



Energy for
generations

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ESB Generation and Trading Response:

Regulatory Authorities Discussion Paper and call for evidence on Scarcity Pricing and Demand Response in SEM (SEM-21-042)

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Contents

1. Introduction.....	1
2. Executive Summary	1
3. Response To Discussion Paper Questions	2
3.1 RSP Implementation in I-SEM	2
3.1.1 Unclear why a change is needed.....	2
3.1.2 SEM v Locality.....	3
3.1.3 Changing of scarcity definition	3
3.1.4 Impact on ex-ante market	3
3.2 Potential Changes to RSP Triggers and Parameters	3
3.2.1 A) Altering the RSP Trigger in Line with System Alerts	3
3.2.2 B) The RSP curve should begin at a point above or below the RO Strike Price.	4
3.2.3 C) The FASP value should be increased to a level closer to 100% of VoLL.....	4
3.3 Alternative Delivery Incentives During System Stress Events	5
3.4 Provision of additional information to signal scarcity in advance.	5

1. INTRODUCTION

ESB Generation and Trading (GT) welcomes the opportunity to respond to the Regulatory Authorities discussion paper and call for evidence on Scarcity Pricing and Demand response in the SEM (SEM-21-042). The purpose of this Discussion Paper is to get market participants' views on the effectiveness of the current Administered Scarcity Pricing (ASP) mechanism and also on some proposed changes that could impact the triggering of ASP events in the future. This is all with a view to address near term potential system tightness which has been forecast for the 2021/22 winter season.

ESB GT's response is laid out into two sections; the first is an executive summary of ESB GT's response to the Consultation Paper and the second section lists ESB GT's comments on the questions raised in the discussion paper.

2. EXECUTIVE SUMMARY

The discussion paper describes ASP as a mechanism to move energy prices above the marginal unit cost to reflect tightness in the system with the aim to incentivise generators to respond. ESB GT is aware that this is a very important price mechanism in the market to incentivise generation and other services to meet system demand during these times. However, ESB GT notes that there is no evidence of the conditions for triggering ASP arising since the beginning of I-SEM, thus making it challenging to providing feedback on its effectiveness to date, or more clearly the lack of effectiveness of the existing arrangements.

The proposals in the discussion paper to alter the trigger or price of ASP have been considered carefully by ESB GT. However, we believe it would be a fundamental issue to alter the conditions of ASP and have them in effect for capacity contracts already in place where these contracts were tendered for under the original/current ASP conditions. ESB GT is not in favour of interim arrangements in the market on this topic and believe that more lasting solutions to system tightness need to be developed as we approach the future of a highly renewable generation fleet.

ESB GT does not believe that altering the trigger of an ASP event is an efficient or proportionate approach to achieving system stress events being reflected in market prices and ultimately the RAs desired outcome. Providing market participants with improved transparency, forecasting and predictability of data in a more timely fashion would have a greater impact by allowing parties to react to scarcity prices in the market. ESB GT believes that improved transparency and information would be an initial positive step to provide increased capability to reflect scarcity in the Ex-Ante Markets where participants can manage their positions in an effective manner, thereby reducing their risk and effectively behaving to counter system tightness (This behaviour has been effective in other Electricity Markets throughout the world).

3. RESPONSE TO DISCUSSION PAPER QUESTIONS

In this section ESB GT has set out its responses to some of the questions raised in the consultation paper.

3.1 RSP Implementation in I-SEM

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

ESB GT would like to comment on a number of issues with this consultation that need to be addressed before any decision is made.

3.1.1 Unclear why a change is needed

ESB GT notes that there is currently no evidence available to show that the ASP has not been effective. Since the beginning of I-SEM to date, it can be seen that the TSOs have not eaten into reserve or come close to it hence there has been no scarcity events. This is illustrated from market data in the graph below, figure 3.1. (Note. The outlying event on April 2020 was due to a data malfunction and not a feature of the system at the time). The graph below clearly shows that the system reserve has at no point dipped below 1 GW, over twice the reserve volume available as that required for an ASP event. While there has been a number of amber alerts, none of these were close to a lack of reserve provision. Considering the lack of supporting documentation on future scarcity and the I-SEM experience to date of no amber 2 events, it is not clear why any change is required to the current CRM contracts.

