



Gaelectric Holdings Plc.

Feedback Paper to:

RLG Workshops 1.1 - 1.3

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Public

1 INTRODUCTION

Gaelectric Holdings Plc. (Gaelectric) welcomes the opportunity to provide feedback to the joint Regulatory Authorities following the first phase of I-SEM detailed design working groups. We commend the inclusive approach taken to communicating with industry participants throughout the detailed design process. We believe the programme into 2015 needs to be more intensive given the depth of discussion required on each topic. To that end, we request the joint Regulatory Authorities publish a more detailed agenda including subtopics to be discussed, and further reconsider the allocation of time to each topic. We feel that the next phase will be better served by having more workshops dedicated to fewer topics. We have proposed a revised agenda in this document.

The comments contained herein are reflective of the high level information presented to date to the RLG panels.

2 RLG MEETING COMMENTS

This section comments on the topics discussed at each Rules Liaison Group in sequence.

Section 2.1 refers to the working arrangements of the Rules Liaison Group, and the wider working arrangements of the I-SEM Detailed Design process.

Section 2.2 refers to the first Rules Liaison Group meeting, which discussed the following topics:

- EUPHEMIA Update
- Treatment of Transmission Losses
- Treatment of Firm Access

Section 2.3 refers to the second Rules Liaison Group meeting, which discussed the following topics:

- Constraints
- Curtailment
- Priority Dispatch
- De Minimis

Section 2.4 refers to the third Rules Liaison Group meeting, which discussed the following topics:

- Currency
- Participant Registration
- Clearing and Settlement
- Credit Risk Requirements
- Treatment of VAT
- Billing and Funds Transfer
- Shipping (Financial)
- Market Information

2.1 Working Arrangements

Gaelectric support the on-going efforts of the joint Regulatory Authorities to communicate and work with industry regarding the design of the I-SEM. We believe the initial working group discussions have fostered healthy debate amongst industry participants. Over the forthcoming meetings, further consideration should be given to increasing the intensity of this industry engagement as the programme develops into the “markets”

workstream in the first quarter of 2015. The “building blocks” workstream (RLG 1.1 – 1.3) has been adequately facilitated in terms of the timeframe afforded to discussion on these topics, however RLG 2.1-2.3 meetings are likely to be more complicated topics which materially impact the commercial position of participants in the I-SEM.

Given this, we believe the working arrangements need further consideration and additional time for discussions on each topic is at minimum a pre-requisite to accommodate the required depth of discussion and consideration. By way of example, workshop 2.2 includes three topics on “shipping”, “reaching a feasible dispatch” and “balancing”. By itself, the balancing market discussion arguably warrants a dedicated meeting to discuss all elements and distil the discussion points down to some clear themes to be consulted on at a later date.

The same considerations similarly apply to the Day Ahead Market & EUPHEMIA, Intraday Market, Reserves & Tagging and Flagging which all require detailed discussion at the Rules Liaison Group meetings.

To manage this, **we propose that the joint Regulatory Authorities alter the timetable and include three more RLG meetings within the “markets” discussion.** We have included a proposed schedule in the conclusion of this document.

At meeting 1.2 it was proposed that industry participants could present on the issues within topics and perhaps propose potential solutions for discussions at future RLG meetings. Gaelectric support the intent to provide a voice to industry, however in consideration of our comments above we suggest that this requires further working groups with additional time reserved for the discussion and proper debate of topics.

In respect of the wider programme, **we would like to take the opportunity to flag the lapse in time between consultations, particularly in respect of the Capacity Mechanism workstream.** We believe the lag between consultations (5-6 months) raises serious concerns for the resourcing of this project. Upon reviewing the programme of the similar programme for GB, it is clear that a more intensive programme is required. We believe **the design will be better facilitated by five consultations at a minimum, whereby an iterative process can be introduced, rather than a one stop shop for decision making.** Following on from this, were a more intensive schedule agreed, we believe up to 6 weeks is not appropriate in all instances for responses. This could be reduced depending on the subject matter.

Gaelectric are considerably concerned at the structure and timeline of the capacity mechanism workstream given the reliance for new entrants being successful in the auction before they can reach financial close. Absent of confidence here, many new entrants may not be in a position to commission until 2021 (4 years post auction). **New entrants will require certainty (in the form of investment contracts in early 2016 for plants that have achieved a high pre-qualification hurdle) ahead of the auction in 2017** if a substantial investment hiatus is to be avoided. This accommodates the requisite certainty needed to advance to financial close and commence the construction programme in advance of 2017.

