

Integrated Single Electricity Market (I-SEM)

**High Level Design for Ireland and Northern
Ireland from 2016
Response to Draft Decision Paper SEM-14-045**



25 July 2014



Consultation on SEMC Dispatch Decision

Summary

Indaver Ireland broadly welcomes the draft decision paper SEM-14-045.

In line with the Electricity Association of Ireland (EAI) we support the proposed I-SEM Energy Trading Arrangements for exclusive DAM and IDM with mandatory balancing markets, and the provision of a financial trading instrument in the forward market. We support the remuneration of non-energy services, although we would question whether limiting such system payments to pay-as-bid in the Balancing Market will result in appropriate incentives.

In addition to this, Indaver supports the retention of a capacity remuneration mechanism in the form of reliability options.

Response

As highlighted in our response to the HLD consultation paper, Indaver operates a small, centrally dispatched hybrid renewable generator (16MW registered capacity). This capacity is controllable and predictable, although the operation is driven primarily by waste treatment rather than energy production. At present, the only cause for curtailment of the Meath WtE is excess generator capacity (high wind & import on the interconnector).

For these reasons, areas of key importance to Indaver are:

- Supporting the priority dispatch of renewable plant,
- Ensuring efficient interconnector trading (i.e. facilitate export of renewables when there is excess capacity rather than curtailment of renewables)
- Providing transparent markets and clear market revenues for the operation of REFIT,
- Providing a balancing market arrangement where pricing is not excessively punitive,
- Facilitating transparent pricing and non-portfolio player trading,
- Providing sufficient certainty and clarity regarding non energy balancing.

A number of these items can be addressed through the proposed design, such as efficient interconnector trading, a balancing market where pricing is not excessively punitive (e.g. through single not dual pricing) and transparent pricing / non portfolio player trading.

Other items such as priority dispatch, the interaction with REFIT support and non energy balancing will be resolved in the detailed design phase which, as noted by EAI, is to be completed by February 2015. Given the tight timeframes to full implementation, we would welcome industry involvement in developing these areas at the earliest opportunity.

Interconnector Flows

From operational experience at the Meath waste-to-energy facility, we have found that the interconnector flow has typically been importing from GB during periods of curtailment (reflective of an already congested system). If the system is to integrate increasing levels of wind and other renewables, in order to meet increasingly challenging EU renewable energy and GHG targets, the efficient functioning of the interconnector is of significant concern. The introduction of intraday



trading on the interconnector will be an important step towards the more efficient use of power during high wind / low demand periods. However, as noted in IBEC's submission, there is a concern that changing from mandatory to voluntary participation in DAM might increase the risk of economically inefficient Interconnector flow nominations (due to volatile pricing in the DAM), consistently biased towards imports.

We agree that non-mandatory day-ahead be chosen as the core market design, but the SEM Committee should be ready to take swift action (in terms of market making obligations, or full mandatory participation) should volatile market pricing and inefficient interconnector flows emerge to the inappropriate trading of market participants outside of the day-ahead market.

Also noted by IBEC is that in the Initial Impact Assessment (SEM-14-046) the modelling scenarios assume the main interconnector flow is importing from Great Britain due to lower wholesale prices, with apparent positive implications for energy users in I-SEM.

It is not clear to us how this assumption carries if there were no longer a Bidding Code of Practice in place regulating pricing in SEM, and if the CRM is materially changed. While the impact of CRMs on pricing to consumers is acknowledged¹, our understanding is that under the current arrangements (BCoP in place and CRM provided to GB generators) there is an import bias at the day ahead stage.

We would question whether changes to bidding and the CRM in I-SEM should impact on assumptions regarding the price difference between the two regions in the future. Furthermore, as noted by IBEC, there is continuing uncertainty over UK energy policy that may also affect pricing in GB.

We would submit that these issues should be considered further at the detailed design stage.

Balancing

We support single imbalance pricing in the market, but if there is any change to a dual imbalance pricing mechanism, it is necessary that this is accompanied with broader portfolio bidding in the balancing market than that proposed.

With dual imbalance pricing, the option to balance within a portfolio should be available to Priority Dispatch generation more generally including hybrid generators and supporting non-renewable balancing technologies to avoid the unnecessary exposure of dual imbalance prices. Even as a predictable generator, the Meath waste-to-energy hybrid facility can experience low levels of variability in output (due to variability in fuel quality) that would fall into the balancing market. Therefore, in the event of dual imbalance pricing, portfolio bidding in the balancing market should include both variable and non-variable Priority Dispatch plant including supporting balancing assets rather than being restricted to variable RES in the event that there is dual imbalance pricing.

Capacity Remuneration Mechanism

As noted previously, the fit of a quantity based mechanism within the new HLD appears to be clearer than the fit of a price based mechanism, where there is no longer any BCoP. However, as flagged by the EAI there is a risk associated with quantity based mechanisms of 'boom-bust' prices and undercapacity. We would seek reassurance from the detailed design that sufficient regulation (either regulation of fully depreciated plant offers to Reliability Options, and/or some regulation on

¹ i.e. that the upward pressure on pricing for consumers would be offset by savings from changes to the capacity remuneration mechanism



the output prices of the auction in terms of price floors) would be put in place to avoid these situations from arising for existing generation.

In terms of new entrants, it would be inappropriate for new entrants to compete on a like-for-like basis with fully depreciated plant. Therefore we propose extra consideration given to the price receivable for new entrants (e.g. split auctions, different regulation of input offers/output prices, new entrants setting the price for existing generators) and in terms of the contract duration provided (e.g. as under the DS3 proposals for longer contracts for new entrants).

In addition to this, further information regarding the potential impact of ROs on the spot electricity price would be welcome.