



Gaelectric Holdings Plc.

Response Paper to:

I-SEM Energy Trading Arrangements Consultation Paper

SEM-15-038

Gaelectric Holdings Plc. Response

05/06/2015

Public

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Document Details

Document Name:	Response to consultation on I-SEM Energy Trading Arrangements
Revision:	Rev_1 Final
Status:	Final
Classification:	Public

1 CONSULTATION QUESTIONS

1.1 RESPONDENT DETAILS

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MAIN INTEREST IN CONSULTATION	Developers and operators of renewable and energy storage technologies, aiming to ensure that I-SEM is designed to appropriately reflect the need for flexibility and further to ensure the design

1.2 GENERAL COMMENTS

Gaelectric Holdings Plc. (“Gaelectric”) welcomes the opportunity to respond to the I-SEM consultation paper on the I-SEM Energy Trading Arrangements Consultation. We commend the joint Regulatory Authorities (“RAs”) for the considerable work undertaken in debating intensively with industry via the Rules Liaison Group meetings 2.1-2.3 ahead of the release of this consultation. We support further such industry engagement throughout the I-SEM programme. Specifically, we believe the Rules Liaison Group meetings were mutually beneficial for all parties to debate options being put forward. We recommend this group continues to meet throughout the design of the I-SEM.

Gaelectric is an independent wind, energy storage and biomass developer operating within the Republic of Ireland, Northern Ireland, United Kingdom and North America. To date Gaelectric holds 150MW of generating assets across 6 projects in Northern Ireland and the Republic of Ireland, and a further 40MW of ‘shovel ready’ projects with grid connections and full planning approvals in place.

Gaelectric’s near term pipeline on the island of Ireland is circa 320MW with the expectation that the company will have 400MW of projects generating power by the end of 2017. Furthermore, Gaelectric has recently completed the acquisition of Imperative Energy Ltd., a leading supplier of bioenergy solutions to a number of sector throughout the UK and Ireland.

Having developed our portfolio of wind assets through early stage planning into construction and operation phases, and in doing so becoming one of the largest independent developers on wind energy on the island, Gaelectric are acutely aware of the challenges that are faced by renewables on the island as a result of the development of the I-SEM. Specifically, we are cognisant of the increased risk on wind posed by the proposed I-SEM design. We are however supportive of the I-SEM programme and committed to engaging constructively throughout the programme.

In addition to our extensive wind portfolio, Gaelectric and Tesla have announced the purchase and planned deployment of Tesla Energy’s first battery power utility-scale project in Ireland. Tesla and Gaelectric will work together to develop a pipeline of battery projects. Initially we expect a 1-MW demonstration to be developed, targeted for deployment in 2016. Given this and the development of Project CAES, which has an agreed connection offer in place with SONI, we have considerable interest in the development of a market incentivising flexible and enabling technology in the I-SEM.

In our response to this consultation, we have endeavoured to reply as constructively as possible however notwithstanding this we believe there are certain elements of the consultation which need further quantitative assessment before prudent decisions can be taken.

In general we are concerned at the level of discussion regarding early TSO actions in the consultation and throughout the Rules Liaison Group meetings in general. We believe there has been an over emphasis on the requirements of the TSO and arguably a lack of due consideration of the impacts these actions will have on the proper functioning of the market.

We have previously raised concerns in respect of Physical Notifications and the impact these will have on liquidity and in effect constraining the market which is contrary to the objectives of the I-SEM HLD. Specifically, Gaelectric believe that early TSO actions should not have any impact on trading in the

IDM, whether this be to infer an advantage or disadvantage on that participant in respect of trading in the IDM.

In respect of storage, we have raised the topic of the treatment of storage to the RAs during the RLG and in our RLG response to workshops 2.1 – 2.3. We request further discussion of this with the SEMC/Joint RAs in advance of a proposed decision paper. Gaelectric are happy to meet with the RAs to discuss options regarding the treatment of storage technologies in I-SEM. Specifically we believe that the unique characteristics of storage need to be incentivised in the market given the positive impact it will have in reducing curtailment and enabling renewable integration.

