

Electricity Exchange Ltd,
Ducart Suite,
Castletroy Commercial Campus,
Limerick
25 July 2014

Re. I-SEM Draft Decision Paper

Electricity Exchange: Demand Side Unit

INTRODUCTION

Electricity Exchange acknowledges the significant work undertaken by the Regulatory Authorities in order to explore the principles and mechanisms that will form the basis of the Integrated Single Electricity Market (I-SEM) which will succeed the current market structure from the end of 2016. Electricity Exchange welcomes the opportunity to submit a response to the I-SEM Draft Decision Paper.

Electricity Exchange strongly agrees with points raised by the Regulatory Authorities as part of the Demand Side Vision 2020. These points promote the growth of Demand Response in Ireland's Electricity Market as a policy aimed towards improving competitiveness, security of supply, and sustainability into the future. The Single Electricity Market's Demand Side Unit mechanism has led to the development of a growing market encouraging demand side participation in Ireland's electricity market. This strategic direction has laid a pivotal stepping stone in the smart grid evolutionary journey that will ultimately lead to the realisation of the Demand Side Vision for 2020.

Electricity Exchange is concerned that the proposed Quantity Based Reliability Options Capacity Remunerations Mechanism, while suitable for large scale thermal generation plant, does not consider the specifics associated with the underlying capacity that comprises a demand side unit. As such, this is likely to hinder a demand side unit's ability to offer useful, potentially fast-ramping capacity to the market which is contrary to the aims and objectives laid out in Demand Side Vision for 2020.

RELIABILITY OPTION

Electricity Exchange, a demand side unit, recognises merit in the proposed Quantity Based Reliability Option CRM. Electricity Exchange believes that the Reliability Option principle may serve to reduce market exposure to excessive spikes in wholesale electricity prices. However, while the principle is positive, the proposed mechanism associated with achieving this is not a workable solution for demand side units that operate on the bases of avoided costs rather than energy payments. The proposed mechanism requires generators to pay back the difference between the reference price and the strike price during periods in which the reference price exceeds the strike price. While this reconciliation is merely an administrative exercise for conventional generators that would be in receipt of the reference price, demand side units do not receive energy payments and would be required to return funds that they did not receive. It seems that this is not an expected eventuality and, as such, Electricity Exchange requests that the RAs consider either

1. the inclusion of a caveat that excludes demand side units from the obligations of the reliability option, or

2. the creation of a fund that would facilitate energy payments to demand side units for the provision of instructed demand reductions.

QUANTITY BASED CRM

Electricity Exchange again recognises the merit in a Quantity Based CRM in terms of ensuring adequate availability of capacity. However, there is also merit in the current price based mechanism which is based on a fixed fiscal pot that provides certainty on the overall price of capacity in a given year. Electricity Exchange's primary concern with the proposed mechanism is that it appears to have been designed solely for conventional thermal generation plant that have stable capacity that can be projected in the long-term and does not consider variable underlying capacity that comprises a demand side unit.

Unlike conventional thermal generation plant, a demand side unit's capacity is based on the number of sites it aggregates and the within-day demand on those sites. As such, commitments associated with long-term auctions would limit demand side units to declaring their minimum expected availability which would deprive the electricity market of useful, potentially fast-ramping, response with a within-day and seasonal variance that could otherwise be made available in the short-term. While long-term commitments may be manageable by established **large** demand side units, they would make participation prohibitive for the majority of existing demand side unit participants as well as new entrants into the demand side unit market.

While conventional thermal generation plants derive their capacity from firm assets, demand side units operate in a unique space that straddles the wholesale and retail sides of the market. A wholesale electricity market that solely operates based on long-term commitments is not compatible with the short-term horizon retail market from which demand side units derive their capacity. Market deregulation has been very positive in terms of creating a flux in the market; however, consumer's expectation to be able to switch between service providers based on market offerings will make it very difficult for demand side units to commit to long-term capacity declarations.

Electricity Exchange are concerned that the aforementioned issues may jeopardise the viability of demand side participation in Ireland's electricity market into the future. Electricity Exchange request that the RAs consider these concerns as part of future work on the I-SEM market design.

Kind Regards,

A handwritten signature in black ink that reads "Paddy Finn".

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