



**Dispatch, Redispatch and Compensation Pursuant to  
Regulation (EU) 2019/943**

**Response to  
Consultation Paper SEM-21-026**

**by EirGrid plc and SONI Ltd**

**09 July 2021**

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## 1 EXECUTIVE SUMMARY

Regulation (EU) 2019/943 (the “Regulation”) is a substantive component of the Clean Energy Package (“CEP”). Article 13 (“Redispatching”) of the Regulation proposes changes to fundamental market and operational principles which have underpinned the design and implementation of a range of previous SEM Committee (“SEMC”) decisions and legislation including, but not limited to, SEM-011-062 and SEM-13-010. These principles have also underpinned ongoing future Single Electricity Market (SEM) design activity.

EirGrid and SONI have previously stated that these principles, and how to retain the positive elements of these, should be at the heart of applying Regulation (EU) 2019/943 to the existing SEM arrangements. The interpretation and implementation of Article 13 is of critical importance to the overall affordability, timeliness and effectiveness of the public policy objectives to increase renewable energy to meet respective governments’ 2030 ambitions (over 70% per annum in Ireland and targets currently being consulted on in Northern Ireland but an ambition stated by the Minister to be not less than 70%) and in achieving the net zero ambitions by 2050. As outlined in our response to SEM-20-028, the Regulation, in general terms, has been drafted with an overriding focus on the current challenges facing other member states in the European Internal Energy Market (IEM); these challenges differ from those in the SEM.

In that context, the focus of this response is the areas whereby there is a risk of potential disconnect between the intent of the Regulation, and the outcomes that it is seeking to deliver, and the core principles of SEM system operation. Specifically, further consideration may be warranted on the apportioning of operational risks between parties, conscious of the central-dispatch nature of the SEM, while there are practical questions relating to the processes to be followed in real-time, under the proposals being put forward by the Regulatory Authorities.

This response is submitted on behalf of EirGrid plc and SONI Ltd, body corporates with both TSO and Market Operator licence functions. It is significant that much of the discussion around the application of constraints and curtailment falls into the traditional domain of EirGrid and SONI as TSOs and the balancing market operators. SEMO notes that the proposals outlined by the SEM Committee in SEM-21-026 would not require changes to the SEM Trading and Settlement Code (TSC) or the SEM settlement systems. SEMO welcomes the position maintained by the SEM Committee which is to ensure that proposals are not implemented by means of a retroactive modification to the TSC.

Capitalised terms in this response, except where the context suggests otherwise, are defined terms within the meaning of the TSC, its glossary and Agreed Procedures.

In acknowledgement of the scale and breadth of the challenges associated with implementing the Regulation, and other EU legislative requirements, EirGrid and SONI look forward to continuing to support the Regulatory Authorities in their assessment of how best to apply these to the SEM. We remain at the disposal of the Regulatory Authorities to discuss the content of this response, should this be helpful in supporting the SEMC during its decision-making process.

## 2 INTRODUCTION

### 2.1 EIRGRID PLC AND SONI LTD

EirGrid plc is the licenced electricity Transmission System Operator (TSO) in Ireland, and SONI Ltd is the licensed TSO in Northern Ireland. Each corporate entity also holds a Market Operator (MO) licence, EirGrid in Ireland and SONI in Northern Ireland and jointly function as Market Operator in the Single Electricity Market (SEM) through a contractual joint venture known as SEMO. This consultation relates to EirGrid and SONI in their capacities as TSOs, and balancing market operator and in their capacity as Market Operator through the settlement function set out in the TSC and EirGrid and SONI have submitted a response reflective of the bodies corporate to encompass both licence functions.

### 2.2 STRUCTURE OF OUR RESPONSE

In responding to the consultation, EirGrid and SONI have sought to present some high level general observations with respect to the proposals set out SEM-21-026 as any response to the various proposals are applicable throughout the response, we considered that general observations would be helpful for the Regulatory Authorities in amalgamating comments from industry more generally. Secondly, in keeping with our recent engagement with the Regulatory Authorities on the application of the Regulation to the SEM, we address the question of how the risks relating to dispatch and redispatch, as applied in the SEM, may best be considered.

EirGrid and SONI welcome the sharing of this response by the Regulatory Authorities and this response is not submitted on a confidential basis and EirGrid and SONI remain open to further engagement with the Regulatory Authorities on this important issue.

### 3 GENERAL OBSERVATIONS ON THE CONSULTATION PROPOSALS

#### 3.1 APPORTIONING AND ALLOCATION OF RISK

Risk allocation is a critical component of any investment decision when it comes to renewables. In this regard, clear principles concerning the allocation of risk can provide a helpful investment signal with respect to both the construction and operational phases of asset development. In developing any principles on risk allocation consideration should be given to whether the risk is ultimately within a developer's control, whether such a risk can be transferred or assigned (assuming it is economical to do so) and whether the main economic benefit of controlling the risk accrues to the developer. Consideration of these issues should result in a risk allocation or apportionment approach which ensures that the entity best able to manage the risk takes responsibility for its mitigation over time and simultaneously that the benefits of risk mitigation, any upside, should accrue to the entity taking the risk.

