



EirGrid plc and SONI Ltd Response
to
SEM-21-042:
Discussion Paper and Call for Evidence
on
‘Scarcity Pricing and Demand Response in
the SEM’

Date:	21/07/2021
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1. Overview

EirGrid plc is the licenced electricity Transmission System Operator (TSO) in Ireland, and SONI Ltd is the licensed TSO in Northern Ireland. Both companies also hold Market Operator (MO) licences in Ireland and Northern Ireland respectively and collectively act as the Single Electricity Market Operator (SEMO), which operates the Single Electricity Market (SEM) on the island of Ireland. Thus, this response is submitted by EirGrid and SONI in their capacities as TSOs and MOs for Ireland and Northern Ireland respectively. This response is made on behalf of EirGrid plc (“EirGrid”) and SONI Ltd (“SONI”) as bodies corporate as this discussion commenced by the Regulatory Authorities (RAs) requires input both with respect to the TSO functions, from the perspective of the balancing arrangements, and from the settlement function.

We welcome the opportunity for further engagement on this issue and consider that this discussion document will lead to further consideration of the key questions at hand and additional consultations, and modifications where appropriate. In this context, our response is one of high level general observations. EirGrid and SONI look forward to continuing the dialogue on these issues through the established industry forums or as prescribed by the SEM RAs.



2. General Observations

EirGrid and SONI welcome the opportunity to respond to this discussion paper on what is an important topic in the context of security of supply in Ireland and Northern Ireland both in the near term and into the future.

EirGrid and SONI support the SEM Committee's stated aim to investigate options to ensure that the appropriate signals are in place to incentivise the response of generation and demand to periods of tight capacity margins. A number of large older fossil-fuelled plants are retiring over the coming years with insufficient new capacity being procured through the capacity mechanism to replace them. As a result of this, we agree that the tight margins forecast for winter 2021 and the outlook over the coming years warrant review of the market signals and their impact on the behaviours of demand and generation with a view to enhancing such signals and the response to them where appropriate.

EirGrid and SONI acknowledge the objective of the Reserve Scarcity Price (RSP) mechanism which is to act as an incentive during times of scarcity to maintain reserve quantities where possible. In this context, we note the Regulatory Authorities' observation that there have been a number of instances where system alerts have occurred without the triggering of the Reserve Scarcity Price. Whilst we agree that it is appropriate to further examine the system conditions in these instances in order to assess whether RSP not having been triggered was appropriate, we are concerned that changes to the mechanics by which RSP operates or the prices which would outturn where RSP is triggered could lead to unintended or inappropriate outcomes without further analysis.

Any decision to change the Short Term Reserve Quantity trigger such that RSP were to become more frequent would benefit from analysis of the likely increase in frequency this would cause. Any decision



to make changes to some or all of the RSP curve starting point, rate of increase with diminishing reserve or to the Full Administered Scarcity Price (FASP), whether accompanied by, or separate to, a change in the frequency with which they are triggered, would benefit further analysis of the potential monetary impact of such changes on Dispatch Balancing Costs, bidding levels in future Capacity Auctions and Difference Payments and Charges. The SEM Committee's decision on which, if any, of the suite of potential changes under discussion will also benefit from the spectrum of industry views (including from demand and generation participants on their capability to respond to the price signals resulting from any such changes) as sought via this call for evidence.

We note that on the rare occasions where Difference Charges have been triggered in the revised SEM arrangements, participants have challenged the conditions which have led to Imbalance Prices in excess of the Strike Price. There have also been several Trading and Settlement Code Modifications proposed on foot of pricing events to amend the market rules relating to both the pricing logic which has led to such prices and the application of Difference Charges. These Modifications have tended to either seek to reduce the instances of such prices in certain scenarios or limit the circumstances in which Participants are exposed to Difference Charges where such prices occur.

Any change to increase the frequency of scarcity pricing, or the magnitude of those prices, may risk hindering future investment in generation capacity, or increasing the cost via higher bids resulting in future capacity auctions, to the detriment of security of supply and contrary to the intended outcomes. It is our view that great care should be taken prior to introducing any changes to consider their impact and ensure that there are no adverse consequences for future investment. The TSOs are available to engage with the Regulatory Authorities further on this as views evolve going forward.



The possibility of sharper price signals which may result from increases to the frequency and/or magnitude of scarcity prices, may be a stronger incentive to participants to provide availability for generation and explicit demand response. With that said, it is important to understand from participants (both those with and without awarded capacity) what capability they would have to respond to such signals beyond how they already respond today. We expect that generator and demand side unit participants already seek to maximise their availability insofar as is possible, noting that all units with capacity contracts are required to be available at their awarded de-rated capacity for the duration of the contract.