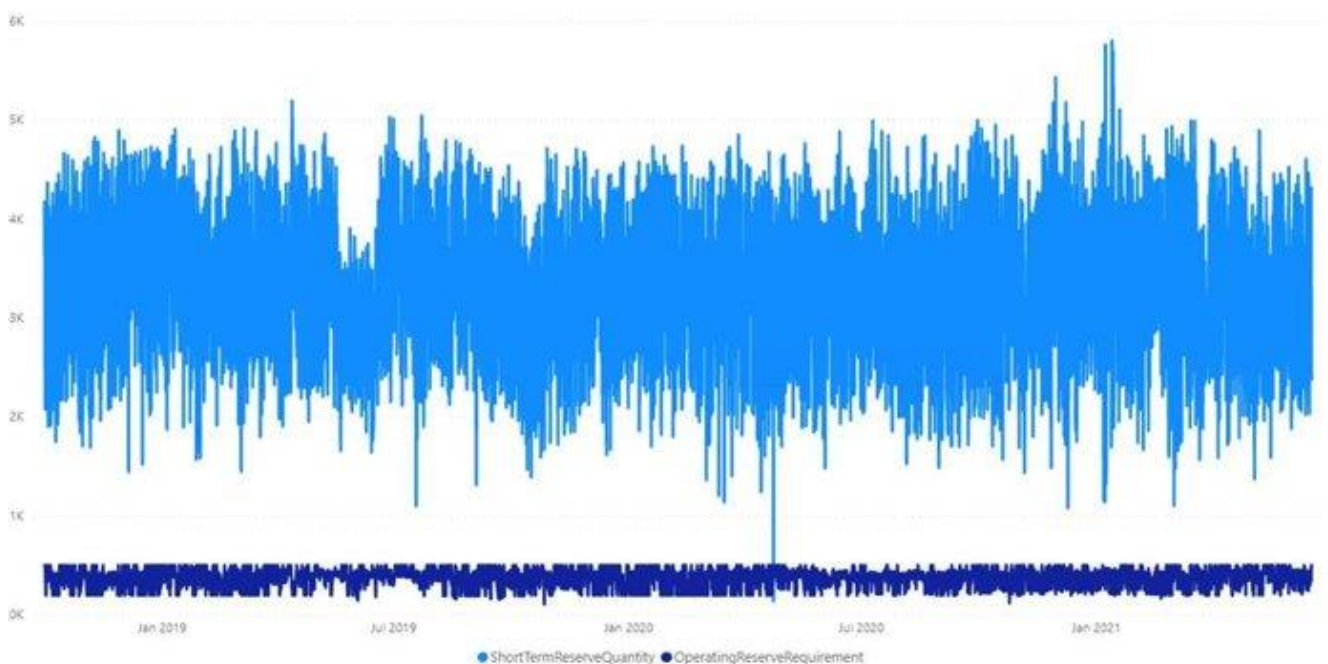


Figure 3.1. Comparison of Short term reserve quantity and operating reserve requirement in ISEM

3.1.2 SEM v Locality

From ISEM experience to date, when tightness occurs it is typically in one jurisdiction and units from the other jurisdiction cannot respond. Does the SEMC envisage tightness on a SEM basis or in a specific jurisdiction? The solution to the perceived issue could depend if there is a locality of the tightness. If it is predominately in one jurisdiction it would not be proportionate to change the ASP trigger for all SEM units and increase the RO exposure to units that cannot do anymore to alleviate the system tightness.

3.1.3 Changing of scarcity definition

The tightness events, that would trigger an ASP, forecasted during the development stage of the CRM were amber alert 2. There is no justification for changing the definition of scarcity mid capacity contract just because SOGL rebranded amber 1 and amber 2 as an amber alert. ESB GT is concerned that the ex-post amendment of the capacity market conditions will impose greater regulatory uncertainty, not only on existing contract folders but also in the regulatory risk premium of future market participants.

3.1.4 Impact on ex-ante market

ESB GT believes that a more efficient and longer lasting solution to the scarcity issue is the preferred solution. The scarcity in the system needs to be reflected in the Ex-Ante markets. When market participants are provided with more reliable market information, they can react and manage their units in the most optimal way to meet system demands so that Reliability Option (RO) and ASP events need only occur when truly required by the T&SC rules.

The ex-ante markets are the first route to market and physical generation before relying on the last stop balancing market. The provision of consistent, reliable and accurate information will help provide the signals to the market to respond. However, the need for such signals to be reflected in the ex-ante markets is just as important to allow participants to react in advance of the last 30mins available in the BM. The application of BCOP and heavily constrained nature of the BM can sometimes dampen this signal so the need for the ex-ante markets to reflect the scarcity is critical. Interventions that unnecessarily prohibit/hinder market participants reflecting scarcity in the ex-ante market should be removed by the SEMC.

3.2 Potential Changes to RSP Triggers and Parameters

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:

3.2.1 A) Altering the RSP Trigger in Line with System Alerts

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.

A change like this to RSP should not be brought in for those already holding capacity contracts and should only be considered for contracts yet to be tendered for. There is a concern that changing the parameters could result in some units currently holding contracts to be exposed to penalties not forecasted at the time of the auction process. This change in regulatory risk would have the unintentional impact of leading to an increased risk factor in any future capacity auction bids for new or existing units.

ESB GT also questions the potential of the further steps proposed in the paper that RSP should be tied to amber alerts. Amber alerts seem to vary depending on system conditions, therefore it could be extremely difficult for participants to define the exposure in these circumstances and also know when to act to mitigate it. The confusion over amber alerts arises from the pre-I-SEM methodology where two levels of amber alerts were defined. Now that there is only one amber alert there is ambiguity for participants when reacting appropriately to the severity of system stress event.

