

Genoa, 22.06.2020

**Subject: Response to SEM consultation paper “Implementation of Regulation 2019/943 in relation to Dispatch and Redispatch”**

ERG is among the main onshore wind players in Europe with a fully operational portfolio of more than 1.9 GW. In terms of investments, according to our 2018–2022 industrial business plan, the UK is one of ERG's priority markets for developing new renewable assets. We have a significant pipeline of projects in Scotland and Northern Ireland for more than 200 MW and are committed to grow with an aim to build a long-term operational portfolio in the UK. Notwithstanding the absence of Government support for the development of mature renewable technologies, ERG is moving ahead with several projects on a merchant basis, as we believe in our pluriannual industrial expertise in building and operating renewable energy plants, and know that the UK has some of the best wind resources in Europe. When investing in long-term projects, in absence of any mechanism to stabilize revenues, a stable regulatory framework, allowing access to different streams of revenues and avoiding unexpected or unfair costs, is paramount.

In this respect, we kindly welcome the publication of SEM Consultation paper concerning “Implementation of Regulation 2019/943 in relation to Dispatch and Redispatch”.

Please find here below our observations to the questions reported in the consultation paper.

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**General comments**

*EU Regulation 2019/943 on the internal market for electricity* represents one of the most relevant pieces of regulation proposed in the last few years by European Commission. Implementing regulations are directly applicable and do not need to be transposed into national legislation, with the aim to structure a harmonized regulation applicable to each EU Country.

In this sense, art. 12 and 13 of the above-mentioned Regulation represents due changes to current rules and we are aware that the market perspective outlined by EU Commission is the one to be followed.

As a general principle, we consider that the phase-out of priority dispatch for new generation units can only be considered fair if it is ensured that there is a proper level of:

- ✓ competition among different electricity generation sources;
- ✓ electricity market liquidity in DAM and ID markets, with gate closure near to real-time;
- ✓ access to balancing market for RES generation;

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- ✓ transparency in market functioning.

Strictly looking at the consultation paper, a general consideration is worth mentioning: EU Regulation 2019/943 entered into force 1<sup>st</sup> January 2020, in this sense Northern Ireland and Republic of Ireland are currently not compliant with the general ruling. How will the non-compliant period be treated by NRAs and relevant stakeholders? Will it be adopted through a retroactive piece of regulation? What kind of consequences could arise from a system and operative perspective?

Please find here below detailed responses to consultation questions.

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**Consultation Question 1:** *Do you agree with the RAs' interpretation of the requirements under Articles 12 and 13 and specifically the application of dispatch, redispatch and market based/non-market based redispatch in the SEM?*

Generally, it is worth noting that today some mature European markets, such as Sweden and the UK, which have relatively high penetration rates of wind, do not offer priority dispatch and this does not place any restrictions on market growth. An important factor is that these markets offer market-based instruments to allow producers – and in particular non-dispatchable but controllable RES producers – to participate in balancing markets and to voluntarily dispatch-down their output: this is a principle of paramount importance that we hope will be taken as a basis for the development of the future I-SEM market.

Focusing on the interpretation of the requirements under articles 12 and 13, we consider that there are some regulatory and law gaps.

In particular, as far as art. 12 on Priority Dispatch is concerned:

- ✓ as a basic principle, we consider that a unit eligible for priority dispatch should opt-out from this regime and be able to adopt a full-merchant perspective;
- ✓ it is not clear if a project which has already accepted a connection offer can be considered eligible for priority dispatch. In this sense, since a harmonized interpretation of the rule doesn't exist, a proper principle should be adopted. For instance, projects with a non-subsidy-based route-to-market should be considered eligible.

As far as art. 13 on Redispatching measures is concerned:

- ✓ it is not clear the reason why constraints are not considered a non-market based redispatching measure. In some cases, curtailment and constraint events happen

simultaneously without a clear distinction between the two activities, apart from the output (downward regulation adopted).

**Consultation Question 2:** *In terms of the practical implementation of Article 12(1) to introduce a distinction between units which retain eligibility for priority dispatch and those which are not eligible, the RAs propose:*

- *Where a commissioning programme has been agreed with the TSOs on or before 4 July 2019, it is proposed that such units will be eligible for priority dispatch.*
- *Where a unit is eligible to be processed to receive a valid connection offer by 4 July 2019, the RAs are of the view that this represents a contract concluded before priority dispatch ceases to apply under Article 12 and that such units are also eligible for priority dispatch.*
- *Where a unit becomes active under a contract concluded before 4 July 2019 including a REFIT letter of offer or PPA, the RAs welcome feedback on the proposal for such generators to be eligible for priority dispatch.*

*Interested stakeholder's views are invited on these proposals.*

We consider that projects 'eligible to be processed to receive a valid connection offer' should qualify for priority dispatch as a 'contract concluded before 4 July 2019'. In general terms, all those developing subsidy free projects and with a route-to-market well defined before 4<sup>th</sup> July 2019 should opt in/out for priority dispatch.

**Consultation Question 3:** *It is the RAs' understanding that any unit which is non-renewable dispatchable but is no longer eligible for priority dispatch can be treated like any other unit within the current scheduling and dispatch process, through submission of PNs with an associated incremental and decremental curve. Feedback is requested on this aspect of implementation of Article 12 of the new Electricity Regulation.*

We consider that, on a principle basis, a standardization in the scheduling and dispatch process at an operative level could help.

**Consultation Question 4:** *It is proposed that any unit which is non-dispatchable but controllable and is no longer eligible for priority dispatch would run at their FPN, be settled at the imbalance price for any volumes sold ex-ante and could set the imbalance price.*

*As part of this proposal, there is a question of whether such units would be required to submit FPNs or where no FPN is submitted, the unit could be assigned a deemed FPN calculated by the TSOs as per the process today. Where a unit elects to submit an FPN, in this case, the TSOs would be required to use this as long as it does not deviate above a certain percentage of the TSOs' own forecast availability of the unit.*

*As an alternative or as a possible interim measure, taking account of the zero marginal cost nature of non-dispatchable but controllable generation in the market today, i.e. wind, solar, units no longer eligible for priority dispatch could be scheduled to their availability as per the process today on the assumption that this reflects economic dispatch in any case, but where there is excessive generation on the system such units would be subject to energy balancing prior to any priority dispatch units. In particular, the RAs are seeking feedback from the TSOs on measures which can be introduced to facilitate required compliance with the new Electricity Regulation within the scheduling and dispatch and balancing market systems.*

**Consultation Question 5:** *Feedback is invited from interested stakeholders on the treatment of non-dispatchable and non-controllable units.*

From a general perspective, we consider that system security must be preserved. In this sense, an operative balance between TSO and market operators has to be found.

In any case, we consider that forcing non-dispatchable but controllable units, i.e. wind farms, to submit FPNs on a like-for-like basis with conventional technologies does not meet one of the main principles set by EU Regulation, which referred to the need to take into account the different technical capabilities of the different energy sources.

In our opinion, the use of FPN for non-dispatchable but controllable units would help, but if posed on a like-for-like basis wouldn't reflect in a proper and accurate way to characterize the output of these units.

Also, we highlight the need to take into consideration the alert from TSOs regarding costs and timeline for the implementation of the due changes.

**Consultation Question 6:** *Do you agree with the RA's interpretation that new generators which are no longer eligible for priority dispatch (both dispatchable and non-dispatchable but controllable) will be subject to energy balancing actions by the TSOs, considered in dispatch economically and settled like any other instance of balancing energy?*

**Consultation Question 7:** *What is your view on the application of bids and offers to zero-marginal cost generation?*

**Consultation Question 8:** *What is your view on a potential rule-set being implemented for non-dispatchable units where (a), systems cannot facilitate ranking of decremental bids for such units for balancing actions for a certain time period and/or (b) where convergent bid prices require a tie-break rule?*

As far as question n.6 is concerned, we consider that the use of energy balancing market for new RES generators not eligible for priority dispatch is correct: we consider that RA's should further explain and clarify the way these sources will participate in EU projects such as TERRE, MARI, PICCASSO.

For the specific case of non-priority dispatch renewable units: these units are able to fairly reflect the cost of their lost generation through simple bids and offers as part of their COD and TOD, they should be dispatched on market-based assumptions, like any other units.

Referring to question n.7, we consider that all activities that will allow a higher rate of transparency and clarity in market operativity – resulting in a fairly level playing field – are welcomed.

**Consultation Question 9:** *Do you agree with the TSOs' proposal for a revised priority dispatch hierarchy?*

*The RAs request that the TSOs consider the points raised in this Section in their response with any further proposed changes to the hierarchy.*

We consider that, when talking about Priority dispatch – even applicable to different system services – a single interpretation of the ranking should be used.

**Consultation Question 10:** *Feedback is requested from interested stakeholders on the types of demonstration projects that may be suitable for an application process for limited priority dispatch eligibility.*

N/A

**Consultation Question 11:** *The RAs' interpretation of the Regulation is that where a new connection agreement is required or where the generation capacity of a unit is increased, a unit will no longer be eligible for priority dispatch.*

*The RAs also propose that units should be able to make a choice on whether they wish to retain their priority dispatch status or not. Feedback is requested on this proposal.*

Provided that the interpretation of the application of art. 12 has yet to be cleared and consequently adopted into Regulation, we consider that a new connection agreement by itself does not trigger the loss of priority dispatch. Instead, priority dispatch should be considered lost if there is a material change to a metered Generator Unit (in SEM terminology) that requires a new connection offer.

**Consultation Question 12:** *Do you agree with the RAs' interpretation of Article 13(5)(b) whereby downward redispatching of electricity produced from renewable energy sources or from high-efficiency cogeneration (i.e. the application of constraints and curtailment) regardless of priority dispatch status, should be minimised in the SEM? Under this interpretation, the only difference between renewable generators and HECHP eligible for priority dispatch will be how they are treated in terms of energy balancing.*

Curtailment represents one of the most significant challenges for the Irish system, characterized by weak interconnections and, in parallel, by a very high penetration of renewable production.

A balance needs to be found between protecting the interests of electricity consumers by promoting effective competition, and the owners/investors of renewable generating plants by reducing the risks associated with the uncertainty in the volumes of power that would be injected onto the grid.

We consider that the interpretation given by RA's in treating curtailment, as a service of the system that has to be paid, is correct.

In our opinion, if all market participants, including wind power, participate in this service, then the solution will be economically efficient and market operativity would benefit from it, resulting in a lower amount of total curtailment: in this sense we think there wouldn't be a need to minimise the use of this service, just to properly regulate it.

**Consultation Question 13:** *Do you agree with the RAs' interpretation of Article 13(6) and the introduction of a new hierarchy for the application of non-market-based downward redispatching?*

**Consultation Question 14:** *Do you agree with the RAs' interpretation of Article 13(7) and the view that the provision of financial compensation to firm generators subject to curtailment based on net*

*revenues from the day-ahead market including any financial support that would have been received represents an unjustifiably high level of compensation?*

We do not foresee an unjustifiably high level of compensation: since the service is currently unpaid, we consider that proper compensation should be afforded to all market operators that participate in the service to relieve congestion problems.

**Consultation Question 15:** *Which of the options on compensation for curtailment presented above do you view to be most appropriate to adopt in the SEM? Are there additional options that the RAs should consider around compensation for curtailment? Timing of implementation.*

Taking as a reference wind farms, we believe that curtailment of newly installed plants (with or without priority dispatch) should be compensated in order to protect wind producers from discrimination.

In terms of principles to be adopted, we believe that the vision of Wind Europe on this topic has to be taken into consideration: [...] *the compensation should consider both the Day Ahead Market price and the value of the lost incentive. The full compensation should be settled close to the time when the curtailment occurs and not postponed to the end of life of the plant. Compensating curtailment is the most effective way to reduce the risk of discrimination, to reduce volume-related investment risk and to ensure that the financing costs for investing in capital intensive technologies such as wind power and PV are minimized.*

*There may be a benefit from not compensating 100% of the opportunity cost. Reducing slightly the income could send an important incentive signal to investors to select locations with existing sufficient network capacity, Curtailment would then be likely to occur less frequently. The exact % of the opportunity cost needs to be carefully assessed in order to find a balance between an increase in policy cost and the increase of financing costs due to higher market risk.*

*The calculation method for the amount of curtailed energy, the corresponding costs and the possible compensation must be clear and transparent [...].*

*Yours sincerely*