EirGrid and SONI (TSOs) are of the view that any decisions with respect to dispatch, redispatch and non-market based redispatch in the SEM arrangements for compensation under Article 13(7) should reflect how these risks are identified in the specific context of the SEM. The System Operators are of the view that risks that are within the control of the investor should be managed by the investor. Adherence to this core principle will ensure that the implementation of Regulation (EU) 2019/943, and other relevant European legislation, ultimately delivers an economic and efficient market environment that will facilitate the SEM's long term aspiration to progress towards a renewable-based transmission network. In this context, it is important to consider locational connection issues, which could ensure that the risk of investment is high in areas where the network is signaling a need for a build out. In such cases, it would be reasonable to presume investors would reflect commercial risks in their bids, potentially leading to less competitive auctions and ultimately higher costs for consumers. However, were risk to be so high as to delay or prevent investment at all, this would have broader public policy implications.

One area that may warrant further consideration by the Regulatory Authorities is the risks surrounding oversupply (where there is more energy than there is demand for it, or than can be technically accommodated onto the system), curtailment and constraints. Under the proposals put forward in the consultation material, it would appear that these risks are fully borne by the investor. This approach may not lead to the overall optimum risk management and may lead to significant additional costs to the consumer or undermine reaching applicable public policy objectives, or both. When looking at the current SEM arrangements, it could be argued that oversupply is a risk that may be managed through the support structures put in place, while constraints and curtailment are, in the long term, ultimately better-managed by the consumer (via the network operator or system operator as appropriate). The argument here is that the Clean Energy Package considers compensation on a net position basis arguably to include market position and support mechanisms rather than in isolation, the one from the other.

How dispatch is resolved when there is more Priority Dispatch ("PD") and Non- Priority Dispatch ("NPD") renewable generation available to be dispatched and what is their

respective market position in this case is an issue that requires further thought. We look forward to exploring this issue through the scope of forthcoming engagement with industry as proposed in SEM-21-27.

By way of summary, we make ourselves available to further explore the underlying approach to risk allocation that the Regulatory Authorities may wish to apply in their implementation of the Regulation. Any decision would need to account for the incumbent regulatory frameworks and principles in the SEM; careful planning and regulatory endorsement, including full regulatory cost recovery for any changes to system operator behaviour, will be required so as to drive the right market behaviours required in the SEM-specific context.

### 3.2 CONSTRAINTS AND CURTAILMENT

To best manage “curtailment”, the TSOs have previously proposed ex-ante capping to operational limits represented by System Non-Synchronous Penetration (SNSP) with commitment to raising this to above 90% by the end of the decade. This, in our view, best balances the risks of managing “curtailment” from initially the investor who chooses when to invest with the knowledge of the expected curtailment level over the decade, to the consumer via the TSO with that financial commitment and desire to achieve and respond to respective governments policy objectives, targets or approach in this regard. We understand that the Regulatory Authorities have concerns around the approach of applying a cap in the ex-ante markets. On that basis, it is the TSOs’ view, for both PD and NPD units, if a unit has a market position and is re-dispatched down from their market position, they should be compensated to their net revenue position (including supports). This certainly bounds the risk to the investor but immediately puts these costs to the consumer. However, this should be balanced by a reduction in the bid prices submitted by the investors into the support schemes and the increased likelihood of achieving the Governments’ renewables targets via investor confidence.

For “constraints” we consider that the network operator is best placed to manage this risk underpinned by consumers through market charges. They do this by communicating to the investor that they will have resolved the network challenge(s) at a point of time for the purposes of accessing the support. We believe this aligns with the “guarantee of delivery” referred to in the Article and in our view is not necessarily the same as firm access. Indeed, while firm access gives access to the energy market and the congestion mechanism is a market mechanism for this purpose, we do not consider it applies to this level of support. We consider in principle that this applies to both PD and non-PD units. However, we consider that there are a number of critical practical issues that need consideration on how these principles are applied to legacy units.

In practice, we propose that for all new renewable plant, when they connect, they need to be provided a “guarantee of delivery” of when network risk moves from them to the consumer via the network operator. There should be sufficient “guarantees of delivery” to meet the public policy objectives to 2030 and appropriate regulatory tariff recoveries. For these new renewable plant, they should be paid at their support price for any curtailment from the date of their guarantee of delivery.

For legacy plant there needs to be determination made of when they are deemed to have been given a “guarantee of delivery”. This is not necessarily the firm date and likely to be some time after these. Once determined, compensation for constraints would follow for any constraints incurred after the guarantee of delivery had been afforded.

### 3.3 WHAT IS THE STARTING POINT FOR REDISPATCH FOR PRIORITY DISPATCH PLANT?

When the Clean Energy Package discusses “redispatch” (either “market-based” or “non-market based”), we must be clear on the position from which redispatch is considered. In the context of Article 13(7), this is very important as it sets the volume that requires compensation. The Clean Energy Package sets out views on dispatching in Article 12 and redispatching in Article 13, implying that redispatch is from the original dispatch position.

In the SEM, under previous market arrangements with the ex-post market, the market position was clearly defined by the Market Scheduled Quantity, determined from the MSP software for most conventional generators but set at outturn availability for variable resources. This led to the outturn availability being considered a “deemed market position” by some; however, this concept did not translate into the arrangements implemented as part of the revised SEM arrangements where the “market position” is more closely aligned with the ex-ante market cleared volumes. As variable generators have the same opportunity to participate in the ex-ante market as any other, this could be seen as the starting point for redispatch. Energy balancing actions, however, are also a form of market position (balancing market) and therefore need to be considered as part of the make-up of what is defined as “dispatch” as proposed in the consultation.

As noted in the proposal of the Regulatory Authorities, because the SEM is based on a central dispatch process, it is not straightforward to determine which actions are balancing energy, and therefore also not straightforward to determine the position from which redispatch is considered. The scheduling and dispatch process as carried out by the TSOs takes the PNs submitted by dispatchable generators, which represent their ex-ante market positions, as the starting point prior to taking energy and non-energy actions. However, for priority dispatch renewable generation, it takes the outturn availability as the starting point, even if this does not match up with the unit’s ex-ante market positions (applying the absolute interpretation of priority dispatch in balancing).

What makes up the dispatch position, as considered in Article 12, for a variable renewable generator differs from this. We believe that system wide dispatch down of variable renewable generators should be considered in the dispatch as it relates to an element of the fundamental supply/demand balance. These actions are only taken when there is more energy from non-synchronous sources on the system than can be used by consumers within the agreed limits of SNSP - i.e., the supply of unusable energy from non-synchronous sources is in excess of what the demand can accommodate. Taking this position, curtailment of non-synchronous generators to a level which respects SNSP limits could be seen as a form of dispatch rather than redispatch and compensation for redispatch could be considered as starting from that SNSP-limited point rather than another market position.

### 3.4 TREATMENT OF PRIORITY DISPATCH IN PRICING

On actions applied to Priority Dispatch, we acknowledge and understand the challenges outlined in the paper.

For PD units, since the actions are in the ranked set, and if they have not been SO Flagged, or NIV Tagged, then for these units it could be considered that this action was for energy balancing meeting the imbalance requirement. However, typically energy actions are taken on units in a merit order based on their submitted bid prices, while the actions taken on priority dispatch units are taken in a different order (based on the hierarchy of units defined in SEM-11-062) which does not consider prices. There is simply an obligation on the TSOs to run these units to their maximum level unless there is a security issue. In this separate order for actions to be taken, prices are ignored, with actions instead to be taken on units based on their characteristics. Therefore, the price at which that action was taken may not be considered reflective of the cost of energy balancing.

Because of this, it could be considered that these actions on priority dispatch units are non-energy, but where the flagging and tagging process does not have the parameters which enable it to identify these actions as non-energy other than when some relevant constraint is binding on these units. It may be appropriate to introduce new elements which would create flagging and tagging outcomes that align better with the understanding of whether the action is primarily being driven by energy or non-energy reasons.



## 4 CONCLUSION

As noted by the Regulatory Authorities, the interactions between the considerations of the consultation material and the broader market design will be critical to the successful implementation of Dispatch, Redispatch and Compensation Pursuant to Regulation (EU) 2019/943. With that in mind, we see value in further engagements between the Regulatory Authorities and industry stakeholders in the coming months, as referenced in the SEM Committee's letter issued in response to concerns raised by RenewableNI and Wind Energy Ireland. In order to yield an optimal outcome, such engagement might combine industry events and bilateral engagements aimed at addressing specific issues that impact certain parties.

From the perspective of the TSOs, such bilateral engagement will need to focus on the application of any changes in the context of the regulatory frameworks that underpin the SEM at present. Any liability in the context of the Regulation can only be thought of or determined in the market context and the regulatory framework which underpins those markets. In delivering the requirements of the legislation, we would expect that the Regulatory Authorities would not be seeking to reopen the principles upon which compensation is currently treated in the SEM. As currently, monies paid by the TSOs to market participants for re-dispatch are, and should remain, pass through in terms of tariff. We assume this will continue and any ability for the TSOs to pay out under these mechanisms is dependent on their provision in the tariff and in the k factor process; an exercise will need to be undertaken to ensure that the final proposals that stem from this consultation process are reflective of this current practice. In addition any arrangement will need to be clearly codified and may require appropriate codification in licence or licence modifications.

We make ourselves available to discuss any aspect of this response with you at your convenience.