



# **Integrated Single Electricity Market (I-SEM)**

## **Energy Trading Arrangements (ETA) Markets Consultation Paper**

### **Consultation Response**

**SEM-15-038**

**22 May 2015**

**from**

**Irish Wind Farmers Association (IWFA)**

**5th June 2015**

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## PURPOSE OF THIS DOCUMENT

### 1.1 PURPOSE AND STRUCTURE OF THIS DOCUMENT

- 1.1.1 This supplementary document provides a template for responses to the [ETA Markets Consultation Paper \(SEM-15-026\)](#). We request all responses to the consultation are submitted in this template, and in **Microsoft Word** format.
- 1.1.2 This template contains the questions presented in the consultation document.
- 1.1.3 Responses to the Consultation Paper are requested by 17:00 on 5 June 2015. Following a review of the responses to this paper the SEM Committee will publish its decision on the proposals set out in this paper in September 2015.
- 1.1.4 Responses should be sent to Kenny Dane ([kenny.dane@uregni.gov.uk](mailto:kenny.dane@uregni.gov.uk)) and Kevin Hagan ([khagan@cer.ie](mailto:khagan@cer.ie)). Please note that the SEM Committee intends to publish all responses unless marked confidential<sup>1</sup>.

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<sup>1</sup> While the SEM Committee does not intend to publish responses marked confidential please note that both Regulatory Authorities are subject to Freedom of Information legislation.

## 2 CONSULTATION QUESTIONS

### 2.1 RESPONDENT DETAILS

COMPANY	Irish Wind Farmers Association (IWFA)
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MAIN INTEREST IN CONSULTATION	Wind energy

### 2.2 GENERAL COMMENTS

The Irish Wind Farmers Association (IWFA) wishes to re-iterate and expand on its main points about I-SEM:

1. While high volatility in imbalance pricing may incentivise appropriate new plant and demand side response, which would be supportive to variable renewable generation like wind, it would also tend to deter wind from trading ex-ante due to pricing risk. SEMC does have some degree of control over that volatility, through its selection of the imbalance price mechanism, and the level of PAR. Those tools should be used to keep volatility to lower levels at the start of I-SEM, and be adjusted appropriately as the market progresses.

2. It would appear that there is a spectrum of imbalance pricing mechanisms, from the least constrained, pricey and volatile (Unconstrained simple stack) to the most constrained, pricey and volatile (Dispatch stack...), with Flagging and Tagging as the next most constrained approach. Although lower imbalance prices could tend to have the effect of raising PSO costs and have other effects, that seems somewhat better than having very high imbalance prices which would spill forward into the ex-ante markets and disrupt essential exports of surplus wind generation.

3. SEMC's previous decision to remove compensation for curtailment from 2018 onwards was discriminatory and therefore incorrect and should be revoked. On the contrary, there is a duty on the SEMC, reinforced by the recent change to the legislation in the Republic transposing the Renewables Directive (SI 483/2014), to ensure that the grid is appropriately developed and the transmission of electricity from renewable sources is guaranteed without compromising the security and reliability of the network. There is also a direct requirement on the RAs to specify the transparent & non-discriminatory criteria for the three grid obligations in Article 16.2, but the RAs

have yet to produce a document that even mentions some of these obligations. SEMC has previously stated that it agrees with incentivising the TSO to carry out its duties in developing the grid, and yet plans to remove a key economic signal that would provide a rather effective part of that incentive.

4. There is a need for the RAs and Eirgrid to explore the use of 'Delivery Areas' in the Intra Day Market XBID system, which may be able to ensure that 'surplus wind' that would otherwise be curtailed and that is therefore sold on the IDM, is actually exported, and does not get purchased locally and cause what we term 'double curtailment'.

5. It is a matter for the RAs and DCENR to ensure that the ex-post settlement of REFIT is on the basis of total actual funds received by renewable energy projects, allowing for any costs incurred by them in the market (and we would argue that the AOLR should not impose such a cost). Depending on the shape of the CRM 'no-loss' clause, we can anticipate that wind could well participate and receive capacity revenue, which could be included in R-factor calculations, as in SEM today, reducing PSO costs. At the same time, any System Services revenues received by supported projects ought to be kept separate, since otherwise they would not see the benefit of such revenues, and might therefore not be inclined provide such services.

6. We again request the SEMC to give careful consideration to appointing the NEMO and any other key function in ISEM, bearing in mind the need to avoid multiple and potentially conflicting roles for Eirgrid, not the least of which is the proposal of EWIC to provide System Services.

7. Given the scale of the changes arising from I-SEM, and the economic size and significance of the sector, market participants generally would have expected a lot more modelling of potential market outcomes to be carried out by the RAs, in order to assist this increasingly complex process.

8. This consultation in particular has raised highly complex issues, as the RAs wrestle with multiple markets, in particular because two of them, IDM and BM are to run concurrently. Many of these issues remain unresolved and in need of much more engagement. This complexity is now an issue in and of itself, testing the capability and capacity of many market participants, thereby effectively favouring larger players. IWFA cannot possibly attempt to deal with all of the questions raised in this consultation.

9. Given all of the complexities, uncertainties and costs, there is a need to raise the de minimis level to at least 15MW, taking more small projects out of the requirement to register as generators, and so allowing them to operate as negative demand through suppliers, which is more beneficial to them (and can help them to actually survive), but yet does not remove them from the market as such.