A topic which was discussed at length in the Rules Liaison Group meetings was assetless traders. For the avoidance of doubt, Gaelectric support the integration of assetless traders into the market given the liquidity they will bring. Given the questions raised in respect of assetless traders, Gaelectric expected further discussion of the topic within the consultation paper. We request that the SEMC assess the role of assetless traders ahead of any proposed decision.

As a final comment, Gaelectric request that the SEMC undertake quantitative assessments where appropriate to more adequately inform participants of the impact of decisions being made in the consultation responses. With this position in mind, Gaelectric do not believe there has been adequate information presented in a number of areas to support a considered response which accounts for the potential impact on our assets or indeed the market operation.

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

Question	Answer
<p>1. What are the impacts of early action by the TSOs on the Intraday Market?</p>	<p>Section (a) of this response refers to the broad principles which Gaelectric wish to see considered, followed by section (b) which discusses the proposals in section 2 of the consultation specifically.</p> <p><u>Section (a)</u></p> <p>Gaelectric acknowledges the need to ensure the I-SEM operates securely however we reiterate our concerns previously made at the Rules Liaison Group meetings that taking early actions (particularly energy actions) early in the Balancing Mechanism (i.e. in the early hours of the IDM) will <i>distort the transparent operation</i> of the electricity market. This is particularly a concern for Gaelectric where security of supply is not specifically at risk.</p> <p>Early actions must therefore be taken in the following context;</p> <ul style="list-style-type: none"> • Actions taken should be an absolute requirement to maintain security of supply. The TSOs should be accountable for all actions taken and should publish a review outlining the actions taken and justification of these actions to maintain transparency. <ul style="list-style-type: none"> ○ This includes adhering to a balancing principles statement akin to that used in BETTA. We encourage further engagement with industry participants on this. • These actions should not impede the incentivisation of flexibility in the system. This extends to ensuring that consistent and predictable early actions taken should not confer an advantage on these plants over more flexible plants which are not called early and will therefore need to recover their start-up costs in the market. • Equally, any early actions taken should not impede on the liquidity of the IDM. This means that early actions should not be seen to create a constrained market. • Early actions regarding a portion of the energy from a power plant should not result in the remainder of that capacity being treated as an uninstructed imbalance when subsequently traded in the IDM. <p>We believe actions in the early hours of the market will not serve as an incentive to plants to reduce their notification times, and hence impact the overall <i>flexibility</i> of the portfolio. It is in this regard that we request further consideration of the aims for the overall market design, including DS3. The DS3 programme aims to incentivise new flexible generation, however this can only be achieved with a complimentary I-SEM design. Furthermore, we believe that early TSO</p>

actions will impact **liquidity** in the market and could potentially impact the **balancing mechanism outturn price**.

For non-security related issues, Gaelectric believe that the market should be given ample opportunity to balance itself. To design for a market where the TSO can take energy actions to balance the market before giving the market opportunity to balance itself is essentially to design for a balancing mechanism which has failed to incentivise balance responsibility. We request that the focus of efforts is to design a balancing mechanism which sends the appropriate signal to participants to stay in balance, and hence minimise the requirement for TSO interference in the energy market.

Any actions taken to ensure long notification plants are online at or before IDM opening, must also consider the need to incentivise these plants to reduce their notification times.

We have previously raised concern regarding the effect of early TSO actions on the actual plants that are subject to these actions and indeed the impact on the market. Specifically we have reminded the joint RAs that the HLD stated that the IDM would remain unconstrained, however our understanding to date is that this may not necessarily be the case given any early action may render the remaining traded volumes of the plant in question as an uninstructed imbalance. This will almost certainly lead to perverse trades in the IDM, and needs to be considered further.

Section (b)

Specifically referring to the proposals set out in section 2.3 of the consultation, we make the following comments;

For energy actions we believe the decision making process should trend towards later actions (with the exception that security issues must be addressed if required within an agreeable timeframe). The basis for this is to minimise the impact of these actions on the IDM including impacting upon the liquidity and competitiveness in the market timeframe.

