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21<sup>st</sup> July 2021

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

Dear Gina and Kevin,

I am writing on behalf of the Demand Response Association of Ireland (DRAI), the trade association representing Demand Side Unit (DSU) providers in the all-island Single Electricity Market (SEM). By aggregating the otherwise passive electrical loads of individual consumers into substantial load portfolios, our members create predictable, reliable, and controllable assets, which provide a valuable source of Demand Side Flexibility (DSF) that can be actively used by system operators to meet the near-time needs of the power system.

Today, we represent approximately 600 MW of demand and embedded generation response across hundreds of industrial and commercial customer sites throughout the island of Ireland. These sites are managed by our members each of whom actively participate in the Capacity, DS3, and energy markets.

DRAI members are committed to shaping the future of power system flexibility through advancing DSF on the island of Ireland. In the coming years as our membership grows, we envisage a future where the DSF solutions offered by our members expand to include energy storage and new distributed generation technologies. As Ireland strives to achieve 70% renewable generation by 2030, our promise as an industry-led organisation is to champion the development of innovative DSF solutions that are designed to address the system-wide requirement for flexibility.

The DRAI expresses a single voice on policy and regulatory matters of common interest to its members, and collectively we welcome the opportunity to respond to the SEMC Committee's *Discussion Paper and Call for Evidence on Scarcity Pricing and Demand Response in the SEM* (SEM-21-042) and trust that you will consider it in your deliberations.

## 1 SUMMARY

The DRAI has a number of concerns regarding this Call for Evidence (CfE) on adjusting the Administered Scarcity Price and incentives for demand side response in order to improve the system security of supply outlook for Ireland.

Our members acknowledge that there are indeed concerns regarding the forecast tight system margins for winter 21/22 and expect that these concerns may extend beyond this forthcoming winter period. In our view this appears to be driven by a combination of contributing factors in the Irish jurisdiction including: unprecedented but well forecast data centre growth; the cessation of carbon intensive generation compounded by the termination of awarded capacity; a modest contribution of interconnectors during scarcity events; material forced outages on certain generators.

The DRAI do not support proposals that seek to modify the invocation or magnitude of the ASP, during already procured capacity years. The reason for this is that we are not in favour of implementing changes to parameters that underpin the assumptions under which fixed-price contracts were entered. For DRAI members this concern primarily relates to changes in the operation of the Capacity Renumeration Mechanism after auctions have cleared. This undermines confidence in the entire market, and will lead to increased regulatory premia in future capacity market bids. For the wider market, material adjustments to the ASP trigger or magnitude will invalidate assumptions behind long-term fixed price hedging arrangements between suppliers and end customers. Changes in underlying energy pricing are not to be taken lightly.

The DRAI have three other key observations on the proposals:

- **The CfE is very late for variable price-based incentives to drive change for Winter 2021/22:** For any change to be effective under such timescales, it requires not only implementation but time for participants and their resources to plan and react accordingly to the developing market behaviour. It also needs incentives for individual actors or market participants to be aligned with the system needs. There is material risk that any solution proposed will only result in greater financial penalties with little-to-no short-term improvement in security of supply metrics.
- **Spurious Imbalance Settlement Price volatility undermines its effectiveness to communicate security of supply events, and leads to objectively unfair uncovered capacity penalties:** The CfE addresses a core requirement of the design of the capacity market, i.e. the incentives for capacity delivery during periods of tight margin. It is demonstrated that during periods of Amber Alerts neither the market price nor the ASP are being triggered to incentivise delivery under the capacity mechanism. Nevertheless, the paper fails to acknowledge the counterfactual: that spurious market price volatility has occurred outside of periods associated with capacity margin shortage, and available generation are penalised anyway when there is no requirement for delivery.

**We also question the sole focus on additional short-term incentives which could encourage further DSU availability, in the absence of similar queries around interconnection.** Noting that interconnectors continue to receive capacity payments with no penalties even if they export hundreds of megawatts during capacity events, the DRAI consider that it is unreasonable to have such a narrow CfE on demand side participants without a similar discussion relating to the optimal use of interconnectors.

In responding to the consultation we consider that it is helpful to firstly offer our perspective on the existing market mechanisms, and also possible solutions to improve the market signals before addressing the specific questions in the paper, we have therefore structured the response as follows.