We believe it would be remiss of the joint regulatory authorities to not address these concerns immediately owing to the impact that prompt decisions can have on investment. Any delay to such decisions risks a delay to investment decisions. We welcome further discussion in this area with the joint RAs.

2.2 Rules Liaison Group Meeting 1.1

2.2.1 EUPHEMIA UPDATE

EirGrid provided a comprehensive update of the EUPHEMIA algorithm and the progress in coming to an understanding of how this platform will work for the island of Ireland. We support the endeavours of EirGrid who are currently progressing plans for a commercial testing programme within industry. We look forward to engaging with EirGrid on this.

The successful development of the EUPHEMIA programme on the island of Ireland is crucial to the success or not of the I-SEM on the island, and given its importance we request regular industry updates on the topic.

2.2.2 TRANSMISSION LOSSES

There was a healthy debate regarding transmission losses in the market, particularly concentrated on the policy as implemented in the SEM.

Gaelectric recognise the position of the joint regulatory authorities who do not have the mandate to alter existing policy at present. Notwithstanding participants concerns regarding wider policy issues, we believe the proposals as published where volumes traded at the Trading Boundary are net of TLAFs are reasonable and there is no obvious reason why the RAs should not continue with this as an option.

2.2.3 INTRERCONNECTOR LOSSES

It was discussed whether the interconnectors (East West and Moyle) should be treated as a single line or separated in the algorithm. The losses experienced on the East West interconnector are appropriately 6% while those on the Moyle interconnector are circa 2%.

By taking the weighted average losses on both lines as the transmission losses (where both interconnectors are modelled as a single line in the algorithm) means that the price based deadband for trading across the interconnector is increased and as such the opportunity to trade and maximise the dynamic nature of the market design is more limited.

By treating as separate lines, the capacity on the Moyle interconnector would fill up on a shorter price deadband and contribute to more efficient trading between both the I-SEM and BETTA markets.

Moreover should a further interconnector between the island of Ireland and GB or France be realised, one can assume that the average losses will be increased further (assuming a policy of modelling a single line), and hence the deadband for cross border trade will increase in line with this.

For this reason Gaelectric support the consideration of both Moyle and East-West (and potential others in time) interconnectors as separate lines within the trading algorithm.

2.2.4 TREATMENT OF FIRM ACCESS

The joint regulatory authorities presented a number of options for the treatment of firm access in the I-SEM to the RLG. The options are as follows:

1. Plants can participate in the DAM and IDM up to the level of firm access. All non-firm running is achieved in the balancing market. Further consideration would whether this should include all non-firm plant or whether it should exclude priority dispatch units.
2. Plants with can trade its full capacity (firm and non-firm) in the DAM and IDM. The following are the proposed methods for managing situations whereby the TSO cannot accommodate such plant above their firm access:
 - a. Plant must trade out non-firm volumes in the IDM if notified, in enough time, that it will not be dispatched above its firm access level by the TSO.
 - b. The plant must buy back any non-firm volumes in the balancing market at its DA price, or some price related to its actual trades (where trade took place in the IDM)
 - c. The plant must buy back any non-firm volumes at the imbalance price. Its dec price would be ignored in the price setting.

It is immediately clear that **option 1** is contrary to the policy objectives of the SEM Committee to promote DA liquidity in the I-SEM. Whilst the quantum is unclear, it is possible that up to (or indeed greater than) 1,000 MW could be operating at any one time in the market on a non-firm basis. This volume of generation, particularly wind, trading solely in the balancing market will have a detrimental impact to the proper functioning and efficiency of both the DAM and the Balancing Mechanism.

Furthermore, the discussions on priority dispatch have suggested as a potential option that priority dispatch is treated as a non energy balancing action in the balancing mechanism. These combined policy options would present a significant price risk for priority dispatch plants.

We take cognisance that priority dispatch plants could be excluded from these requirements however we continue to believe that even for conventional plants, forcing volumes into the balancing market is inappropriate and will contribute to inefficient market practices as a result.

