

1 CONSULTATION QUESTIONS

1.1 RESPONDENT DETAILS

COMPANY	Coillte Teoranta
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MAIN INTEREST IN CONSULTATION	Ensuring the new market design provide appropriate incentives for the trading of wind generation.

1.2 GENERAL COMMENTS

Coillte welcomes the opportunity to respond to SEM-15-026, the ETA Markets Consultation Paper (“the consultation paper”). Coillte is involved with the development of renewable generation, primarily large scale wind projects, which are contracted to a range of utilities or potentially will be self-traded within the market. Coillte is therefore most concerned with promoting trading arrangements that remove unnecessary complexity, and which provide the appropriate incentives to trade wind generation to promote export at the correct time.

Our response is based around three main themes:

- Keeping any unnecessary overhead and costs out of the trading arrangements;
- Ensuring that any signals to trades, e.g. avoidance of imbalance market costs, are actually meaningful, i.e. a prudently traded windfarm has the appropriate market structure and sufficient counterparties (often referred to as liquidity) to react to those signals; and
- There are appropriate signals for conventional generation to invest in flexible System Services to promote wind integration on the all-island Grid.

In terms of the imbalance pricing regime, Coillte believes that whatever design is chosen the impact of SNSP limits should not raise prices in the imbalance market. If that were to occur, it would provide an incentive for demand traders to go long in the day-ahead market (buying at a lower price) and sell in the imbalance market at the higher price influenced by SNSP (selling at a higher price). When demand consumers go long in ex ante markets, this raises the prices in those markets, making interconnector imports more likely. The SEM Committee must be careful that the pricing regime does not result in this perverse outcome.

Finally, while it is outside the scope of the consultation paper and indeed the SEM Committee’s duties, clarity of the interaction of REFIT with the new market design remains uncertain. We

understand that the SEM Committee and the Commission for Energy Regulation in particular are working with the Departments through the ISEM overarching governance arrangements. We urge that the SEM Committee brings forward timelines in cooperation with DCENR to bring certainty to the operation of REFIT within the new market design. This certainty is necessary by early Q4 2015, to provide for enough time for all parties, developers and Power Purchase Agreement (PPA) off-takers to reach as-firm-as-possible commercial agreement in line with the close of the REFIT 2 scheme.

1.3 SYSTEM OPERATION IN THE I-SEM (CHAPTER 2)

Question	Answer
1. What are the impacts of early action by the TSOs on the Intraday Market?	<p>Liquidity: It is important the early balancing actions do not remove the ability of generators to act as counterparties within the intraday market.</p> <p>System Services: Moreover, the TSOs balancing actions should be sufficiently transparent so as to allow new flexible generation to build up revenue models.</p>
2. What measures can be taken to minimise early actions by the TSOs?	<p>The intent should be to minimise the number and the impact of the balancing actions.</p> <ol style="list-style-type: none"> 1. The early actions should not prevent balance service providers from further trading with wind generation. 2. The early actions should be limited to only those which are required. 3. The TSOs should be required to produce a set of principles, along with a reporting regime on the actions taken. 4. The early actions should not influence balancing market prices, i.e. they should not influence the imbalance market price for settlement of imbalanced positions.

1.4 EX-ANTE MARKETS (SECTION 3)

Question	Answer
<p>1. Which of the three options put forward for interim IDM arrangements is most appropriate?</p>	<p>Coillte believes that the intraday market (even provided on an interim basis) must be interconnector coupled for two reasons:</p> <ol style="list-style-type: none"> 1. To promote appropriate export on Interconnectors closer to real-time; and 2. To increase the wider available market to manage imbalance positions and to be balance responsible. <p>If there is a limited intraday market, this must have an impact on the imbalance pricing arrangements, i.e. they must be softened, until the XBID Implementation completes.</p> <p>Full IDM trading is appropriate, but intraday auctions should also be explored. Coillte believes they would be beneficial for developers with self-traded assets, acting as a more predictable within-day market place for the clearing of intraday trades for those with smaller volumes. It may be acceptable as a fall-back position to go live in ISEM with no continuous trading and just an intraday auction coupled with GB. If this scenario (intraday auctions, no continuous coupled trades) with GB were to be the case, this should have an impact on imbalance pricing (see later).</p>
<p>3. Should intraday auctions be implemented in I-SEM? Are there any advantages to those auctions not described in this paper?</p>	<p>Yes.</p> <p>We agree with the listed benefits of intraday auctions within the paper.</p> <p>Overheads and Costs: Coillte does have a concern regarding the costs of participation in the day-ahead and intraday markets more generally, particularly when examining the costs for GB participants in BETTA. We urge that either for the enduring or any transitional arrangements that costs between markets are shared fairly, and the current SEM principle of having the majority of costs recoverable from supply remains in place.</p>