In principle Gaelectric do not have any objections with agreeing a tolerance above which energy actions would be taken (i.e. where the market is out of balance by an agreed function of total demand, risking security of supply), however the specific value must be consulted upon at a later stage. We recommend these actions are considered under security of supply considerations. Notwithstanding this, we do not believe the TSO should be allowed to interfere with market operation unless there is a real risk to security of supply. The market should be given ample opportunity to balance itself, and be incentivised accordingly.

We do not feel we are in a position to definitively respond indicating a preferred option from section 2.3.1.1 and 2.3.1.2 until such time as a more solid qualitative and quantitative analysis is published by the

	<p>joint RAs. Ultimately until this is the case, we remain unclear of the effect of these options on market operations and on both our development and operational assets.</p> <p>Gaelectric support the proposals in section 2.3.1.3 which propose to report annually on any actions taken in an effort to incentivise a minimisation of such actions by the TSO.</p>
<p>2. What measures can be taken to minimise early actions by the TSOs?</p>	<p>As discussed above, the strongest incentive for plants to remain in balance and hence minimise the requirement for TSO energy actions, is to ensure the balancing mechanism sends the appropriate signals into the IDM and DAM. Further attention should be given to ensuring the balancing mechanism is designed in a manner which achieves these objectives.</p> <p>Gaelectric support the position of the SEMC who state;</p> <p><i>“A significant piece to this programme is with regard to the incentives for quick start generation that will be key to facilitating increased levels of variable generation. Again, when delivered this should reduce the number of early non-energy actions taken by the TSOs.”</i></p> <p>We do not however believe that the consultation reflects the SEMC position of incentivising quick start generation and this must be addressed in future communication.</p> <p>We remind the SEMC that the build-out of these flexible plants are being incentivised through DS3, however the business model will also rely upon a market which promotes signals for balance responsibility. Hence, for such projects to be realisable, the market price should not be overly softened by excessive early actions from the TSO. Inflexible plant should not be advantaged by virtue of a start-up which remunerates the start cost, allowing for lower bids into the IDM. As a developer of energy storage and wind projects on the island, Gaelectric supports the long term vision which promotes the integration of renewables, and facilitating flexible and enabling technology such as energy storage is integral to this.</p>

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>Gaelectric have previously raised concerns regarding the viability of the XBID arrangements at ISEM Go-Live, specifically whether these would be in place by the time of Go-Live of I-SEM. In this regard we are encouraged to see consideration of interim arrangements which can also be treated as fallback procedures where required.</p> <p>Gaelectric recommends further consideration of interim intra-day trading day arrangements with BETTA to be in place for ISEM Go-Live. We request further updates and consultation on this as the SEMC liaise with their BETTA counterparts regarding an interim arrangement between both markets.</p> <p>At this point it is not clear to Gaelectric which of the 2 BETTA-ISEM arrangements is the most appropriate however we welcome further discussion on this area.</p>
<p>2. Should intraday auctions be implemented in I-SEM? Are there any advantages to those auctions not described in this paper?</p>	<p>With respect to intraday auctions, we support the pooling of liquidity, however previous information from the SEMC indicated that this would need to be developed at a European level (for non-interim arrangements) before being developed for the island of Ireland. We request clarification as to whether this position has changed, and how the SEMC see intraday auctions operating within the market.</p>

