Energy Trading Arrangements Detailed Design

Building Blocks Consultation Paper

Power NI Response

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Introduction

Power NI welcomes the opportunity to respond to the SEM Committee's Consultation Paper on the Building Blocks of the ISEM Energy Trading Arrangements (ETA).

As the Regulatory Authorities (RAs) are aware, Power NI is the largest electricity retailer in Northern Ireland. Power NI is part of the Viridian Group which has within in its portfolio a retail position in Northern Ireland and the Republic of Ireland, as well as a significant thermal and renewable generation presence.

Power NI is however a separate business. Power NI's legal, managerial and operational separation is mandated via licence condition and it is within the context of being a supplier without vertical integration; that Power NI has approached the ETA workshops, assessed the issues presented and now comments in advance of the ETA Consultation Paper.

General Comments

Prior to responding in relation to the specific topics Power NI has a number of general comments in relation to themes which cut across the entire ETA determination.

Timetable

Despite the working assumption that the target implementation date is Quarter 4 2017, this deadline remains a significant challenge for the RAs and market participants. Power NI welcomes the RA's commitment to engagement and the publication of project plans is fully committed to engaging constructively with the RAs throughout the detailed design process.

The RAs should remain cognisant however that despite the presumed extension, the project remains on a critical path and contains little contingency. Such time pressure has required a number of interdependent workstreams to be scheduled in parallel. This can create a silo approach to design which, without adequate consideration of the interdependencies, risks unintended consequences and a sub-optimal design.

Additionally, compressed timetables have in previous major market projects, led to a shortening of the design phase and a reduction in the implementation and testing phases. This represents a significant risk to the market and its participants.

Process

The discussions at the RLG meetings have highlighted that attempting to consider the presented Building Blocks is difficult without a broad understanding of the new markets.

As the design of the market arrangements emerge and are modelled, unforeseen impacts on the Building Blocks may come to light. Mindful of this, the RAs should consider how to address such issues via review checkpoints etc.

When considering the Detailed Design of the ETA, the RAs have clearly stated an intention to, wherever possible, transfer existing policy decisions from SEM to ISEM. This has been a theme of a number of the detailed discussion points and Power NI, cognisant of the RA position, has not sought to reopen or comment upon policy decisions made by the RAs which affect the Building Blocks below. Lack of comment on existing policy decisions by Power NI should be read in this context.

Consultation Topics

Treatment of Transmission System Losses (TLAFs)

The implementation and treatment of losses should be as clear, automated and as reflective of the physical network as possible. This principle should also apply to the setting of interconnector's TALFs which would lead to separate representation.

While it is correct to state that the supplier TLAF is set to one; the extent that the losses set for generators are not reflective of the physical reality, ultimately creates error which could be seen in suppliers Balancing Market exposure. An error which is currently jurisdictional in nature yet impacted by an all-island TLAF setting methodology.

Suppliers also explicitly pay for Distribution Losses (DLAFs).

Suppliers accept some level of risk in this area and this will be factored into forecasting, hedging and positions taken in earlier markets. To assist this, clarity of approach is fundamental. Power NI would also welcome consideration of the proposed tariff solution in relation to global aggregation error as discussed at the Markets Workshops.

Constraints

Discussion of constraints is inextricably linked to the area of "flagging and tagging". Network constraints are inevitable due to the nature of the transmission network in the ISEM. Actions taken by the TSOs to balance the market outcome with the physical requirements must be clearly understood, defined and accounted for.

From the perspective of a Supplier, it is imperative that constraint costs are accurately tagged and therefore do not appear in the price signals of the balancing market. Constraint costs are socialised in the current SEM; Power NI believe this principle should transfer to the ISEM. Allowing the costs to appear as energy balancing actions in the price setting of the balancing market does not socialise constraint costs but creates balancing market risk for Suppliers who have an inherently variable demand. This would disproportionately push constraint costs to domestic customers.

Firm Access

A suppliers comment in relation to firm access is limited. It is important however that the treatment of firm access does not lead to dysfunctional outcomes in the Balancing Market.

