

## **Integrated Single Electricity Market - High Level Design for Ireland and Northern Ireland from 2016**

### **Introduction**

DAE welcomes the opportunity to respond to the CER and UREGNI consultation document regarding the Integrated Single Electricity Market (I-SEM) High Level design for Ireland and Northern Ireland from 2016, Draft Decision paper.

DAE currently operates a Demand Side Unit and also a number of Combined Heat and Power (CHP) sites throughout Ireland. This response's primary focus will be on the potential impact the changes to the SEM will have on the operation of DSUs. The impact to the CHP portion of our business is not deemed likely as the de-minimus level is 10MW. We recommend that this level is not reduced as part of any I-SEM changes.

### **Response**

Since the introduction of the SEM, DSUs and AGUs on the island of Ireland have joined the market and are beginning to gain traction and grow with purpose. These aggregators by their nature are small, with limited resources. It is not clear in the document if the RAs have considered the potential negative impact the proposed HLD will have on DSU/AGUs and their long term viability.

### *Capacity Remuneration Mechanism*

We welcome that the RAs have decided to retain a Capacity Remuneration Mechanism (CRM), but we feel that the chosen CRM is a poor choice. The existing CPM approach in the SEM has worked well, with both small and large generators benefiting equally. The proposed Reliability Option (RO) in the ISEM is not, we feel, an appropriate alternative. As it currently stands this methodology would unfairly discriminate against DSU/AGUs. Furthermore, DSUs by their nature have varying capacity over the course of the day, week and year. It is not clear in the HLD how this varying capacity will be treated. It does not take account of this unique feature of DSUs.

The capability of DSU/AGUs to accurately bid a quantity of capacity into the market, and be confident that it will there a number of years in advance, will be hugely challenging. DSU/AGUs grow organically over time, their capacity fluctuates as clients join or leave their portfolio; a large generator on the other hand will know the precise quantity of capacity it can bring to the system and be confident it will be there a numbers of years in advance. DSU/AGUs do not have that certainty.

The system's need for capacity varies during the day, week and year. Therefore a capacity provider should not need to provide 100% of its capacity at all times. It is our view that while a capacity provider should be required to provide 100% of its obligation at times of high system demand, a lower amount of capacity should suffice at times of lower system demand. This is particularly important to Demand Response as its availability is usually lower at nights and weekends than it is during system peaks. The provision of capacity, profiled to the system demand would closely match the availability of Demand Response and the system need as a whole.

### *Reliability Option*

Currently DSUs do not receive an energy payment when dispatched. If this approach continues in the ISEM, DSUs will be unfairly penalised under the Reliability Option. Under the proposed mechanism should the reference price rise above the strike price then the generator must pay back the difference between the reference price and the strike price. A conventional generator will receive an energy payment, and this payment can be used to meet the reliability option, however, a DSU cannot do this because they do not receive an energy payment.

### *Strike Price*

The strike price should be based on the bid price of all generators, including those generators who do not have an RO. This will prevent the possibility of generators who do not receive a capacity payment pushing the reference price above the strike price. This may happen because their bid is higher to cover any shortfall from the loss of capacity payment. Since it is not planned to continue with the current bidding code of practice, some form of mechanism should be introduced to prevent generators without an RO from pushing the reference price above the strike price.

### *Conclusion*

The RAs should be conscious that DSU/AGUs are typically small, with limited resources. The proposed changes will add to their cost of operating. Furthermore DSUs do not receive an energy payment, and the current proposed make-up of the ISEM does not take this fact into account. The application of a Reliability Option to DSUs is unjust and discriminatory. If the detailed design phase of the system continues to deny DSUs an energy payment then DSUs should not be exposed to the Reliability Option. The capability of DSU/AGUs to accurately bid a quantity of capacity into the market will be very challenging. DSUs availability can vary from day to week to year, the HLD need to consider this unique feature.

We are moving from an equitable well-functioning energy market, with an effective capacity payment mechanism, to an unequitable, untried and untested energy and capacity market arrangement. The overarching goal of the SEM was to have a fair market that encourages competition. The SEM facilitated both large and small generators to join the market. Based on the proposed HLD of the ISEM, much of the benefits of the SEM could be lost; we could see reduced fairness and competition via the withdrawal of smaller generators. The RAs need to be conscious this potential when they finalise the HLD.