1.5 PHYSICAL NOTIFICATIONS (SECTION 4)

Question	Answer
<p>1. What are your views on the timing of PN submissions to the TSO</p>	<p>Gaelectric have no immediate concerns regarding the timing of PN submissions.</p>
<p>2. What are your views on the removal of the requirement on wind generation and non-dispatchable demand to submit PNs</p>	<p>The purpose of PNs is to provide information to System Operators regarding the intended state of the market at gate closure, which assists in the secure operation of the market. We do not believe it to be appropriate for wind and non-dispatchable demand to submit PNs given we question the value of the information to the TSO. It is clear that not all participants will be in a position to submit PNs and therefore to some extent, the TSOs will be relying on their view of forecasts. Furthermore, the TSOs will hold the most accurate system wide assessment on the island and it is therefore most appropriate for this to continue.</p> <p>This is evidenced by ErGrid’s recent comments at a DS3 forum where it was stated that a tender for forecasting services is going to be released from EirGrid with a greater emphasis on incentives relating to accuracy.</p> <p>We do not believe this mitigates the risk of imbalance for wind however which is highly likely to trade in the liquid DAM, and therefore retains a forecast risk, and therefore a balancing risk.</p> <p>We believe therefore that it would be more appropriate for the TSOs to continue to procure their own forecasts with which to plan activities.</p> <p>We note that there is discussion in the paper regarding the use of PNs to calculate the Net Imbalance Volume where there is a deviation from the ex-ante volume of trades, however this should not act as a barrier to implementation of the TSO forecast. The availability signal from SCADA should be appropriate for use.</p>
<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.</p>	<p>Gaelectric have previously requested more quantitative assessments and analysis of options being proposed for decision, and continue to believe that this is integral to supporting a process of clear decision making. It is not clear how option 2 and 3 will impact the commercial position of participants in the market given the analysis presented. Notwithstanding this Gaelectric have attempted to respond constructively to the proposals below.</p> <p>The paper refers to 3 proposals regarding PNs, as below;</p> <ul style="list-style-type: none"> • PNs linked to Ex-ante trades at all times (Linked); • PNs linked to Ex-ante trades at gate closure only (partially delinked); and

	<ul style="list-style-type: none"> • PNs reflecting the best estimate of intended generation or demand (fully delinked). <p>Throughout the Rules Liaison Group meetings there was a considerable amount of discussion of these proposals, and it seems unclear as to the preference emanating from the discussion. We believe this is due to confusion over the commercial relevance of the PNs in the first instance.</p> <p>In respect of the options proposed, we believe option 1 (linked) is inappropriate to develop for I-SEM given the significant impact it is likely to have on IDM liquidity. We believe that the FPN should be the only physically feasible figure and therefore that each trade should not have to be physically feasible provided the sum of all trades in the DAM and IDM create a physically feasible trade.</p> <p>Further, we do not support any measure which impacts on the ability of flexible plant to operate in the IDM. We agree that option 1 provides little value to the TSOs in that it is not forward looking given it links PNs to trades as they occur.</p> <p>Whilst we do not disagree that option 2 and option 3 provide better information and more flexibility to participants, we currently favour a design which does not close off the opportunity of any flexibility in the market, and for this reason we request further consideration of option 3 (PNs reflecting the best estimate of intended generation or demand).</p> <p>It seems that this option will provide maximum flexibility to participants whilst also providing adequate information with which the TSOs can operate the system.</p>
<p>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>	<p>As previously indicated at the Rules Liaison Group meetings, Gaelectric oppose an information imbalance charge for the following reasons;</p> <ul style="list-style-type: none"> • Errors in FPN can be outside of the control of the participant given the structure of the I-SEM. It is not beyond reason that the participant is unable to match trades in the IDM despite efforts to do so. • IDM liquidity is likely to be impacted here given the risk on participants outlining PNs which turn out to not be accurate. <p>We believe there needs to be more of an emphasis on the market design to address concerns such as these. In this respect, Gaelectric strongly recommend that further consideration be given to the Balancing Mechanism and ensuring it is designed in a manner which creates pricing which is reflective of the supply-demand curve and which encourages balance responsibility. When properly designed the balancing mechanism will influence balance responsibility in the ex-ante timeframes and will mitigate the requirement for the information imbalance charge in the first instance.</p>