Priority Dispatch

Priority dispatch is enshrined in legislation. The facilitation of this requirement within ISEM therefore is purely an implementation question. Power NI believes that the realisation of this legislative requirement should not adversely impact the implementation of a properly functioning, cost reflective balancing market.

Similar to the constraints considerations, allowing a policy cost to appear as an energy balancing action in the price setting of the balancing market does not socialise the cost but creates balancing market risk for Suppliers who have an inherently variable demand.

The RAs should also carefully consider the commercial behaviour likely to result due to the running guarantee given by priority dispatch and ensure that constraints are minimised and variable generation has a requirement to ensure that a properly functioning forward market develops. Consideration must also be given to the impacts on the Day Ahead Market. A scenario which encourages or permits renewable generation to only appear in the Balancing Market will create scarcity in the earlier market timeframes and ultimately a cost premium.

The revised approach included within the consultation appears to rely on the de-linking of physical notifications as discussed at the Markets Workshops. Power NI would encourage the SEMC to carefully model the impact on the Balancing Market of renewable generation turning up at that stage, as well as the likely TSO response. Only with such modelling can the SEMC avoid unintended consequences of isolated decisions.

It will also be important for the RAs to set clear boundaries on the TSO actions in relation to priority dispatch. Clearly accepting a high cost Balancing Market offer to increase demand, solely to facilitate an additional 1MW of renewable generation is not an efficient economic outcome nor in the interests of consumers.

Curtailment

At a principle level, the curtailment of lower cost generation should be minimised wherever possible.

The implementation of the curtailment compensation decision is complex in the ISEM context. From a Supplier perspective the implementation decision must ensure that, as an unintended consequence, renewable generation is not dis-incentivised to trade in the Day Ahead and Intra Day Markets. Similar to the issue of priority dispatch, a lack of liquidity in the Day Ahead Market will create scarcity premiums.

De-Minimis Level

The current de-minimis level affords developers a choice in their route to market. For small developments which are part of a wider portfolio the current SEM has advantages; for independent developers who wish to avoid participation costs, contracts with Suppliers are available. This choice facilitates diversity in the range of generation developments and removes the barrier to entry which participation would be for small developers. The contracts are also critical in enabling the development to secure the necessary finance.

Suppliers provide contracts, a route to market and assume the associated volume and forecasting risk. In many cases it is the contract and financial strength of the Supplier which facilitates the financing of the development.

Finance providers will look to the counterparty and proposed contract before providing the development funds. This may not be available under other arrangements and therefore may adversely impact a developer's ability to secure finance and ultimately the pipeline of new generation. This would be a significant detrimental unintended consequence should the RAs change the de-minimis level.

The current treatment of de-minimis reflects the physical reality of local embedded generation meeting local demand and reducing larger scale generation requirements. An artificial change, divorcing generation from a corresponding customer base; distorts the principle of local generation reducing local demand and would introduce a discriminatory two tier generation pricing regime. In addition, it would no longer reflect the physical reality.

Power NI believes that the current policy has facilitated the dual goals of generation entry and renewable development. Given the RAs stated position in relation to current policies, Power NI can see no reason why this policy decision would also not transfer to ISEM.

Currency

Power NI welcomes and supports the SEMC position in relation to the treatment of currency and its associated costs.

The principle of dual currency was a fundamental building block of the SEM. Power NI believes that to not continue with the dual currency arrangements pushes cost to Northern Irish generation, supply and ultimately customers. In the context of a single island market it could also be viewed as discriminatory.

In terms of the implementation methodology and costs, Power NI believes lessons can be learned from SEM. The SEM implementation was correct in absolute terms. It was however extremely complex to implement, volatile, subject to a number of audit recommendations and entirely non transparent. Treating currency akin to a Market Operator or Imperfections Charge socialises the cost and provides the transparency and stability which participants require. Including it in a regulatory approved tariff also facilitates regulatory scrutiny.

Market Information

Power NI welcomes the RAs intention to publish as much information as possible. It is understandable that at this stage it is not possible to commit in detail re the timing or content of such information.