

Re: Submission on

Integrated Single Electricity Market (I-SEM)

Consultation on the Aggregator of Last Resort Framework

SEM-14-106, 5th December 2014

30 January 2015

Dear Sir/Madam,

Bearna Gaoithe Power Supply Limited is a small power supply company based in south County Wicklow.

We welcome the opportunity to respond to the consultation on the Aggregator of Last Resort Framework (AOLR).

We support the IWFA response to this consultation and we set out our arguments below.

We may well require the services of an AOLR to be able to operate in the proposed I-SEM market, and in particular consider that:

- the AOLR must be able to trade in all of the ex-ante markets to provide an adequate service to wind, given the inevitable error in forecasting 24-36 hours ahead,
- since the need for this new service is driven by the design chosen by the RAs for I-SEM, the service should be provided at little no cost to us, otherwise it simply will not work and defeat its own purpose.

We would like to thank the RAs for the opportunity to engage on this issue and to highlight the particular importance of this consultation.

Yours sincerely,

Sent by email (no signature)

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Tom Ryan,  
Chairman

## **Context**

Wind is being asked under the proposed I-SEM model to deal with risks imposed on it by the insistence of the EU and RAs on having a Day Ahead Market (DAM), an arrangement that is too far ahead to be suitable for wind. It is instead chosen to suit conventional power plant fuelled by fossil and nuclear energy. No matter what wind does it is forced to absorb an unnecessary risk arising from this approach, either by participating with an uncertain wind forecast, or by staying out and facing the imbalance risk instead. Under the 'Balance Responsible' principle, wind is being asked to pay for that risk, which is a handicap, even a discrimination. This is a fundamental point to be borne in mind when setting out the responsibilities with regard to the structuring of and the cost of the Aggregator. And yet, as drafted, the consultation paper seems to assume wind will be fully responsible for the risk and therefore the cost. The RAs thus confirm an approach which has been at the root of the deep concerns of the smaller wind project owners.

## **Transitional vs. enduring**

To meet its own objective of providing a real route to market for smaller projects, at least from a technical standpoint, the AOLR service needs to be available on an enduring, and not a transitional basis, otherwise many existing and any new projects would be unable to use it as part of their overall plan to meet financing requirements from banks. Ideally, that ought to be done in a way that does not dis-incentivise commercial aggregators, though the priority has to be the provision of an effective AOLR service, with this as a secondary consideration.

## **Roles of the AOLR**

The roles identified seem appropriate. There has been a small bit of confusion in the sector about whether it is envisaged that the AOLR would provide Power Purchase Agreements (PPAs) to its projects. We now understand that the AOLR would not provide PPAs, which makes sense. Renewable projects in REFIT support have their own 15 year PPAs with either commercial suppliers or their own 'supplier-lite', and they can only exit these PPAs without losing their REFIT support through the liquidation of their supplier. On the other hand, 'out of support' projects have greater flexibility as regards PPAs. It should be noted that many such projects are not out of debt finance, they now face competition in the market from UK projects on ROCs (UK plant under ROCs can afford to sell electricity at virtually negative prices just to keep running and get ROCs), higher operating costs due to age and now huge rates increases, while it is nevertheless essential that they keep operating for the purpose of meeting EU targets and showing that renewables can operate in the open market. Also to be noted is that they are currently having trouble getting PPAs beyond 2016, due to the market change process that is underway. The AOLR should enable them (and indeed small suppliers) to physically access the market without a trading desk, but it would not necessarily need to provide them with a PPA. That they can arrange themselves with a commercial supplier or, to provide competitive tension, their own dedicated supply company, either of which could in turn operate through the AOLR.

## Interaction with REFIT

The paper makes it clear that the 'intermediary' and 'supplier-lite' are to be preserved, though it is also important to continue to allow 'net negative demand' (under '*de minimis*'), which is the basis of some 'supplier-lites'. It will be important that any cost from the Aggregator is taken into account in calculating REFIT payments, otherwise there will be another hole in REFIT. This approach would however leave the 'out of support's at a disadvantage, so that, while some modest fee might be recovered through REFIT for support projects, there ought to be no fee for the 'out of 'support's'.

