



Integrated Single Electricity Market (I-SEM)

**High Level Design for Ireland and Northern
Ireland from 2016**

**Consultation Response
from the
Irish Bioenergy Association (IrBEA)**

3rd April 2014

Table Contents

1	Purpose of this document.....	3
2	Consultation Questions.....	4

1 PURPOSE OF THIS DOCUMENT

1.1 PURPOSE AND STRUCTURE OF THIS DOCUMENT

- 1.1.1 This supplementary document provides a template for responses to the consultation document on implementing a new High Level Design ('HLD') for the Integrated Single Electricity Market (I-SEM) in Ireland by the end of 2016. We request all responses to the consultation are submitted in this template, and in **Microsoft Word** format.
- 1.1.2 This template contains the questions presented in the consultation document.
- 1.1.3 Responses to the Consultation Paper are requested by 17.00 4th April 2014. Following a review of the responses to this paper the SEM Committee will publish its draft decision on the proposals set out in this paper in June 2014.
- 1.1.4 Responses should be sent to Jean-Pierre Miura (JeanPierre.Miura@uregni.gov.uk) and Philip Newsome (pnewsome@cer.ie). Please note that the SEM Committee intends to publish all responses unless marked confidential¹.

Jean-Pierre Miura
Utility Regulator
Queens House
14 Queen Street
Belfast
BT1 6ED

Philip Newsome
Commission for Energy Regulation
The Exchange
Belgard Square North
Tallaght
Dublin 24

¹ While the SEM Committee does not intend to publish responses marked confidential please note that both Regulatory Authorities are subject to Freedom of Information legislation.

2 CONSULTATION QUESTIONS

2.1 RESPONDENT DETAILS

COMPANY	Irish Bioenergy Association (IrBEA Ltd)
CONTACT DETAILS	<p>Fred Tottenham President Irish Bioenergy Association Enterprise House O'Brien Road Carlow Ireland Email: fred.totts@gmail.com Web: www.irbea.ie</p>
MAIN INTEREST IN CONSULTATION	<p>IrBEA was founded in May 1999. Its role is to promote the bioenergy industry and to develop this important sector on the Island of Ireland. The organisation is a self-governing association of voluntary members and is affiliated to AEBIOM, the European Biomass Association.</p> <p>IrBEA is a not-for-profit company limited by member guarantee. IrBEA is funded from member contributions with other income established from services and consultancy.</p> <p>Many of our members are either operating or developing smaller scale renewable power projects either using biogas or solid biomass as a fuel. The largest solid biomass CHP plant currently operational is 3MW, and a biogas CHP plant is typically under 1 MW.</p> <p>We do also have members with large co-firing plant and larger scale biomass CHP projects in development.</p> <p>Our interests are very much aligned with the i-SEM committee – trying to establish a fair SEM HLD to accommodate smaller scale independent generators as well as continuing to allow a cost-effective and secure electricity trading system for all participants.</p>

2.2 GENERAL COMMENTS

Independent renewable energy generation is fundamental to the future development of the power system on the island of Ireland. We will be central both to the de-carbonization of the sector and to ensuring that there is a genuine and thriving competitive element in the market, as a counter-weight to the large portfolio generators.

The design of the I-SEM will determine whether current and future independent generators, will be able to participate. We are deeply concerned that several of the options under consideration would place independent renewable generators in particular, at a significant competitive disadvantage.

As presented in the Consultation Document, Option 4 is the preferred HLD choice, with further enhancements.

The Consultation Document is very frank that Option 1 has several features which “... advantage portfolio generators...” The fact that Option 1 is being considered when it is so openly acknowledged to tilt the playing field against independent generators is worrying.

Option 2 would operate in practice in a very similar way to Option 1. It would be in the portfolio generators’ interest to minimize the volume settled in the ex-post imbalance process.

Option 3 has all the disadvantages of Option 1 and independent generators would be forced to trade in a day-ahead market at a time which will only add risk. Many of our members have neither the skills nor resources to manage this trading risk.

Option 4 is the only option which offers independent renewable generators a level playing field. We support the development of a full suite of forward and future markets, and would support ‘market maker’ obligations on portfolio generators to ensure a minimum volume of trading in those markets. It is essential, however, that these are underpinned by an ex-post imbalance mechanism which reflects the full underlying power system.

