

IWEA comments on the Proposed Next Steps for European Market Integration

21st December 2012

Introduction

IWEA welcomes the opportunity to comment on the proposed next steps for the implementation of the European Target Model. While there had been considerable engagement with stakeholders at the beginning of the process, we have concerns that there has been limited communication on work in progress and developments in thinking in the months leading up to this consultation paper, on the direction that was being taken with respect to Market Integration. We recognise that some of these delays may relate to sign-off processes amongst the governance group but we would like to highlight that it is imperative going forward with the High Level Design phase, that a process which is inclusive of all market participants is followed in reaching decisions and that the process is clear and transparent. IWEA looks forward to contributing constructively to this process as it develops.

Comments on Proposed Decision Paper

High Level Principles

IWEA welcomes the publication of the High Level Principles for the Market and the inclusion of the additional requirement that the market design should efficiently implement the European Electricity Target Model and ensure efficient cross border trade. IWEA also welcomes the proposal that the selected wholesale market design should promote renewable energy sources and facilitate government targets for renewables under the Environmental Principle, however IWEA also wishes to emphasise that renewable energy will also help contribute to a number of the other principles including security of supply, cost and competition and that this should be recognised.

Implementation

IWEA welcomes that the European Target Model will be implemented in the SEM by 31 December 2016 in a coherent and stable manner, in particular the commitment to maintaining SEM design stability to 2016 and to carrying out an impact assessment of the redesigned SEM are positive proposals. IWEA also agrees that the high level market design of the SEM must accommodate the five pillars of the Target Model by 2016 as outlined in the Proposed Decision Paper. In line with the stated intention of the SEM Committee, simultaneous compliance with Target Model requirements must occur in a manner that most efficiently protects the long and short term interests of electricity consumers which requires local market needs to be taken into account when deciding on final design attributes.

Market Design

IWEA welcomes the move to a coherent top-down approach for market design rather than focusing on the “evolutionary options”. IWEA believes that a top-down approach is the most appropriate to ensure more efficient market integration. Interaction with neighbouring markets in the implementation is also welcome to ensure that changes to either market can be implemented efficiently. It is also essential that any new market design enables access to the market for all potential participants and the provision of guaranteed market liquidity. In this respect the continuation of market power mitigation measures is appropriate. Any new market should ensure ease of access for independent and unsupported renewable projects and minimise potential barriers to entry.

Central Dispatch

In our submission to the previous consultation IWEA noted:

“The regulatory authorities have not made it sufficiently clear whether self-dispatch, in all or some elements of the market, is considered an explicit requirement of the Target Model. Similarly it is unclear to what extent a market that fully retains central dispatch can comply efficiently with the Target Model. IWEA believes that the consultation process would benefit greatly if the regulatory authorities brought clarity to this specific issue.”

IWEA welcomes the provision of additional information in relation to this as part of this proposed decision and acknowledges the conclusion from the TSO and Easter Bay Consultancy that:

- *Such a change (to self dispatch) is not required for compliance with the Target Model.*

This information is welcome as it provides the clarity that both central dispatch and self dispatch markets can comply with the Target Model and there is no explicit reason that either should be ruled out on the basis of compliance. This is helpful given the importance, as further re-iterated below, of not pre-empting detailed market design in advance of the market design project itself.

Further clarification will also be required on what exactly is meant by the working assumption of central dispatch, whether it includes central scheduling and commitment as well as dispatch, and at which timeframes this will apply.

Renewables

Imbalance Settlement

IWEA welcomes the recognition of the difficulties of how to manage the treatment of an exposure of wind generators to imbalances between firm day ahead and intraday physical positions and metered generation. Further consideration will need to be given to this issue and IWEA welcomes the intention to consult further on this in the next phase of the process.

Priority Dispatch

IWEA welcomes the SEM Committee's decision to adhere to an "absolute" interpretation of priority dispatch whereby economic factors are taken into account only in exceptional situations and only where this can be done in a manner that does not threaten the delivery of renewables targets, and that this decision will also apply in a re-designed SEM. This is in line with the meaning and intent of the Renewables Directive and should be a primary principle of any new market design. IWEA believes it is appropriate that this principle should be included as a high level principle of the market design. The next phase of detailed design should explicitly outline how priority dispatch for renewable generation will be facilitated.

Curtailement

IWEA notes the statement in the Proposed Decision paper that "The SEM Committee has decided that that its decision on the Treatment of Curtailement in Tie Break Situations will also apply in a re-designed SEM and this will be taken into account in its decision." In our response to that consultation IWEA noted that it is inappropriate to decide on one element of the redesign of the EU Target Model in advance of the market design project itself and in the absence of any holistic analysis required. IWEA believes that the proposal to remove compensation for curtailement as has been put forward is a detailed design issue and should be considered along with the other components of detailed design which will be considered after the HLD stage.

It is also important to note that it is too early at this stage to know what levels of curtailement are to be expected under the new market rules. It is essential that this market integration process is carried out in such a way that reduction of curtailement is promoted and incentivised. Deciding to remove compensation for curtailed wind permanently at this stage is premature and potentially limits the SEM Committee's legislative duty to promote renewable energy and the scope to meet this objective with the new market design. The decision on the treatment of curtailement in the new market design should be addressed as part of the design process.

Promotion of Renewables

IWEA welcomes the SEM Committee's Decision that changes to the SEM High Level Design should promote the use of energy from renewable energy sources. With regard to the promotion of renewables "where appropriate" IWEA would gratefully welcome clarity on what the SEM Committee deems appropriate and not appropriate by virtue of the requirement to comply with Target Model obligations. At the information workshop in Belfast as part of this consultation process, it was noted that there would be *no situation* outside of legislation where it would *not* be appropriate to promote renewable power. More clarity around this statement and its potential impact on renewable generators would be helpful and IWEA requests that the wording "where appropriate" be removed as this leads to uncertainty.