### 1.1 Industry perspective

At our bilateral meeting on 15 June 2021, the DRAI presented the case for energy payments for DSUs. As a follow-up action, the Regulatory Authorities asked for the material to be included in the DRAI response to this consultation paper. For this reason we have included the material as requested in Section 2, even though we

acknowledge that the focus of this Discussion Paper is on short-term improvements rather than on the enduring solution for DSU energy payments.

## **1.2 Industry proposals**

The DRAI acknowledge that the present scarcity and the tight margins forecast for winter 2021/22 are a serious concern, and accept that the SEM Committee must do everything in its power to promote security of supply. We also believe that it is incumbent upon all market participants to consider the severity of the security of supply situation and bring forward proposals that could potentially alleviate the strain on the system.

With this in mind the DRAI suggest two proposals that could be introduced as an interim measure to encourage increased availability from Individual Demand Sites, and thereby assist with the tight margins forecast for the coming winter season. In each case the proposals are designed to create an appropriate price signal during times of scarcity that would encourage demand response. Details are provided in Section 3.

## **1.3 Response to specific questions**

Our members have reviewed the proposals included in the consultation, which we understand could be initially introduced as interim measures to support the upcoming Winter 2021/22 period, and if effective could survive on an enduring basis following further consultation. In Section 4 of the response we address the specific questions regarding the proposals in the consultation.

## **2 ENERGY PAYMENTS – MARKET DESIGN FAILURE**

We consider it important to understand how the prevailing electricity market fails to provide DSUs with an incentive to be dispatched. This is vital context for any consideration of concerns around DSU availability.

In our analysis we compare the incentives provided to two 1 MW units which are identical, except that one is a DSU, and the other is a conventional, non-DSU unit. We find that, whereas the non-DSU unit is correctly incentivised to be available for dispatch and rewarded when dispatched, the otherwise identical DSU does not have a market incentive to maximise its availability, as such incentives are absorbed by the supplier contracted for energy at the site. We then explain how the introduction of energy payments for DSUs addresses this market failure, noting that this is an outstanding requirement under the current CRM State Aid approval granted by the EU Commission in Nov 2017.

Implementing an appropriate enduring solution to this market design failure is critical to ensure the proper participation of demand side participants on an equitable basis with other unit types in all aspects of the SEM. It is incredibly concerning that, since implementing a least-effort interim solution, the Regulators and SEMO have not engaged in any meaningful way with the DSR industry to ensure full State Aid Rules Compliance.

### **2.1 BACKGROUND**

The original Capacity Payment Mechanism in the SEM rewarded increased availability in Trading Periods of low margins through the varying Capacity Period Demand Price (CPDPh). The introduction of the I-SEM in 2018 replaced this with the Capacity Renumeration Mechanism (CRM). In the design of the CRM the SEM Committee issued a series of consultations, to which the DRAI responded by making a clear case for the introduction of energy payments for DSUs.

Although the final design of CRM did not include a mechanism to properly incentivise DSU availability (beyond the risk exposure faced due to potential Reliability Obligation difference charges in case a unit's availability is lower than its load-following capacity obligation), the DSU industry was reassured by the EU State Aid Approval<sup>1</sup>, which mandated the implementation of an energy payment mechanism for DSUs.

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<sup>1</sup> EU Commission, C(2017) 7789 final, No. SA.44464 / SA.44465 (2017/N) – Ireland/ N Ireland Capacity Mechanism, 24<sup>th</sup> November 2017.

Specifically, in addressing the particular exemption applicable only to DSUs in the ISEM rules, wherein they “are not subject to a payback obligation to the extent the demand reduction is delivered in line with the capacity contract” [para 126], the European Commission accepted that Irish Regulatory Authorities’ position as an interim solution “in view of the potentially prohibitive effects that full application of the payback clause would have on DSUs and therewith on the participation of demand response as a whole in the CRM” [para130]. In reaching that conclusion “the Commission welcomes the commitment of the authorities to end the exemption for DSUs as of the delivery period starting October 2020” [para130].

Given the clarity provided by the EU Commission in the State Aid Approval notification, our members assumed energy payments for DSUs would be promptly implemented to enable non-discriminatory, equitable treatment for energy market participation.

