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Kenny Dane
Utility Regulator
Queens House
14 Queen Street
Belfast
BT1 6ED

Our Ref: GS-004340

30 January 2014

Dear Kenny Dane,

Re: RES Response to Integrated Single Electricity Market (I-SEM) Consultation on the Aggregator of Last Resort Framework (SEM-14-106)

RES is one of the world's leading renewable energy developers working across the globe to develop, construct and operate projects that contribute to our goal of a sustainable future. We have a portfolio of low carbon energy technologies and a range of services which together can meet demand from the industrial, public and commercial sectors on whatever scale.

RES has been an established presence at the forefront of the wind energy industry for over three decades. Our core activity is the development, design, construction, financing and operation of wind farm projects worldwide. RES has developed or built over 9GW of wind energy worldwide and we have several thousand megawatts under construction and in development, we continue to play a leading role in what is now the world's fastest growing energy sector. RES is also involved in the solar, offshore wind, wave and tidal sectors.

RES welcomes the opportunity to respond to the consultation on the Aggregator of Last Resort Framework. RES has responded to all the previous I-SEM consultations, in particular we responded to the draft I-SEM High Level Design Decision which included the Aggregator of Last Resort (AOLR) proposal. Furthermore, RES continues to welcome the SEM Committee's proposal to implement a mechanism for renewable generators to access the market.

RES is an active member of IWEA and we are supportive of their response. Our response to the specific consultation questions are attached to this email and the key points to note in our response are:

1. We welcome the proposed functions of the AOLR, in particular the facilitation of trading in the DAM, IDM and BM with the intention to facilitate access to and participation in these ex-ante markets to reduce exposure to the imbalance arrangements. This should mitigate risks for renewable generators participating in the new market arrangements and provide a backstop route to market.
2. We maintain concerns that the proposal is for the AOLR mechanism to be transitional only. To provide investor confidence given the magnitude of the changes in the market and the requirement

for long term finance and investment in generation projects the AOLR needs to be set out as a similarly long term facilitator. We are also concerned that the AOLR could be priced at an unviable level for generators, potentially creating a disincentive for its use from the outset. As raised in our response to the previous consultation, it is very important that a central aggregation service is in place and that generators are able to access this service cost-effectively. We believe that the importance of these last resort arrangements requires the mechanism to be enduring; investors need certainty of these arrangements. The existence of the central aggregator in itself alone will be a strong driver of market liquidity and that any subsequent termination of the mechanism could damage these dynamics and undermine investor confidence. We feel that the AOLR should be a mechanism which should be here to stay, even if it appears significantly underused.

3. There is a need for commercial aggregators to enter the market and we would not want the implementation of the AOLR to obstruct this market development. However, it is impossible to know at this stage of the new market design how many commercial aggregators will enter the I-SEM and when they will enter. It may take a significant amount of time for commercial aggregators to become established in the new market. Therefore, to avoid a hiatus in the delivery of projects, which typically require 18 months from investment decision to generation commencement, the AOLR framework needs to be in place and provide price certainty in advance of the introduction of the I-SEM. In addition the AOLR must also not be priced prohibitively.
4. RES believe that the portfolio aggregator option is the most appropriate. However, if there is likely to be a very limited number of generators using the AOLR then we would like to propose a variation of this model whereby each AOLR contract is tendered. The contract price and terms should be pre-defined for generators needing to obtain an AOLR but the market participant which provides the AOLR service to each generator could be discovered through a tender process.
5. Although, we welcome the AOLR proposal we remain concerned about the impact of the proposed imbalance calculation. Applying marginal imbalance prices will have a specifically detrimental impact on wind and intermittent generation due to the likelihood of a low wind event coinciding with a high energy balancing action cost occurring. The development of commercial aggregators in the market will be dependent on the balancing risk for participants. Marginal imbalance prices will also increase both the volatility and spread between imbalance prices. This will not only deter new market entrants, it will also make it more difficult for them to participate in the market. Additionally, more marginal imbalance prices will in all likelihood lead to larger credit requirements for participants in the balancing market to cover the sharper imbalance prices which could become a barrier to entry.

RES looks forward to the AOLR Operation Consultation Paper in April 2015 followed by the decision paper in August 2015. We also welcome any further contact in relation to this submission, to do so, please contact myself via the details below.

