

ElectroRoute Energy Trading  
NCI Business Centre  
Mayor Street  
IFSC  
Dublin 1

Warren Deacon	Kenny Dane
CER	Utility Regulator
The Exchange	Queens House
Belgard Square North	14 Queen Street
Tallaght	Belfast
Dublin 24	BT1 6ED

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### **RE: Consultation on the Aggregator of Last Resort Framework SEM 14-106**

Dear Warren, Kenny,

We welcome the opportunity to respond to the SEM Consultation on the Aggregator of Last Resort (AOLR) framework.

Over the last number of years, ElectroRoute has invested heavily in establishing a proprietary trading platform which features:

- 24 \* 7 trading capability;
- A pan European footprint with daily trading activities across Ireland, UK, Netherlands, France, Italy and Germany;
- Active trading in Day Ahead, Intra Day and Balancing Markets in jurisdictions which have already adopted the EU Target Model;
- A robust risk management and back office infrastructure.

When this platform is combined with our extensive market knowledge, we feel that ElectroRoute is uniquely positioned to offer an aggregator service to independent generation to enable their efficient integration into the I-SEM market.

ElectroRoute want to provide this aggregator service as a commercial, competitive offering and it is our intention that we will provide the best terms in the marketplace, which should surpass the terms of any appointed Aggregator of Last Resort.

It is our view that it is important that the rules regarding commercial aggregators are confirmed by the Regulatory Authorities in parallel with the framework for the AOLR. It is impossible to design a good AOLR service without knowing what commercial aggregators will and will not be permitted to do.

In the appendix to this letter we set out our responses to the individual questions posed by the Consultation paper. However we would like to take this opportunity to make two points which we believe are critical to ensuring that commercial entities enter the market to provide aggregator services to independent generators. The paper states that the AOLR mechanism “will be designed to avoid distortion of market outcomes, and minimise the risk of crowding out of alternative commercial solutions”. Accordingly:

- We believe that the Aggregator of Last Resort should provide a relatively passive service to parties who decide to participate in the service. The main objective of the AOLR service should be on reducing the administrative burden that participation in the active I-SEM markets presents to small generators. We feel that commercial entities who offer an aggregator service to market participants will be better placed to offer a more sophisticated offering in relation to active trading in the DAM, IDM and BM, pooling risk, optimising revenues and minimising imbalance costs.
- It is our view that there is a risk that the AOLR options as set out in the Consultation Framework will act as a disincentive to commercial solutions as the AOLR is not sufficiently penal. We note that in the UK market, an Offtaker of Last Resort is currently being implemented and the pricing for this service has been suggested at £25/MWh<sup>1</sup>. While we are not suggesting that the I-SEM AOLR solution should attract such a high charge, we do believe that there should be some disincentives incorporated into the AOLR structure so that it is really viewed as a “last resort” in order to provide an incentive to commercial offerings to enter the market.

ElectroRoute looks forward to continuing to engage with the Regulatory Authorities as the I-SEM design progresses and in particular in relation to the AOLR structures.

Kind Regards,



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Caoimhe Giblin  
Head of Client Services

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<sup>1</sup> DECC: Supporting Independent Renewable Investment: Offtaker of Last Resort September 2014

## Appendix – Response to questions

### **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 Paper outlines four potential functions of the AOLR:

- Undertaking trading in the DAM, IDM and BM
- Pooling of risks across the portfolio
- Assuming market responsibilities (eg signing up to the Trading and Settlement Code)
- Submission of nominations to the TSO

We agree with these potential functions and it will be our intention to provide these functions through our commercial offering. However we do have some reservations regarding how practical the concept of “pooling risks across the portfolio” will be in practice. We feel that it is unlikely that independent wind generators will be willing to accept forecast errors for other windfarms which may be less correlated to forecasts.

### **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?**

Of the three models outlined in the Paper, Option 3 is our preferred option.

It is our view that independent generators will not agree to Option 1 (Portfolio Settlement Aggregator) as it will require that they accept wind forecast risks from other generators. Further, Option 2 (Individual Settlement Aggregator) will be unpalatable and impractical for generators as this option requires their active participation in forecasting and nominating their power on a 24\*7 basis.

As per the Consultation Paper, Option 3 (Passive Aggregator) will be a mechanistic arrangement within the rules of the I-SEM – relatively straightforward and less expensive to implement than the other options considered. This is particularly important when there is uncertainty regarding the volume of capacity likely to avail of the AOLR services.

Accordingly Option 3 is ElectroRoute’s preferred option.

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

As noted above, it is ElectroRoute’s intention to provide aggregation services in the new market. We envisage providing this service in a commercial capacity and it would not be our preference to become the AOLR service provider.

### **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.**

As noted in our response to question 2 above, Option 3 is our preferred model which, when compared with Options 1 and 2, would be a relatively simple and inexpensive solution to

implement. Accordingly we deem that this should be captured as part of the detailed design of the I-SEM. It is our view that the TSO is best placed to implement the design of the AOLR within the I-SEM market design.

**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.**

As detailed above, Option 3 is our preferred option which would not require a party to be selected as preferred agent. If an alternative option is selected and if the TSOs are selected as the preferred agent for establishing the AOLR framework, it would be our view that the TSO should carry out this function in house as:

- there is a high chance that the volume accessing the AOLR will be small, in any competitive tendering process it will be hard to find a suitable party with the requisite appetite, skills and infrastructure to perform a low volume AOLR service, and
- there is a risk that any appointed AOLR service provider may not deliver the required level of service or performance

We believe in order to protect against these two scenarios occurring, the TSO will need to be able to provide a fall back solution to an outsourced AOLR service.

**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?**

This will depend on the option selected by the AOLR and the method of allocating the costs of establishing and maintaining the selected structure. Option 3 will be the most cost effective to implement. It is our view that the costs of the services of the AOLR should be borne by those parties who utilise the service. See also our response to question 9 below.

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

We agree with the transparency measures proposed in the Consultation Paper and agree with the RA that the availability of this information will be helpful to encourage commercial entities to enter the market and also to facilitate generators selecting the best available service.

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

Our preferred option is to implement Option 3, Passive Aggregator. As this option would be implemented through a mechanistic solution within the overall ISEM design, this option would not require an incentive structure embedded within it.

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

It is our view that the Regulatory Authorities should operate on the principle that the costs of the service should be borne by the users of the service.

In the first instance we believe that a detailed review needs to take place to establish:

- The costs associated with each of the three AOLR options outlined in the paper or at a minimum the costs associated with the establishment of the preferred option; and
- The volume of capacity which is likely to be of the AOLR services

Without this information it is very hard to make an informed assessment of the optimal mechanism for allocating costs to users. It appears that Option 3 will be the least costly solution to implement and this structure reduces the risk of a scenario of stranded assets occurring. This is part of the reason Option 3 is our preferred structure for establishing the AOLR.

**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.**

We agree that no upper threshold limit for wind participation in the AOLR should apply

**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.**

We agree that smaller participants, other than wind, should be considered eligible for participation in any aggregation service, be it an AOLR service or a commercially offered aggregator service. This should include other renewable plant (eg biomass, hydro and solar) and also thermal plant who decide they wish to avail of an aggregator arrangement.

**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?**

It is our view that participants other than wind should be grouped separately as outlined in the AOLR Consultation Paper, to reflect their different risk profiles and also to ensure transparency of information in the market for other market participants.