

Bord na Móna

Implementation of Articles 12 and 13 (SEM-21-026 / SEM-21-027)

Consultation Response

9th July 2021



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1. Introduction

Bord na Móna (BnM) welcomes the opportunity to respond to the Consultation Papers on SEM-21-026 Dispatch, Redispatch and Compensation Pursuant to Regulation (EU) 2019/943 and SEM-21-027 Proposed Decision on Treatment of New Renewable Units in the SEM.

The structure of this response hinges on the areas of both consultation papers which we feel are of the highest priority. We have addressed the specific proposals from the consultation papers in Section 2 and Section 3. We recap on the overarching principles of our consultation response in the concluding remarks.

Like the SEM Committee and Regulatory Authorities, BnM is committed to delivering the 2030 targets on emissions reduction and renewable energy. However, we are concerned that the proposals in these consultation papers, if implemented, will significantly adversely impact on the ability of the industry to deliver the required investment to enable Ireland to achieve its 2030 targets. We are also concerned about impacts on the expected performance of existing investments, with inadequate compensation for higher-than-expected constraint and curtailment.

Furthermore, we believe that the proposals in these consultations allocates risk to generators that is impossible for us to manage, meaning that the cost to consumers of developing further renewable capacity will be significantly greater than necessary.

Our overarching objectives with the positions we have taken in this response are to ensure that:

- The legal requirements of the Regulation are implemented in full, specifically the right of all qualifying generation to compensation at the level of financial support for downwards redispatch; and
- Risk and incentives – primarily that around network constraints, curtailment, and firm access – are allocated to the parties best able to manage those risks.

Incorporation of our positions within policy design should facilitate investment in new renewables at an efficient cost for the end consumer, maintain the viability of existing RESS-1 and new corporate power purchase agreement (cPPA) projects, and provide for a sustainable investment environment for existing renewables.

2. Proposed Decisions: Consultation on Dispatch, Redispatch and Compensation Pursuant to Regulation (EU) 2019/943

2.1 Dispatch and Balancing Energy & Redispatch

2.1.1 Proposed Decision

The Regulatory minded to position around dispatch is that it relates to the scheduling and dispatch of units to meet the energy requirements of the market, noting the complexity of identifying dispatch and redispatch separately in the central dispatch system with an integrated scheduling process, which is carried out through the identification of energy and non-energy actions as part of the flagging and tagging process. Energy balancing in the SEM aligns with the definition under the Electricity Balancing Guideline as ‘energy used by TSOs to perform balancing and provided by a balancing service provider’. Taken together, dispatch and energy balancing are aligned to the existing

concept of 'energy actions' in the SEM.

Redispatch, then, in the SEM relates to deviations from the market schedule for generation for both local network and broader system reasons, including TSO-instructed reduction in generation due to localised network issues (constraints) and reduction in non-synchronous generation due to other system-wide reasons such as levels of System Non-Synchronous Penetration (curtailment).

As part of this Consultation, the Regulatory Authorities welcome feedback on whether decremental actions taken on priority dispatch units can be considered either dispatch and redispatch (energy and non-energy actions) or as forms of redispatch only (non-energy actions).

2.1.2 BnM Response

BnM agrees with the definition of Dispatch and Redispatch set out in SEM-21-026, namely that 'dispatch relates to the scheduling and dispatch of units to meet the energy requirements of the market', and that 'Redispatch in the SEM relates to deviations from the market schedule for generation for both local network and broader system reasons, including TSO-instructed changes in generation due to localised network issues (constraints) and reduction in non-synchronous generation due to other system-wide reasons such as levels of System Non-Synchronous Penetration (curtailment)'.

In the context of renewable units on the system today, in simple terms this means that dispatch relates to actions taken in the ex-ante market to set the unit to its forecast generating position and redispatch relates to actions taken in the balancing market that deviate the unit from its intended generating position, such that renewable units would be dispatched by their sales into the ex-ante markets and redispatched through constraint and curtailment in the balancing markets.

2.2 Definition of Non-Market based Re-dispatch

2.2.1 Proposed Decision

The consultation outlines the Regulatory Authorities position in relation to the classification of non-Market based Re-dispatch.