	<p>There was broad disagreement with the principle of the information imbalance charge at the Rules Liaison Group meetings, in consideration of the potential impact this would have on IDM liquidity, and given the fact it is considered a double penalty with imbalances to be charges against the deviation.</p> <p>We recommend this is not further progressed.</p>
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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>In regard to the format of bids and offers, Gaelectric favour proposals where it is proposed to introduce an accurate representation of costs which reflect the position of participants in all circumstances.</p> <p>For this reason we believe that option 1, Simple MWh, would be an inappropriate solution given its simplicity. It is likely that given this structure does not differentiate the profile of volumes, this option will lead to inefficient bidding practices and issues in settlement. Furthermore, we understand from the Rules Liaison Group meetings that this option may be difficult to implement.</p> <p>Option 2, MW Relative to PN, is a structure used in BETTA and allows greater granularity of bids and offers in comparison to option 1. Whilst this option will not provide an exact definition of the costs of a generator (or demand unit), it does indicate a good proxy.</p> <p>We do not consider that option 3 provides an accurate reflection of costs for participants. Were separate incremental and decremental bids to be considered to differentiate between the cost curves, we believe this would add to the complexity of the option and is not guaranteed to provide more accurate information in respect of unit costs.</p> <p>For this reason we recommend the further development of option 2, MW relative to PN, which provides a higher degree of accuracy in regard to unit costs in comparison to option 1 and 3.</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>We believe option 2, block bids in the BM will likely limit the ability of flexible generators to provide balancing services in the market, and further limit overall flexibility in the market. For this reason we do not believe this would be an appropriate design for the I-SEM BM. It may be more appropriate to include an explicit start-up cost (which is more transparent in any case) and spread the cost of this over the number of hours of operation of the plant in that situation.</p> <p>The proposals in option 1 and 3 are similar (assuming shorter term procurement of start contracts in option 1), and we recommend further consideration of these. Option 3 seems to be the most transparent format to progress.</p> <p>For the avoidance of doubt, this does not reflect our views on the products to be used for bidding in the ex-ante markets.</p>
<p>3. Should it be possible to rebid offer and bid prices following an acceptance? Three</p>	<p>The issue here seems to be relating to the early action taken by TSOs and the subsequent uncertainty as to whether these actions are in fact required. We believe there has generally been an over emphasis on early actions taken to satisfy the TSO requirements without due</p>

<p>options are proposed:</p> <ul style="list-style-type: none"> • Fixing prices of accepted bids and offers • Undo prices • Freezing all prices 	<p>consideration of the impact on a properly functioning market and market participants alike.</p> <p>We agree that the fixing of bid offer acceptances is similar to the approach of the IDM where prices are fixed upon acceptance of the bid/offer, however it is clear that where the TSO accepts a bid/offer, they then expect that participant to maintain the position. The TSO may wish to undo the action taken however it is not unreasonable to accept that given the commercial landscape will have changed in that timeframe, the cost of undoing that action should change also.</p> <p>This is particularly relevant where early actions are being taken by the TSO. It is not acceptable to participants to assume the risk that an action taken early in the IDM may be undone late in the IDM leaving that participant with the possibility of no trade for the volume, and hence subject to imbalance. There is an opportunity cost here which should be reflected in prices, including undo prices.</p> <p>Gaelectric therefore strongly promote the idea that there should be no restriction on bidding Incs and Decs after an accepted bid/offer acceptance which would in effect act as a dynamic price which could act as the cost to undo the earlier action taken.</p> <p>Following gate closure, we promote undo prices or the last Inc/Dec (broadly the same principle) submitted to be used un undoing an earlier action taken.</p> <p>Were undo bids to be fixed at the time of an action taken, we believe this would result in perverse bidding given the undo price is essentially a guess of the costs to the generator in the future.</p> <p>Gaelectric do not support the freezing of the entire bid/offer stack at the time of acceptance of a bid or offer, given this severely impacts the liquidity in the market and hampers participant’s reasonable commercial expectations. It is also likely to impact upon bidding behaviour.</p>
<p>4. Should open or closed instructions be used to move participants away from their PN?</p>	<p>Gaelectric support a harmonised approach with Europe, and suggest closed orders may be more appropriate. Further, this accommodates the planning of trades for a generator, which is impeded by an open order.</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>Gaelectric have previously strongly emphasised the importance of ensuring that early balancing actions have no impact on the ability to trade in the IDM. This to be in line with the HLD decision which stated that the IDM would be an unconstrained market. Where subsequent trades are impacted upon, the liquidity of the IDM market will deteriorate dramatically, or indeed never develop, which will have major consequences on the ability of wind to trade out its imbalances.</p> <p>We therefore believe that option 1 is contrary to the HLD decision given that any participant subject to an action during the IDM, and were it to trade it would have “no facility to update the PNs, the unit would be long or short, and in breach of any obligation to match PNs and ex-ante trades..”</p> <p>Gaelectric agree with the SEMCs view that there is no merit in developing this option further.</p> <p>In regard to option 2, we are concerned of the effect of this option on bidding methodology in the market. We agree that this option confers an advantage on extra-marginal plants in the IDM where further opportunities to trade present themselves. We disagree that this will provide the longer term best economic outcome given that this option will not incentivise flexible, enabling technologies to develop on the island.</p> <p>This option is also contrary to the objectives of the DS3 programme or the Reliability Option which are both aimed at incentivising performing assets to stay on the system, whilst providing an exit signal to non-performing assets.</p> <p>Option 3, “Substitutive Approach”, seems to be the most appropriate option given the plant would need to trade its way out of an action rather than trading on top of it. The possibility of perverse price signals cannot be ignored here also, as plants will only make trades in the IDM where the margin is greater than that of the trade already accepted. Notwithstanding this it seems this option is likely to have the least impact on IDM liquidity.</p>
<p>2. If the substitutive PN Changes option is taken, there are two further options for swapping out or netting IDM trades</p>	<p>Gaelectric welcome the detail proposed here, however we believe that without quantitative assessment of the accounting of flows of money in the second option (i.e. locking in the premium), it is difficult to comment on in detail. It is unclear if in this option money in=money out.</p>

