Power NI Energy Limited
Power Procurement Business (PPB)

I-SEM Detailed Design

Energy Trading Arrangements Building Blocks Consultation

SEM-15-011

Response by Power NI Energy (PPB)

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Power Procurement Business

Introduction

PPB welcomes the opportunity to respond to the Energy Trading Arrangements Detailed Design Building Blocks Consultation Paper.

In addition to providing PPB's comments on the specific issues discussed in the consultation, this response also highlights some concerns PPB has about the process being adopted.

Comments on process, engagement and timetable on the development of the I-SEM

PPB welcomes the Regulatory Authorities engagement with market participants in the development of the detailed design of the I-SEM. The three meetings on the building blocks were informative but also raised some concerns that we highlighted in our initial feedback and which we repeat again here. The size of the overall I-SEM project means that it must be sub-divided into smaller workstreams but it is clear, following the ETA workshops held to date, that the workstreams have strong inter-relationships and this must be recognised and accommodated during the detailed design phase of the overall I-SEM such that the wider picture is fully considered to ensure the overall market arrangements function cohesively and coherently.

It is increasing apparent that there remains a lot of detail to be addressed in the development of an efficient and coherent market and the timetable to go-live in Q4 2017 is already compressed. We remain concerned that there is little slack in the timetable and that any delay to the detailed design phase will lead to compression in the build, test and implementation phases of the project. This was a significant problem in the establishment of the SEM when many of the desired market design features were influenced and/or constricted by systems. This must be avoided in the I-SEM project and consideration must be given at an early stage to some contingency planning as to how the project could either have scope for delay, should that prove necessary, or be de-scoped to provide some slack that is inevitably required in major projects.

Detailed Comments

Transmission Losses

Transmission losses are a feature of every electricity network and to ignore them automatically creates an inefficiency that will inevitably result in additional costs for customers.

PPB believes that the current method of calculating TLAFs, on an ex-ante locational basis, should continue to be the policy in the I-SEM. However, we are opposed to the proposed approached for dealing with TLAFs in the I-SEM that suggests traded volumes are calculated at the Trading Boundary and physical nominations are made at the station gate. All volumes, pricing and nominations in the DAM, IDM and BM should be made at the same point on the system and the notional trading point would seem to be the most appropriate. It is important that all balancing actions should be priced at the same notional point as to adopt a different approach introduces unnecessary

complexity in the design. Having a different trading point for the balancing market relative to the DAM and IDM would also create unnecessary operational risk for participants, particularly as the IDM and BM are open and trading in parallel. Having different trading points would create confusion and risk for all participants and must be avoided.

PPB agrees with the SEMC that the interconnectors should be modelled as two separate interconnectors within the I-SEM. This will make the calculation of currency costs and the Net Demand in each jurisdiction easier and may alleviate any potential VAT issues that could arise if they were treated as one virtual interconnector. We are not in favour of representing the interconnectors as two or more virtual interconnectors with different loss factors. We believe that this would introduce unnecessary complexity and increase the cost of systems for forecasting flows.

We note that the outturn loss factor correction will be discussed in the global aggregation solution however it is important that there is transparency around the loss factor error as this will provide an incentive for improvements in the calculation of the Loss Factors (both TLAFs and DLAFs).

Constraints

PPB agrees with the principle "*that a generator who is in merit should not be financially disadvantaged by a constraint",* which we believe should be maintained in the I-SEM. How this is best implemented depends on the details of the Balancing Market design and we have already provided feedback following the Markets Workshops and will comment on Markets consultation paper when published.

A key concern is that early TSO "balancing actions" may pollute the market and not deliver an unconstrained schedule in the ex-ante markets. This needs to be fully considered and analysed and as the TSO has responsibility for balancing the system, their actions must be properly Tagged and Flagged to ensure no generators (or other participants) affected by the TSOs' decisions are financially disadvantaged. Therefore the rules for tagging and flagging are critical to the integrity of the market and must be very clearly understood and defined.