From the discussion paper it is not clear that any proposed change to trigger an RSP event earlier would improve system conditions in the way expected. Before introducing a fundamental change to the CRM contract it may be more pragmatic if the TSOs were able to provide accurate and reliable market data when forecasting and notifying amber alerts.

Finally, an unintended consequence of changing the inputs to the qSTR that needs to be considered is the change required to the System Service (SS) flag. For example, not all units that provide replacement reserve can provide desynchronised TOR2. If the qSTR was to change to TOR2 only, this would mean the SS flag would change to TOR2 only and therefore changing the risk exposure some peaking units included when bidding into the previous capacity auctions.

3.2.2 B) The RSP curve should begin at a point above or below the RO Strike Price.

Currently the RSP price begins at the RO strike price of €500, however the discussion paper proposes that the initial scarcity price could be above or below this value.

ESB GT believes that amending the starting point of the RSP curve should not be introduced for those already holding capacity contracts and should only be considered for contracts yet to be tendered for and that opening up a discussion for this proposal would be a more appropriate for the 25/26 capacity tender round.

3.2.3 C) The FASP value should be increased to a level closer to 100% of VoLL

Currently the FASP price is set at 25% VoLL, however the discussion paper proposes that this could be increased to 100% VoLL in order to sharpen performance incentives.

A change like this to FASP should not be brought in for those already holding capacity contracts and should only be considered for contracts yet to be tendered for. For future contracts ESB GT is not opposed to increasing the FASP value, however it believes that getting the scarcity signals correct for the market first would be prudent. Market participants should be given the opportunity to react to the scarcity in an optimal way and have the opportunity to manage their risks in a given situation.

3.3 **Alternative Delivery Incentives During System Stress Events**

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.

ESB GT believes that an impactful way of encouraging market participants to react to system stress is to provide transparent and predictable signals to the market on a continuous basis.

ESB GT has found that in times of system stress the desired actions we would like to take have been hindered. The 7th January 2021 is an example of such a scenario where the Ex-Ante markets were not provided the opportunity to reflect the scarcity of the system. For example, at 15:20 on the 7th of January, participants were alerted to the fact that the TSO had entered into trades on the SEM-GB interconnector at a price above the RO between 16:00 and 18:30¹. This meant participants could not trade for the periods from 16:00 to 17:00 (and also 17:30) due to the gate closure window. However, as provided in the MOUG² this interconnector trade was executed at 13:20, a full 2 hours before publication to the market. If this information had been provided to the market earlier, market participants may have been able to alter their schedules.

The ex-ante markets are the first route to market and physical generation before relying on the last stop balancing market. The provision of consistent, reliable and accurate information will help provide the signals to the market to respond. However, the need for such signals to be reflected in the ex-ante markets is just as important to allow participants to react in advance of the last 30mins available in the BM. The application of BCOP and heavily constrained nature of the BM can sometimes dampen this signal so the need for the ex-ante markets to reflect the scarcity is critical. Interventions that unnecessarily prohibit/hinder market participants reflecting scarcity in the ex-ante market should be removed by the SEMC.

3.4 **Provision of additional information to signal scarcity in advance.**

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.

ESB GT welcomes additional information once it is consistent, reliable and accurate information. To date, the imbalance pricing and advance TSOs notifications have been difficult to predict and respond to. Thus impacting our ability to react to system stress events. Examples of such situations include:

- Amber alerts occurring from a mix of very different system conditions
- Amber alerts changing quickly and without notice

¹ [Message \(sem-o.com\)](#)

² [Market Operator User Group Presentation - 28 January 2021 \(sem-o.com\)](#)

- Amber alerts for prolonged duration where there is excess capacity available.
- RO prices when there appears to be no tightness in the system
- No RO prices when there is tightness in the system.

Providing clear, reliable, accurate and timely information to participants will allow them to manage units and respond accordingly to the signals. ESB GT encourage the TSOs to provide strong, reliable and timely signals to participants enabling them to react to the events. In previous MOUGs the issue with early advanced warnings was discussed. It was highlighted that the conditions can change quickly and the warning could be removed. There is a balancing act to achieving reliable and timely information to the market but the current approach leaves participants with very little to act on and in a position of not knowing of how to respond. For example, units in the Republic of Ireland could respond to a signal but the system issue is in the North Ireland (NI) and only NI units can respond.

In this discussion paper, the SEMC have raised their concerns that scarcity may become more pronounced in Winter 2021/22. ESB GT as members of the Modifications Committee approved a modification to prevent SO-SO trades from distorting the price signal which is still awaiting RA decision³. The implication of not implementing this modification is SO-SO trades continuing to create scarcity signals due to transmission issues rather than an island tightness. It is issues like this that need to be addressed as soon as possible to ensure efficient price signals are being sent to the market.

³ Mod_02_21 FRR submitted 28th of May 2021