2.3 PURPOSE OF THE DOCUMENT (SECTION 1)

Question	Answer
1. Which option for energy trading arrangements would be your preferred choice for the I-SEM market, and why?	<p>The Irish Bioenergy Association preference is for Option 4.</p> <p>Most of our members would not be easily able to participate in multiple forward, day ahead and other markets. We do not have the skills, resources or capacity to do so.</p> <p>We need to know that the market price will be a true and accurate reflection of the value on the island’s system of the energy we generate. We do not wish to see it based on anything other than the full and accurate physical and costs characteristics of the system.</p> <p>There is too much risk for small renewable energy plant if it is subject</p>

	<p>to the vagaries of the risk management strategies of the portfolio generators (or even gaming), or subject to dumping of cheap power from the UK. The effect would be to deter entry, drive existing independent generators off the system – and so lessen competitive pressure in the market to the long term detriment of all consumers.</p> <p>Option 4 is the option that would provide an ex-post imbalance price in which we could trust, as it would be based on a full system schedule of <u>all</u> generation units on the system. It would be a fully transparent, fully liquid market on which all participants can depend equally.</p> <p>We would support the introduction of ‘market maker’ obligations on portfolio generators to ensure that such markets are established and primed with a minimum volume from those generators.</p>
<p>2. Is there a requirement for a CRM in the revised HLD, and why?</p>	
<p>3. If there is a requirement for a CRM in the revised HLD, what form would be your preferred choice for the I-SEM, and why?</p>	

2.4 TOPICS FOR THE HIGH LEVEL DESIGN OF ENERGY TRADING ARRANGEMENTS (SECTION 4)

Question	Answer
<p>4. Are these the most important topics to consider in the description of the HLD for the revised energy trading</p>	<p>Yes. The topics covered in the Consultation Document appear to us to be a good and comprehensive list of high-level design issues.</p>

arrangements for the single electricity market on the island of Ireland?	
5. Are there other aspects of the European Internal Electricity Market that should form part of the process of the High Level Design of energy trading arrangements in the I-SEM?	

2.5 SUMMARY OF THE OPTIONS FOR ENERGY TRADING ARRANGEMENTS (SECTION 5)

Question	Answer
6. What evidence can you provide for the assessment of the HLD options with respect to security of supply, efficiency, and adaptability?	<p>Issue of supply security and efficiency are, in our view, of crucial importance in the design of the I-SEM, along with the need to de-carbonise the sector.</p> <p>The Consultation Document takes too narrow a view of both supply security and efficiency, by focussing primarily on short term despatch. We will only have a secure and low cost system in the longer term if we establish the conditions for a highly competitive market, in which all participants can compete on a level playing field. We are concerned that some of the options under consideration will significantly advantage large portfolio generators. We need a robust independent generation sector.</p>

2.6 ADAPTED DECENTRALISED MARKET (SECTION 6)

Question	Answer
7. Are there any changes you would suggest to make the Adapted Decentralised Market more effective for the I-SEM (for instance, a different choice for one or more of the topics or a different topic altogether)?	<p>Option 1 advantages portfolio generators over small generators. This is acknowledged in the Consultation Document on several occasions. Option 1 could only be pursued if imbalance settlement were done on the basis of a mandatory ex-post pool to ensure that independent renewable generators were fairly remunerated.</p> <p>In Option 1 there is no single fully liquid market to 'anchor' the system – i.e. produce a reliable, full-value, price to which all other prices in the market would be driven.</p>
8. Do you agree with	We believe that the assessment paints much too positive a picture of

<p>the qualitative assessment of the Adapted Decentralised Market against the HLD criteria? If not, what changes to the assessment would you suggest (including the relative strengths and weaknesses of an option)?</p>	<p>this option 1.</p>
<p>9. How does the Adapted Decentralised Market measure against the SEM Committee’s primary duty to protect the long and short term interests of consumers on the island of Ireland?</p>	<p>Option 1 is fundamentally at odds with these primary duties.</p> <p>The Consultation Document is explicit in several places that Option 1 would favour portfolio generators. Only portfolio generators:</p> <ul style="list-style-type: none"> • Have the resources and capabilities to trade in multiple markets • Can submit portfolio (gross or net) bids and internalise the risks of doing so within their portfolio of plant <p>The effect of giving portfolio generators such an advantage can only be to increase the risks and hence cost of capital of small generators and drive them from the market. As a result, competitive pressure will weaken, costs and prices will rise and the interests of the island’s consumers will be materially damaged.</p>

2.7 MANDATORY EX-POST POOL FOR NET VOLUMES (SECTION 7)

Question	Answer
<p>10. Are there any changes you would suggest to make the Mandatory Ex-post Pool for Net Volumes more effective for the I-SEM (for instance, a different choice for one or more of the topics or a different topic altogether)?</p>	<p>Option 2 would operate very much like:</p> <ul style="list-style-type: none"> • Option 1 if generators elect to submit nominated generation volumes for the bulk of their expected generation; or • Option 4 if generators elect to submit minimal nominated volumes. In this case the ex-post pool price would be based on a fully optimised system despatch. <p>For Option 2 to be at all acceptable, a low ‘regulated limit’ would need to be imposed on trading and hence nominated volumes - so that the majority of energy would be centrally despatched and hence the ex-post price would be a good reflection of that optimal central despatch.</p>
<p>11. Do you agree with the qualitative assessment of</p>	<p>We believe that the uncertainty over how this Option would work in practice and the potential for instability in both despatch and settlement prices is correctly reflected in the assessment.</p>