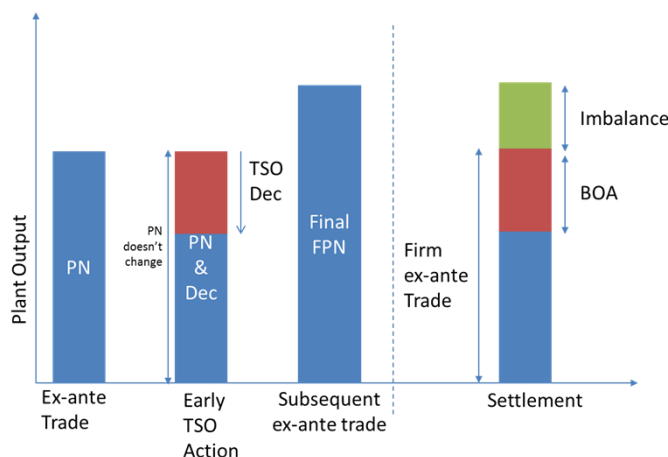
<p>against bid-offer acceptances:</p> <ul style="list-style-type: none"> • If the participant wishes to trade in the IDM and substitute the bid-offer acceptance they will need to achieve a more advantageous price in the IDM than the bid-offer acceptance price • Implement a methodology which sees the unit lock in the premium above or below the imbalance price through the bid-offer acceptance 	<p>Notwithstanding this it seems the latter option is more likely to improve liquidity at least on the back of energy actions. It seems to us that this would require a more complicated implementation however.</p> <p>Given the further clarity required regarding this option in respect of its impact in the market and how this would impact bidding behaviour on the back of non-energy actions, we believe further assessment should be made on both options ahead of a proposed decision.</p>
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3. Which of the three options put forward for dealing with “Trading in the Opposite Direction” should be implemented:

- 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

Gaelectric are concerned at the over emphasis regarding the requirements of the TSO in taking early actions. We have repeatedly insisted that early actions need to be kept to an absolute minimum, however the extent of discussion on this topic suggests that early actions are going to be a pillar of the I-SEM design.

Gaelectric raised our concerns of locking participants out of the market in our RLG response. Our understanding of the proposals set out in the RLGs was as follows;



In this instance, a plant which makes a trade subsequent to a Bid/Offer Acceptance will be treated as running an imbalance, as opposed to having simply matched a trade in the IDM.

