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Cenergise Limited, Cross Country Cottage, Ballinrahin, Rathangan, Co.Kildare, Ireland  
Tel: +353 (0)1 5546255 Fax: +353 (0)1 5543635 Email: info@cenergise.com

## **Response to SEM-14-106 Consultation on the Aggregator of Last Resort**

Cenergise welcomes the opportunity to respond to the Consultation on the Aggregator of Last Resort, SEM-14-106. Cenergise has extensive experience in SEM and BETTA electricity markets and trades on both the Moyle and East-West interconnectors. We also offer consultancy and training services to the electricity and carbon sectors.

The Integrated Single Electricity Market presents many challenges for market participants, particularly for wind. The 3 distinct markets, the day ahead market, the intraday market and the balancing market will mean that trading in the Irish market will be more onerous, particularly for wind given its unpredictable nature. Considering 19% of the current registered capacity in Ireland is wind, the I-SEM presents a significant challenge for the wind industry.

Cenergise is of the view that there is merit in the provision of an aggregator of last resort service to market participants in order to pool trading related costs and expertise. We are of the view that the capability should be outsourced to a commercial entity with sufficient expertise. The competitive process should be transparent and support a level playing field where small commercial entities can compete with larger utilities or service providers.

Options 1 and 2 could be competitively tendered for but consideration needs to be given to the impact each option may have on the entry of commercial aggregators. We believe option 3 is too formulaic and therefore cannot respond to the market signals and dynamics of a more complicated I-SEM.

Cenergise is concerned about the level of interest or volumes that the service may need to accommodate. It was clear from the workshop in December 2014 that the level of interest for I-SEM go live and beyond is unknown. The capacity requiring the service will inform the choice of AOLR framework. Cenergise proposes that the RAs hold one workshop before the AOLR framework decision is made to establish the following:

- interest from windfarms, or estimates of aggregated capacity coming out of support from IWFA and IWEA;
- interest of smaller suppliers and estimate of aggregated annual demand
- interest from other smaller generators and aggregated capacity
- interest from parties in providing aggregator services
- debate on the models, cost recovery and incentives proposed and the impact the level of capacity available would have on any of the options proposed.

At a minimum Cenergise requests that the RAs publish an estimate of capacity interested in the AOLR service or aggregator services in general.

Below is our response to the specific questions posed in the paper:

**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?**

The four functions as outlined in SEM-14-106 address the management of market and trading operational risk for smaller participants. Provision of additional functions would only serve to increase barriers to entry for commercial entities to competitively provide these and additional services.

**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?**

Cenergise believes that option 1 or 2 could be implemented in the AOLR business model. As a last resort and transitional mechanism the AOLR business model needs to be transparent and a balance between service flexibility and prevention of commercial services being offered needs to be struck.

- a. Option 1: pooling the balancing risk does not promote optimal trading and there is a limited incentive for each individual windfarm to improve its wind forecasts. It is a defined framework which can be clearly assessed in a competitive tender process, for example.
- b. In Option 2 participants can be as active or as passive as they chose. The AOLR can suggest a number of trading strategies and provide the historical accuracy of each strategy. The windfarms can also develop and suggest their own strategies and inform the AOLR of discrete values for each hour. This option offers flexibility to windfarms, allowing them to use their own wind forecasts, or wind forecasts provided by the AOLR. This option also incentivises the improvement of windfarms forecasts. However this option does require engagement from smaller participants and service flexibility may impede commercial offerings from the market. Where market roles are blurred between participants and the AOLR a clear assessment of the services offered in a competitive tender process may become more difficult and less transparent.
- c. Option 3 does not deal adequately with the markets risks windfarms or smaller participants face in the I-SEM. A formulaic approach will not allow the minimum flexibility required to respond to the signals and dynamics of I-SEM. If negative

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pricing, for example, occurs a system or a formula will not replace trading experience which can adapt as market risks arise and change. Additionally without intra-day auctions, Option 3 does not make use of the IDM, which is detrimental to wind businesses and to the formation of market prices.

- d. For all the AOLR business models proposed, the settlement of curtailment and constraints for wind farms needs to be addressed, especially in Option 1, where the pooling of balancing risk occurs and curtailment may have a negative commercial effect on windfarms which aren't curtailed.

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

Cenergise would like to express an interest in providing aggregation services in the new market and being the AOLR service provider. Cenergise has extensive experience in SEM and BETTA electricity markets and trades on both the Moyle and East-West interconnectors. Cenergise is also very familiar with the ROI wind market and the various nuances which exist in the market (REFIT, curtailment and constraint issues, wind forecasting errors etc.). The I-SEM will present several challenges for wind farms and appropriate trading in the correct timeframe is essential in order to maximise revenues for each windfarm.

**4. 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.**

Cenergise has concerns about the suitability of the TSO to procure an AOLR service provider:

- The TSO is the central dispatcher in the SEM and I-SEM, implements wind curtailment, has responsibility for minimising dispatch balancing costs, is already operating under a conflict of interest by owning an asset while procuring system services and balancing supply and demand. The TSO has a significant role and influence in the overall market. Extending the TSO roles into commercial operations increases the risk of the TSO wielding undue influence on the operation of the market.

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- There will be legislative changes required for I-SEM. Therefore there is an ideal opportunity for the RAs to reduce the conflicts of interest that effect the TSO by setting up a separate legal entity for the procurement of market services such as the AOLR, system services, CRM auctions and potentially the set-up of a CfD forwards platform. Under this method, the TSO as technical operator of the transmission system, does not have to engage in the procurement of market services and can partake as a stakeholder like the rest of market participants. This removes the burden for TSO ring-fencing and unintended opportunity for TSO market manipulation and discrimination between any market participants, which could ultimately damage confidence in the markets.