<p>Mandatory Ex-post Pool for Net Volumes against the HLD criteria? If not, what changes to the assessment would you suggest (including the relative strengths and weaknesses of an option)?</p>	<p>Without a very low ‘regulated limit’, this Option would work in practice in a very similar way as Option 1. The portfolio generators would gain a competitive advantage by maximising the pre-traded and hence nominated generation volumes, leaving very little to be subject to optimal central despatch. We believe, therefore, that the assessment of this option should be the same as for Option 1, and our comments on the Option 1 assessment apply equally here.</p>
<p>12. How does the Mandatory Ex-post Pool for Net Volumes measure against the SEM Committee’s primary duty to protect the long and short term interests of consumers on the island of Ireland?</p>	<p>Option 2 can only be a viable option if a very low ‘regulated limit’ is placed on the volume of pre-traded, pre-nominated energy that is not subject to optimal central despatch.</p>

2.8 MANDATORY CENTRALISED MARKET (SECTION 8)

Question	Answer
<p>13. Are there any changes you would suggest to make the Mandatory Centralised Market more effective for the I-SEM (for instance, a different choice for one or more of the topics or a different topic altogether)?</p>	<p>We have the following concerns about Option 3:</p> <ul style="list-style-type: none"> • Risk: mandating day ahead trading would oblige independent generators to trade in a market which would expose us to additional, unnecessary, risk. As a minimum, small generators would have to be exempted from mandatory participation. • Practicality: Many of our members do not have the resources or skills to trade every day in a day-ahead market. Small generators (of all types) would need to be exempted from mandatory participation.
<p>14. Do you agree with the qualitative assessment of Mandatory Centralised Market against the HLD criteria? If not, what changes to the assessment</p>	<p>We believe the assessment of Option 3 in the Consultation Document is much too positive.</p>

would you suggest (including the relative strengths and weaknesses of an option)?	
15. How does the Mandatory Centralised Market measure against the SEM Committee’s primary duty to protect the long and short term interests of consumers on the island of Ireland?	<p>Option 3, as proposed, would be counter to the SEM’s primary duty.</p> <p>Option 3 would discourage small renewable generators from participating directly in SEM.</p>

2.9 GROSS POOL – NET SETTLEMENT MARKET (SECTION 9)

Question	Answer
16. Are there any changes you would suggest to make the Gross Pool – Net Settlement Market more effective for the all I-SEM (for instance, a different choice for one or more of the topics or a different topic altogether)?	<p>The Irish Bioenergy Association supports the development of voluntary day-ahead and intra-day markets, with the fall-back of ex-post imbalance based on a full system despatch (i.e. ex-post pool) as envisaged by Option 4</p> <p>We would wish the design of Option 4 to include:</p> <ul style="list-style-type: none"> • ‘Market maker’ obligations on portfolio generators, to ensure that day-ahead and intra-day markets are established and a minimum volume of energy is traded in those markets • Appropriate flexibility for participation and pricing in DAM IDMs • A regulatory requirement for cost reflective bidding into the despatch and ex-post pool process (or some equivalent regulatory control), to limit any risk of gaming by portfolio generators • Priority despatch arrangements for renewable generation (in line with those currently in place)
17. Do you agree with the qualitative assessment of Gross Pool – Net Settlement Market against the HLD criteria? If not, what changes to the assessment would	<p>The Irish Bioenergy Association broadly agrees with the assessment of Option 4 in the Consultation Document, and notes in particular the equity, competitive and environmental strengths of this option. These are all features which would deliver long term benefit to consumers on the island of Ireland.</p>

you suggest (including the relative strengths and weaknesses of an option)?	
18. How does the Gross Pool – Net Settlement Market measure against the SEM Committee’s primary duty to protect the long and short term interests of consumers on the island of Ireland?	<p>The Irish Bioenergy Association believes that Option 4 best meets the SEM’s primary duty.</p> <p>It is the only option that can enable small, non-portfolio generators to compete on a level playing field.</p> <p>Customers on the island of Ireland will benefit through lower prices and greater supply security than under any other option.</p>

2.10 CAPACITY REMUNERATION MECHANISMS (CHAPTER 10)

Question	Answer
19. What are the rationales for and against the continuation of some form of CRM as part of the revised trading arrangements for the I- SEM?	
20. Are these the most important topics for describing the high level design of any future CRM for the I-SEM?	

