

SEM Consultation Paper SEM-17-026 Balancing Market Principles Code of Practice

Vayu welcomes the opportunity to comment on the SEM Committee's ("SEMC") consultation paper – SEM17-026 on the Balancing Market Principles Code of Practice ("BMPCOP"). As Vayu is not a generator, our interest in this area is mainly focused on ensuring that the market functions smoothly, following the principles of fairness and transparency, to ensure our supply business or our customers are not disadvantaged.

As an observation on the draft BMPCOP and in support of the views of respondents to the previous consultation (SEM-16-059), this code of practice (and the two options presented in the consultation paper) does not represent a true set of bidding principles. Instead, this is more a prescriptive list of cost definitions and bidding rules. Indeed, the draft BMPCOP appears to be an attempt to lift the set of rules from the existing SEM Bidding Code of Practice and reinforce them with further, more detailed, rules. This would not fit with a reasonable definition of 'principles' in our view and we believe that it is these principles, rather than rules, that are required to regulate the complexities of the new market.

Vayu holds the opinion that this method of producing a detailed set of rules and cost definitions will not be fit for purpose in I-SEM, ignoring, as it does, the different time scales between bidding and dispatch in SEM and I-SEM and the potential for interactions with the different markets (Day-ahead and Intra-day) that will be introduced in I-SEM. Our primary concern arising from this is that the TSOs may be effectively granted a 'free option' on energy from complex bids based on day-ahead fuel costs (that may well be lower than within-day fuel prices). This might disadvantage generators with limited or no benefit to suppliers or consumers.

Analysis Gap

On a wider basis, Vayu believes that the BMPCOP and the consultation process used to produce it has not taken sufficient account of the new structure of the market under I-SEM and the different interactions between market participants and the Day-Ahead, Intra-day and Balancing markets that result from it. Vayu believes that a more holistic approach should be taken to produce the principles drafted to govern generators behavior in the Balancing Market and those being drafted to govern the TSOs actions in the BM.

The use of complex and simple bids and offers in parallel is a unique and untested feature of I-SEM in comparison with the operation of other bilateral markets. As such, greater consideration should be made to the signals that these different pricing structures offer to participants in the market and the risks and obligations that participants assume from different methods of regulation (either rules or principle based) that apply to them.

We have a number of concerns that there might be unanticipated outcomes as are outlined below:

1. Where a scheduling or dispatch decision is made on the basis of complex bids that assume a plant is effectively idle (as is implicitly assumed in SEM day-ahead scheduling) while the plant might already have traded forward in the IDM and have covered its start-up costs from this forward trade.
2. In circumstances where a plant is dispatched on the basis of a relatively low priced complex bid based on day-ahead SRMC, while the market will be priced to pay that plant on a higher priced simple bid basis but generators with simple bids that are lower (although still higher than the dispatched generator's complex price) are ignored.

These, and the potential for other unanticipated outcomes, lead Vayu to take the view that the RAs should conduct a wider reaching consultation and more in-depth analysis on the regulation and operation of the Balancing Market. The objective of this consultation should be to develop a more integrated and unified set of principles, rather than detailed rules that can never be adequate to cover all possible outcome, to govern the behavior of participants in the Balancing Market.

Finally, we note that Paragraph 6 of the draft BMCOP refers to SRMC being measured in '€ or £/MWh' and we believe that this should be '€/MWh or £/MWh'.

Vayu is always open to discuss this response in more detail and we would welcome any questions that you might have.