1.5 PHYSICAL NOTIFICATIONS (SECTION 4)

Question	Answer
1. What are your views on the timing of PN submissions to the TSO	No comment, as wind should not have any need to submit PNs to the TSO.
2. What are your views on the removal of the requirement on wind generation and non-dispatchable demand to submit PNs	<p>While windfarms are currently required to submit forecast volumes to SEMO in the SEM design, these forecasts are subsequently ignored.</p> <p>We believe that the lessons of SEM should be well learned at this stage – the TSOs see no system operational benefit in utilising wind forecasts from windfarms. Consequentially, no PN (initial, updated, or final) should be required.</p> <p>If PNs are required for settlement for windfarms (as “Price Takers”), we recommend utilising the same data and processes as currently.</p>
3. What are your views on how PNs from participants should be linked to their ex-ante trades and what are your opinions on which of the three options outlined in this chapter is optimal for I-SEM.	No comment, as wind should not have any need to submit PNs to the TSO.
4. What are your views on the potential for the inclusion of an information imbalance charge. In addition, comment is sought as to whether this issue is best addressed under the generator performance incentives.	<p>Wind should not have any need to submit PNs to the TSO.</p> <p>Within that context, an information imbalance charge appears unnecessary for all generation.</p> <p>On the assumption that PNs translate directly into dispatch values subject to no energy or non-energy balancing actions and a generator does not subsequently follow that dispatch and therefore implies the PN was incorrect, the information imbalance charge appears to take on the same role as uninstructed imbalances.</p>

1.6 FORM OF OFFERS, BIDS AND ACCEPTANCES (SECTION 5)

Question	Answer
<p>1. Which of the proposed formats should be used for bids and offers for deviating from PNs?</p> <ul style="list-style-type: none"> • Simple MWh • Relative MWh • Absolute MWh 	<p>No comment, on the basis that Coillte windfarms will be acting as “Price Takers” in the balancing market as proposed by the SEM Committee design.</p>
<p>2. How should fixed costs be represented within bids and offers?</p> <ul style="list-style-type: none"> • Explicit start up contracts • Block bids • Explicit start-up (and no load) costs 	<p>Fixed costs, i.e. start-up and no-load costs, should be recoverable by a generator with low risk within the balancing market. The TSO should have access to this information separate to the marginal costs of energy so that they can make the most effective balancing decisions.</p> <p>Coillte does not support block bids. The TSO should have access to more granular information.</p> <p>The question then becomes how should these fixed costs be included in the imbalance market price, where the actions taken are energy balancing actions? That question is dealt with below.</p>
<p>3. Should it be possible to rebid offer and bid prices following an acceptance? Three options are proposed:</p> <ul style="list-style-type: none"> • Fixing prices of accepted bids and offers • Undo prices • Freezing all prices 	<p>No comment, as relevant for conventional generation only.</p>
<p>4. Should open or closed instructions be used to move participants away from their PN?</p>	<p>No comment, as relevant for conventional generation only.</p>

1.7 INTERACTIONS BETWEEN THE BALANCING MARKET AND INTRADAY MARKET (SECTION 6)

Question	Answer
<p>1. Which of the options put forward should apply to participation in the IDM in the event that the TSOs take a balancing action pre-gate closure:</p> <ul style="list-style-type: none"> • Freeze PNs • Additive PN Changes • Substitutive PN Changes 	<p>Coillte believe that early BM actions should minimise the impact of early BM actions insofar as possible on intraday market trading.</p> <p>This excludes the Freeze PNs option.</p> <p>Noting that early BM actions are likely to be called for inflexible generation, the concept of having subsequent intraday market trades subsidised by those early BM actions sends the incorrect signal for conventional generation investment.</p> <p>This appears to favour the substitutive approach, without locking-in BM margins (which could be utilised to subsidise further trades).</p>
<p>2. If the substitutive PN Changes option is taken, there are two further options for swapping out or netting IDM trades against bid-offer acceptances:</p> <ul style="list-style-type: none"> • If the participant wishes to trade in the IDM and substitute the bid-offer acceptance they will need to achieve a more advantageous price in the IDM than the bid-offer acceptance price • Implement a methodology which sees the unit lock in the premium above or below the imbalance price through the bid-offer acceptance 	<p>Coillte believes that if the participant wishes to trade in the IDM and substitute the bid-offer acceptance they will need to achieve a more advantageous price in the IDM than the bid-offer acceptance price.</p> <p>It is Coillte’s view that early BM actions should have negligible or no impact on the balancing market price. If that is the case, it is arguable that the concept of “premium” would exist for early BM actions, i.e. the early actions would be non-energy actions.</p>
<p>3. Which of the three options put</p>	<p>No comment, given that this is a detailed matter for conventional generation.</p>