In May 2019 the SEM Committee issued a consultation on CRM DSU Compliance with State Aid (SEM-19-013). In the DRAI response we clearly stated our concerns, “that tenets of the proposed enduring solution do not address the challenges associated with achieving compliance with the State aid decision in a manner that also delivers the required support of increased demand-side participation. In fact the DRAI consider that the proposed enduring solution represents a counter-incentive, and that its introduction would result in an erosion of the DSU industry in Ireland”.

We also “emphasised the need for the RAs to initiate engagement with our industry as we believe that proactive discussions would facilitate sharing of views and enable the development of solutions designed to fully integrate DSUs into electricity markets without setting them at a disadvantage to other market participants”.

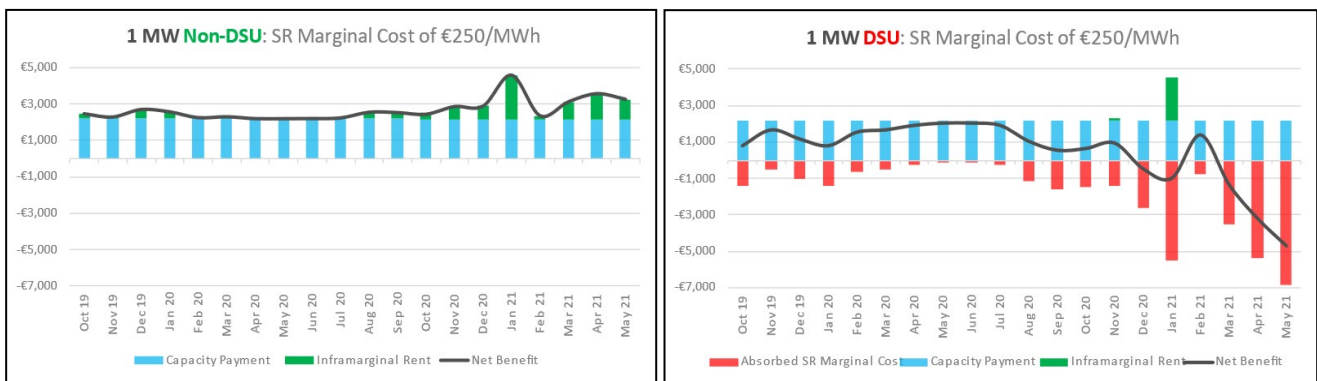
In July 2019 the SEM Committee issued their decision paper CRM DSU Compliance with State Aid (SEM-19-029). “The SEM Committee decided that energy payments, in respect of DSU volumes dispatched in the balancing market over and above their ex-ante position, will be made to DSUs at those times when the Imbalance Price (PIMBy) is above the Strike Price, i.e. when DSUs are liable to pay difference charges” [para 2.4.2]. And also decided “that this Interim Solution for DSUs will apply from the start of Capacity Year 2020/21, i.e. from October 2020 in line with the State aid approval for the CRM”.

Our members question whether this current least-effort interim solution satisfies the EU State Aid Approval requirements, as it perpetuates a broken market design. In addition, it certainly seems inconsistent with the requirements for non-discriminatory treatment between different classes of market participant in Article 6 and Article 17 of the Internal Market for Electricity Regulation EU/2019/943 and Directive EU/2019/944 respectively. For these reasons, the DRAI have repeatedly emphasised the need to implement an enduring solution, and have identified the introduction of an energy payment mechanism for DSUs as a key priority for the industry.

## **2.2 COMPARISON OF THE INCENTIVES FACED BY A NON-DSU VERSUS A DSU**

The following example compares the net benefit for a 1 MW non-DSU unit with an otherwise identical 1 MW DSU. It assumes that both units will be dispatched by the market whenever the imbalance price is greater than their short-run marginal cost of €250/MWh. Capacity payments are calculated on the assumption that the units are derated in-line with a 2 hour maximum run time. For simplicity, the dispatch model in both instances is not constrained as it is not material to the principle being illustrated.