According to the Regulatory Authorities, Curtailment in the SEM is currently a form of non-market based redispatch, as it is applied to all non-synchronous units (regardless of priority dispatch status) and is not based on any merit order or the bids and offers of units.

They hold that constraints on the other hand, as applied to all non-priority dispatch units are a form of market based redispatch.

2.2.2 BnM Response

BnM agrees with the RAs that curtailment is a form of non-market re-dispatch, however BnM strongly disagrees with the classification of constraints as a form of Market based re-dispatch. Article 13 of the regulation specifies that the TSO should select market participants for redispatch based on market-based criteria. However, if one of a number of criteria is met, (Article 13.3 from Regulation (EU) 2019/943) the TSO may utilise non-market-based resources to resolve system issues.

“3. Non-market-based redispatching of generation, energy storage and demand response may only be used where:

(a) no market-based alternative is available;

(b) all available market-based resources have been used;

(c) the number of available power generating, energy storage or demand response facilities is too low to ensure effective competition in the area where suitable facilities for the provision of the service are located; or

(d) the current grid situation leads to congestion in such a regular and predictable way that market-based redispatching would lead to regular strategic bidding which would increase the level of internal congestion and the Member State concerned either has adopted an action plan to address this congestion or ensures that minimum available capacity for cross-zonal trade is in accordance with Article 16(8).

Article 13(3) Regulation (EU) 2019/943

The SEM Committee has already established that there is insufficient competition for constraints in the SEM under SEM-16-024 the explicit quote is given below.

“As a result of non-energy actions, units that would normally not be dispatched are scheduled to run by the TSOs. This could be due to a multitude of reasons such as network constraints. As there effectively exists no market under these conditions the generator can effectively act as a monopoly at times. The SEM Committee sees this as a considerable risk to consumers and believes that imposing bidding conditions is appropriate in these circumstances.”

Therefore, the SEM Committee have previously decided implicitly that the Conditions of Article 13(3)(c) Applies in the SEM. Therefore, it allows for the treatment of constraints in the SEM as non-market-based re-dispatch.

if constraints are implemented as market based redispatch, the grandfathering arrangements would create material deviations from the market position for certain renewable energy generators over others, and would significantly deviate from the requirements of Art 13(5) which requires System Operators to seek to minimise the re-dispatch of Renewable Generators in the market schedule to no more than 5% of their annual output based on ‘transparent and non-discriminatory’ criteria. This approach if implemented, would discriminate against newer renewables relative to legacy renewable generators with priority dispatch, in a way that is not consistent with the intention of Article 13, which is to seek to maximise the dispatch of all renewable generation in the market schedule on an equitable basis.

2.3 Consideration of Firm Access Policy

Under current grid access policy, renewable generators have no choice but to accept connection agreements that have no guarantee on firm delivery (i.e. financially non-firm).

There needs to be an obligation on the SO to procure firm access for such renewable generators within a prescribed timeframe, related to the procurement of defined ATRs, which cannot be left as a

generator risk, as they have no control over the delivery of such timelines.

The system operator should therefore either deliver the required reinforcements, or the generator should have a deemed firm connection by the ATR longstop date, which in turn will leave them eligible for compensation under Art 13(7) for non-market redispatch.

BnM considers the definition of Firm Access as an essential policy requirement, accompanying the implementation of Articles 12 and 13.

Under Article 13(5) (a) the system operators are obliged to “guarantee the capability of transmission networks and distribution networks to transmit electricity produced from renewable energy sources or high-efficiency cogeneration with minimum possible redispatching...” by taking ‘appropriate grid-related and market-related operational measures in order to minimise the downward redispatching of electricity produced from renewable energy sources or from high-efficiency cogeneration.

Firm Access is a complicated area that requires immediate industry engagement by the System Operators with a focused consultation on the specifics of this. Development of a policy on Firm Access is well overdue and is essential to provide confidence to investors.

It is essential that a consultation on firm access policy considers application for (i) existing firm projects, (ii) existing non-firm projects that had firm access date advised, (iii) existing non-firm projects and (iv) future projects, and how firm access is confirmed/communicated for each of these types of projects to be considered. Some industry participants with newer renewables have calculated that they could be subject to redispatch at levels far more than 5%, at levels of 25% to 40% in fact, with this approach if implemented.