<p>forward for dealing with “Trading in the Opposite Direction” should be implemented:</p> <ul style="list-style-type: none"> • No specific consideration of this would be reflected in the market design • Implementing a rule that would prohibit PN changes that increase the quantity of any offer or bid acceptances • Permit PN changes in either direction but, in the settlement of the offer or bid acceptances, to limit the quantity on which the premium is payable, such that a change in PN cannot increase this quantity 	<p>Coillte requests, however, note that whatever methodology is chosen there remains no opportunity to manipulate market prices.</p>
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1.8 TREATMENT OF SYSTEM SERVICES (SECTION 7)

Question	Answer
<p>1. What are your views on the proposal whereby a unit that is deployed for reserves should be constrained to the minimum extent possible in the IDM</p>	<p>Coillte agrees with this principle.</p>
<p>2. Are there any market power issues that need to be specifically addressed in relation to System Services?</p>	<p>In relation to System Services' interaction with the market design, Coillte sees no issues that need to be specifically addressed other than appropriate market power control of INC/DEC pricing.</p> <p>Coillte urges the rapid implementation of the wider DS3 programme, however, including items outside of DS3 services.</p>
<p>3. Which of the two approaches should be utilised where the TSOs have to schedule a plant before the opening of the Balancing Market:</p> <ul style="list-style-type: none"> • A system services framework would be used to contract with those generators that need to be scheduled prior to the BM opening. • The TSOs would use incremental offers and decremental bids from previous trading day to call a plant pre-BM. 	<p>No comment.</p>

1.9 IMBALANCE PRICING (SECTION 8)

Question	Answer
<p>1. What are your views on the Tagging and Flagging Approach. A “cause” based method for identifying energy and non-energy actions with the imbalance price being set only on energy actions.</p>	<p>We agree with the assessment that the initial identification of “energy” and “non-energy” actions in SEM would be difficult.</p> <p>The SEM Committee project team, however, have put down proposals regarding the identification of energy and non-energy actions, i.e. if an action costs less than the cleared imbalance price, it is considered an energy action, and actions which do not meet this criteria are non-energy actions. We suggest that perhaps BETTA-style flagging and tagging identification of actions could be simplified to calculating the Net Imbalance Volume, taking the resulting net dispatch stack, and pricing accordingly based purely on the entire dispatch stack. All actions within the Net Imbalance Volume would be considered energy actions; all actions outside the Net Imbalance Volume would be considered non-energy.</p> <p>Appropriate treatment of de minimis actions, CADL, etc., should continue as per the BETTA design.</p> <p>This method of identifying energy actions is therefore through a net imbalance volume, and will need to be calculated outside of a cause-based process.</p> <p>Coillte believes that a market design with a PAR is necessary within the context of Flagging and Tagging. This is discussed further below.</p> <p>Finally, Coillte believes that some form of quantitative analysis is required to proceed with the final choice of imbalance pricing regime, and recommends further workshops in this area. In particular, the choice of pricing design during a curtailment event should be understood.</p>
<p>2. What are your views on the Simple Stack? With this approach there would be a simple stack of the available bids and offers and the price would be set based on the net imbalance volume.</p>	<p>The Simple Stack will deliver lower prices than the Flagging and Tagging approach.</p> <p>It appears to deliver prices which are not impacted by SNSP limits, but we are uncertain as to whether it would create a reasonable clearing price for energy actions that provided premium for most energy balancing provider.</p> <p>It appears on that basis to be unsuitable to provide an appropriate signal for flexible generation providing energy balancing services, within the context of the high-level design.</p>
<p>3. What are your views on the unconstrained stack with plant dynamics</p>	<p>There are some merits to this proposal. Like flagging and tagging it respects generators’ characteristics and superior to flagging and tagging it avoids any system-level constraints which may impact the price, e.g. SNSP.</p>

