

Wind Energy Ireland,  
Sycamore House, Millennium Park,  
Osberstown, Naas,  
Co. Kildare.  
W91 D627

RenewableNI,  
Arthur House,  
41 Arthur Street,  
Belfast BT1 4GB

21<sup>st</sup> July 2021

**Emailed to:** Gina Kelly [gkelly@cru.ie](mailto:gkelly@cru.ie) and Kevin Baron [kevin.baron@uregni.gov.uk](mailto:kevin.baron@uregni.gov.uk)

## **RE: SEM-21-042, Discussion Paper and Call for Evidence on Scarcity Pricing and Demand Response in the SEM**

Dear Gina and Kevin,

Wind Energy Ireland (WEI) and RenewableNI (RNI) welcome the opportunity to engage with the SEM Committee and respond to the Consultation on Scarcity Pricing and Demand Response in the SEM. We also welcome the RAs efforts to remedy the risk to security of supply.

WEI is the largest representative body for the Irish wind industry, working to promote wind energy as an essential, economical, and environmentally friendly part of our low-carbon energy future. RNI is a collaboration between Wind Energy Ireland and RenewableUK and is the voice of the renewable electricity industry in Northern Ireland. Together we represent a large majority of the renewable industry supply chain on the island.

Wind Energy Ireland and RenewableNI members have the following comments:

### **General Feedback**

It is clear from current Capacity Margin projections in the SEM, that the system is facing an unacceptably high risk of material disruptions to electricity supply for this coming winter. WEI and RNI members are of the view that if this risk were to materialise it would have wide reaching and irreversible societal and commercial impacts across the All-Island economies.

It must also be noted that the SEM is currently experiencing record low summer capacity margins and record high market prices for the time of year. The overarching risk of disruption to electricity supply is likely to persist over the coming years, in our view, until a solution is found within the operation of the capacity market and broader market design.

As significant volumes of renewable capacity get added to the system, we expect that this will continue to impact on energy market revenues for conventional plant. This raises a question as to how to ensure that appropriate and adequate investment in capacity continues, to support the reliability of the system. It is important that all aspects of market design evolve in

a manner that ensures appropriately strong entry signals exist to meet the capacity requirements of the system and that contracted capacity delivers within the agreed timelines. It would also seem sensible to include measures that reduce the risk of stranded assets in the future. In this regard, any new contracted capacity should be required to be sufficiently flexible (low start-up costs), low minimum operating levels and ideally should be green fuel ready (i.e., capable of running on hydrogen or other forms of renewable gas).

Consideration should also be given to incentivising investment in longer duration storage technologies which could have multiple system benefits for the system, in addition to addressing the risk of disruption to electricity supply. We also support a review of the existing capacity market that better enables wind generation to participate.

**We would welcome, as a priority, broader consideration, and industry engagement to ensure system adequacy planning is better managed by all parties on an enduring basis.**

Regarding the SEM-21-042 Consultation Paper, while WEI and RNI members strongly agree with the need for immediate action this coming winter, we do not believe that amending Administered Scarcity Pricing (ASP), with such short notice, will give any constructive signal to market participants. Rather, any ASP change will levy disproportionate risk and costs on consumers and renewable generators and will be of limited relevance to the dispatchable assets it is trying to incentivise. In short, amending the ASP mechanism to system alerts will not solve the underlying concern and indeed will have further unintended negative impacts on the market.

Prior to responding to the specific questions asked in the Consultation Paper, below are some summary points for consideration:

### **Insufficient Lead-In Time**

As noted in Article 20(3)(c), ASP type penalty mechanisms can be used to signal short term flexibility, or as a long run signal for new investments.

Market participants cannot respond to any ASP changes with such short notice, especially to bring on new investments to maintain system adequacy. As such, any ASP changes for this coming winter will simply act to penalise market participants, with little or no realised benefit. The ex-post nature of the proposed regulatory intervention (i.e., changing ASP mechanism after the capacity auction for that capacity year has taken place) would also serve to undermine investor confidence and deter future investment in CRM arrangements which reduces the likelihood of procuring sufficient capacity to resolve future shortfalls.

In I-SEM, as a centrally dispatched market, generators cannot provide flexibility in response to real-time ASP pricing. This contrasts to the market in Great Britain, where generators can actively respond to market tightness and self-dispatch on, in response to increased ASP risk.

As such ASP gives little or no real-time flexibility benefits when system security is typically flagged in I-SEM within day.

### **ASP Increases Consumer Costs**

Irrespective of the short lead time, ASP appears to be a crude and coarse market mechanism. Our members do not believe it is efficient to increase the risk and costs for all market participants to give an unsubstantiated signal to dispatchable assets. It is our view that consumers and renewable generators will be disproportionately impacted as balancing risks and market prices increase, even though the signal is intended for dispatchable assets.

### **A Targeted Response is Needed this Winter**

Noting the seriousness of the current system adequacy concerns, more direct targeted intervention is needed this coming winter. And as noted already, broader consideration and industry engagement is needed to ensure system adequacy planning is better managed by all parties on an enduring basis.

### **Specific Questions in the Consultation**

Regarding some of the specific questions raised in the Consultation Paper:

#### **Question 1**

As noted above, WEI and RNI members believe there is insufficient lead-in time ahead of this winter for any ASP changes to be of any benefit. Rather they will unnecessarily increase risk on consumers and renewable generators. We also believe that ASP is a crude mechanism that gives a weak and unclear signal for long term investment.

Finally, it is our view that I-SEM's central dispatch market allows no real-time flexibility benefit in response to ASP prices.

#### **Question 2**

For some large energy users load reduction will never be technically possible, nor will the opportunity cost of lost production or core services make load reduction of interest. Increasing ASP prices might serve to decrease demand imbalance, but will provide limited real-time, close-to-gate closure demand flexibility.

#### **Question 4**

System security concerns should be communicated as soon as possible, rather than within day as has often been the case. There should be more frequent and standardised reporting of forward-looking capacity margins and system security concerns, to give participants as much

visibility as possible. However, for clarity, the provision of such information to the market does not in our view support the proposals to amend ASP as put forward in the paper.

### Conclusion

Finally, we thank the SEM Committee for the opportunity to make this submission in regards the consultation on Scarcity Pricing and Demand Response in the SEM.

We look forward to engaging with you on the next steps in the process.

Best Regards,

*Dave Linehan*

---

Dave Linehan

Head of Research, WEI

*On behalf of WEI and RNI*