In respect of **option 2a**, our concerns are that each participant will have a differing view on what can be regarded as being *notified in time*. This option puts pressure on both the TSO and the participant in respect of their responsibilities to notify and trade out respectively and it would likely be argued that sufficient time would be at least 6 hours out. This tends to nullify the proposal given the TSO quite often will not have access to the requisite information 6 hours or more ahead of real time to make effective decisions on feasible dispatch. Furthermore, situations will arise where the TSO does not indicate to the market participant in sufficient time that their non-firm capacity will not be in a position to be dispatched, and closer to real time a constraint arises which deems this to be the case; the non-firm capacity will effectively already have been deemed firm and will be paid the constraint cost.

In addition to the points above, option 2a is likely to be viewed as being discriminatory to smaller independent players who may choose not to employ an IDM trading strategy to reduce the overhead cost of operation in the I-SEM.

Option 2b can be viewed as more being reasonable for non-firm generators given it does not expose those generators to penal imbalance costs, nor does it require those generators to match a trade in the IDM at notice. Notwithstanding this, by clearing trades at a price not in line with the balancing mechanism price, there is likely to be a mismatch in total revenues paid in/out which should be considered as part of any design.

We view **option 2c** as being inequitable given that the imbalance price is likely to be volatile and as a result it is inappropriate to punish generators, primarily renewables, for attempting to trade ahead of the balancing mechanism. The value of trading in the DAM would be questioned under this proposal.

We remind the joint regulatory authorities that numerous SEM Committee papers refer to incentives for DA trade for wind. We strongly believe that wind generators should not be incentivised by the threat of penalties to trade DA whilst at the same time facing penal imbalance prices for their non-firm capacity which cannot be dispatched. It is conceivable that the imbalance price may leave some generators in a net loss position where their capacity is entirely non-firm.

In summary, we do not believe option 1, 2a & 2c represent proposals which are in keeping with the wider objective to promote equity amongst participants and further to incentivize DA liquidity.

2.3 Rules Liaison Group Meeting 1.2

2.3.1 CONSTRAINTS

Gaelectric welcomes the proposed continuation of policy ensuring that generators are not disadvantaged by constrained output. The following remuneration methodology has proposed for resolving constraints in the balancing market:

- A unit that is 'constrained down' due to a dispatch instruction pays back the lower of its decremental offer price or the balancing price.
- A unit that is 'constrained up' due to a dispatch instruction receives the higher of its incremental offer price or the balancing price.

Gaelectric support the use of such a methodology. The RAs need to consider the cash flow deviations which will occur as a direct result of this methodology and this should be considered as part of the consultation process.

We note the following in the constraints description of discussion paper 1.2;

"This simplifies the need to identify the reason for each and every action in the Balancing timeframe; implicitly, any "in-merit" dispatch instruction will be settled at the balancing price, and any "out of merit" dispatch will be settled at the unit's bid price."

The above description is contrary to the proposals for compensation discussed earlier. Take for example a unit that is physically nominated at 100MW and later dispatched to 50MW. This "in-merit" unit will pay the lower of its bid price or the balancing price according to the proposals published, however the section quoted above is at odds with this where it assumes this unit will repay the balancing price. We recommend that the joint RAs provide clarity on this position in the consultation.

This proposed methodology for constraints payments raises the issue of bidding regulation and the requirement for generators of bidding opportunity cost which will differ for each generator depending on their DS3 performance (assuming the use of availability and dispatch based payments for DS3), and we would welcome discussion on this as a topic of its own in the forthcoming RLG meetings.

Furthermore in relation to the methodology proposed, it is aimed at non-energy balancing actions in description; however the same methodology is applied for energy actions in the examples provided via presentation at the RLG meeting. This should be clarified in the consultation paper.

Concerning outstanding questions which should be considered ahead of the consultation, we believe some attention should be given to the methodology for contracting for reserves, given the importance of this within the feasible dispatch process and the policy for constraints.

In addition, the physical nomination process will be considered as the starting point for TSO feasible dispatch processes; asset less traders will not be in a position to make a physical nomination however, and this should be considered further in advance of the consultation process, given the likely involvement of asset less traders in the market and the necessity to alter positions for traders equally to physical units.

Within the RLG meeting there was some discussion about retaining constraints after the DAM, i.e. the DAM and physical nominations are operated on an unconstrained basis. Gaelectric support this position.

2.3.2 PRIORITY DISPATCH

Gaelectric welcome the continuation of the priority dispatch principles into the I-SEM. We tend to agree with the position of the joint RAs that the most relevant timeframe for priority dispatch is the balancing timeframe given that by virtue of its bidding (irrespective of price taker/price maker bidding status) in the DAM, the majority of priority dispatch plants should have a physical nomination. Continuing into the IDM, we do not believe an avenue exists for the TSOs to ensure priority dispatch owing to the fact that this market matches individual bids between generators.