Ultimately, the HLD decision called for an unconstrained IDM, whereby market participants are encouraged to trade freely in the market with a view to improving liquidity and therefore enhancing opportunities for trade and creating a stable price signal. Where plants are consistently called on early and subsequent trades are treated as uninstructed imbalances, it is highly likely that this uncertainty will precipitate into bid-offers to the TSO and create considerable price variance, given plants are attempting to manage their risk, using their forecasts of the future market position.

On reflection of this fact, option 2 is contrary to the HLD decision and the principles of the market as outlined above. We reject such a proposal.

We believe option 1 is in the strictest sense, a reflection of the HLD decision. We support local market power mitigation measures to ensure that where a participant is behind a constraint, they must abide by a transmission constraint licence condition.

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>Gaelectric support the principles that units deployed for reserves should not be constrained/ constrained to the least possible extent in the IDM.</p>
<p>2. Are there any market power issues that need to be specifically addressed in relation to System Services?</p>	<p>Gaelectric will respond to this within the market power workstream.</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>Gaelectric have a preference for transparency in respect of these contracts.</p> <p>The DS3 programme incentivises performance of flexible technology, and in principle we do not agree with the incentivisation of warming contracts for plants with long notification timeframes within the DS3 programme, as these are likely to act as incentives to remain uncompetitive (from a technical characteristics perspective), whilst also potentially conferring a commercial advantage over faster acting flexible plant.</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>Gaelectric have raised concerns that the comprehensive flagging and tagging approach may result in a scenario whereby there are no remaining energy actions with which to set the price. We remain concerned by this, and are pleased to see this apprehension is shared by the SEMC.</p> <p>In the RLG meetings a categorisation of energy and non-energy actions slide was presented to the group indicating 4 actions which are deemed non-energy actions by the TSO under the GB process. The proposed list for the I-SEM extended to 15 actions which were to be deemed non-energy actions.</p> <p>We do however believe that with a compressed structure to that of GB which is adequately designed, an unconstrained stack can develop and given this, a relatively stable price can be formed which is a fair indication of the supply-demand balance.</p> <p>We request further feedback on the quantitative assessments being carried out here to assess the impact of non-energy actions on the price for the I-SEM balancing price.</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>As a general comment, where we see options that are worth considering further, we believe a quantitative assessment should be carried out to provide an indication of the effects of the proposal on the balancing market price, and the potential impacts this will have in influencing both price and interconnector flows in the ex-ante markets. We do not believe it would be prudent to settle on an option in absence of this quantitative assessment.</p> <p>Specifically on this proposed option, Gaelectric do not support alternative options whereby the technical capabilities of the portfolio are not considered.</p> <p>We are concerned that this would result in plants being called on to provide balancing services however in a manner which may not recover the costs of that generator.</p> <p>We do not see an obvious methodology for the recoup of start-up costs in a manner which is transparent but also ensuring that there is no over recovery for other participants.</p> <p>We do not believe this is in keeping with the HLD decision.</p>
<p>3. What are your views on the unconstrained stack with plant dynamics included. These are two additions that</p>	<p>The unconstrained stack with plant dynamics included will address some of the key issues raised above in the simple stack option including technical feasibility for ensuring the price considers those who actually delivered, and also including consideration of the</p>