2.4 Financial compensation under Article 13 of the Regulation

2.4.1 Proposed Decision

The consultation paper proposes that constraints as applied to priority dispatch units and to non-priority dispatch units should be remunerated based on the different mechanisms for compensation already in place in the SEM that are based on decremental prices submitted by non-priority dispatch units and the deemed decremental prices applied for priority dispatch units. The Regulatory Authorities do not propose any change to the current market mechanisms of remuneration for constraints.

The RAs propose provide financial compensation for non-market based redispatch associated with curtailment based on a different compensation regime for priority dispatch and non-priority dispatch units. This is based on the value of priority dispatch and to provide a potential incentive for units to voluntarily give up priority dispatch, which may in turn reduce levels of curtailment where units are not run to their availability.

The RAs propose to compensate only firm generators for non-market based redispatch associated with curtailment.

The SEM Committee has outlined two proposals for an ex-post payment mechanism and welcomes feedback on this from interested stakeholders, including alternative proposals.

It is expected that under either mechanism, no change would be required to the treatment of Curtailment within the Trading and Settlement Code.

2.4.2 BnM Response

As previously specified, BnM fundamentally disagrees with the classification of constraints as a form of market re-dispatch on the basis that there is not sufficient competition in the constrained area for the provision of services.

Consequently, when such non-market based redispatch occurs the units should be compensated for redispatch up to their net revenues including any financial support (such as REFIT, ROCs or Corporate PPAs) foregone as a result, unless they have accepted a connection offer with no guarantee of the firm delivery of power.

The current approach for curtailment is a pro-rata approach for curtailment amongst firm and non-firm generators. Consequently, it should follow that both firm and non-firm generators should be compensated for curtailment as this will undermine the principle of equal burden sharing across all wind generators.

BnM disagrees with the interpretation from the Regulatory Authorities of “unjustifiably high” compensation. The purpose of Article 13(7) is to ensure that where generators are subject to non-market based redispatch they are fully compensated for the opportunity cost of redispatch, such that they are indifferent to whether they have been re-dispatched. If the compensation equals what would have been received, then the generator has been appropriately compensated for its opportunity cost and has not been overcompensated or undercompensated. The overall cost to consumers is not referred to in Article 13 (7) and therefore it should not determine the level of compensation received by non-market re-dispatch.

While it is clear that there is a need to have regard to consumer protection, this does not provide the RAs with any discretion to depart from the express terms of the Regulation, and in particular the provisions with regard to financial compensation under Article 13(7). For the reasons stated above BnM opposes the introduction of any cap on the level of compensation that is inconsistent with the principles set out in Article 13.

Finally, we note that the SEM market has not received a derogation in respect of Article 13 and as such it is required by law to compensate generators from non-Market re-dispatch from the 1st of January 2020, as otherwise is in breach of EU law. The threshold point is that Article 13(7) is legally binding and is not a matter in respect of which the SEMC has a discretion.

On the options provided for the compensation from 1st of January 2020, BnM would support either of the options. However, as stated above the level of compensation would need to be consistent with the compensation mechanism set out in Art 13(7). BnM is concerned that that the implementation of non-priority dispatch will take many months, and probably years for the system operator to implement. Therefore, it is critical for the SEM Committee to raise an urgent Modification to ensure full implementation of the compensation required under Article 13 of the Clean Energy Package with immediate effect.

3. Proposed Decisions: Consultation on the treatment of new Renewable units in the SEM

3.1 Treatment of Scheduling and Dispatch

3.1.1 Proposed Decision

The SEM Committee proposes that no specific changes are required to accommodate dispatchable units without priority dispatch, subject to testing and impact assessment being carried out for such units (Category 1) by the TSOs. In order to accommodate new units which would have previously qualified for priority dispatch and have been categorised to date as non-dispatchable but controllable (Category 2), the RAs are of the view that such units would be required to register as dispatchable units and submit PNs, COD and TOD in so far as it is applicable to them. The RAs are of the view that no change to the timing of submission of PNs for different units is required at this stage but request that the TSOs and SEMO review any changes that may be required to PNs, COD or TOD from a system perspective. For such Category 2 units, the RAs request that the TSOs and SEMO host one or more workshops as required to discuss some of the issues raised by market participants in their responses to SEM-20-028 in terms of the systems required to facilitate this treatment. A proposal for system design to accommodate such units should then be submitted to the RAs for approval within three months of a Decision Paper on the principles of treatment being published by the SEM Committee. Proposed timelines for implementation are set out in Section 2.6 of SEM-21-027 and should be addressed as part of this submission. For non-controllable units, there are few options for treating such units in a manner different to what is applied today, however this represents a set of units, which do not currently take part in the market.