**5. 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.**

Given the concerns outlined above and the risk of stranded assets there should not be an option for the TSO to provide the AOLR function in-house. As already outlined in the consultation paper it is a conflict of interest with the current duties of the TSO to provide market and trading services. A TSO in-house function prevents competition in for the AOLR function and leaves the TSO open to questions about cost cross subsidisation and market manipulation. The lack of a competitive process will reduce the transparency of the service and the opportunity for participants and commercial aggregators to assess the true costs and viability of the aggregator function.

Additionally the CER statutory duties include promotion of: competition in gas and electricity markets; safety on the part of electricity and natural gas undertakings; the continuity, security and quality of supplies of electricity and natural gas; and renewable, sustainable or alternative forms of energy. Therefore with regards to the duty of promoting competition, if the TSO is selected as the AOLR delivery agent, the TSO should be mandated to outsource service through a competitive tendering process.

**6. 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?**

Yes there is a risk of cross subsidisation. At a very minimum the setup of the AOLR framework, the operational and setup costs of the procurement process or market system costs may be borne by the market. Cenergise is of the view that, in principle, the AOLR costs should be borne by aggregator participants as these are the participants receiving benefit from the service. If there wasn't an AOLR a proportion of wind volumes would potentially default to the Balancing Market and receive lower prices at times of high wind. Participating in the DAM and IDM offers wind farms the opportunity to lock in potentially higher prices.

However, as the AOLR workshop demonstrated, it is very unclear what level of potential volumes would avail of the AOLR service. In the interests of liquidity for the DAM and IDM, the AOLR may be a necessary and vital function even for relatively small volumes and then the market should be ready to bear these costs.

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

The AOLR is a transitional and regulated mechanism. In the interests of transparency and providing benchmark data for participants and commercial aggregators to assess the viability of providing aggregator services all data, where possible, should be published including:

- I. Volumes traded in each market
- II. Levels of curtailment
- III. Weighted average prices received or paid by participants
- IV. Negative pricing events
- V. Costs of the aggregator

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

Incentives are important to ensure the AOLR trades optimally. However a balance needs to be struck between a value for money service, optimising AOLR participants' revenues and/or costs and removing barriers to entry for commercial aggregators.

Cenergise proposes that a competitive procurement process is implemented to encourage the best AOLR service price.

A profit sharing incentive will incentivise AOLR to trade optimally and participants to provide more accurate data. However unless the AOLR service is specifically end dated a profit sharing incentive could prevent a commercial aggregator from obtaining sufficient market share to be competitive in the first place and allow the AOLR service to be rolled over indefinitely.

An alternative to profit sharing is to consider a penalty mechanism instead but it needs careful consideration in conjunction with the risk the AOLR faces if insufficient volumes subscribe to the service:

To mitigate the cost recovery risks of an AOLR service provider, a flat fee per MWh traded mechanism with a minimum cost recovery amount could be implemented. A flat fee at least provides the market with a benchmark price for commercial aggregators to beat. To incentivise the AOLR a penalty mechanism could be applied according to a % deviation of the volume weighted average price a participant received or paid from the market traded weighted average price between the DAM and IDM. The penalty calculation could be adjusted for wind forecasting errors incurred. Any penalty revenues could be distributed amongst AOLR participants or reduce the AOLR minimum revenue received if activated.

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

A significant risk associated with the AOLR is that considerable costs will have been incurred in setting up the systems to trade and potentially wind farms may not sign up at all. Therefore in the contract for the AOLR, the AOLR delivery agent must either guarantee a minimum number of windfarms for a minimum contract length, or else a minimum fee per year for the service, regardless of the uptake.

If the windfarms do not sign up to the AOLR, the fees for the AOLR should then be incurred by all market participants. It is essential that a situation does not arise where 2 participants sign up for the AOLR and then 2 participants have to cover all of the AOLR costs.

It is also important that the AOLR does not discourage competition for commercial aggregators to enter the market.

**10. 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.**

Yes Cenergise does agree that there should not be an upper threshold limit for wind participation in the AOLR. The higher the participation, the lower the fees. However the AOLR should not discourage competition for commercial aggregators to enter the market. Therefore the AOLR should not receive additional incentives which may prevent commercial aggregators from entering the market.

If commercial offerings exist in the market then participants should provide commercial and other reasons why they haven't availed of a commercial offering to be eligible for the AOLR service. If there isn't a limit then any incentives implemented should definitely not prevent generators from moving to a commercial service.

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**11. 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.**

Small participants, other than wind, should be considered eligible for participation to the AOLR. Bidding into the ex-ante timeframes will present a significant commercial burden on small participants and thus this service should be offered centrally. The AOLR could both sell the power in the DM and IDM and submit the nominations to the TSO. For predictable generation technologies consideration needs to be given as to whether balancing market participation is in effect price taking or not as the costs of the AOLR would have to reflect the complexity of the trading undertaken.

Small supply companies should also be given the opportunity to avail of the AOLR in order to reduce their internal trading costs. The AOLR would purchase power in the DM and IDM according to the demand forecasts and then submit the nominations. The framework needs to be clear on the separation of supplier wholesale and retail liabilities and the provision of wholesale market collateral.

Cenergise proposes, for market transparency and mitigation of market power, that sufficient ring-fencing measures are implemented if one entity provides both generation and supplier AOLR services.

**12. 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?**

Cenergise is of the view that generators should be grouped according to their technology and likewise suppliers should be grouped separately. The grouping methodology is more transparent and is more aligned with the I-SEM high level design for unit bidding. In addition grouping means predictable generation does not share the risks associated with unpredictable generation.