IWEA feedback from Building Blocks Workshops

26 November 2014

IWEA welcomes the opportunity to provide feedback following the I-SEM ETA detailed design workshops. These workshops have provided a useful forum for gaining an understanding of how it is intended or possible to apply the existing policies from the SEM into the new market design, and we believe that this process should be continued going forward. There are a number of questions which remain open at this stage, and we look forward to engaging further in the consultation process to come. In the interim, however, we wish to avail of the opportunity to provide initial feedback. It should be stated that, while discussion of the individual topics is useful, there is a significant level of interaction between different areas, some of which are to be discussed in the future, and these need to be taken into consideration before providing a considered opinion on each of the Building Blocks. In the absence of complete information on the detail of areas not yet covered, there may be a need to revisit some of the areas addressed in the first set of workshops as more detail becomes available. This submission should be read in this context.

While we note that the intention of these workshops is not to revisit existing policy, but to look at how policy should be implemented, we do have some concerns that in certain areas the design of the market could have material implications for the implementation of policy decisions.

Process

IWEA welcomes the approach that has been taken to date through the use of workshops which have allowed for valuable debate and the emergence of issues. The current approach of the RLG is to look at topics discretely. However IWEA is concerned that valuable debate and issues emerging will not be complete without some type of end to end view or discussion. Further workshops might therefore be required in order to bring all strands together and also to revisit issues that have been raised.

Looking forward to the topics planned for the Markets workshops IWEA is concerned that there will not be sufficient time in the three planned workshops to cover all the issues. IWEA would also welcome the opportunity to present ideas and/or proposals at future workshops where appropriate.

The interaction with renewable energy support schemes is an important area for consideration and it is important that the RAs engage with the relevant departments in relation to this important area. IWEA is currently engaging with DCENR to provide clarification on the interaction of REFIT with I-SEM to provide certainty to the industry during the I-SEM detailed design phase.

Euphemia Testing

IWEA supports rigorous and robust commercial testing of Euphemia which should include days where there is a range of wind generation and demand forecasts, i.e. there should be high, medium and low wind days as well as high, medium and low demand days, with various combinations of these tested. Testing for a full year should be carried.

Treatment of transmission losses

While we note that the intention of these workshops is not to revisit existing policy, but to look at how policy should be implemented, we do have some concerns in relation to whether the current treatment of losses is appropriate. IWEA has previously stated that TLAFs should be uniform. IWEA has argued to date that the cost of losses should be socialised for wind generators as the TLAF does not achieve its purpose as a locational signal and generator sites have already been decided through the Gate process in Ireland and significantly determined by the planning process in Northern Ireland. By the time a generator has completed these processes, the TLAF may have changed significantly. As such, the relevance of cost reflectiveness as a primary objective is diminished and should not be a deciding factor in terms of methodology selection as it would be unfair to discriminate between adjustment factors for generator losses when developers were unable to take this consideration into their investment decision.

IWEA questions whether the treatment of transmission losses is consistent with how GB and other markets account for losses. It is our understanding that losses are socialized in many markets. Further consideration needs to be given to this to ensure that generation in the I-SEM is not at any disadvantage relative to cross border trades. Clarification needs to be sought as to how the treatment of losses is to be addressed under the Network Codes and whether the policy is aligned with the objectives of the target model.

The treatment of transmission and distribution losses should also be considered in relation to renewable support mechanisms such as the EMR CfD.

In relation to the treatment of the interconnectors, IWEA is of the view that treating the interconnectors separately provides a more realistic representation and is likely to be more efficient. In particular, having a lower deadband will facilitate flows on the interconnector at a lower price differential and is more in line with the target model principles. Clarification needs to be sought as to how the treatment of losses on interconnectors is to be addressed under the Network Codes and whether the policy is aligned with the objectives of the target model.

Treatment of Firm Access

The principle of Firm Access should be retained.

Renewables with mandatory priority dispatch under EU Directives must be given priority in the I-SEM. This requires that both firm and non-firm wind generators get priority over a firm conventional generator.

IWEA believes that the spirit of how the current policy on Firm Access, respecting the legal obligations in relation to mandatory priority dispatch, is implemented in SEM should be reflected in the design of the I-SEM.

Until further details on the market design are provided next year it is difficult for stakeholders to fully assess the impact of each of the options. However we can provide the following initial comments on the options which have been presented in the paper:

- Projects with non-firm access should be allowed to trade in the different market timeframes. By not allowing this, there will be a large tranche of projects removed from the DAM. This would go against the market design being adopted which seeks to promote a liquid day-ahead market.
- The option proposed whereby non-firm generators would be required to trade away their constraints is not appropriate. This would require detailed knowledge of constraints sufficiently far ahead of real-time for generators to be able to make these trades, as well as placing onerous requirements on generators to unpick trades. The TSO is better placed to take the risk since they have the information. The ability of the TSO to provide information early in the ex-ante timeframe about whether their full output can be facilitated on the system should be investigated.
- The last option proposed in the discussion paper (where non-firm generation have to buy-back at imbalance price if they are constrained down) is very unfair – it leaves them with a big exposure and too much risk, and is in fact a retrospective change in the market. This would be a disincentive to trade day ahead market.
- The option whereby the plant must buy back any non-firm volumes at the DA price, or some price related to its actual trades (including trades in the IDM) would appear to be the most appropriate, as it is revenue neutral for constrained energy and reflects the current treatment of non-firm generators in the SEM. However this should be managed centrally and could be carried out via a post-processing step. The requirement for generators to unpick the bids that had been made previously in real time would require advance information on the level of constraints on the system and places onerous requirements on participants.

