

IWEA feedback from Markets RLG Workshops

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IWEA welcomes the opportunity to provide feedback following the I-SEM ETA detailed design Rules Liaison Group 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 the topics below. In the absence of complete information on the detail of the market design, 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.

Process

IWEA welcomes the approach that has been taken to date through the use of workshops which have allowed for useful debate and the emergence of issues. This forum should be continued to be used for further aspects of the market design. One suggestion IWEA would make to further enhance the utility of these workshops would be to provide a clear framework, with reference to the I-SEM High Level Design and its philosophy, within which detailed design issues are explained and debated.

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.

I-SEM and the implications for wind generation compared to the current SEM

There are a number of differences between the current SEM and the I-SEM as outlined in the High Level Design (HLD) which will have significant implications for wind generators. These include the following:

- Market participants required to forecast output (wind forecasting)
- Moving from socialized balancing responsibility (current SEM) to individual balance responsibility (I-SEM)
 - Particularly difficult for wind due to forecast risk
 - Costs are not clear
- Imbalances require active management (through forecasting or buying/selling power in the intraday market)

Modelling

Transparent EUPHEMIA testing is required, including publication of all inputs and outputs, to ensure wind generators understand market dynamics and options for risk management.

Detailed bespoke modelling of dispatch and balancing arrangements under I-SEM is also required to understand market dynamics and facilitate an informed debate on the detailed design of the balancing market. Assuming the day ahead market as the starting point for dispatch, as seems to be the intention under the High Level Design, we suggest that any such modelling should be informed by EUPHEMIA testing and should ideally be an extension of EUPHEMIA testing workstream.

Day-Ahead Market

The Day Ahead Market will be based on the EUPHEMIA algorithm which has been developed and is already in use across Europe. It is essential that market participants have the ability to trial the algorithm to identify the most appropriate ways to trade using the algorithm. We welcome the discussions at the Rules Liaison Group in relation to participant testing on EUPHEMIA and look forward to being able to participate.

Balance responsibility is a big incentive to trade ex-ante. A wind generator that trades ex-ante should be better positioned than a wind generator that just relies on priority dispatch and “shows up”. The market design should ensure that the correct incentives are in place to attract wind generators to the ex-ante markets and not purely by penalising out of balance wind generators and introducing additional risks for trading.

Clarity is required as to how the Price Taking and Price Making concepts will operate in the DAM for wind generators. How this will work in Euphemia needs to be ironed out. Wind generators don't want exposure to significant negative prices. Our understanding is that EUPHEMIA will allow a generator to put in a range of values when it is available to run. More in depth analysis of the use of the EUPHEMIA algorithm is required and we look forward to engaging on the participant testing phase.

If a wind generator prepared to take on all the risk that other price making generators in the market will, it should be allowed to do so.

Clarity is required on whether there are likely to be bidding rules in place.

Fallback procedures

It is essential that there are fallback procedures in place in the event of market decoupling and that the triggers and the procedures are consulted on in further detail.

Intra-Day Market

Wind needs the IDM to be liquid to manage forecast risk, so the design should ensure this. One of the outstanding questions in relation to the IDM is whether there will be auctions which will condense liquidity in this timeframe? What is needed to drive this? Are there discussions ongoing with Ofgem in relation to this? The introduction of intraday auctions would mean that unless wind generators can accurately forecast their output prior to the auction they will face imbalance volumes, therefore it would be essential to have an auction as close to gate closure as possible.

Further information will be required on the operation of the XBID software which is being developed for the IDM. It has been stated that within this software no information is available on whether matched trades are from the same bidding zone or a different bidding zone. In light of the levels of

wind curtailment it should be investigated as to whether a signal can be included with a bid that it can only be matched outside the bidding zone, so that the energy produced is only available for export.

Interaction between IDM and BM

There is still some uncertainty in relation to the level of action that will be required from the TSO to manage the system, and the timeframes in which this action will be required. The market design needs to ensure that early TSO actions in the BM don't impact liquidity in the IDM to detriment of wind.

The question also arises as to how early TSO actions impact the formation of the imbalance price (which wind is very exposed to if can't forecast accurately and if there isn't sufficient liquidity in the IDM)? There will be a very clear need for accurate flagging and tagging of actions to identify energy and non-energy balancing actions. How will the TSO differentiate between constraint and curtailment? The role of the TSO in alleviating curtailment in I-SEM must also be clarified including how/if TSO countertrading will be required in I-SEM.

Balancing Market

Exposure of wind to the imbalance price should only be under circumstances where they forecast inaccurately and not in circumstances where they are moved away from preferred position for whatever reason (in the same way this is the case for other generators).

Wind needs reduced volatility in BM/imbalance to risk entering ex-ante markets. A larger 'Par' (marginal capacity setting the price) reduces exposure to potentially large Imbalance Prices.

Physical Nominations

There should be an option use the TSO forecast for PNs so that all generators don't have to submit PN. The generator should also be able to submit their own PN if they think it is more appropriate. More detailed consideration needs to be given to PNs and whether they should be linked to trades or not. Are there likely to be any adverse impacts? In particular the treatment of constraint/decremental actions for wind generators who do not submit PNs requires consideration.

Clarity is required around TSO Objective Function and whether the current function of minimising dispatch costs is appropriate in the new market design. Could this have the potential to distort the market signals if actions are taken too early?

Curtailment

The focus should be on reduction of curtailment in the new market design. It should be noted that the causes of wind curtailment are not in control of wind generators e.g. SNSP, minimum generation levels, etc. IWEA believes that the removal of compensation for curtailment is not compatible with I-SEM market design where it is the only system constraint that is not expected to be compensated. The market needs signals to ensure timely delivery of DS3 and increased SNSP levels. The decision to remove compensation for curtailment was linked to the delivery of DS3, which has been significantly delayed. The decision to remove compensation for curtailment in 2018 is not appropriate and needs to be revisited.

Conclusions

The challenge for the I-SEM Energy Trading Arrangements is to get the incentives right so that wind participates in the market.

If the risk is too great to participate wind will spill into balancing, making it harder for the TSO to manage and leading to an inefficient outcome with cost implications for consumers.

- Transparent EUPHEMIA testing is required to ensure wind generators understand market dynamics and options for risk management and need for bespoke modelling of dispatch and balancing arrangements linked to EUPHEMIA testing to inform the detailed design and debate of the balancing market.
- Different trading options will enable wind projects to manage risks more effectively
- There is a need for appropriate incentives to participate in ex-ante markets
- There is a need to ensure rules do not act as a disincentive to trade
 - constraint,
 - curtailment
 - priority dispatch
 - non-firm access
- The decision to remove compensation for curtailment in 2018 is not appropriate and needs to be revisited.