Yours sincerely,

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Consultation Questions

Section 4: Potential Aggregator of Last Resort Models

1. *Do you agree with the potential functions of the AOLR as outlined? Are there any additional functions that the AOLR could potentially perform in I-SEM?*

RES agree with the potential functions of the AOLR outlined in the consultation document.

2. *Which of the three models proposed in this paper do you think should be implemented? If none, are there alternative models to the ones proposed that should be considered?*

Before we can outline our assessment of the three different aggregator options proposed the key points below need to be considered:

1. RES is responding to this consultation based on the High Level Design of the I-SEM only and therefore the detailed design process may impact what is required from the AOLR, how it should operate and the volumes likely to access the AOLR.
2. There is also a need for commercial aggregators to enter the market and we would not want the implementation of the AOLR to obstruct this market development. However, it is impossible to know at this stage of the new market design how many commercial aggregators will enter the I-SEM and when they will enter. It may take a significant amount of time for commercial aggregators to become established in the new market. Therefore, to avoid a hiatus in the delivery of projects, which typically require 18 months from investment decision to generation commencement, the AOLR framework needs to be in place and provide price certainty in advance of the introduction of the I-SEM.
3. It is important that the option taken forward is not priced a level which makes its use an extreme last chance option for renewable projects but rather a viable option. For example the price level should not be as low as the GB OLR which is priced at a backstop level to provide certainty to enable project finance but is not a viable route to market in itself. It is important that whichever option implemented is not prohibitively expensive.

Portfolio Aggregator Option

RES believe that the portfolio aggregator option is the most appropriate. However, if there is likely to be a very limited number of generators using the AOLR then we would like to propose a variation of this model whereby each AOLR contract is tendered. This option is in line with option 4, "tender for provision of AOLR as required" proposed by IWEA. Suppliers above a defined size in the market would be required to participate in the tender. The contract price and terms should be pre-defined for generators needing to obtain an AOLR but the market participant which provides the AOLR service to each generator could be discovered through a tender process. This should ensure that costs are minimised for those accessing the AOLR because if only a very limited number of generators need to access the AOLR then setting up a new entity to manage such few contracts could be prohibitively expensive.

Additionally, the forecasted output of the wind generators should be undertaken centrally by the AOLR and not relied upon from each individual wind farm. Some level of wind farm performance should be required e.g. if turbines continually go down at one wind farm others should not be punished for the resulting imbalance penalty. A standard of performance or reliability obligation of some form should be defined. We strongly support point 4.4.10 that:

“In order that the AOLR can trade the appropriate volumes in the DAM and IDM, generators need to provide the AOLR with relevant information regarding scheduled and unscheduled outages in a timely manner.”

If this standard is not met then the generator should incur a penalty such as a one off pre-defined fee or an increased AOLR access fee. However, the interaction of imbalance penalties with constraints and curtailment of wind generators needs to also be considered. Generators which are subject to constraints or curtailments should not be subject to an additional AOLR penalty.

Individual Settlement Aggregator Option

The individual settlement aggregator option requires much more trading knowledge and action from individual participants. Small intermittent generators are unlikely to have the ability to carry out to these obligations. The individual settlement aggregator option provides much less assistance to those generators it is seeking to help which therefore limits its value. Additionally, this option would also be more difficult for the AOLR to manage as they would be relying on instructions from multiple generators at any time.

Passive Aggregator Option

RES believe that it will be too difficult to agree a formula with all generators for the AOLR to bid to under the passive aggregator option. In addition, it is possible that the market could be distorted by the defined formulaic bidding nature of the passive model, particularly if other market participants predict the trades under the passive model. As stated in the consultation under this model: “it is likely that eligible generators using the service would still need to sign up to the TSC”. Therefore, we do not believe this model to be the most appropriate solution.

Section 5: Governance of the Aggregator of Last Resort Entity

4. *Would you consider providing aggregation services in the new market? If so, would you consider being the AOLR service provider?*

RES is not currently considering providing aggregation services in the new market and therefore is also not considering being an AOLR service provider.

