

3rd April 2014

Jean-Pierre Miura
Utility Regulator
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Philip Newsome
Commission for Energy Regulation
The Exchange
Belgard Square North
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[sent by email to JeanPierre.Miura@uregni.gov.uk & pnewsome@cer.ie]

Re: I-SEM, High Level Design for Ireland and Northern Ireland from 2016

Dear Mr. Miura and Mr Newsome,

We, KBM Wind Farm Ltd (KBM), are developing an 18MW wind farm project in Co Wicklow, Ireland. The wind farm has planning permission and an executed connection offer. The windfarm is scheduled to be operational from late 2015. KBM are independent windfarm developers and intend to own and operate the windfarm once constructed. We welcome the opportunity to respond to the SEM Committee's consultation paper titled 'I-SEM, High Level Design for Ireland and Northern Ireland from 2016'.

KBM supports the response by IWEA and its proposal for an Option 3b. As IWEA have provided a detailed response to all of the queries posed by the SEM Committee we have focused on only providing responses to Questions 1 & 3. We have also detailed in our response aspects of the design of the I-SEM that are of particular importance to KBM.

Response to Consultation Questions

1. Which option for energy trading arrangements would be your preferred choice for the I-SEM market, and why?

We support the Option 3b proposed by IWEA.

For an independent wind generator we require an option that promotes the trading of all physical power in a public market that influences efficient interconnector flows. Options 1 & 2 do not ensure that all power is traded in a public market. We do not believe option 4 will provide the necessary tools to reduce curtailment by efficient interconnector flows. We cannot support option 3 in its proposed format, primarily due to the mandatory requirement to trade in the day ahead market. Wind generation

should not be forced to trade before it can have reasonable certainties on its volume. We believe that IWEA have proposed an option that meets the requirements of KBM and the majority of other market participants.

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?

A market-wide CRM is required, and preferably should be price-based or volume-based with wind generation earning its capacity credit at the market rate for reasons of equitable treatment with other generation. The design of the CRM should be such that impacts on interconnector flows are minimised and imports on the interconnectors are not rewarded at times of high wind, resulting in wind curtailment.

Consideration of Wind Generation in I-SEM design

It is essential that the market design is fit for purpose for a market which will have 40% of electricity produced from renewables (primarily wind) in 2020, and that the suitability of the market for the trading of electricity from wind energy is given appropriate consideration from day one.

We would also stress the importance that the SEM Committee carefully consider the implementation of the legally binding obligations within the EU RES-E directives. This includes the absolute priority of transmission and dispatch for renewables and requirement to minimise curtailment. We would request that the SEM Committee detail in their proposed and final decision documents how all aspects of the I-SEM design meets these legally binding obligations.

Curtailment Mitigation

The effective operation of interconnectors at times of high wind generation has been clearly identified as a critical mitigation factor to minimise curtailment levels. We again note the requirement in the 2009 RES-E directive for:

“Member States shall ensure that appropriate grid and market-related operational measures are taken in order to minimise the curtailment of electricity produced from renewable energy sources”

Currently the interconnectors are not operating correctly during times of high wind generation. Our own analysis has shown, even with some TSO counter trading, that over the last 6 months the interconnectors are net importing during curtailment events. We believe that the TSOs can do more to minimise curtailment and respectively request the SEM Committee to take further actions along with Eirgrid in this regard. As I-SEM will not be in place until late 2016, it is critical that SEM Committee and the TSOs do more to reduce curtailment in the interim.

It is clear that the EU is requesting member states to make changes to their individual markets to ensure that interconnectors do operate efficiently. It should also be accepted that the SEM is not working effectively if wind generation, with very low marginal prices, are being curtailed to allow higher priced fossil fuelled generation to be imported on the interconnectors. We believe that the effect of the new I-SEM on improving interconnector flows and therefore reducing curtailment should be a central feature of its design. For these reasons we have supported IWEA's Option 3b. It is critical that the new market design provides the appropriate tools to the market participants and TSOs to minimise curtailment. Without the appropriate I-SEM design to minimise curtailment it is difficult to see how the 2020 renewable targets and the legal obligations in the RES-E directive can be met.

De-Minimis Generation Level

We strongly believe that the De-Minimis level should be increased to 20MW. This will allow small and medium sized independent generators to not have to participate directly in the market. The 10MW De-Minimis limit in the SEM has proved to be an important mechanism to allow relatively small and medium sized generators to sell their power without having to engage in the complexity and cost of participating directly in the market. Without doubt the new I-SEM will be substantially more complex and costly to act as a direct participant. For generators to maximise their price in the market they will have to be set up to continuously forecast and trade their output. It is just not conceivable that a small or medium sized independent wind generator can cost effectively participate in such a market. It is therefore only reasonable and fair that the new market design does not discriminate against this class of generator. We therefore respectfully request that the De-Minimis level in the new market is increased to 20MW.

Compensation for Curtailment

We strongly oppose the SEM Committee's previous decision to remove compensation for wind generation. We believe that it is discriminatory towards wind generation as other generators are compensated when their output is reduced for what appears are equivalent system reasons. Compensating for curtailment provides an economic signal for the implementation of the mitigation measures required as per the RES-E Directive. If the cost of curtailment can be centrally collected the appropriate market products to incentivise the mitigation measures will be easier to implement. Removing this signal will remove the incentive to address the wider issue of mitigation and the optimisation of the investment in renewable generation.

REFIT

It is essential that the market design is compatible with renewable support schemes including REFIT. Any negative impact or uncertainty on the interaction between the market and the support scheme could have a detrimental impact on meeting the 2020 renewable targets. In order to ensure that REFIT payments are appropriate there is a need for market transparency of revenues. Generators under the REFIT scheme need to be able to show their market revenues in a clear and transparent manner. An achievable reference price for all

wind generators would also be highly desirable for the REFIT support scheme, to minimise impact on R-Factor reconciliations and overall impact on the PSO consumer.

Please do not hesitate in contacting us if you have any queries or wish to discuss this matter further

Yours Sincerely,

John Byrne

John Byrne

Director

KBM Windfarm Ltd