Comparison of a Non-DSU unit (left) vs. a DSU (right), both with a short-run marginal cost of €250/MWh



The Figures above show monthly total revenues October 2019 to May 2021 based on real Imbalance Settlement Price Data. Reliability Option Difference Charges occurred in November 2020 and January 2021. The Figure for the DSU on the right assumes a retail price of €80/MWh (ex VAT) that is avoided when the generator is dispatched on. The DSU Figure excludes the trading impact on the retail supplier, to which neither the DSU nor the IDS have access.

For the non-DSU unit, each energy market dispatch provides revenues which cover the unit’s short-run marginal costs (SRMC), and the unit benefits from inframarginal rent in most instances. **Dispatches are desirable** and the unit is incentivised to make itself available for dispatch, and to offer below the strike price.

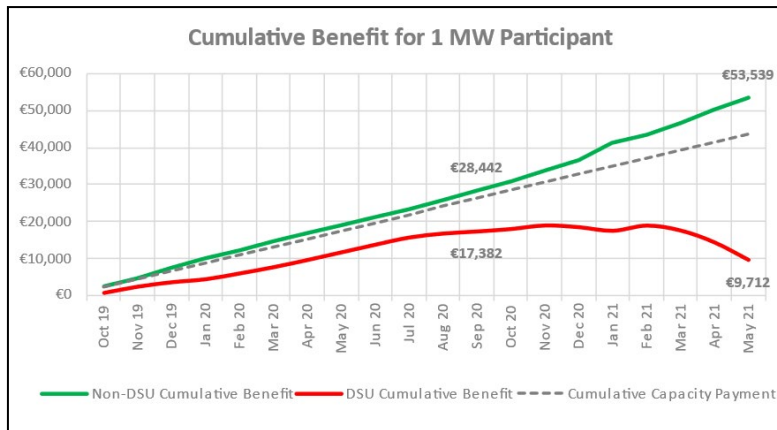
For the DSU, each dispatch will result in participating sites having to absorb their SRMC unless the imbalance price exceeds the strike price. Every time they are dispatched like this, they make a loss relative to their saving on their retail tariff. **Dispatches are regrettable**, so there is no energy market incentive for the unit (customer sites) to make themselves available for dispatch.

In both cases, the units receive capacity market revenues, but whereas the non-DSU unit also receives the benefit of inframarginal rent when they are dispatched, the DSU only receives this on the rare occasions that the imbalance price exceeds the strike price: all other dispatches erode away the benefit of participation; if there are too many, the customer will regret joining the market at all, and is likely to leave.

Note that these differences have nothing to do with the capabilities and cost structures of the units – it’s just down to the discriminatory treatment in settlement.

### 2.3 COMPARISON OF THE CUMULATIVE BENEFIT FOR A NON-DSU VERSUS A DSU

The chart below simulates the cumulative commercial impact of the current market design on the two 1 MW units evaluated above (a 1 MW non-DSU versus a 1 MW DSU, each with a SRMC of €250/MWh) over an 18 month period. For the non-DSU, where the market dispatch provides revenues which at least cover its SRMC whenever dispatched, the market signal clearly provides a strong financial incentive. Conversely, for the DSU unit, where each dispatch requires the unit to absorb its SRMC in exchange for avoidance of its retail tariff costs unless the imbalance price exceeds the strike price, the financial incentive to be available for dispatch is absent. It clear there is a substantial differential in the benefit of being dispatched to a non-DSU and a DSU.



## 2.4 LOAD FOLLOWING

The example provided clearly illustrates a flaw in the current market design, in that IDSs are disincentivised from making volumes available in excess of the load following adjusted awarded volume due to the increased exposure to costs that must be absorbed when dispatched.

The DRAI therefore contend that under the current market conditions it is entirely rational for IDSs to only make available their load following Reliability Obligation, as this is consistent with the market signals provided by the Capacity Remuneration Mechanism (CRM).

If the intention is to increase availability from DSUs, we argue that it is the market that needs to create the appropriate signal for IDSs to respond to. Without such a signal, aggregators simply have no way of incentivising their customer IDSs to further increase their viable volumes, and therefore cannot be accused of holding back availability.

