

Enerco Energy Ltd,
Lissarda Business Park,
Lissarda,
Co. Cork
2nd June 2017

Re: SEM Committee Paper (SEM-17-029)

Dear Sheena and Kenny,

Firstly, thank you for the opportunity to comment on the I-SEM Policy Parameters & Scheduling and Dispatch Parameters Consultation Paper (SEM-17-029). Enerco Energy Ltd are Ireland's second largest independent wind energy generator with over 300MW of wind assets currently operational, and with a significant pipeline of additional assets in construction.

Background and Context

Enerco note that on March 19th 2015 the European Council concluded that the European Union is committed to building an energy union. This is on the basis of the Commissions framework strategy, with five priority dimensions, which are as follows:

- Energy security, solidarity and trust
- A fully integrated European energy market
- Energy efficiency contributing to moderation of demand
- Decarbonising the economy
- Research, innovation and competitiveness

Enerco believe that the decisions on parameters for the forthcoming I-SEM market must be based on their contribution to these priority dimensions. We note, and strongly agree with, the requirement that generators and suppliers balance responsibly in the forthcoming I-SEM market. In order to achieve this additional dimension, we must be sure that it does not lead to a failure to make progress in one of the EU's five priority dimensions.

Enerco note that by far the largest sustainable source of electrical power generation on the island of Ireland is wind. Wind is the leading driver and mechanism in Ireland in aiming to achieve the EU dimension of decarbonising the economy. However, its variability causes particular susceptibility to extreme imbalance prices. In addition to this, smaller suppliers do not have the facilities of their larger counterparts, and will also be more susceptible to extreme imbalance prices.

Therefore, there is the need to strike a balance between extreme, punitive imbalance prices and being too benign. Extreme imbalance prices will excessively punish sustainable generation, and small suppliers, leading to a decrease in competition and sustainability, which is in absolute contradiction to the EU's priority dimensions.

The consultation paper and its derivation of parameters is based on Plexos modelling of the market, as used under the SEM. Given the fundamental change in market the legitimacy of such an approach, without the ability to compare it to actual price values, must be called into question.

This is even more true for imbalance prices. In the BETTA market for 2017 year to date, the average volatility of the Day Ahead Market has been 25%, whilst for the imbalance market it has exceeded 60%. Consequently, the validity of modelling such prices, has to be called into question. This is especially so, when such modelling is used to set market parameters that could have severe, even catastrophic, effects on the market and its participants.

Enerco are keen to be part of a smooth transition from SEM to I-SEM. This should lead to the formation of a market that not only delivers the EU's five priority dimensions, but also provides a market with the desired balance responsible criteria. It is in this context that we make the recommendations below. We have no objections to this response being published, in part or in whole.

De Minimis Acceptance Threshold – DMAT

The importance of the De Minimis Acceptance Threshold (DMAT) is to prevent small, spurious bid or offer acceptances setting unduly high or low imbalance prices. This would threaten players such as wind generators or small suppliers who, as noted above, will be unable to forecast their output or demand with 100% accuracy and therefore unavoidably exposed to the market imbalance price to some degree. Following from this, it would in turn threaten sustainability and competition, violating the EUs priority dimensions.

As noted above, there is no current history of I-SEM prices (Day Ahead, Intra Day or Imbalance) to validate a model against. Given the volatility of imbalance prices, relative to Day Ahead prices, the ability to accurately model these must be taken with particular scepticism.

As the market develops, and a clearly understood price history unfolds, it may be possible to tighten, or loosen, the value of DMAT. However, in order to ensure a successful transition to the I-SEM market, a smaller DMAT value risks more volatile imbalance prices. This could endanger participants and, in turn, the market itself.

The paper proposes a half hourly value of 2.4MWh, based on ramping of units. However, there are many reasons that small volumes may set imbalance price, not just ramping. In order to be sure that such small volumes do not influence price the obvious value to use is that of the De minimis threshold of 10MW or 5MWh per half hour period.

Price Average Reference Quantity – QPAR

The importance of QPAR is that it provides market operators and regulators with a tool that can be used to ensure imbalance prices are neither too excessive nor too benign.