The balancing market therefore is the natural timeframe for the TSO to administer priority dispatch for generators. The methodology for doing so will be crucial towards sustaining the commercial position of these generators as we progress into the I-SEM marketplace.

To this end, we strongly **oppose priority dispatch being treated as a non-energy balancing action** where the revenue will be dependent on the Decs of the corresponding plants who are turned down to facilitate priority dispatch. To do so will result in the further risk to revenues given the volatile nature of generator Decs owing to the opportunity costs for those generators who are constrained down (particularly concerning the opportunity cost for said generators in terms of DS3 system services and potentially Reliability Option contracts).

In restricting priority dispatch to the balancing timeframe, we must consider and clarify the position for renewables in the DAM. It is conceivable, and indeed likely, that renewables will prefer to bid in as price makers given the EUPHEMIA algorithm's methodology for implementing price taker status involves a price of between -€500 to +€3,000/MWh. It is not clear why a renewable generator would accept this offer structure given in the DAM and IDM those generators will not have priority dispatch and therefore will be reliant on their commercial offers to achieve and update a physical nomination in any case. Renewable generators will not wish to run at any cost, and the risk of operation in a significant negative price scenario can be mitigated by bidding in a simple price maker offer.

The result of becoming a price maker in the DAM and IDM opens up the question of remuneration for curtailment for trades that were achieved under price maker status. The SEM Committee themselves have referred to the treatment of curtailment of *price-taking* generating units in reference to the tie breaker consultations. Gaelectric would welcome clarification of this position in the consultation. Moreover, from a commercial standpoint it stands to reason that all price maker generators who have achieved a physical position in the DAM or IDM should be remunerated where their dispatch position deviates from this.

A further question raised by the joint RAs on the point of priority dispatch is whether priority units should act as price takers in the balancing mechanism. It is clear this needs further consideration to account for priority

units with a legitimate short run cost, however for renewables such as wind, wave or tidal it is reasonable to expect these units will participate on a price taker basis in the balancing mechanism, provided the trades made at DA and ID timeframes are respected.

2.3.3 CURTAILMENT

As an initial comment on the area of curtailment, as referred to above, Gaelectric request clarification on the policy for remuneration for curtailment of price making generators. It is possible that some wind generators will wish to operate as a price maker in the DAM and IDM, and needs to be clarified whether the current policy on curtailment which relates to all wind generation or price taking generation.

Owing to the clarity that is required, we prefer not to comment in detail on specific proposals. Notwithstanding this, our position continues to be that all wind should be paid for curtailment in the I-SEM. This will ensure there are continued signals in the market to reduce curtailment in the future. Furthermore, we do not support overly complicated structures that place further risk, or indeed uncapped exposure to volatile balancing prices, on windfarms. We believe to do so would be asymmetrically penal on wind generators.

It is clear from the RLG meeting and subsequent discussion regarding the mitigation of curtailment that the TSOs and RAs need to consider the scenarios where the IDM will not distinguish the matching of excess wind and local demand, and therefore the interconnectors will not be optimised to export flows.

Given the need to maintain system security (SNSP, min online constraint etc.), there is an obvious need to come up with a solution to this which will in effect curtail a windfarm twice given the SNSP constraint is likely to be breached where a generator purchased local excess wind to replace its firm position (and do so at a reduced price, thereby creating enhanced value).

2.3.4 DE-MINIMIS

Gaelectric appreciate the concerns of many within the industry regarding the administrative burdens implicit within I-SEM day-to-day operations, however we would ask that any further consultation on this area equally considers liquidity in the market, and further the need to foster competitiveness in the aggregator market. We do not support a reduction in the limit for de-minimis to below 10MW.

Were an increase in the de-minimis level to be supported, the volume of negative generation in the market would increase. Under current market structures there is a monetary benefit for suppliers contracting with below de-minimis generators (which in theory should be passed on in part to the contracting party), and assuming this continues into the I-SEM, we believe these monetary benefits must be extended to commercial aggregators in order to foster competition of terms and to underpin the competitive nature of aggregators in the I-SEM. Absent this, commercial aggregators would be unable to pass on the benefits to renewable generators, which undermines competition in the market.