In terms of the potential for interim changes ahead of the coming winter and the request for the TSOs and SEMO to investigate whether there are any options within the existing systems to change the triggers for Scarcity Pricing, we can confirm that this would have to follow the normal change control process with the vendor. The vendor has confirmed that it is not currently possible to change the triggers within the pricing system. As a result, there would be a lead time to implement system changes to enact any new logic in the triggers. Given this limitation and the lack of certainty as to the impact of the suggested changes in this mechanism on outturn prices, their downstream effect on settlement items and the resulting influence on participant behaviours, it may be appropriate to consider longer term enduring changes in more detail to address security of supply concerns in the coming years rather than seeking to introduce interim changes now.

We are also conscious of the work under way to with respect to compliance of the market arrangements with the Electricity Balancing Guideline (EBGL) and the recent consultation process that has been commenced by the RAs on this topic. This work has raised the risk that the compliance status of the current scarcity pricing arrangements is inconclusive in relation to the boundary conditions in EBGL Article 55 or has at least considered it worthwhile to review the existing arrangements as part of the compliance review. Given this position, EirGrid and SONI are of the view that changes to scarcity pricing



should not be carried out in a piece-meal fashion and were it the case that the policy or EBGL compliance of scarcity pricing is being reviewed, then the dialogue on scarcity pricing which forms the basis of this discussion paper should be incorporated into any such process.

In the interim, it may be useful, given that a discussion on this issue has been prompted through this process, to consider alternative methods of mitigation against the tight margins forecast for this winter.

Regarding the suggested changes to the RSP curve start point, such that it begins at a point below the Strike Price, this would appear to be of questionable benefit. This would appear only to lead to a weakened incentive to be available where RSP is triggered if prices are lower and Difference Charges are not triggered whenever reserve scarcity is present. Regarding the suggested changes to the magnitude of FASP such that it is higher percentage of VOLL, this would appear to be of limited benefit in isolation given that the triggers for RSP and FASP have not been met to date. If after further investigation it is deemed beneficial to make changes which increase the likelihood of scarcity pricing, it may be worth considering changes to the FASP and the RSP curve, but more analysis is required to fully understand what impact this would have.

EirGrid and SONI are also open to further engagement on any possible benefits that might be attained through the publication of additional information to signal scarcity whenever tight margins are anticipated ahead of alert notifications. Nonetheless, we note that a lot of information is already published so it is not immediately clear what additional information could be made available and to what additional benefit. We note that this issue was considered on foot of the pricing event in January 2019 whereby, following engagement with industry, it was agreed that the existing approach of publishing a market message along with the system alert was the most appropriate practicable



approach. As always, EirGrid and SONI remain at the disposal of the balancing arrangements to discuss potential improvements to ways of working.

In the longer term, along with consideration of the scarcity pricing triggers and price curve, other methods of strengthening market signals and incentives should also be investigated. Through the market elements of our ongoing work and recent consultation on [‘Shaping Our Electricity Future’](#), EirGrid and SONI are working to review the existing market signals across energy, capacity and services to identify where beneficial changes can be introduced to enable a just transition to the decarbonised system envisioned in Ireland and Northern Ireland public policies out to 2030 and beyond, whilst ensuring security of supply and system security.

EirGrid and SONI are keen to continue engaging with wider industry and the Regulatory Authorities to progress the emerging initiatives in this area, including the potential to enhance performance and delivery incentives within the capacity mechanism, which we believe will be important in ensuring the efficient delivery of the requisite reliability standards in going forward.



3. Summary

EirGrid and SONI have previously advised the RAs and the SEM Committee that we are facing a challenging period in relation to security of supply issues over the coming years. We welcome this discussion paper and call for evidence and anticipate further discussion on the topics outlined in the paper and in other areas related to security of supply going forward. This discussion is not only useful for broader industry awareness, but more pertinently to gain an insight into the perspectives of stakeholders to ensure that there is both sufficient capacity to meet demand on the island of Ireland and that efficient signals are created to stimulate future investment in the power system.

Whilst acknowledging the need to address near term challenges with expected tight margins as a matter of urgency, we would suggest that some of the interim mitigations for these issues may be best addressed outside of the wholesale market arrangements.

In the longer term, it may be more beneficial to consider a broader range of areas where existing incentives can be strengthened, or new incentives introduced, prior to making more enduring changes to the wholesale arrangements. As a result, any, enduring changes can also be tailored to ensure that they are appropriate for the significant changes anticipated in generation mix and demand response as we transition towards the system needed to deliver on public policy objectives in Ireland and Northern Ireland. We look forward to continued engagement on both the short and long term challenges going forward.