## 2.5 MISSING SIGNAL TO INCENTIVISE DSU AVAILABILITY

The difference in benefit received by the two unit types evaluated is due to the fact that the costs for the non-DSU unit are always at least met for each energy market dispatch, and the unit benefits from inframarginal rent in most instances. In contrast, under the current interim approach to energy payments, the DSU only receives energy revenues if the imbalance price exceeds the strike price. While this does indeed mean that if a DSU is dispatched during a capacity market event, it will receive revenues to cover its reliability option difference payment, this interim approach leaves serious distortions which undermine the incentives for DSUs to be available.

These make the incentives faced by a DSU very different to those faced by a generator. Specifically:

- Since the DSU will incur dispatch costs – through customers’ opportunity costs – but receive no revenues enabling it to recover these costs when the reference price is less than the strike price, this means that there is a strong incentive not to offer resources at low prices, as this would increase the risk of dispatch.
- While many demand-side resources have high SRMC, there are others that have SRMC substantially below the strike price. Since there is no opportunity for such resources to be dispatched profitably other than during capacity market events, there is no incentive for aggregators to seek out and cultivate them.
- Hence, rather than having a spread of offer prices from DSUs with different characteristics, which would help make the market clear more efficiently, it all tends to be offered at high prices.
- Since dispatches are essentially opportunities to lose money, it is difficult for aggregators to encourage customers to maximise their availability for dispatch.

- There are essentially no “carrots” to reward increased availability – just the “stick” of uncovered difference payments if a unit’s response during a capacity market event is less than its de-rated load-following capacity obligation.

All of these issues would be resolved by making the energy payments to DSUs when they are dispatched, just as payments are made to all other resources.

## 2.6 EU LEGISLATIVE REQUIREMENTS

The DRAI emphasise that the non-payment for balancing energy delivery from DSUs is a clear discriminatory exclusion from an entire market, which remains an outstanding requirement for State Aid Compliance for the CRM. We draw specific attention to the SEM Committee Decision on DSU State Aid Compliance (SEM-19-029), which *noted that an optimal solution would be to fully integrate DSUs into the market and calculate actual demand response in order to provide for energy payments for DSUs in the Balancing Market.*

Our members continue to emphasise that the absence of an energy payments mechanism for DSUs and the continued uncertainty regarding its implementation is a key barrier inhibiting the development of this valuable, indigenous source of demand side flexibility. We strongly argue that the introduction of full energy payments for DSUs is needed to provide the enduring long term mechanism required to improve DSU availability. In our view this is the clear solution to unlock the potential of the technology and to provide the much needed capacity to address security of supply issues.

The DRAI urge the SEM Committee to take action as a matter of urgency, to instigate the design and implementation of an energy payment mechanism for DSUs. This mechanism is the enduring solution to the current market failure as it provides IDs with an incentive to be dispatched, and will continue to be an ongoing requirement in the market.

## 3 PRESENT SCARCITY: DRAI PROPOSALS TO ENCOURAGE INCREASED DSU AVAILABILITY

As previously stated, our members acknowledge the concerns regarding the forecast tight system margins for winter 21/22 and expect that these may extend beyond this forthcoming winter period. With this in mind the DRAI offer a possible solution to enable the aggregators to incentivise increased participation by customers in the short-term. It should be noted that aggregators are working with large volumes of individual DSR providers and whilst our members will work with these providers and express upon them the urgency of increased performance, any changes that are proposed at this stage to the operation or remuneration of DSR providers need to be implemented as soon as possible to give aggregators the best opportunity to implement the changes with their customers. Our members are hopeful that the proposals below will incentivise customers to increase availability but as per the above, the timelines are extremely challenging for winter 21/22 and it may be more realistic to assume increased availability across entire portfolios for winter 22/23.

The DRAI would like to put forward two proposals.

1. Bidding Code of Practice (BCOP) Amendment / Suspension for DSUs
2. Interim enhanced Energy Payments for DSUs;

### PROPOSAL 1: Bidding Code of Practice (BCOP) Amendment / Suspension for DSUs

In our view the fundamental design of the current BCOP is based on the economic models associated with conventional market participants and is not fit for purpose for DSUs. We therefore suggest either amending the BCOP to suitably reflect the nature of demand response or introducing an exemption from BCOP for DSUs.

The current BCOP is not suitable for DSUs for the following reasons:

- Where the BCOP forces bids below the strike price, this exacerbates the extent to which costs must be absorbed by participating businesses.