Lower values of QPAR tend to drive more extreme imbalance prices. This can lead to a greater effort to balance, but can also threaten players such as wind generators or small suppliers who, as noted above, will be less able to forecast their output or demand. Following from this, it would in turn threaten sustainability and competition, violating the EUs priority dimensions.

In turn, higher values of QPAR tend to drive more benign imbalance prices, which can reduce the incentive to balance responsibly.

QPAR is a concept that the GB market is very familiar with. It has been reduced to a level of 50MWh presently, with the possibility of going to 1MWh in late 2018. However, this is in a mature and well established market, which has been operating for over 16 years now.

We note that a value of 1MWh is proposed and believe that this value is inherently dangerous to the market and its participants. Whilst we note the Plexos modelling of the market performed in this analysis, we state again that with no history to compare this to, the validity of such an approach must be questioned. Furthermore, noting the much greater volatility of imbalance prices, a modelling approach without the ability to validate against actual prices is highly questionable.

Whilst it is possible to tighten QPAR at a later date, when there is a clear and established price history, to set a very small value of QPAR at market opening risks creating highly volatile imbalance prices. This would threaten participants and in turn the market. On the basis of the threat to sustainability and competition that this would cause, this would violate the EUs priority dimensions and is inappropriate for use.

We note that a QPAR value of 50MWh is well established in the successfully functioning BETTA market and would recommend that this value be used as an initial QPAR in I-SEM. This value can then be tightened, or loosened, when an actual imbalance price history is established.

Response Period

The response period is the period in which a unit in the Balancing Market must resolve credit issues, before it is excluded from the SEMOpx market. If the issue is not resolved, it will then lead to all other units under the Trading party responsible for the defaulting unit, being excluded from the SEMOpx market.

As such, this fundamentally affects the ability of organisations to provide Third Party Intermediary (TPI) services, for organisations other than their own. Organisations seeking TPI services will tend to be smaller organisations for whom setting up a trading function and the relevant facilities are excessively onerous. So, an erroneous

approach on this issue risks decreasing competition in violation of the EU priority dimensions.

Clearly, in order to avoid the TPI service provider itself being taken out of the market, the process for separating a TPI service provider from a defaulting unit must be less than the response period.

Whilst a defaulting unit should notify its TPI service provider of its default status, this cannot be assumed, as to assume so could endanger the TPI service provider. Therefore, the response period must be greater than the time it takes for SEMOpx to inform the TPI service provider of the credit status of the defaulting units, and the time it takes for the TPI service provider to separate itself from the defaulting unit.

Currently, how the latter part of this process works, and how long it takes, is undefined. Furthermore, the length of time for SEMOpx to notify a TPI service provider is also undefined. Until these two processes are defined, and clearly understood, the response time cannot be decided upon.

To define the response period without knowing these means TPI services cannot be provided in the way they are currently viewed. As such, this will be a significant disadvantage to smaller players, who will be dependent on TPI services. Consequently, this would reduce competition and violate one of the EUs priority dimensions, and as such cannot be accepted.

Enerco would recommend that the decision on the response period be deferred until these issues are resolved, but we also believe that 5 business hours is unlikely to be enough.

PCAP, PFLOOR

The purpose of PCAP and PFLOOR are to put an upper and lower limit on prices. This prevents participants from being exposed to extreme prices, with current values set at €1000/MWh for PCAP and -€100/MWh for PFLOOR.

When I-SEM goes live the additional importance of PCAP and PFLOOR will be to limit any prices produced by unintended consequences that could not be foreseen prior to go live. An example of this, in the GB market, was the “Damhead Creek incident” on May 19th 2004, when this particular unit had to be taken off at a price of -£9999/MWh.

Whilst market rules were subsequently changed to deal with this issue, it is a stark example of what can occur, even in a well-prepared market. The current values of PCAP and PFLOOR have proven their worth and have not been changed since the foundation of the SEM, nearly 10 years ago.

To change to more extreme values, when the I-SEM market is itself well developed and well-functioning may be appropriate. However, until this is the case, it risks setting extreme prices, which, as noted above, could endanger wind generators and small suppliers. This again would be contrary to the EU’s priority dimensions and therefore

we believe that maintaining the existing PCAP and PFLOOR values of €1000/MWh and -€100/MWh is appropriate for I-SEM go-live.

Kind regards

Andrew Burke, Head of Trading, Enerco