3.1.2 BnM Response

BnM agrees with the classification of units and agree that Category 2 would be required to submit PNs, CODs and TODs. Also, BnM supports the pro-rata treatment of constraints for both priority and non-priority dispatch units which has been the cornerstone of SEMC policy on renewables for circa 10 years, therefore it is our view that changing this policy is un-necessary, is inequitable and not consistent with the intentions of Article 13.

3.2 Treatment in the Balancing Market

3.2.1 Proposed Decision

SEM-21-027 proposes that new units without priority dispatch which are dispatched away from their ex-ante market positions for energy balancing reasons should be considered in dispatch on an economic basis like any other instance of balancing energy.

It proposes that the principles of treatment of Biased Quantities should not change, but different approaches to the application of biased quantities for new renewable units (Category 2 identified in Section 2.1) will need to be considered within the scope of the detailed design and the TSOs and SEMO should consider these as part of the implementation process.

3.2.2 BnM Response

BnM welcomes the clarification from the Regulatory Authorities, with regards of the treatment of SEM-21-027 as a final position rather than a proposed decision. Although BnM agrees with the view that dispatching should be done on an economic basis in a non-discriminatory and transparent

fashion, BnM fundamentally disagrees on the interpretation of constraints for Category 2 units as market based, based on the lack of competition for constraints as already established by the SEM Committee under SEM-16-024. BnM would support making changes to the current BCOP methodology to allow for generators to bid up to their actual opportunity cost in their complex bid submission, so they are properly compensated if dispatched down.

3.3 Bids and Offers

3.3.1 Proposed Decision

The RAs are not of the view that different rules for Bid-Offer Acceptance, or any changes to their timing or classification need to be developed to accommodate new renewable units in the market.

In the RAs' view, where new renewable units have the same COD, pro-rata dispatch down across units with the same COD should be considered in the TSOs' submission for implementation of the interim and enduring system changes required, noting consistency of treatment with other units in the market.

This Proposed Decision does not include any change to the application or content of the Balancing Market Code of Practice but acknowledges that changes may be considered in future to accommodate different unit types as a result of new renewable units taking part in the market without priority dispatch.

3.3.2 BnM Response

It would be our preference that existing BCOP is amended to allow non-priority dispatchable renewable plant to bid into the market, rather than BMPCoP as this is not currently in place and it is incompatible with dispatchable wind. It is BnM's view that to provide feedback on the bidding principles it is necessary to include a review of the current BCOP methodology.

3.4 Treatment of redispatch (Constraints and Curtailment)

3.4.1 Proposed Decision

The RAs are not of the view that different rules for Bid-Offer Acceptance, or any changes to their timing or classification need to be developed to accommodate new renewable units in the market.

In the RAs' view, where new renewable units have the same COD, pro-rata dispatch down across units with the same COD should be considered in the TSOs' submission for implementation of the interim and enduring system changes required, noting consistency of treatment with other units in the market.

This Proposed Decision does not include any change to the application or content of the Balancing Market Code of Practice but acknowledges that changes may be considered in future to accommodate different unit types as a result of new renewable units taking part in the market without priority dispatch.

It is the RAs' preferred approach that curtailment will continue to be applied on a pro-rata basis where required to all non-synchronous units, regardless of priority dispatch status.

The RAs anticipate that the terminology used within the TSOs' ruleset for distinguishing between

curtailment, constraint and energy balancing, SEM-13-011, may require some updates for new renewable units and existing priority dispatch units based on the principles outlined in this paper. The RAs request that following publication of a Final Decision in this area and as part of the submission requested of the TSOs on the design and implementation of the treatment of new renewable units in the SEM, this document is reviewed and updated as required. Should the rule set published with SEM-13-011 need to be changed to reflect this, it will be subject to a public consultation and approval process by the SEM Committee.