- BCOP fails to adequately allow for the disruption caused to participating businesses that deliver load shedding which necessitates a compensating premium to account for the ancillary impacts on their business, e.g. risk of damaging relations with their customers that are impacted by process disruption

Essentially this means that aggregators cannot ensure that their customer's full cost of dispatch can be recovered thus it makes it incredibly difficult for aggregators to ensure high availability declarations for individual customers.

Either amending BCOP to suitably reflect the nature of demand response or exempting DSUs from BCOP entirely, would help correct the current counter-incentive, which penalises DSUs for declaring capacity available for dispatch, and therefore offers a short term solution to the missing market signal.

## **PROPOSAL 2: Interim enhanced Energy Payments for DSUs**

In section 2 we discussed our concerns and thoughts around energy payments for DSUs. Whilst we are aware that it is not the intent of this consultation to discuss the enduring arrangements for DSU payments, we believe the SEM Committee could look to revise the interim arrangements to reduce the disincentive discussed in Section 2.4, by lowering the threshold above which energy payments are made to DSUs. This could encourage increased performance from IDs and should not be written off just because the enduring arrangements cannot be implemented in a timely fashion for winter 21/22.

## **4 RESPONSE TO SPECIFIC CALL FOR EVIDENCE QUESTIONS**

In this section we address the specific questions raised in the consultation.

### **4.1 ADMINISTERED SCARCITY PRICING (ASP)**

*To help inform the RAs consideration of potential revisions to ASP, responses are invited to the following questions:*

1. *Do you have any views on the way in which RSP has been implemented in the TSC and the potential issues discussed in Section 2.2?*

No comment.

2. *Section 2.2 has outlined a number of specific areas that could be considered further related to the trigger for RSP and the parameters that define the Reserve Scarcity Curve. The RAs are interested in respondents' view as to whether:*

- a) *the trigger for RSP should be amended such that the qSTR would include only Tertiary Operating Reserve Band 2 and not Replacement Reserve, or whether another amendment could be made that would bring this trigger more into line with the triggers for System Alerts in the SEM;*
- b) *the RSP curve should begin at a point above or below the RO Strike Price;*
- c) *the FASP value should be increased to a level closer to 100% of VoLL;*

We draw attention to numerous events where a reliability event occurred with no actual scarcity, resulting in units that declared themselves available, but were not dispatched, being unduly penalised. Seeking to address system security issues by modifying the ASP would exacerbate the penal impact of these perverse outcomes.

Furthermore, care must be taken when implementing changes to parameters that underpin the assumptions under which fixed-price contracts were entered. For DRAI members this concern primarily relates to changes in the operation of the Capacity Renumeration Mechanism after auctions have cleared. This undermines confidence in the entire market, and will lead to increased regulatory premia in future capacity market bids. For the wider market, material adjustments to the ASP trigger or magnitude will



invalidate assumptions behind long-term fixed price hedging arrangements between suppliers and end customers. Changes in underlying energy pricing are not to be taken lightly.

Therefore, the DRAI do not support proposals that seek to modify the invocation or magnitude of the ASP, during already procured capacity years.

3. *Feedback is also sought in relation to alternative delivery incentives during times of system stress which have not been raised here, but which could be implemented in the short term.*

A more abrupt ASP – with its associated higher risks to participants – could be acceptable if paired with a change to the Reliability Option scheme to reduce spurious and pointless risks to participants by avoiding capacity market events (and the corresponding difference payments) being triggered when no actual scarcity occurs. This would require some form of post-processing step in settlement.

## 4.2 DEMAND RESPONSE

*The Regulatory Authorities are requesting feedback from relevant stakeholders on:*

- (1) The response of large energy users to price signals in the wholesale market*
- (2) Supplier interaction with incentives for demand response in the wholesale market*
- (3) The extent to which suppliers and customers can be incentivised to reduce demand by prices above the RO Strike Price, given that the supplier hedge applies above this price*

The DRAI understand that most large energy users are managing their electricity supply costs as balance responsible entities, i.e. procuring power on an ex ante basis and hedging against those prices accordingly. The Imbalance Settlement Price is therefore not a material consideration for most large energy users.