## Volume

There is some concern about the likely level of interest in the AOLR, amongst the authorities in the first instance, but also in the sector, where a low take-up might tend to create a cost problem for participants. Among the supported projects, it would appear to be an option for the small group of 'supplier-lites', since the others have PPAs with commercial suppliers, who will most likely participate fully in the market. IWFA has estimated that there is about 700MW of wind out of support. However, most of this capacity is now owned by utilities and it can be safely assumed that they will trade this capacity along with their constantly growing REFIT portfolio. The smaller independent generators have either got a short term PPA with a supply company (either as *de minimis* or as an intermediary if above 10MW), but many have found it very difficult if not impossible to get a PPA beyond 31.12.2016; others have been selling direct to the SEM. We feel that the current potential market for the AOLR is maybe 200MW, but since there are still many outstanding issues with regard to I-SEM (in particular the imbalance market) and the AOLR itself (the link to REFIT), it is impossible to narrow down the realistic demand for the AOLR beyond that. However, the demand should grow as more projects are constructed and more exit support, but on the other hand the entry of commercial aggregators may reduce the need for the AOLR, so the trend is also difficult to anticipate. Whether a project is *de minimis* or not seems not to be directly relevant to the AOLR, since they operate on the demand side of a supplier, and use of the AOLR will depend entirely on the approach of that supply company. Assuming it is allowed, a smaller supplier may elect to use the AOLR itself for both its demand and generation.

## Costs

A small take-up of AOLR services will lead to larger costs per unit of power traded. Since it is currently proposed that those costs are to be imposed on the aggregated projects, the cost could be prohibitive and thereby reduce the participation in a descending spiral until no-one uses it, defeating the whole purpose. And yet it has been decided to have an AOLR available, as that is recognised as an important back-stop for smaller projects. So the level of cost of the Aggregator and in particular the allocation of that cost is the central issue. Following the UK OLR model of discounting the energy price by £25 per MWhr will simply not work in this market, because supports are so much lower, and that would render the service useless from the start. A nominal fee per MWhr for supported projects may work if that is recoverable from REFIT, but as already suggested, that ought not to be applied to the 'out of support' projects on discrimination grounds, also bearing in mind that they will be struggling in any case. It should also be born in mind that 'out of support' projects

provide very cheap electricity to the market and are not a burden on the consumer in the form of an increased PSO levy. Ideally the saving through aggregation would be sufficient to offset the cost of the AOLR, meaning that no fee is required at all, even if that means that all of the benefit of the aggregation is not passed to the participants. In addition, we understand that it is the AOLR who will sign the Trading and Settlement Code on behalf of its client projects, and therefore presumably also provide the requisite securities to the market.

### **The Options**

Option 1 in the consultation shares all revenues, costs and risks pro-rata between the AOLR's clients, so that the benefit of aggregation is also shared. As discussed above, it might be better if that benefit was used to cover the cost of the service. The approach also means that a project that is operated inefficiently would be carried by the others handled by the AOLR, which is not right and needs to be guarded against if this Option is selected.

Option 2 overcomes the main problems with Option 1, but requires more from participants, somewhat defeating the purpose. As long as the aggregation benefit at least offsets the cost of the service, and projects can issue simple bid instructions and don't have to provide forecasts, while also receiving their revenue as if they traded alone, then Option 2 might be viable. Ideally such a service would be tendered by the market operator, and given to the bidder with the lowest net service cost (either total or per MWhr - the latter being difficult given the unknown quantity); the tender would need to provide for the possibility, however remote, that the bid would be negative. An agreed level of transparency will be required within and between participants handled by the AOLR to avoid unfairness or even the perception of it.

As regards Option 3 in the consultation - a Passive Aggregator - the cheapest option in the paper, it would not enter the IDM, since it is to remain passive, and is not to have a 'trading desk' as such, to keep the cost down. That is a serious problem for variable renewables, as they will need to be actively represented in the IDM, in order to correct positions taken in the DAM (which will inevitably be wrong). To at least partly offset this problem, it may be possible for generators to agree a set of simple guidelines with the AOLR, like 80% of forecast into DAM, balance corrected in IDM 2/3 hours from live subject to a min price, though that would require more effort on the part of the AOLR. Where Option 3 is part of the market, another concern is the multiplication of TSO roles, and it may be necessary for the market operator to contract this function out to reduce conflicts of interest.

### **Socialisation**

Where tendering the AOLR service either produces no offers at all, or a cost that is likely to keep clients away, then the RAs will need to socialise the cost.