Firm Access

PPB believes it is important to maintain a differential between firm and non-firm access in the I-SEM. However, prior to the detail of the design of the Balancing Market being concluded, it is difficult to provide fully cogent comments on how this should be implemented. We believe in the principle that no one should be restricted in participating in any of the energy markets therefore we agree that a generator has the right to decide if it wishes to trade above its Firm Access Quantity. We agree that compensation for constraints should only be applied on firm access levels in line with current SEM policy. We believe that any energy imbalances in the Balancing Market are exposed to the balancing price. Therefore we agree with the SEMC's proposal that:

1. there should be no restriction on participation in any of the market timeframes

2. where a generator trades in the ex-ante markets for its non-firm volumes and subsequently has its output reduced then it should be cashed out at the imbalance price.

We also agree that where possible, it would seem appropriate that the TSOs provide information to participants on the likely firmness of their non-firm access capacity to assist the participant's decision making in relation to trading opportunities

A final area related to firmness that must be considered relates to outages on the Transmission System and PPB recommends that the existing arrangements that apply in Northern Ireland should be maintained such that when a generator is available but is restricted because of an outage on the transmission assets, it should be free to trade in the markets with the TSO managing the transmission constraints through Non-Energy balancing actions.

Priority Dispatch

PPB agrees that Priority Dispatch is primarily relevant in real time and hence the Balancing Market is the market that must explicitly and definitively establish the rules.

We do not agree with the revised approach that Priority Dispatch generation can simultaneously be both price taking and price making. Given that the TSO must dispatch the PD generator any acceptance of INCs & DECs should not be allowed to influence and distort the balancing market price. Submission of INCs and DECs should mean that the PD generator gives up its right to Priority Dispatch such that the TSOs are then assessing such INCs and DECs on a purely commercial basis to achieve the least cost outcome for customers and are not being obligated to accept bids because the generator has priority dispatch which risks conferring considerable market power to those generators.

A further consideration is that the timelines for submission for Final Physical Nominations does not align with Priority Dispatch (particularly for intermittent renewable generators) where dispatch should really be based on realtime availability/capability of the generator. It would therefore seem that the FPNs for generators with priority dispatch could be the maximum capability of the unit. Again this needs to be considered carefully along with the detailed design of the BM.

It is therefore not possible to provide definitive comment on the implementation of PD until the design of the Balancing Market is known. We also consider that generators who are conferred the right of Priority Dispatch should be able to decide how they wish to register and trade in I-SEM (e.g. as price-takers or price-makers, but not both simultaneously although we believe the option to switch should be much more dynamic that exists in the current SEM).

In relation to Absolute Priority Dispatch, it would seem unreasonable for customers to be exposed to an unbounded cost and some criteria must be identified to establish rules and guidance for the TSOs. A further key principle must be that any such decisions should be deemed Non-Energy actions and should not affect the BM price.

Curtailment

Where curtailment payments are to be made, PPB considers that Priority Dispatch generators should be compensated for curtailment provided that they have firm access and have not given up their Priority Dispatch status to become price-makers. As curtailment is decided in realtime and hence during the Balancing Market timeframe it is not possible to provide definitive comment on curtailment and the payments therefor, until the design of the Balancing Market is known.

De Minimis Level

PPB considers there is no compelling reason to modify the De Minimus level at this stage as it can be reviewed separately from the detailed design. We therefore suggest that the current level of 10MW should be retained as the De Minimis level for all technologies.

Currency

PPB agrees with the SEMC that the I-SEM should continue to settle with Dual Currencies. We agree that any costs are socialised through an annual fixed tariff with any forecasting errors rolled up through a standard K correction mechanism and applied in the following year's tariff.

Market Information

PPB considers that the general principle should be to publish as much information as possible, and to publish it as soon as possible, which will provide full transparency and allow informed participation in all the Energy markets.

We do however have concerns that there may be restrictions that could mean the same principles would not apply to the publication of cross border market offers and bids. If this were the case, it would create an asymmetry that would be disadvantageous to indigenous I-SEM participants. PPB favours equal treatment with the publication of all market data, including in relation to cross-border bids and offers, that affect the outcomes for participants and customers in the I-SEM.