In the exceptional case, where users have chosen to be exposed to the Imbalance Settlement Price to react dynamically to forecasts of its ex post value, we suggest that it is unlikely that further response will be delivered by prices exceeding €500/MWh. This is because we would not expect such a user to deliberately expose themselves to Imbalance Settlement Price volatility, without taking any action in relation to that signal.

Other entities which have chosen to be exposed to the Imbalance Settlement Price do so on the basis that they can withstand volatility in pricing and the overall long-run contracts cost may be lower (either due to lower supplier fees, or systemic differences between ex ante and out-turn imbalance prices). Increasing volatility or Imbalance Settlement Price relative to ex ante prices for this class of entity are more likely to result in them migrating to more standard ex ante prices.

Moreover, balance responsibility under the Electricity Balancing Guideline Network Code (EBGL) requires: *“In real time, each balance responsible party shall strive to be balanced or help the power system to be balanced.”* For the avoidance of doubt, the SEM Committee is proposing that ex ante traded balanced demand users deliberately imbalance their positions (without necessarily supporting a system imbalance) to resolve issues of scarcity, which arguably is a breach of the EBGL.

Suppliers may have set penalties for such demand deviations from contracted volumes in retail supply agreements, and may not necessarily pass through the imbalance costs seen in the market.

Should those imbalances (in this case a benefit, selling power procured at day-ahead at high Imbalance Settlement Prices) be passed through the contract, for the avoidance of doubt this is not capped by the supplier hedge. The supplier hedge in the Balancing Market only applies to metered demand in excess of any ex ante traded position.

## 4.3 EXPLICIT DEMAND RESPONSE

*The RAs are requesting feedback from relevant stakeholders on:*

1. *The strength of the existing incentives for DSU availability and the effect of the potential changes to ASP proposed in Section 2.2 on these incentives.*

As previously discussed, the DRAI do not support proposals that seek to modify the invocation or magnitude of the ASP, during already procured capacity years. But these would be perfectly reasonable forward-looking proposals for capacity years, for which auctions have not yet been held.

2. *Additional short-term incentives which could encourage further DSU availability.*

Section 2.6 provides a brief description of three potential interim proposals which could be introduced to encourage further DSU availability:

1. Bidding Code of Practice (BCOP) Amendment / Suspension for DSUs
2. Interim enhanced Energy Payments for DSUs;

#### **4.4 IMPLICIT DEMAND RESPONSE**

*Feedback is requested from interested stakeholders on additional information that could be published to signal periods of scarcity in advance of alert notifications being issued by the Market Operator.*

We would firstly like to draw attention to the fact that the vast majority of electricity customers are not spot-exposed. Therefore rather than benefiting from high availability almost all participating IDSs incur a cost during market dispatch events which they are required to absorb. This is clearly a perverse counter-incentive, and is in stark contrast to experience of other market participants (generation), which benefit from declaring high availability.

The DRAI do however consider that there would be benefit in generally improving public awareness for the challenges relating to balancing supply and demand in the low carbon electricity system. In our view it would be helpful to inform customers of anticipated scarcity, via social media platforms and relevant websites, perhaps in a similar way to how awareness is created for extreme weather conditions.

Our members do however draw attention to the fact that any implicit demand response actions taken by an IDS, will in effect reduce the explicit volumes that can be made available via a DSU, potentially undermining forward commitments already made.

## **5 CONCLUDING COMMENTS**

Our members acknowledge the concerns regarding the forecast tight system margins for winter 21/22 and accept that the SEM Committee must do everything in its power to promote security of supply. However, we do not support the proposals set out in the consultation, that seek to modify the invocation or magnitude of the ASP, during already procured capacity years.

Whilst we emphasise that it is very late to begin considering introducing new variable price-based incentives to drive change for Winter 2021/22, we have proposed above two potential interim measures that could encourage increased DSU availability, and thereby assist with the tight margins forecast for the coming winter season. However, we also stress that the timelines are extremely challenging for winter 21/22 and it may be more realistic to assume increased performance across entire portfolios for winter 22/23.

On behalf of the DRAI I hope that you find our response helpful and constructive, and as always, we welcome any request from the SEM Committee to further clarify any aspect of our response.

Yours sincerely,



Paddy Finn

DRAI Chair