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**2.3 SYSTEM OPERATION IN THE I-SEM (CHAPTER 2)**

<b>Question</b>	<b>Answer</b>
1. What are the impacts of early action by the TSOs on the Intraday Market?	In the absence of detailed modelling of potential market outcomes, it is difficult to say what impact such early actions will have on imbalance pricing, so this remains the primary concern. Loss of liquidity from IDM caused by early TSO actions would be a serious issue for wind.
2. What measures can be taken to minimise early actions by the TSOs?	Some RA guidance to the TSOs on the degree to which later more expensive actions will be accepted in place of earlier cheaper but disruptive measures with, presumably, the exclusion of the difference from the optimisation of DBCs. Ideally early actions that must be taken would mostly involve commitment only, rather than full operation, to minimise effects.

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**2.4 EX-ANTE MARKETS (SECTION 3)**

<b>Question</b>	<b>Answer</b>
1. Which of the three options put forward for interim IDM arrangements is most appropriate?	At least I-SEM GB to potentially enable export trades in otherwise curtailed wind. That could be further improved by a regional approach, but that may be expecting too much for an interim solution.
2. Should intraday auctions be implemented in I-SEM? Are there any advantages to those auctions not described in this paper?	Yes, these concentrate liquidity, which is beneficial to traders and smaller generators (as seen in Spain according to Ms Huidobro of Villar Mir Energia), in what might otherwise be a thin IDM.

## 2.5 PHYSICAL NOTIFICATIONS (SECTION 4)

Question	Answer
1. What are your views on the timing of PN submissions to the TSO	
2. What are your views on the removal of the requirement on wind generation and non-dispatchable demand to submit PNs	That seems appropriate.
3. What are your views on how PNs from participants should be linked to their ex-ante trades and what are your opinions on which of the three options outlined in this chapter is optimal for I-SEM.	Technical feasibility seems to rule out any strong link, though ideally the volume of trades in each period at the end of the IDM/BM should be very close to the volume implied by the FPNs.
4. What are your views on the potential for the inclusion of an information imbalance charge. In addition, comment is sought as to whether this issue is best addressed under the generator performance incentives.	



## 2.6 FORM OF OFFERS, BIDS AND ACCEPTANCES (SECTION 5)

Question	Answer
<p>1. Which of the proposed formats should be used for bids and offers for deviating from PNs?</p> <ul style="list-style-type: none"> <li>• Simple MWh</li> <li>• Relative MWh</li> <li>• Absolute MWh</li> </ul>	
<p>2. How should fixed costs be represented within bids and offers?</p> <ul style="list-style-type: none"> <li>• Explicit start up contracts</li> <li>• Block bids</li> <li>• Explicit start-up (and no load) costs</li> </ul>	
<p>3. Should it be possible to rebid offer and bid prices following an acceptance? Three options are proposed:</p> <ul style="list-style-type: none"> <li>• Fixing prices of accepted bids and offers</li> <li>• Undo prices</li> <li>• Freezing all prices</li> </ul>	
<p>4. Should open or closed instructions be used to move participants away from their PN?</p>	

## 2.7 INTERACTIONS BETWEEN THE BALANCING MARKET AND INTRADAY MARKET (SECTION 6)

Question	Answer
<p>1. Which of the options put forward should apply to participation in the IDM in the event that the TSOs take a balancing action pre-gate closure:</p> <ul style="list-style-type: none"> <li>• Freeze PNs</li> <li>• Additive PN Changes</li> <li>• Substitutive PN Changes</li> </ul>	<p>The proposed 'substitution' seems to offer the better means of limiting disruption of the IDM, and if properly implemented should minimize the loss of liquidity from that market, a crucial issue for wind.</p>
<p>2. If the substitutive PN Changes option is taken, there are two further options for swapping out or netting IDM trades against bid-offer acceptances:</p> <ul style="list-style-type: none"> <li>• If the participant wishes to trade in the IDM and substitute the bid-offer acceptance they will need to achieve a more advantageous price in the IDM than the bid-offer acceptance price</li> <li>• Implement a methodology which sees the unit lock in the premium above or below the imbalance price through the bid-offer acceptance</li> </ul>	
<p>3. Which of the three options put forward for dealing</p>	

<p>with “Trading in the Opposite Direction” should be implemented:</p> <ul style="list-style-type: none"><li>• No specific consideration of this would be reflected in the market design</li><li>• Implementing a rule that would prohibit PN changes that increase the quantity of any offer or bid acceptances</li><li>• Permit PN changes in either direction but, in the settlement of the offer or bid acceptances, to limit the quantity on which the premium is payable, such that a change in PN cannot increase this quantity</li></ul>	
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**2.8 TREATMENT OF SYSTEM SERVICES (SECTION 7)**

<b>Question</b>	<b>Answer</b>
1. What are your views on the proposal whereby a unit that is deployed for reserves should be constrained to the minimum extent possible in the IDM	
2. Are there any market power issues that need to be specifically addressed in relation to System Services?	
3. Which of the two approaches should be utilised where the TSOs have to schedule a plant before the opening of the Balancing Market: <ul data-bbox="240 1301 512 1827" style="list-style-type: none"><li>• A system services framework would be used to contract with those generators that need to be scheduled prior to the BM opening.</li><li>• The TSOs would use incremental offers and decremental bids from previous trading day to call a plant pre-BM.</li></ul>	

## 2.9 IMBALANCE PRICING (SECTION 8)

Question	Answer
<p>1. What are your views on the Tagging and Flagging Approach. A “cause” based method for identifying energy and non-energy actions with the imbalance price being set only on energy actions.</p>	<p>see point 2 under General Comments</p>
<p>2. What are your views on the Simple Stack? With this approach there would be a simple stack of the available bids and offers and the price would be set based on the net imbalance volume.</p>	<p>see point 2 under General Comments</p>
<p>3. What are your views on the unconstrained stack with plant dynamics included. These are two additions that this option would have over the simple stack:</p> <ul style="list-style-type: none"> <li>• