



Genoa, 09.07.2021

**Subject: Response to SEM consultation papers**

- **SEM-21-026 Consultation on Dispatch, Redispatch and Compensation Pursuant to Regulation (EU) 2019/943**
- **SEM-21-027 Proposed Decision on Treatment of New Renewable Units in the SEM**

ERG is among the main onshore wind players in Europe with a fully operational portfolio of about 2 GW. In terms of investments, according to our 2021–2025 industrial business plan, the UK is one of ERGs priority markets for developing new renewable assets. We have more than 250MW of wind farms under construction in Scotland and Northern Ireland and are committed to further growth. Given our current and future investment plans on the Island of Ireland, we are committed to actively participate in SEM discussions and welcome the publication of SEM 21-026 and 21-027 consultation papers.

Taking into consideration the close interaction among the treated topics, please find here below our consultation response to both documents.

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**General comments**

As a premise, we highlight the need to adopt detailed and clear rules for curtailment and constraint treatment as well as for priority dispatch.

Acknowledging that the discussed topics are complex, we consider it of paramount importance to pursue an efficient and transparent implementation process without leaving room for doubts or potential discrimination.

Also, we urge that – once final decisions will be taken – relevant stakeholders will publish a clear and transparent timeline for implementation.

Please, find below some observations on specific aspects addressed in the documents.

### **1. Priority Dispatch**

As far as the SEM Committee decision on priority dispatch is concerned, we highlight the lack of a level playing field among generators belonging to the same technology.

Even knowing that the existence of a date which discriminates between generators who can and who cannot take advantage of priority dispatch is allowed by EU Regulation on Market Design, we recommend a future revision of the rule.

From this point of view, it is worth noting that today, some mature European markets, such as Nord Pool and the GB markets, which have relatively high penetration rates of wind, do not offer priority dispatch and this does not place any restrictions on market growth. This shows that it is possible to adapt rules to wind power characteristics and structure a clear market-based and non-discriminatory context for RES investors.

Also, exclusion from priority dispatch affects the economics of a project operating with a PPA, given that a plant needs to be generating to receive PPA payments.

### **2. Constraint level for new production units**

Ireland's ambitious plans to reduce carbon emissions from electricity, mainly through increased RES will realistically result in a growth in local grid congestions, and hence in constraint level.

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).

It is to be highlighted that the proposal in consultation would focus on new production units only and – as a consequence – on new investment projects in the Irish renewable energy market which will be treated as non-priority dispatchable units. This will mean high constraint levels of new units only, introducing additional risks of being constrained first for new projects.

The introduction of a pro-rata mechanism, enabling fairness in dispatching each technology, could be a solution to avoid this risk.

### **3. Firm access policy**

Firm access policy is defined by the TSO based on its overall strategy for development of the grid and its schedule for completing the necessary deep transmission reinforcement works. Historically, these kinds of works are delayed beyond TSO target dates, creating uncertainty and risks for developers. Hence, it is a parameter beyond the direct control of the single generator.

Under current proposals in SEM 021-26 and 021-27, plants with a firm connection agreement only would receive a compensation for constraints & curtailments: this could directly affect economic viability of RES projects.

For this reason, we suggest consideration is given on whether this parameter should be revised (i.e. removed or scheduled differently, at the signing of connection agreement with the TSO) also because it represents a peculiarity of the Irish and English system.

In our opinion, it would be advisable to treat firm and non-firm connection the same way with regard to compensation for curtailments and constraints, maybe considering an adequate period of time for non-firm connection to afford firmness (i.e. within x years from the grid connection date).

Finally, we consider that without a clear definition as to how this policy will evolve in future this is a risk that developers cannot adequately define the cost of their future units.

#### **4. Curtailment remuneration for non-firm generators**

Taking as a reference wind farms, we believe that curtailment of newly installed plants (with or without firm connection) should be compensated in order to avoid discrimination.

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

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

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 need to minimise the use of this service, just to properly regulate it.

We do not foresee an unjustifiably high level of compensation: since the service is currently unpaid, we consider that a proper compensation should be recognized to all market operators that participate into the service through their contribution to solve congestion problems.

In terms of principles to be adopted, we believe that the vision of WindEurope 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 [..].<sup>1</sup>*

*[..] from the generator point of view, the effect of curtailment is independent of the underlying causes. It represents forgone revenue. Hence, voluntary or market-related curtailment has to be understood as an ancillary service in terms of providing downward reserve capacity or balancing energy, for which system operators would have to define rules and share cost calculation principles transparently with generators. Where arbitrary curtailments occur, with or without priority dispatch provisions in place, clear compensation mechanisms have to be defined in order to protect wind generators from discrimination. These compensation mechanisms should be separate revenue streams to those taken into consideration in the calculation of support mechanisms based on energy output. [..]<sup>2</sup>*

## **5. Operative burdens**

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

In any case, in our view requiring non-dispatchable but controllable units, e.g. wind farms, to submit FPNs on a like-for-like basis with conventional technical characteristics does not meet one of the main principles set by EU Regulation, which is the need to take into account the different technical capabilities of the different energy sources.

In our opinion, the use of FPN set with availability data (as per today process) for non-dispatchable but controllable units would reflect in a proper and accurate way the output of this units.

*Yours sincerely,*

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<sup>1</sup> WindEurope – Views on curtailment of wind power and it's links to priority dispatch.

<sup>2</sup> EWEA [now WindEurope, ndr] - Position paper on priority dispatch of wind power