It was suggested by the joint RA panel at RLG 1.2 that where a commercial aggregator contracts with for example 11 x 1MW generators (assuming a 10MW de-minimis level), this commercial aggregator will be considered as a non de-minimis generator/aggregator. In a similar scenario, a supplier will continue to be treated as de-minimis, thereby creating a commercial advantage for suppliers over commercial aggregators. Such a scenario would serve to stymie the development of the commercial aggregator market which is a key enabler for small renewables.

2.4 Rules Liaison Group Meeting 1.3

2.4.1 CURRENCY

Gaelectric support the continuation of a dual currency market whereby the 'currency cost' is socialised amongst participants.

There seems to be general support within the RLG to progress with a tariff that would resolve distortions across a number of timeframes. We believe the general exposure of the market will be significantly reduced given the more rapid settlement timeframes in any case.

2.4.2 PARTICIPANT REGISTRATION

Gaelectric favour a streamlined registration process across all timeframes and markets to reduce administrative burden and ensure there are no barriers to entry for smaller participants. We welcome further discussion on the envisaged entity to manage this, however at first impressions we believe that EirGrid may be best placed.

In terms of the query regarding a simpler implementation process for smaller players, we believe that all industry participants, irrespective of size should require minimum information to be presented upon registration, and in this regard our preference is to streamline the process for all participants rather than concentrating on one section of the market.

2.4.3 CLEARING AND SETTLEMENT

It seems reasonable that the I-SEM will require more frequent settlement. Our preference would be for invoicing for weekly and for this to be treated on a portfolio level to avoid unnecessary administrative burdens. To treat on an individual unit basis risks placing substantial overhead cost on a large number of participants.

2.4.4 CREDIT RISK REQUIREMENTS

There was a healthy discussion at the RLG meeting regarding the management of collateral and the form of collateral to be accepted. This clearly needs further industry engagement and consultation, as it was not clear that agreement had been reached on the most suitable way forward.

In general, where an opportunity exists to streamline collateral requirements, Gaelectric would be supportive of such an approach in order to offset the possibility of over collateralisation in the market.

2.4.5 TREATMENT OF VAT

Gaelectric are of the opinion that the joint RAs need to discuss this further with the relevant revenue authorities before consulting with industry.

2.4.6 MARKET INFORMATION

There was a general consensus at the RLG meeting that there should be a high level of transparency in the market and therefore the SOs and RAs should publish as much information as possible, in a timely manner such that it is relevant for participants in optimising their trading strategy. This includes TSO central forecasting for wind which should be published in a time period which can be utilised by the wind industry.

In the interest of transparency, we strongly favour information being published on central websites rather than requiring participants to check individual generators websites for generator outages, availability updates etc.

3 CONCLUSION

Gaelectric commend the joint regulatory authorities for their efforts to open the lines of communication in the development of the ISEM detailed design. Notwithstanding this, we believe that the programme concerning the ‘markets’ workshops needs to be reconsidered, and we further wish to flag our concerns at the timetable on the CRM design.

We request that the joint Regulatory Authorities make public comment, as a matter of urgency, on how they intend to support new entrants such that investment does not suffer a hiatus. This is particularly relevant for the design of the proposed Reliability Options. The I-SEM programme must not create undue uncertainty to new entrant developments, which we believe to be the case at present.

3.1 Markets Workshops Programme

Gaelectric have voiced concern at the “markets workshop schedule and the need for increased intensity in the forthcoming markets workshops. We have taken the liberty to propose a schedule of workshops that we believe will better serve the depth of discussion required. We welcome further discussion on this proposal.

Workshop a	Day Ahead Market & EUPHEMIA
	Participant Nomination Process
Workshop b	Intraday Market
	Fall-back Procedures
Workshop c	Reaching a Feasible Dispatch
	Tagging & Flagging
Workshop d	Balancing Market
	Imbalance Settlement
Workshop e	Shipping (Physical)
	Units Under Test
	Metering
	Global Aggregation
	Instruction Profiling
Workshop f	[Outstanding topics raised in 1.1-1.3 – these are topics which were considered better served for discussion in the markets workshops]
	Review of Building Blocks in context of Markets workshop, particularly: <ul style="list-style-type: none"> •Treatment of Firm Access •Priority Dispatch •De-minimis level •Constraint Consideration of building blocks topics in the context of future work streams including but not limited to; market power, forward market, CRMs
	RLG Review

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