

**Power NI Energy Limited
Power Procurement Business (PPB)**

**I-SEM Detailed Design
Aggregator of Last Resort Framework**

Consultation Paper

SEM-14-106

**Response by Power NI Energy
(PPB)**

30 January 2015.



Introduction

PPB welcomes the opportunity to respond to the consultation paper on Aggregator of Last Resort Framework.

General Comments

PPB are surprised that a consultation on an Aggregator of Last Resort (AOLR) is being held so early in the detailed design phase of the I-SEM. There is no evidence at this early stage in the design of the I-SEM that an AOLR is required or what level of utilisation of such a service is likely to be such that the requirements could be properly scoped. To determine the need for an AOLR it is necessary to understand how renewable generators will participate in the I-SEM. However, the participation of renewables remains uncertain and clarity is unlikely until the overall market design is concluded and the changes to the renewable support mechanisms are determined.

The majority of renewable generation either operate in the SEM through intermediaries with whom they have PPAs or operate outside the SEM, again through bilateral arrangements with Suppliers, and there is no reason to assume that this will change in the I-SEM. This is effectively a commercial aggregation service that offers market based services to renewable generators where they choose not to participate directly. At the AOLR Forum held on 16 December 2014, doubt was raised by Wind representatives as to whether there was enough volume to justify the cost of creating an AOLR. This supports our view that it is currently too early to determine both how renewable generators will participate in the I-SEM and whether the existing aggregation services will change or cease to be provided in the I-SEM.

At the Forum it was stated that the intention was to hold a tendering process to appoint the AOLR provider and that the contract would be for five years, at which point it was anticipated that commercial aggregators would be operating in the market and the AOLR function would no longer be needed. This aligns with the HLD which states in paragraph 4.7.1 that the arrangements will be transitional. PPB agrees that if it is ultimately determined that an AOLR is needed, it must be a short-term backstop that provides a safety net but which does not distort the market or disrupt the arrangements that appear to have worked successfully in the SEM. Therefore the terms offered by an AOLR should be discounted compared to those available through commercial channels such that there is a strong incentive to access the market through commercial market based arrangements. As an AOLR is not a market design issue, given that it seems likely that commercial channels will remain available, the cost of operating an AOLR should be borne by the service users.

PPB believes that the RAs should not make any decision on the AOLR at this stage but should consult again on the AOLR when there is a better understanding of how renewable generators are likely to participate in the I-SEM and therefore the potential uptake of any AOLR service is more quantifiable, which is unlikely until the overall market design is determined and changes to the renewable support arrangements have been clarified.

Specific Questions

Q1. 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?

As noted in our general comments above, it is not clear what problem the AOLR is meant to solve or indeed whether there is a problem. The need, role and objectives need to be clearly defined so that an appropriate AOLR service is designed to meet the requirements. PPB believes that the main function of the AOLR is to provide a backstop route to market for small generators that have not secured a commercial arrangement. As titled, it should be a last resort and therefore the terms offered should be discounted such that there is a strong incentive to access the market through commercial market based arrangements.

Q2. 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?

As stated above the AOLR should be a safety net so that it is a last resort and does not interfere with the use of commercial aggregators (be that Suppliers or standalone aggregators). Given that it is to be a transitional arrangement, a mechanistic model would appear to be the most appropriate and is likely to be the least cost method. Therefore a model similar to option 3, Passive Aggregator, would be the best approach.

Option 1 risks becoming a long term solution of choice and this could be a barrier to commercial aggregators thereby distorting the market. Option 2 is also likely to be higher cost than option 3, as it requires additional processes and procedures for the AOLR, still requires a large input by the renewable generators, and is therefore unlikely to be attractive or cost effective.

Q3. Would you consider providing aggregation services in the new market? If so, would you consider being the AOLR service provider?

It would be necessary to understand the full details of all the energy markets before one could make a decision on whether to provide the AOLR services.

PPB has performed such a role in the past and its licence could accommodate such a role without much change. However any consideration of PPB undertaking an AOLR role would require detailed discussion with the Regulator and it may be difficult to perform such a regulated role on an I-SEM wide basis which may mean an AOLR is needed in each jurisdiction.

Q4. 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.

PPB believes that the responsibility for establishing the AOLR framework and the subsequent procurement of the AOLR services should be that of the RAs. The need for legislative changes should not prevent this. In the consultation paper, the RAs have already recognised the issues with assigning this role to the TSOs and EU legislation was one of the reasons PPB and SONI were required to be fully separated.

Q5. 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.

PPB believes that the responsibility for establishing the AOLR should be that of the RAs. There would be no difference whether the TSOs carried out the function in house or out sourced it as the TSOs would still remain responsible and hence in conflict with their wider role as TSO. Again this was a primary reason for the unbundling of PPB and SONI.

Q6. 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?

Not enough data has been provided to answer this question. However, the potential clearly exists since users of alternative services will be incurring their cost directly and would in addition be asked to fund a competitors costs. PPB considers the general principle should be that the costs should be recovered directly from the users of the service.

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

PPB believes that the principle should be to strive for full transparency within all aspects of the I-SEM.

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

Until the design details of the energy markets are known it is not possible to say what incentives are reasonable. A mechanistic model (i.e. option 3) should not require incentives.

Q.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 difficult to assess without knowing the role and potential utilisation of the service. However, as noted earlier costs should be minimised and recovered from users of the service.

Q.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.

Any AOLR service should only be available to small participants (as outlined by the RAs in the consultation paper).

Q.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.

If an AOLR is to be established, it should not be restricted only to wind but should be available to any small renewable generator.

Q.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?

PPB believes that, even under a mechanistic AOLR, different technologies should be grouped together as a different approach to bidding for each group will be required to reflect the different risks for each technology and similarly the settlement could be different to reflect the different forecasting error risks and imbalance risks for the different technologies.