Constraints

There is a significant level of interaction between constraints and the issues to be discussed in the forthcoming market meetings. These interactions must be taken into consideration as it is difficult to provide an opinion on the treatment of constraints in the market without knowledge of these interactions. However, the proposals in relation to the treatment of constraints appear to be reasonable whereby:

- A plant that is constrained down due to a dispatch instruction shall pay back the lower of its decremental offer price or the marginal energy Balancing price; and
- A plant that is constrained up due to a dispatch instruction shall receive the higher of its incremental offer price or the marginal energy Balancing price.

There is a need for robust and transparent tagging of actions by the TSO to ensure that the correct pricing is used for balancing energy, and to determine whether a plant that had been constrained on should be treated as balancing energy if it was “in merit” rather than as a non-energy balancing action.

Clarification is required as to whether unit nominations used for dispatch correspond to the actual trades made, or the trades that a participant expects to make..

There is an understanding that plant that has been constrained will no longer be able to participate in the markets for the level of energy which has been constrained. Further work would need to be carried out in relation to the contractual arrangements that would need to be in place to facilitate this as there would be significant commercial implications involved in foregoing the right to trade in later timeframes. For example, the constraint payments would need to be able to compensate a generator for forgone DS3 system service payments.

The treatment of constraints should be the same in NI and ROI. It is important that the decision in relation to outturn availability is made as soon as possible. This is an outstanding policy decision which has major implications for decisions relating to constraints in the I-SEM. It will also have implication for the design of the capacity remuneration market. It is inappropriate for generation, connected either at transmission or distribution level, to realise zero outturn availability for network issues.

Local market power considerations for generators behind constraints must be addressed through appropriate bidding rules or bilateral contracts with TSOs. How local market power considerations are addressed will impact on the balancing market given that it is proposed the balancing market will open during the intraday market timeframe.

Priority Dispatch

Irrespective of prices offered by priority and non-priority generators (or deemed to be offered by priority plant under an implicit "price taking" structure in any market), conventional generators are turned down first, and priority generators are turned down under the dispatch hierarchy and tie-break rules.

IWEA agrees with the proposal that Priority Dispatch would most likely be implemented in the Balancing timeframe. However it will only be when we see further details in relation to day-ahead and intra-day markets will we be able to determine whether this is appropriate. The TSO, taking consideration of loading and ramping rates, will need to take into consideration Priority Dispatch prior to the balancing timeframe.

Priority Dispatch generation should be able to forego its price taking status to become a price maker. There are generators in SEM who are price makers but also have priority dispatch. This should not be lost in the new market. Not all Priority Dispatch generators have the same cost base, so regulated pricing may not be appropriate. Further consideration would need to be given to the detail of how this would work, for example through bidding rules.

The bid price floor for price taking generation of -€500/MWh is considered to be a risk, and another definition for priority dispatch for the balancing timeframe may be more appropriate (The -€500/MWh corresponds to EUPHEMIA which relates to the DAM market).

The discussion paper proposes that:

"Another possible option would be to specify that priority dispatch units which must be dispatched if at all possible (irrespective of the cost of re-dispatching other plant) receive the Imbalance price rather than having an offer accepted at an associated offer price."

The exposure of priority dispatch generation to the imbalance price for all generation would not be acceptable and any trades made in the European markets must be respected. Again, if this were to be implemented there would be no incentive for priority dispatch generation to participate in the DAM and IDM, which is one of the main objectives of the market change.

As stated at the outset, this is an initial view being provided in the absence of detailed information on the balancing timeframe in particular. A possible way method of implementing priority dispatch could include:

- Trades from ex-ante Day Ahead and Intraday markets must be respected to promote trade in the DAM and IDM.
- Any remaining generation which is not traded but which is available gets priority dispatch in the balancing timeframe and receives a price for this energy which is yet to be determined (this depends on the detail yet to emerge).
- This payment is based on availability signal for projects which are firm and on MW generated for projects which are non-firm.
- Payment should continue to be made for energy which is constrained **and** curtailed – the distinction is contrived.
- Should compensation for curtailment cease in the market, then there needs to be clear tagging of actions to differentiate between constraints and curtailment.

Curtailment

There should be a focus on introducing signals into the market to reduce curtailment, rather than talking about how to reduce the payments. Consideration should be given to introducing a signal into the market to reduce curtailment in the balancing timeframe.

In the discussion paper there is reference to wind generation causing curtailment. It should be noted that wind generation does not cause curtailment, it is a feature of a system which has high levels of inflexible generation and which is not designed to accommodate large amounts of wind energy. In all this there needs to be **an increased focus on delivering DS3**. By compensating for curtailment in the market the signals are provided to encourage a reduction in curtailment.