<p>this option would have over the simple stack:</p> <ul style="list-style-type: none"> • Plant Dynamics • An optimisation time horizon 	<p>compensation of start-up costs for participants (however it is not fully clear how this would be executed).</p> <p>This option is not dissimilar to option 2 in the High Level Design consultation, which Gaelectric did not support for the reason that we believed there would be a natural tension in respect of where liquidity is centred, i.e. in the ex-ante markets or the balancing mechanism. The SEMC were in agreement with this position.</p> <p>As per our comments above, we request that further quantitative analysis is undertaken on the proposal to ensure the issues that were raised in the consultation can be adequately addressed.</p> <p>We wish to reiterate that we do not believe this option should be used as anything other than a backup procedure.</p>
<p>4. What are your views on the price based method – unconstrained unit from actual dispatch?</p>	<p>Gaelectric remain unclear as to how this option will impact prices, a point touched on by the SEMC under the disadvantages of the option.</p> <p>On this point, we would be concerned where the binding constraints include SNSP, would curtailed wind (above the SNSP metric) contribute to the setting of the balancing price given that the price is derived from the actual dispatch (and is therefore constrained to an extent), and if not the impact of this on the ex-ante markets would need to be further considered.</p> <p>We request further assessment is undertaken of this and the previous option, and compared against an analysis using the flagging and tagging methodology to determine the most effective path to proceed for back-up procedures.</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>Gaelectric have previously proposed a transitional arrangement whereby a PAR (volume to be determined) is introduced in a manner which allows the market to bed down, and mitigates against unintended impacts on the balancing price of the design of the market. Gaelectric have been vocal supporters of the need to ensure balancing is cost reflective and in keeping with the dynamics of the supply-demand curve, however the risk in the initial period of the market is that trading platforms are being introduced across a number of participants, and there is a natural period of insecurity regarding how the design of the pricing mechanisms will play out in operation. The introduction of a short term PAR will mitigate this risk.</p> <p>We agree that the risk has been mitigated to some extent by the tagging and flagging process which will remove short term actions most likely to produce spikes in price.</p> <p>We welcome further discussion with the SEMC on this point.</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>Gaelectric support the principle of price takers in the balancing mechanism for wind, however we disagree that wind would need to submit a PN to be used for settlement purposes. (see previous comments)</p> <p>It is proposed therefore that ex-post availability signals from SCADA could be used to govern the PN.</p> <p>The impact on prices from assetless traders has not been appropriately considered.</p> <p>In respect of the treatment of “uninstructed imbalances”, Gaelectric prefer to hold response until such time as the impact of TSO actions in the BM is considered further. We do not believe we have the information to hand to indicate a preference informed by knowledge of the impact on the portfolio.</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>In general, Gaelectric disagree that the TSOs can have free reign as to what offers/bids can be taken without remunerating for these individually.</p> <p>By virtue of an incremental/decremental action taken, the participant then cannot trade this volume. Were the TSO to take an early call on an incremental offer, and then subsequently revises this for a later call or a revision of the volume, the plant in question may potentially have an opportunity cost of this action. It is therefore not acceptable to the participants in question that these would not be fully remunerated, and may indeed have to find trades (with few hours remaining in the IDM in some cases) to make up for the revisions made. This discussion reflects our concern regarding the emphasis on the TSO requirements and the lack of consideration of participant’s commercial position.</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>Gaelectric believe ex-ante trades match the volume of energy delivered over the same settlement periods, there should be no imbalance levied on that energy.</p>

1.11 OTHER ISSUES (SECTION 10)

Question	Answer
<p>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</p>	<p>No comment</p>
<p>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.</p>	<p>Gaelectric agree that local market power issues will need to be considered and addressed in the I-SEM design, however given the SEMC prefer not to rule out any specific issue, we will take the opportunity to comment on this in the specific market power consultation.</p>
<p>3. Metering – What are your views on the proposal for metering put forward in the Consultation Paper.</p>	<p>No comment</p>
<p>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.</p>	<p>No comment</p>

<p>5. Units Under Test – What are your views on the two options put forward for units under test in I-SEM.</p>	<p>Until such time as the values of Pcap and Pfloor are understood, Gaelectric do not believe we are in a position to comment with certainty on the proposals.</p>
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Given the importance of the detailed design on the Gaelectric Group and its assets in development including both Project CAES Larne NI and a significant wind portfolio within the timeframe of this market redesign, we request that the RAs continue with the RLG format for the remainder of the detailed design. The RLG has been mutually beneficial for RAs and participants, and the healthy debate at the previous meetings have led to positive solutions to a number of topics.

In the meantime, should you have any queries you would like to discuss, please do not hesitate in making contact on the details below.

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