Capacity Payments

IWEA welcomes the acknowledgement by the SEM Committee that capacity payment mechanisms are an important feature of the market and that the total remuneration from energy payments, capacity payments and ancillary services should be sufficient to ensure security of supply. It is accepted that the capacity payments mechanism will need to avoid distortions in the internal market and comply with relevant EU rules. Consideration must be given to existing generation investments while balancing security of supply objectives with the need to take full advantage of the potential of renewables. In particular it is important that the capacity payment mechanism provides correct price signals which facilitate wind exports.

Governance and Project Management

IWEA welcomes the recommendations for the establishment of and remit of the following governance and project arrangements:

- A DCENR – DETI Sub Committee of the Joint Steering Group
- A UK-Ireland Steering Committee on European Market Integration
- A Regulatory Authority Project Office for the implementation of the European Target Model.
- Joint Regulatory Arrangements with OFGEM
- A Stakeholder Forum on the European Internal Market

In particular IWEA welcomes the formation of a Stakeholder Forum on the European Internal Market and requests IWEA involvement in such a forum going forward. It is very useful for stakeholders to be informed of changes coming from the EU and to have an opportunity to share our views on proposals to the RAs (in case of Framework Guidelines for example), TSOs (in case of Network Codes) and Government Departments, who can take these into account in their negotiations at European Level. Our energy markets must serve the needs of all participants and we feel that such a forum gives participants a platform to meaningfully contribute to policy making.

However, we do consider that one important element is unclear, in that there is no explicit mention of a Market Integration Forum that addresses issues relating to the implementation of the Target Model in the SEM. We propose that for the life of this project that the Project Office would organize this forum with stakeholders regularly (at least monthly) and would discuss:

- Sharing of information on the development and progress of the project
- Discussion of constituent issues that feed into decisions on the SEM market design
- Sharing of expertise between all participants
- Sharing of views on proposals.

We consider that such a forum would facilitate regular and open communication between participants at an early stage. We believe that although formal consultations are necessary and useful, that they are more rigid than the forum we propose and only allow participants to contribute once questions have been formulated and ideas developed. We sincerely believe that such a process would be of benefit to

all concerned. IWEA believes that the RAs, TSOs and the Departments should all participate in the Market Integration Forum. IWEA is keen to be involved in both the SEM Market Integration Forum and the Stakeholder Forum on the European Internal Market.

It is essential that there is open and transparent stakeholder engagement for the duration of the process and that there are meaningful opportunities for stakeholders to engage in the process.

Timetable

IWEA welcomes the inclusion of the Proposed Timetable for Implementation in Annex 2 and supports the progression of the project into the HLD phase in Quarter 1 2013 in light of stringent European timelines. Some of the timelines in this are a bit unclear, and we would welcome an updated timeline as part of the final decision paper, detailing the most up-to-date project plan. The timelines on the High Level Design consultation and review period appear to be quite short considering the importance of this workstream and the consideration that will need to be given to the impacts for market participants. We are cognisant that a balance will have to be struck between allowing for timely consultations while sticking within the tight deadlines of the overall project. This is why we believe that an inclusive stakeholder forum, with stakeholder engagement in advance of formal consultations should be an important feature of the project process.

Process to date

There has been some concern raised in relation to the process being followed of late. There is also concern that the engagement with stakeholders in recent months was not as optimum as it could have been. IWEA understands however that the RAs have been engaging with numerous parties in an effort to get to this stage of the process since the January 2012 consultation closed last April, however it is essential that going forward in the next phase there is more active and meaningful communication and engagement with market participants as to the progress of this project.

Recommendations

As outlined in our submission to the previous Market Integration consultation in April, IWEA would like to reiterate the point that, given the significant and vital role that renewables will play in the future of the all-island electricity system, it is important that careful recognition is given to the nature of renewable energy assets as part of any market redesign process. While IWEA welcomes the move to a top-down approach of market development, we would like to take this opportunity to reiterate some key issues in this regard for consideration in the next stages of market development:

- **Imbalance Pricing** – IWEA believes that any attempt to reintroduce penal imbalance pricing as part of this redesign process would be significantly detrimental for the renewable sector and an unnecessary step for the market as a whole.

- **Efficient Market Signals for Import and Export** – Any new market design should enable the efficient import and export of electricity in a manner that will reduce the overall level of renewable generation curtailed.
- **Reference Price** - Any redesigned market must provide a clear market reference price which renewables generation can access in a systematic way and which can be referenced by support schemes such as REFIT.
- **Priority Dispatch** - Any suggested market redesign options should explicitly outline how priority dispatch for renewable generation will be facilitated. Additionally, any new market should ensure ease of access for independent and unsupported renewable projects.

It is essential that the market integration project is progressed in a fair, transparent and inclusive manner. The transparency of costs and operational procedures is a crucial element of the new market design. While the current SEM design provides transparency around the cost of energy there is less transparency around the cost of constraints. It is essential that a new market design provides this additional transparency. The market design process should also take cognisance of the upcoming changes to the support scheme in Northern Ireland, with the proposals to replace ROCs with CfDs.

Conclusion

It is essential that the market integration project is carried out in a fair, inclusive and transparent manner. IWEA welcomes this opportunity to comment on the proposed decision for the next steps of the implementation of the European Target Model. IWEA looks forward to continuing to engage fully and constructively with this process as it develops.