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Submission to
I-SEM Rules Liaison Group (RLG)
on
'Markets' aspects of the
Energy Trading Arrangements
Detailed Design

Prepared by Ierne¹



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"Wind does not cause curtailment any more than power stations cause constraint."

¹ Ierne Ltd is an energy policy specialist company, also involved in renewable energy project development and consulting. Details of its activities, publications and the author's bio are at www.ierne.ie

Rules Liaison Group phase 2 agendas

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Tagging + Flagging / Imbalance Pricing
Imbalance Settlement
Modeling I-SEM (Eirgrid)

Introduction

This submission sets out the main concerns of the Irish Wind Farmers Association (IWFA) on the I-SEM Energy Trading Arrangements Detailed Design, focussing primarily on the 'Markets' issues, following the last three Rules Liaison Group meetings in January & February this year.

IWFA's overall view is one of continued concern about the High Level Design of I-SEM (HLD), and the need to mitigate the most serious issues faced by wind, and specifically smaller wind projects, in the proposed I-SEM. The main concerns relating to the ETA are:

1. How the choice of design criteria, such as single vs. dual imbalance pricing, the size of the Price Averaging Reference (PAR), etc, will influence the volatility of the imbalance price. While high volatility should attract welcome services to the market, such as DSU, storage and flexible plant, all of which help wind in the long run, that same volatility will do considerable damage to the more exposed wind projects, like the 'out of supports', and could increase the PSO for supported projects, as well as discouraging wind from entering the ex-ante markets (which is not good for DBCs or interconnector flows). The UK has adopted a gradualist approach, which we ought to consider as well. Given all of the other uncertainties associated with such a significant market change, it would seem prudent to start the market with a more damped set of imbalance prices, and review the criteria which influence that volatility as the market matures and projects settle in. And once market experience is gained, hedging products ought to emerge which enable the more exposed projects to protect themselves from that volatility.

2. Grid inadequacies are the cause of constraint and curtailment, not wind itself. The role of the grid is to accommodate demand and generators, and there are specific EU legal obligations on the grid authorities to accommodate renewables and guarantee their transmission. It is therefore quite wrong for the RAs to allow increasing delays with DS3 and ATRs to affect the remuneration of renewable projects, never mind the further insult of removing compensation for curtailment altogether. Wind will continue to fight that incorrect discriminatory decision by the SEMC. Altering course on the overall approach to one that accommodates renewables would have a generally beneficial effect, by enabling more cheap onshore wind (with increasing amounts of it out of support) to pull down the price of power in the wholesale market, by increasing the security of the island's energy supplies, by meeting EU renewables and emission targets and reducing or eliminating the cost of fines to the taxpayer for missing those targets.

3. The RAs need to comply with the law and immediately set about implementing the obligation in Article 16.2 of the Renewables Directive to specify the transparent and non-discriminatory criteria for guaranteeing the transmission of renewables, priority or guaranteed access and priority of dispatch.

4. There is a need for the RAs and Eirgrid to explore the use of 'Delivery Areas' in the Intra Day Market XBID system, which may be able to ensure that 'surplus wind' that would otherwise be curtailed and that is therefore sold on the IDM, is actually exported, and does not get purchased locally and cause what we term 'double curtailment'.

5. The ex-post settlement of REFIT must be on the basis of total actual funds received by renewable energy projects, allowing for any costs incurred by them in the market (and we would argue that the AOLR should not impose such a cost).

6. To give careful consideration to appointing the NEMO and any other key function in I-SEM, bearing in mind the need to avoid multiple and potentially conflicting roles for Eirgrid, not the least of which is the proposal of EWIC to provide System Services.

7. Given all of the uncertainties and costs, there is a need to raise the *de minimis* level to at least 15MW, taking more small projects out of the requirement to register as generators, and so allowing them to operate as negative demand through suppliers, which is more beneficial to them (and can help them to actually survive), but yet does not remove them from the market as such.

Arising from the specifics of the last three RLGs, IWFA has the following issues to raise:

RLG 2.1

1. DAM: We note that the design of the DAM algorithm (EUPHEMIA) is pretty much fixed, leaving very little wriggle room for our RAs as regards the DAM. Nevertheless, during the entry negotiations with the PCR/MRC, we would urge our authorities to seek some adjustments to or flexibility on the default price range in our application of EUPHEMIA, to enable variable price takers such as wind to have a PFloor that better suits their SRMC, rather than only having one (-€500/MWhr) which primarily suits large conventional plant.

