



Energy for
generations

Response to:

Consultation on the Aggregator of Last Resort Framework

SEM-14-106

January 30th 2015

Introduction

ESB welcomes the opportunity to respond to the Consultation on the Aggregator of Last Resort Framework. General comments are given in Section One below. Section Two contains answers to the specific questions raised in the consultation paper.

1. General Comments

• Demand for AOLR

The design of the Aggregator of Last Resort (AOLR) framework needs to be cognisant of the demand that will exist for the services of an AOLR. Since many smaller variable generators in receipt of subsidies will already have a PPA contract in place with a Supplier, there may be limited demand for an AOLR service. It is therefore not clear who the intended recipients of an AOLR service are, indeed the discussion at the Regulatory Authorities (RA) workshop on December 16th seemed to suggest demand for this service would be low. More clearly defined objectives based on clarity around these points would greatly assist in framing the overall design and ensure a solution of appropriate scale and function.

• AOLR Model Options

ESB is of the firm view that the AOLR should provide a backstop, last resort, route to market option for variable generators. The establishment of an AOLR should not hinder the formation or activities of commercial aggregators in the market. As such, the AOLR should have the following features:

- The AOLR offering to generators should be less favourable than a commercial aggregator's offering
- The contract to provide AOLR services should be awarded to the provider offering lowest management fee
- The AOLR should be an enduring rather than transitional feature in the I-SEM, provided the AOLR service is a backstop option only

The AOLR should trade against its own forecast at the DA timeframe, on a price taking basis at least initially.

• Governance

ESB believes that it would be more appropriate for the RAs rather than the TSOs to be responsible for the establishment of the AOLR framework and the subsequent procurement of the AOLR service. Any legislative and licencing issues should not be a significant barrier to this option and should be readily dealt with within the "Legislation" work stream of the project.

• Other Points

We note that no upper limit on variable generator size is proposed for inclusion in the AOLR. Similarly, there should be no upper limit on generator size in any aggregated portfolio.

2. Consultation Questions

i. 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?

ESB agrees that the AOLR should undertake trading activities in the DAM, IDM and BM on behalf of eligible generators. However the AOLR should act in a passive, price taking capacity rather than trying to actively optimise positions.

ESB believes that the pooling of risks and imbalance costs across the portfolio in the manner described in the consultation paper is only appropriate if the intention of the mechanism is to provide bidding and settlement transaction services i.e. market access only. As noted above it is not clear, if this is the intention of the mechanism or whether an off-take type service (where a PPA is offered and balance risk transferred to the off-take) is envisaged. If the latter then, ESB does not believe that the pooling of risks across the portfolio as described in the consultation paper is appropriate. If the former is intended, then participants should earn revenues on a best endeavours basis from the AOLR.

ESB agrees that the AOLR may assume some market responsibilities, such as signing up to the Trading & Settlement Code, on behalf of the participating generators.

With regard to operational processes, such as submission of nominations to the TSO, ESB agrees that the AOLR may carry out such activities on behalf of participants.

ii. 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?

ESB does not agree with either the first (portfolio based approach) or second (individual based approach) options. Both these options are in many ways replicating the functions of how a commercial aggregator would operate and therefore do not appear to offer a “last resort” function.

While there may be merit in the third option (mechanistic arrangement) it is not clear what the cost of this option would be relative to the volumes using the AOLR service. Also the limitation with the Intraday trading capability may cause an issue for the market as a whole if overtime volumes using the AOLR service increase. Another potential disadvantage with this option is the administrative burden and credit cover requirements would still lie with small participants.

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- The AOLR offering to generators should be less favourable than a commercial aggregator’s offering
- The contract to provide AOLR services should be awarded to the provider offering lowest management fee

- The AOLR should be an enduring rather than transitional feature in the I-SEM, providing the AOLR service is provided as a backstop option only
- The AOLR should trade on a price taking, passive basis. Any profit made by the AOLR should be offset against the cost of the service, with any surplus distributed back to those who are participating in the scheme

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

Yes, ESB intends to provide aggregation services on a commercial basis in the new market. ESB has not yet considered the provision of AOLR services under I-SEM.

iv. 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

It is more appropriate that this role sit with the RAs rather than the TSOs. The establishment of an AOLR framework and the procurement of the service provider would be a move away from the core activities and functions of the TSOs. Any licencing and legislative issues should not prove a barrier to this option.

v. 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, ESB would not support the TSOs carrying out this function in house. The consultation itself includes a myriad of reasons why this would be inappropriate, including potential conflict of interest, requirement for ring-fencing, increased regulation and departure from TSO core activities.

vi. 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?

ESB believes that the AOLR service should be paid for by the participants of the scheme and providing that the offering is less favourable than commercial aggregation services, we do not consider there to be a cross-subsidisation issue.

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

ESB supports transparency of the AOLR.

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

As a last resort backstop option, the AOLR should not be acting to replicate a commercial aggregator and optimising profits

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

If the costs of the AOLR service are borne by those using the service only, then depending on this volume of generation, the costs may be prohibitively high. The RAs should establish the actual demand for AOLR services so that this can be factored in when deciding on cost allocation.

Stranded assets associated with the establishment of this service would be a problem if the TSO were to carry out this function in-house on a transitional basis. As discussed earlier, ESB does not consider it appropriate that the TSO should act in the role of AOLR. The third option described in the consultation, the mechanistic approach, could also result in stranded assets if it is chosen and the solution is transitional and not enduring.

ESB would support the AOLR remaining as an enduring solution in the market, rather than as a transitional measure, providing it is a last resort option, rather than replicating the role of a commercial aggregator. Under enduring arrangements, stranded assets should be minimised.

x. 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.

ESB agrees that there should be no upper threshold limit for variable generation participation in the AOLR. Furthermore, there should be no upper threshold limit for the inclusion of such generation in an aggregated portfolio, not just the AOLR portfolio.

xi. 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.

The AOLR should not be limited to wind generation only, however ESB does not believe that small demand participants (small suppliers) should be eligible for participation in the AOLR because forecasting demand should be an integral part of a supply companies business.

xii. 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?

Any generator availing of the AOLR service should earn revenues for their output that are commensurate to the level of imbalance risk which in turn is related to the predictability of that output. In any event this must be less than earnings from a commercial aggregator, but would imply categorisation by different technology classes.