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Submission on:

**Integrated Single Electricity Market (I-SEM)
High Level Design for Ireland and Northern Ireland from 2016
Draft Decision Paper
SEM-14-045
9 June 2014
Deadline: 25th July 2014**

25th July 2014

Dear Mr Newsome, Dear Mr Miura,

We welcome the opportunity to respond to the recent consultation on the draft decision paper for the High Level Design of the I-SEM.

May we first outline some details about ourselves:

We are a small Supplier Lite company established to trade the output of a small windfarm.

In relation to REFIT, the SEM committee need to recognise and support the importance of this support mechanism in delivering the renewable targets for the State. There seems to be an economist ideology among SEM & CER members that it can be interpreted or adjusted in ways other than was originally designed. REFIT has served the country well and has taken years to implement properly. Any tinkering or new interpretations of the formula could have far reaching consequences in terms of failure to meet the targets and penalties. We strongly caution the authors of this document not to tamper with this support mechanism in any way. It would be reckless as all benefits for the new iSEM to the consumer have derived from wind as a low cost producer. Cost savings to-date of delivery of wind by 2020 is estimated to be circa €500M per annum. Should confusion arise at this late stage, especially with so many projects at the financial close stage, this would have a destabilising effect and delay closure and realisation of projects. It is worth noting that windfarms need to be 75% complete by 2017 to get REFIT. This means that major construction needs to commence on-site by mid-2016. To work back again, allowing one year for financial close, that means that this must happen in mid-2015. In order to achieve this, all permissions, consents, licenses, easements, rights of way including overhead lines have to be in place by then. This is not the time or place to introduce new terms or interpretations of REFIT to suit hypothetical economic theories. The delivery of REFIT and the renewables targets is grounded in project financing and the banking institutions.

We wish to endorse the submission made to you by the Irish Wind Farmers Association (IWFA).

Since that submission addresses all of the main issues, we won't enclose the same detail with this submission, to avoid unnecessary duplication.

While we are relying on the IWFA submission to guide and inform us, the views expressed in this submission are in effect our own, and we would ask that they be considered as such. Where we provide alternative views or solutions, we state a preference, as does IWFA. We do not expect that to mean that our submission is treated as 'inconclusive', rather that we are trying to be constructive and helpful.

In that regard, we might express our strong dissatisfaction with the way you treated the last set submissions from the IWFA members, which led you to dismiss Option 4 out of hand.

We very much hope that the responses to this consultation by the small wind sector, as represented by the IWFA, will form the basis for much closer engagement with us on the final design and implementation of the new trading arrangements, and that the concerns and interests of independent wind generators will be taken much more fully into account than has been the case to date.

Independent wind 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. Wind is also the island's best source of security of supply, at a point in time when we have been reminded of the vulnerability of gas supplies due to the on-going and escalating conflicts in Eastern Europe.

We reiterate that the design of the I-SEM will determine whether we, and future independent wind generators, will be able to participate, even survive. We are even more alarmed than before about several very discriminatory aspects of the High Level Design put forward in your proposed decision paper.

1. We fully agree with SEMC's proposal to make the Day Ahead Market (DAM) and Intra-Day Market (IDM) exclusive. Any notion that it should be mandatory for wind to participate in either market, even on a 'best endeavours' basis, is adding unnecessary and unwarranted risk to our projects, and we would totally oppose any reversion to that approach. The incentives under consideration will encourage us to participate in the DAM, to the extent that we judge best for our businesses, and indeed further measures, as discussed below, are likely to reinforce that tendency.

2. The imbalance market proposed is simply discriminatory against wind, and must be reviewed without delay. There is no obvious reason why a SEM-like pool could not be used instead. The lower unpredictability and volatility in such a pool would reduce to the risk to wind of DAM and IDM participation, and would therefore assist SEMC in what it is trying to do - get 40%+ of the future market to participate in the DAM. The highly volatile mechanism proposed will entail far too much risk for wind, and would tend to discourage DAM and IDM participation, contrary to what SEMC seems to believe.

3. In proposing the DAM price as a reference for the support schemes, SEMC is entering into a policy area it is neither responsible for nor competent in, as shown by the uncertainty created by the mere suggestion of such an approach. If the outcome was settlement of support on this basis, the inevitable result would be project revenue uncertainty, thus undermining the support schemes, closure of at least some of the existing projects and widespread failure to finance future projects. A blended reference price could be considered for the estimation and payment of supports ex-ante. However, the settlement of supports must continue to be based on actual revenue received. That is what is required by the relevant legislation in the Republic and recognised by at least CER in its R-factor decisions.

4. We continue to support the inclusion of a Capacity Remuneration Mechanism (CRM), and still

believe that the only option that solves the 'missing money' problem, and in which wind generators can participate, is a long-term price-based mechanism. While the proposed Reliability Option (RO) may provide some signals for the exit of redundant conventional plant and the entry of new flexible plant, suitable for complementing wind, it is one of the most discriminatory aspects of the SEMC's proposed decision as far as wind is concerned. Market prices are reduced when wind generates, so that price spikes would tend to happen when wind is NOT generating. Wind is therefore out of cycle with price spikes and therefore largely stopped from participating in the RO as a result. Capacity factor adjustments are unlikely to alter this fundamental fact. The RO must not be taken any further and the approach needs to be reviewed without delay.

5. Given that by virtue of its inherent design, the I-SEM is inevitably less suitable for small renewable generators, an 'aggregator of last resort' is proposed by SEMC, and this is to be welcomed. Such a service needs to be enduring, provided at a cost to small generators that doesn't affect their viability, and ideally that cost should be allowed for in calculating the support top-ups.

6. Features of the SEM such as intermediaries, de minimis, negative demand and 'supplier lite' need to continue without interruption into the I-SEM, in such a way that existing projects and support schemes are unaffected. These features provide a vital de facto floor for PPA negotiations, almost like a buyer of last resort. They are particularly vital to the survival of the growing number of out-of-support projects. Access to revenue from a CRM, which is present today in SEM, is also of vital importance to these projects. The authorities in general and SEMC in particular need to take seriously the idea that such projects can survive in the I-SEM, otherwise their expectation that wind will move towards open market integration will be completely undermined by their own actions.

7. Once again, to minimize delay and disruption, we would wish to see all other SEM/CER directions (e.g. Tie Break arrangements) to remain unchanged, with one exception. SEMC's proposed removal of compensation for curtailment is discriminatory, contrary to the EU Target Model, causes a perverse incentive to curtail virtually free energy, and fails to incentivize the TSO and SEMC to develop the system to meet its obligations to renewables, and this proposal should not carry through to I-SEM. Indeed, SEMC seems to be using the threat of curtailment as a way to get the sector to agree to these discriminatory proposals. We would now insist, again, that the SEMC gives full effect to the legal obligation of 'guaranteed transmission' enshrined in the Renewables Directive and Irish law, in addition to the welcome respect of priority dispatch, once having first accepted that these are non-optional requirements, not some sort of policy option (like firm access). To really address the curtailment issue, there is a need for the TSO to be subject to at least some of the curtailment costs (which should be restored by SEMC) and constraining-on costs, arising from schedule adjustments caused by the under-development of the island's system, so as to incentivize the necessary and urgent improvements, which are the TSO's duty in any case (DS3, flexible plant, exit signal for redundant plant, mitigation of market power, etc). In the meantime, there is a continuing role of the TSO to trade out some of the excess power, in order to keep wind generators operating at or near their availability, while respecting the SEMC's 'tie-breaks' decision.

We thank you for your attention and consideration of this submission,

Yours sincerely

*sent by email, requires no signature

Dr. Maura Kinahan