transparent process with High Level Design Principles agreed at an early stage will help alleviate investment concern in the period between now and “go live” for the Target Model.

2.1 High Level Objectives and Assessment Framework

GES agree in principle with the nine criteria for the SEM re-design. Whilst the physical characteristics of the Irish grid have evolved significantly since the SEM was established, the criteria remain relevant.

GES would hope that the future market arrangements will account for both the future developments in the characteristics of the electricity system and also consider technological advances which may not be suited to existing structure. Working towards a highly adaptive market (as per criteria number 8) is therefore imperative to ensuring an equitable, efficient, stable and competitive market in the future.

The current market is particularly complex and does not necessarily lend itself well to adaption for new entrants or new technology. We do however believe that the Network Codes and Framework Guidelines provide ample grounds for an adaptive market to be developed.

2.3 European Target Model

Whilst we welcome the new approach of the SEMC in this process, the status of the project a year after its inception in Ireland has led to investor uncertainty about the ability to reach a target date in 2016 and the degree to which that target meets the requirements of the EU Target model.

This has been further complicated by the following statement:

“In that regard the SEM Committee is also committed to maintaining the current design of the SEM until that point and will not approve material market changes between now and then”

Whilst to some, this statement might inspire confidence and certainty, a developer in the Irish market such as GES who is currently formally engaged in the Code Modification Process believe that the statement breeds uncertainty as to the continued development of the current market in advance of 2016. At best this statement leads to unhelpful confusion, particularly given that it is written under the heading of *Certainty and the European Target Model*. Our understanding of this statement is to say that the SEM *will not move to the EU Target Model until the required date*, in order to ensure that investor confidence can be maintained.

At a recent modifications committee meeting (Meeting 46), SEMO presented the expected deal going forward with ABB/Brady for vendor services in CMS updates over the next 3 years, which features a 50% reduction in hours. At this meeting, the chair discussed the effect of a potential moratorium on development of the SEM, given the statement quoted previous.

This begins a worrying trend for a company like GES, particularly at the stage of development we find ourselves for Compressed Air Energy Storage and Mod_11_12.

In the interest of promoting certainty, GES request that a clarified statement is made in the final decision paper which is not open to interpretation, and is unequivocal in its support for the on-going development of the SEM in the intervening period before the EU Target Model is adopted. This we believe is in line with the SEMC statutory objectives, and in particular;

“To secure that authorised persons are able to finance their activities”.

As a registered party to the SEM, we consider ourselves authorised persons, and expect that we should not be hindered by regulatory change in the ability to finance our activities.

In short, GES require confirmation that we will be afforded the opportunity to continue the development of Mod_11_12 to a stage which is suitable to, and provides comfort to the Regulatory Authorities, System Operators and Gaelectric Energy Storage regarding its position in the T&SC.

Separate to the discussion on the continued development of the SEM, there is the issue of the working assumptions of when the SEM might move to the EU Target Model. At the most recent information session, held in Belfast on the 27th November, it was suggested by the Director of the Utility Regulator of Northern Ireland that the SEM could move to the Target Model in advance of the stated deadline. GES would support such a development but would request clarification on the plan in this regard, and how far in advance of the deadline is it envisaged that this could potentially happen.

3.3 Capacity Payments

Although the Target model neither requires nor prohibits capacity payments markets, nationally designed capacity markets have come under an intense spotlight as of late. In the EC communication on internal markets the following statements were made in relation to capacity markets;

“the Commission is of the view that if capacity mechanisms are not well designed and/or are introduced prematurely or without proper co-ordination at EU level, they risk being counterproductive”

“If they do not distinguish base load from peak load, they may not attract sufficiently flexible generation capacity. Capacity mechanisms distort the EU-wide price signal and are also likely to favour fossil fuel generation sources over more variable renewable sources and may therefore run counter to EU decarbonisation and resource efficiency objectives.”

“The Commission considers that capacity mechanisms are likely to be subject to EU internal market rules, including State aid control and Directive 2009/72/EC”

It is our understanding that any proposed capacity payment mechanism must be reviewed by relevant authorities in Europe to ensure it is satisfactory and in line with the requirements of the Target Model. This is currently the case with the proposed Capacity Market in the UK as presented by DECC in an information session regarding EMR on December 7th. We understand the SEM Capacity Market will require a review also before adopting the Target Model.

GES asks that the next paper published outlines how the SEMC intend to approach the area of capacity payments on a national level with the EC. As part of this, the programme for any review should be published in any forthcoming detailed timeline for the project.

3 Response to TSO Dispatch Model Paper

The studies undertaken in the TSO dispatch paper regarding the calculation of intervention as a percentage of demand, whilst interesting, are not necessarily a barometer for comparison between self-dispatch and central dispatch market mechanisms.

The level of intervention in the market currently is as a result of the constraints occurring post Market Schedule Quantities. In a self-dispatch market, the market schedule quantity would no longer exist, albeit positions would be firmed up in advance of real time. It is of little doubt that the level of intervention would likely be high in a self-dispatch market, particularly when wind is accounted for in the calculation as an intermittent generator. This would be an important aspect to calculate for future years (perhaps 2020) with a higher capacity of wind on the system. Nevertheless, it is questionable if the study used to portray this is adequate to indicate the potential level of intervention in a self-dispatch market.

The GB data presented in its simplest form points to a more efficient market using the same methodology as that used to examine the SEM. We do however note that the BETTA system is also not directly comparable to the SEM and it is difficult to draw conclusions from this analysis.

Following on from the presentation of this study, the question as to whether a self-dispatch market with balancing contracts would be more efficient than the current mechanisms arises. It is concluded that the TSOs do not believe this to be the case, however there is no further analysis or data to back this up.

Furthermore, the cost efficiency of the current market has been brought about by the market structure of allowing plants simply to receive their Short Run Marginal Costs, upon which the Capacity Payment Mechanism is introduced to “prop-up” generators to recover long term costs. It can be argued that this has devalued flexibility within the market, and as such DS3 has been introduced to alleviate these concerns.

Given the potential future changes with regard to bidding practices of plant, it is possible that the current cost efficiency may no longer be captured in a centrally dispatched market.

Aside from this, the cost of balancing contracts is dependent upon the structure in place. It is not necessarily a more cost intensive solution, as the intervention required can be procured long term through the DS3 programme (or indeed forward contracts) and therefore would allow for a retaining of pay as bid constraint payments as a utilisation payment on top of availability rates. Outside of an average requirement for particular services, further intervention could be procured from the energy market on an ad hoc basis for unusual events.

GES would like to take the opportunity to thank the SEMC for the opportunity to respond to this proposed decision, and look forward to engaging proactively and constructively in future consultations for the EU Target Model.

We are happy to discuss the content of this paper at any point, see contact details below.

Thank you for your time.

Sincerely,
On behalf of Gaelectric Energy Storage.

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