2. IDM: We have the impression that there are many difficulties in concluding the design of the Intra Day Market, for reasons to do with the complication caused by the need to adjust all order books following and individual trade, as well as currency timing issues, and so on. Starting I-SEM without having a fully operational IDM would be a very bad idea from wind's point of view, leaving no place for it to adjust any DAM position, which will inevitably be incorrect due to forecasting error. Also, there is a need for the RAs and Eirgrid to explore the use of 'Delivery Areas' in the Intra Day Market XBID system, which may be able to ensure that 'surplus wind' that would otherwise be curtailed and that is therefore sold on the IDM, is actually exported, in order to minimise the possibility that it gets purchased locally and causes what we term 'double curtailment'.

3. Physical notifications: We see little scope for variable renewables such as wind to provide physical notifications (PNs) to the TSO, and it seems more logical to rely on the TSO's wind forecast for variable plant that don't bid in the DAM. At first glance, allowing generators to submit PNs for their plant output that are fully de-linked from ex-ante traded positions seems odd, in that it would enable a degree of self-dispatch in what is to be a centrally dispatched market. Partly linking them by requiring Final Physical Notifications (FPNs), issued one hour from live, to reflect ex-ante positions would appear to be a good compromise. It is of course the case that ex-ante trades merely provide an average traded capacity over a trading period, and not the actual proposed generation profile of the plant over that period, and indeed such traded position may end up not being technically feasible. So there appears to be a need for flexibility to allow generators to indicate a proposed schedule for their plant that they can actually achieve. Basing 'incs' and 'decs' on PNs and not ex-ante traded positions, and also requiring the TSO to optimise DBCs against PNs and not traded positions would also seem a little odd at first glance. We will return to these issues.

4. EUPHEMIA Trialling: We are unsure as to what participation is required or expected, or even possible, from wind in the EUPHEMIA Trialling proposed by Eirgrid, and would imagine any such participation is unlikely to involve the smaller wind projects.

RLG 2.2

1. Objective Function/Pre-BM actions: Requiring the TSO to minimise balancing costs against PNs that are delinked from traded positions, rather than those traded positions,

would seem a little odd at first glance, but we will return to this point as well. The requirement of the TSO to be able to take actions which adjust the running schedule up to 24 hours ahead, and even before (because of some very long start up times, eg: Moneypoint), in order to operate a secure the system, is giving rise to a need to run the BM and the IDM in parallel. That did not sit well with many participants at the RLGs, and in particular the traders present felt the TSO's actions would interfere with the IDM and may indeed be undone by the IDM. To be fair, the RAs have come up with some measures to allow both to operate simultaneously, and not contradict one another. TSO actions could affect pricing in the BM and the imbalance price, with potentially negative effects for wind, though this is very uncertain. IWFA noted the proposal to suspend IDM continuous trading to enable auctions (should these proceed). On the basis that such suspension is possible, IWFA has suggested that consideration be given to staggering the BM and IDM, to minimise interference. Closing the IDM early to run the BM would not suit wind at all, as wind's forecast accuracy continues to improve as live approaches.

2. Imbalance Pricing: Presumably if renewable plant are allowed to aggregate and act as a portfolio to some extent, then their imbalance price will not be unit based? Some of the traders attending the RLG raised a concern that single imbalance pricing would prove to be more volatile than dual pricing. It is noticeable that the UK is now proposing to switch from dual to single imbalance pricing and also to narrow the Price Averaging Reference (PAR) for setting the marginal price to the last 1MWhr, both intended to give rise to increased volatility with a view to market signals for market services, we understand. IWFA considers that there is an absolute need to have dampened imbalance pricing, at least for the start of the new I-SEM. In order to achieve that, we suggest that single imbalance pricing be reconsidered and that the marginal imbalance price(s) be set on a wider rather than narrower PAR. The criteria which influence that volatility can be reviewed as the market matures and projects settle in. Also, we are assuming that price-taking wind will not be required to bid in the BM and will have its PoD respected insofar as technically (rather than economically) possible.

RLG 2.3

1. Testing: We noted the current capability in the SEM for generators to switch from price making to price taking quite easily and quickly for testing purposes. This supports the point that such switching should, as a matter of course, be manageable with much greater ease and over a much shorter time frame, as required by generators, instead of the current 30 days or so.

2. Physical notifications: As already stated, the use of these as the reference for 'incs' and 'decs' and also for the TSO Objective Function seemed at first glance to be an odd proposal where the PNs were not in any way linked to ex-ante traded positions. However, as we understand it, generators would be sanctioned if their PNs were so wide of the mark as to have an effect, and regularly so, indicating that they were likely to be using this for gaming or whatever. The discussions towards the end of this meeting suggested that, in addition, the settlement algorithm proposed for I-SEM would effectively financially penalise generators whose FPNs did not closely match their traded positions. If that is to be the case, then we can expect these two measures to draw the PNs and traded positions together. Subject to that, it would therefore seem ok for the 'incs' and 'decs' and the TSO Objective Function to be reference to the PNs/FPNs in a delinked arrangement.