5. *Should the RAs, or alternatively the TSOs, be responsible for establishing the AOLR framework and the subsequent procurement of the AOLR service provider? Outline reasons for your preferred option and if there are any further issues that merit consideration.*

RES believe that the RAs should be responsible for establishing the AOLR framework and the subsequent procurement of the AOLR service provider. The TSO may provide the AOLR function; therefore, it should not be the entity undertaking the procurement of the service. Establishing the AOLR through the RAs may be more complex than through the TSOs but this is not reason enough to discount this option.

6. *If the TSOs are selected as the preferred agent for establishing the AOLR framework, should the TSOs carry out the function in house or outsource it to a third party through a competitive tendering process? Outline reasons for your preferred option and if there are any further issues that merit consideration.*

If the TSOs are selected as the preferred agent for establishing the AOLR framework, RES would support a competitive tendering process to identify a third party. However, it is currently unclear if any third parties will come forward and given the limited time available to appoint an AOLR it may be necessary to appoint the TSOs for a defined length of time. Then a competitive process could be run after this to determine who

should run the AOLR following the TSOs. Commercial aggregators may have entered the market by this time as the new I-SEM should be more established. Furthermore, the arrangements should be set up in such a way that it does not economically crowd out potential commercial aggregators from entering the market.

If the TSOs assume the AOLR role, their undertakings as TSOs should be ring fenced from their functions as the AOLR. Using the provisions set for National Grid in GB's role as both a SO and Delivery Body for CfDs and the Capacity Mechanism as a good starting position.

7. Do you believe the options for the AOLR proposed in this paper present a potential cross subsidisation of AOLR costs by others not involved with the AOLR?

The AOLR options proposed in this paper should not result in cross subsidisation of the AOLR costs to others not involved with the AOLR. As long as it is designed correctly with appropriate ring fencing and the scheme is monitored through robust reporting to the RAs. A strict framework which outlines the rules and licence conditions should be put in place to mitigate the risk of cross subsidisation.

8. Do you agree with the transparency measures proposed and if there is other information that should be disseminated to participants?

RES welcomes as much transparency as possible, including: cost of administration (platform fees, credit requirements, staff), volumes traded, divergence from forecasted generation, price obtained from the different markets (DAM, IDM and BM), fee paid by participants and comparison to the rest of the market where possible.

Section 6: Incentives & Cost Allocation

9. Do you agree that incentives are important for the AOLR? Are there other incentives that should be considered by the RAs?

RES support defined requirements on the entity undertaking the AOLR functions to achieve a certain set level of service. An incentive should be part of AOLR procurement to ensure adequate performance at market go-live; we would support a benchmark against market prices. If this defined benchmark is not achieved then the RAs should intervene with penalties or in an extreme case they could lose their authorisation to act as the AOLR.

10. Do you agree with the issues raised surrounding cost allocation and the potential stranding of assets? Are there other issues that merit consideration?

Although, RES welcome the idea of a profit sharing mechanism as part of the AOLR, if this included then it could reduce the opportunity for commercial aggregators to enter the market. As discussed above, the AOLR should not be a transitional measure only but an enduring measure. Therefore, there is a risk of discouraging commercial aggregators with a profit sharing mechanism and therefore its inclusion should be considered with caution.

Section 7: Participant Eligibility

11. Do you agree that no upper threshold limit for wind participation in the AOLR should apply? If not, please propose a limit and provide reasons for this position.

RES welcome that there is not a proposed upper limit on wind participation. Those who do not require the mechanism will not try to access it, there will be a natural market cut-off and therefore there is no need to set a capacity threshold.

12. Should smaller participants, other than wind, be considered eligible for participation to the AOLR? If you agree please outline the participants that merit consideration or if you don't agree please provide reasons.

RES believe that all renewable technologies should be considered eligible for participation in the AOLR. It should be available as a back stop mechanism for renewable market participants who are unable to access the new market any other way.

13. If participants other than wind should be included in the AOLR, should these be grouped for the purposes of bidding into the ex-ante markets and settlement given their respective risks in the new market design?

All technologies accessing the AOLR should be pooled; we would not support participants other than wind being grouped for the purposes of bidding into the ex-ante markets and settlement. For example a biomass generator should be subject to a wind forecast error just as wind generators should be subject to a biomass generator outage at short notice.