2.11 STRATEGIC RESERVE (CHAPTER 10.7)

Question	Answer
21. Are there any changes you would suggest to make the design of a Strategic Reserve mechanism more effective for the I-	

SEM (for instance a different choice for one or more of the topic?)	
22. Do you agree with the initial assessment of the strengths and weaknesses of a Strategic Reserve Mechanism? If not, what changes to the assessment would you suggest (including the strengths and weaknesses of an option relative to the others)?	
23. Would a Strategic Reserve Mechanism work or fit more effectively with a particular option for the energy trading arrangements. If so, which one and why?	

2.12 LONG-TERM PRICE-BASED CRM (CHAPTER 10.9)

Question	Answer
24. Are there any changes you would suggest to make the design of a Long-term price-based CRM effective for the I-SEM (for instance a different choice for one or more of the topic?)	
25. Do you agree with the initial assessment of the strengths and	

<p>weaknesses of a Long-term price-based CRM? If not, what changes to the assessment would you suggest (including the strengths and weaknesses of an option relative to the others)?</p>	
<p>26. Would a Long-term price-based CRM work or fit more effectively with a particular option for the energy trading arrangements. If so, which one and why?</p>	<p>This could fit with any option for energy trading arrangements.</p>

2.13 SHORT-TERM PRICE-BASED CRM (CHAPTER 10.10)

Question	Answer
<p>27. Are there any changes you would suggest to make the design of a Short-term price-based CRM effective for the I-SEM (for instance a different choice for one or more of the topic)?</p>	
<p>28. Do you agree with the initial assessment of the strengths and weaknesses of a Short-term price-based CRM? If not, what changes to the assessment would you suggest (including the strengths and weaknesses of an</p>	

option relative to the others)?	
29. Would a Short-term price-based CRM work or fit more effectively with a particular option for the energy trading arrangements. If so, which one and why?	

2.14 QUANTITY-BASED CAPACITY AUCTION (CHAPTER 10.11)

Question	Answer
30. Are there any changes you would suggest to make the design of a Quantity-based Capacity Auction CRM effective for the I-SEM (for instance a different choice for one or more of the topic)?	
31. Do you agree with the initial assessment of the strengths and weaknesses of a Quantity-based Capacity Auction CRM? If not, what changes to the assessment would you suggest (including the strengths and weaknesses of an option relative to the others)?	
32. Would a Quantity-based Capacity Auction CRM work or fit more effectively with a	

<p>particular option for the energy trading arrangements. If so, which one and why?</p>	
---	--

2.15 QUANTITY-BASED CAPACITY OBLIGATION (CHAPTER 10.12)

Question	Answer
<p>33. Are there any changes you would suggest to make the design of a Quantity-based Capacity Obligation CRM effective for the I-SEM (for instance a different choice for one or more of the topic)?</p>	
<p>34. Do you agree with the initial assessment of the strengths and weaknesses of a Quantity-based Capacity Obligation CRM? If not, what changes to the assessment would you suggest (including the strengths and weaknesses of an option relative to the others)?</p>	
<p>35. Would a Quantity-based Capacity Obligation CRM work or fit more effectively with a particular option for the energy trading arrangements. If so, which one and why?</p>	

2.16 CENTRALISED RELIABILITY OPTIONS (CHAPTER 10.14)

Question	Answer
<p>36. Are there any changes you would suggest to make the design of a Centralised Reliability Option CRM effective for the I-SEM (for instance a different choice for one or more of the topic)?</p>	
<p>37. Do you agree with the initial assessment of the strengths and weaknesses of a Centralised Reliability Option? If not, what changes to the assessment would you suggest (including the strengths and weaknesses of an option relative to the others)?</p>	
<p>38. Would a Centralised Reliability Option work or fit more effectively with a particular option for the energy trading arrangements. If so, which one and why?</p>	

2.17 DECENTRALISED RELIABILITY OPTIONS (CHAPTER 10.15)

Question	Answer
<p>39. Are there any changes you would suggest to make the design of a Decentralised Reliability Option CRM effective for the I-SEM (for instance a different choice for one or more of the topic)?</p>	
<p>40. Do you agree with the initial assessment of the strengths and weaknesses of a Decentralised Reliability Option? If not, what changes to the assessment would you suggest (including the strengths and weaknesses of an option relative to the others)?</p>	
<p>41. Would a Decentralised Reliability Option work or fit more effectively with a particular option for the energy trading arrangements. If so, which one and why?</p>	