The treatment of curtailment quantities under the TSC would continue to calculate the Curtailment Accepted Bid Quantity for curtailment actions.

3.4.2 BnM Response

BnM agrees with the RAs that curtailment should continue to be applied on a pro-rata basis, however, it is our belief that constraints in the SEM should also be treated on a pro-rata basis in order to avoid discrimination of non-priority dispatch renewables and existing legacy renewables which goes against the intent of Article 13.

Given that all future renewable generation connecting onto the system will be non-priority dispatch, the consequence of differentiating the approach to constraint between new non-priority dispatch and legacy priority dispatch renewable generators, is that the former will carry a significantly disproportionate share of the burden of constraint, which won't be entitled to any form of compensation, which in turn could act to significantly increase the LCOE of new renewable generation, and delay or frustrate the achievement of RES-E targets which are a cornerstone of the Irish government's Climate Action Plan.

This will have severe impacts for new renewable generation connecting to the grid and in turn it will impact to future RESS auction prices as the generators will need to price in the increased constraint levels to their auction bid, to the detriment of consumer welfare

More pressingly, the implications for projects which have already been successful in RESS-1 is very serious. These generators bid into the RESS-1 auction last year on the assumption that constraints would be prorated across both priority dispatch and non-priority dispatch generators. This is a completely unexpected deviation from established policy in this area, and that all modelling carried out for ECP1 and Gate 3 (Generation Output Reduction reports) were consistent with established constraint policy.

This proposal has halted all progress in progressing projects towards financial close as it has created enormous uncertainty on the ability to finance these projects. As part of this proposal, several projects in the pipeline may experience an increase in constraints from an initially forecasted range of 5-8% to 25-40%, making it challenging for the project to remain economically feasible.

4. Concluding Remarks

This response document has been structured to provide feedback on the areas of both consultation papers SEM-21-026 and SEM-21-027, which we feel are of the highest priority.

A summary of the key points of our response are listed below:

- Compensation for dispatch down is compensated as required by law under the Clean Energy Package (CEP). We strongly argue that the legal requirements of the CEP need to be implemented in full, specifically the right of all qualifying generation to compensation at the level of financial support for downwards redispatch.
- Considered the provisions of Article 13(3), constraints should be considered as non-market based redispatch. To ensure fair and even burden sharing constraints should continue to be applied on a pro-rata basis and avoid and the potential disproportionate impact on new renewables which could increase consumer costs and delay frustrate Climate Action Plan targets.
- The determination of what generators are entitled for compensation due to the characteristics of their connection offer (i.e., “firmness”). This will require a review of the Firm Access Policy to address the obligations imposed on the system operators under Article 13 (5) (a) to guarantee the capability of transmission and distribution networks to transmit electricity produced from renewable energy sources with minimal redispatching. BnM is of the view that risks and incentives, primarily that around network constraints, curtailment, and firm access, need to be allocated to the parties best able to manage those risks (TSO and Regulatory Authorities).
- In relation to the Bidding Principles, it would be our preference that existing BCOP is amended to allow non-priority dispatch plant to bid into the market, rather than BMPCoP. The BMPCoP is currently not in place in the market, was developed in a scenario that did not anticipate dispatchable wind and in our view in its current form, it is not suitable for wind generation.

We believe that a decision underpinning these core objectives would facilitate investment in new renewables most efficiently for the end consumer, maintain the viability of existing RESS-1 and new corporate power purchase agreement (cPPA) projects in ROI and the equivalent pipeline of projects in NI, and provide for a sustainable investment environment for existing renewable generators in the SEM.

We urge the SEMC to ensure that their next step in this process considers all relevant factors (Firm connection policy, Bidding code of practice) on a holistic level.

If you have any queries or require clarification on any point, please do not hesitate to contact me.

For and on behalf of Bord na Móna,

A handwritten signature in dark ink, appearing to be 'DG', is written above a solid horizontal line.

David Gascon

Commercial and Regulatory Affairs Manager

Bord na Mona

Bord na Móna