IWEA believes that the complexity in the options proposed for “clawing back” the payments for curtailed energy appears to be overly complex and do not appear to be compatible with market design. **There should continue to be compensation for curtailment in the new market to ensure the signals are there to develop solutions**.

The definition of curtailment may need to be revisited with a tighter definition of what constitutes a system constraint and what constitutes a curtailment event.

In relation to the options put forward in the discussion paper:

- The first option proposed places onerous requirements on generators to develop bids which reflect their successful DAM and IDM trades. This is an unnecessary burden on participants and would make it less attractive to trade in DAM.
- The second option proposed has the potential to leave a generator exposed to the imbalance price for curtailed energy. There would be no incentive for these generators to participate in the Day Ahead Market if there was uncapped exposure in the balancing market.
- Consideration needs to be given to the option for priority dispatch generation to forego its price taking status and to become a price maker in the market. In this situation any movement away from the matched trades would need to be treated in the same manner as all other generators.
- IWEA supports the proposal that TSO countertrading should still be possible under the new market design, however we note that this is still a remedial action and that the signals should be built into the market to reduce curtailment where possible.
- In the situation where a generator foresees a curtailment event and trades in such a manner so as to alleviate the curtailment (i.e. to drive exports), there needs to be a mechanism in place whereby the value of that trade is realised. Limitations of the system (e.g. SNSP limit) should not be passed onto market participants if the tools are not available to manage these risks. It is for this reason that constraint payments are provided in the market, and why there should be no differentiation for curtailment.

De Minimis Generation

- IWEA believes that a De Minimis level of at least 10MW should be maintained in the new market design.
- Below De Minimis generation should have the option to go into the market if they choose to do so.
- The design of the De Minimis arrangements in the market should not give un-justified advantages to suppliers over aggregators or vice versa.

Currency

Dual currency should continue to be facilitated in the market.

Consideration would need to be given to how the currency risk would be managed between different markets in different timeframes – does the exchange rate relate to the time at which the trade is made, or when the energy flows?

Consideration would need to be given to the alignment of the exchange rate used in I-SEM with that used in GB for converting to euro bids for EUPHEMIA. Considerations will also have to be given to the different timeframes.

Participant Registration

The registration process should be as simple as possible to reduce the administrative burden on participants. A single point of contact appeared to be the preferable option where it is appropriate. This single point of contact could include a validation/consistency check. This could involve an automated form/process where a participant could opt in or out of different timeframes, and would only have to provide the information relevant to the timeframes in which they are participating, and the technology being used.

Simplified processes for changes should be introduced with further streamlining where appropriate.

Intermediaries should be continued.

Clearing & Settlement

IWEA would welcome the expected shorter settlement timeframes in the new market, where appropriate, which is likely to reduce the credit risk requirements as there will be less exposure.

The settlement of the Balancing Market presents more challenges than the ex-ante market timeframes as outturn demand and wind is required as well as metered generation and usage from all market participants (this being the reason that the current SEM ex-post prices are indicative until D+4). A longer settlement period for Balancing could therefore be appropriate, and requires further consideration.

Netting of trades across different timeframes should be allowed.

Streamlining of documentation would be welcomed where appropriate to reduce the administrative requirement. This could include invoicing on a portfolio basis rather than a unit basis where appropriate. More consideration should be given to possibilities in this area.

Credit Risk Requirement

It is important to maintain a collateralised market however there may be benefits of single collateralisation across all timeframes. The options should be kept as open as possible at this stage until further detail emerges.

Further detail is required in relation to credit requirements which may be specified in the Capacity Remuneration Mechanism. The credit requirements for participating in I-SEM must be optimized in order to minimize the costs of participation in the market.

More information is required as to what options might be available for the imbalance market.

The decision paper will need to take account of what can be implemented.

Treatment of VAT

Further discussion is required on this with the Revenue Commissioners. Consideration to whether reverse charging can be used in ROI. Consideration also needs to be given to whether the VAT treatment of the Reliability Option will be different to that of the existing capacity mechanism.

Shipping (Financial)

Further work is needed on whether a shipping agent will be required.

Market Information

The level and granularity of market information made available should be addressed within the Market Power and Forward Liquidity work streams. However, prior to the outcome of this work stream being determined, current levels of transparency with regards to market information should be targeted.

A bulletin board where all outages could be published so that all participants can see it would be welcomed. This would satisfy some of the requirements under REMIT. Central reporting for REMIT requirements covering orders to trade as well as outages should also be considered.

The publication of information is good in the interest of transparency. Consideration needs to be given as to whether the publication of bids in I-SEM could put participants at a disadvantage relative to other jurisdictions.

Information in relation to demand and wind forecasting is likely to be of use to participants and this should be made available at various timeframes.

Information on countertrading should be published.

Summary

Once again IWEA welcomes the opportunity to engage at this stage of the I-SEM detailed design arrangements. The comments within this paper are an initial view based on the workshops which have been held to date. There may be a need to review the policy implementation arrangements as more information becomes available on the other aspects of market design. We also look forward to engaging in forthcoming workshops and consultation processes.