<p>included. These are two additions that this option would have over the simple stack:</p> <ul style="list-style-type: none"> • Plant Dynamics • An optimisation time horizon 	<p>If this option is chosen, however, the optimisation time horizon must be appropriately designed to ensure that prices are delivered quickly to the market, i.e. within hours of each settlement period.</p> <p>Coillte also have concerns around the potential stability of this algorithm, particularly within the context of blocky 50% minimum stable generation from most of the cheapest generators on the system.</p> <p>Nevertheless, along with the simplified flagging and tagging approach, we believe this is another option to be pursued further through further quantitative analysis and workshops.</p>
<p>4. What are your views on the price based method – unconstrained unit from actual dispatch?</p>	<p>Coillte does not support the inclusion of explicit SNSP and further constraints into the imbalance price mechanism.</p> <p>Unlike flagging and tagging approaches (where non-energy balancing actions cheaper than the net imbalance volume stack are considered energy balancing), such an algorithm would exclude all such “non-energy” actions from price setting, driving prices higher.</p> <p>High imbalance prices create perverse incentives in the ex-ante markets, which can lead to excessive imports.</p> <p>It is also a constrained optimisation that leads to concerns regarding the stability of the algorithm’s pricing outputs.</p>
<p>5. What are your views on the sharpness of the marginal imbalance price? Do any concerns relate to the transition between SEM and I-SEM or are there other broader concerns?</p>	<p>The concerns in relation to the sharpness of the imbalance price are both transitional and potentially ongoing.</p> <p>Coillte acknowledges that the imbalance price should be intuitively consistent with the High Level Design, i.e. that a premium should be payable to energy action balancing service providers. To that end, having artificially depressed imbalance prices where generators do not recover their costs, and therefore are effectively pay-as-bid, is not consistent with the High Level Design.</p> <p>Coillte is concerned, however, that the market trial duration is not sufficient to immediately jump into a last marginal MW pricing regime, from a participant trading readiness point of view.</p> <p>Moreover, the imbalance pricing algorithms/processes remain unproven within the SEM context, and Coillte sees no evidence that the out-turn prices might not be volatile.</p> <p>Within that context, Coillte believes a PAR (or similar mechanism for the unconstrained stack with plant dynamics) at the start of the market should be in place, only relaxed with objective criteria met that demonstrate that the imbalance prices are appropriate.</p>

1.10 IMBALANCE SETTLEMENT (SECTION 9)

Question	Answer
<p>1. What are your views on the issues set out in the imbalance settlement section?</p>	<p>Coillte supports the concept of Price Taker wind in the imbalance market. The PN from which the windfarm may settle at the imbalance price if there is no ex ante trade should be the ex post SCADA, as provided for currently.</p> <p>We wish to ensure that curtailed and constrained energy is not lost from the pricing seen in the imbalance market, even for these Price Taker wind generators. Imbalance prices should not be unnaturally high during SNSP events.</p> <p>Please refer to Coillte’s Building Block Consultation response in relation to the treatment of curtailment.</p>
<p>2. What are your views on the refined proposal whereby the payment rule applies only to incremental offer acceptance volumes above the PN and to decremental bid acceptance volumes below the PN?</p>	<p>No comment, as windfarms should not be submitting PNs.</p>
<p>3. What are your views on the possible consequences of ex-ante trades based on trading periods of different duration to the Imbalance Settlement Period (ISP) and what are your views on the options put forward in the paper.</p>	<p>Market participants should not be penalised for signals, i.e. half-hourly/quarter hourly balancing prices when there are no tools with which to respond to those signals.</p> <p>A windfarm which has therefore traded ex ante in hourly blocks should not be penalised if it has matched the sum of the balancing market half-hourly delivered volumes.</p> <p>There are many different ways of algebraically managing this within the market. As long as the above principle holds, and it is handled automatically by the market without unnecessary levels of administration from wind traders, Coillte would support that end result.</p>

1.11 OTHER ISSUES (SECTION 10)

Question	Answer
1. Global Aggregation – what are your views on the current policy and the three alternative options put forward in the paper for dealing with global aggregation	This is a matter for retail suppliers.
2. Local Market Power – What are your views on whether there are any specific issues in relation to local market power which need to be considered at this stage.	This matter should be dealt with outside of formal market rules.
3. Metering – What are your views on the proposal for metering put forward in the Consultation Paper.	This is a matter for the metered data providers.
4. Instruction Profiling – What are your views on the instruction profiling section. In particular, is it feasible to more accurately model the precise loading of units and whether more technical characteristics need to be accommodated in the technical offer data.	The only comment on this section is that this should not drive any further changes to the technical implementation of wind SCADA at the windfarm level.

<p>5. Units Under Test – What are your views on the two options put forward for units under test in I-SEM.</p>	<p>Within the context of Price Taker wind, the same rules as proposed for general operation of the balancing market should apply.</p>
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