



EAI Response to SEMC Consultation on the Aggregator of Last Resort Framework

SEM-14-106

Electricity Association of Ireland

Markets Committee

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The Electricity Association of Ireland (EAI) is the trade association for the electricity industry on the island of Ireland, including generation, supply and distribution system operators. It is the local member of Eurelectric, the sector association representing the electricity industry at European level.

EAI aims to contribute to the development of a sustainable and competitive electricity market on the island of Ireland. We believe this will be achieved through cost-reflective pricing and a stable investment environment within a framework of best-practice regulatory governance.



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Introduction

EAI welcomes the opportunity to respond to this consultation. Our members are committed to the development and implementation of a new market design that is compliant with European Network Codes and supports government targets for wind generation.

EAI reserves comments on any of the options proposed in this consultation until the objectives of the consultation are clarified further and there is greater clarity around REFIT and the ISEM balancing market design. Notwithstanding these reservations, EAI identifies a number of basic principles that should apply to an AOLR service including that any AOLR must not compete with commercial offerings and the TSO should not be responsible for procuring the service.

General Comments / Principles

Clarity re overall framework

The comments in this response are made in the absence of detailed design decisions relating to both I-SEM's interaction with renewable support mechanisms as well as the I-SEM balancing mechanism. Both are integral to how variable generation will participate under I-SEM and by default have implications for the operation and design of an AoLR as well as the operation of the market as a whole. We urge that the RAs revisit this consultation and consult again when such detailed design decisions have been made.

Demand for aggregation services

At the AOLR Workshop held in Dundalk on the 19th of December 2014 it was not immediately clear to participants what demand there would be for this "Last Resort" service (given that most small variable generation have an agreed route to market through PPA contracts with Suppliers, which is in itself an aggregation service). It would be beneficial if, in making their assessment of the most suitable AoLR framework, the RAs could provide at least some indication of the likely uptake of the service from small generators and to what extent this will not be fulfilled by commercial offerings in the market. This would serve to ensure that assets do not become stranded and/or unnecessary expense is incurred through an over-engineered solution.

Intended Beneficiaries

Related to the previous point, it is imperative that the intended beneficiaries of an AoLR service are defined as it is not entirely clear from the consultation what problem the RAs are attempting to solve. A clear distinction should be made between an AoLR (which is considered necessary in the context of I-SEM) and what is referred to as an Off-taker of Last Resort (OoLR) (which was recently introduced in GB in response to a different problem). In EAI's view these are two distinct models, with each providing a different service, as defined below:

- i) Seeking market access only, e.g. small out of support wind farms, as envisaged in the HLD.
- ii) Seeking off-take contracts (in the form of a PPA), as per the GB OoLR model.

Clearly the first model outlined above is what the I-SEM HLD envisages as an AoLR mechanism to facilitate market access for smaller generators. The latter has the potential to be in direct competition with commercial aggregation services providing a service which is not intended under the HLD and is not necessitated by the market design. Furthermore it would carry with it potentially significant regulatory risk in terms of ensuring that such an outcome does not arise.

Commercial Aggregation v AoLR

Commercial aggregation already occurs in SEM and will continue to exist under I-SEM in the form of PPAs and intermediary services. It is imperative above all other factors that, regardless of the framework chosen, an AoLR service does not impede on existing commercial aggregation services. Commercial Aggregators must be able to differentiate favourably from the AoLR in terms of price (including fees and credit terms) and/ or product offering (functionality) as well as contract term. Given the current commercial options available in the market, the potential use of the AoLR as a first resort by investors must be avoided as it could lead to unnecessary additional investment.

Noting under Paragraph 1.1.2 of the consultation that the stated intention of the AoLR is *“to help mitigate risks for smaller variable generation units in transitioning to a new market design.....and will act as a backstop route to market for certain variable generation”*, EAI believes that the stated intention of the AoLR should be, as its name suggests, *“to act as a last resort (or backstop) route to market adopted by smaller variable generation units as a means to gain market access **only**”*. This is consistent with the I-SEM HLD. This should be the over-riding driver of the AoLR design until such a time as evidence exists to show that there is no commercial aggregation market being provided on an ongoing basis, otherwise there is a risk it will become the aggregator of first resort option for some participants.

AoLR Models Proposed in SEM-14-106

In the absence of an understanding of how the market timeframes in the I-SEM are to be designed and some lack of clarity regarding objectives for the AoLR in the consultation paper, EAI is unable to express a preference for any of the AoLR Models put forward in SEM-14-106 and therefore restricts its comments to the following high level principles that should be adhered to.

- Any AoLR model must not compete directly with the off-take market that currently exists in SEM and will continue to exist under I-SEM and therefore must only act as a route to market, as envisaged in the HLD.

- As the AoLR is not a market issue (option to obtain a commercial off-take contract still exists), the cost of the service should be borne only by beneficiaries of the service.
- Establishing the AoLR framework and procuring the service provider should clearly be the role of the RAs regardless of the legislative requirements. We note that legislation is a dedicated workstream in the I-SEM Project Plan.
- It is EAI's strong view that the TSO should not be responsible for procuring this service as there would be material conflicts of interest in them being the counter-party to contract for the provision of these services. Clearly the TSO should also not provide the service in-house for reasons outlined in the consultation paper.
- Participation should only target smaller generators with insufficient scale to invest in trading resources to access the market directly, which is the stated intention of the HLD. Again, this is a provision of last resort and should not be accessible to abuse by parties who can and should manage their own portfolios. [Ensuring beneficiaries carry the cost would be dissuasive in this regard.]
- Notwithstanding grid code definitions for an aggregator, AoLR eligibility should not extend to small demand participants. In EAI's opinion, this is not the role of an AoLR.

Any alternative AoLR options developed or proposed during the course of this consultation should satisfy the above principles and should be published for consultation.

Conclusion

In this response, EAI has reserved comment on any of the options proposed until the objectives are clarified and there is greater clarity around REFIT and the ISEM balancing market design. Notwithstanding these reservations EAI has identified a number of basic principles that should apply to an AoLR.

We look forward to further engagement on this subject as I-SEM detailed design progresses and remain open to discussing these and other design matters at your convenience should this be required.

Electricity Association of Ireland, 30th of January 2015



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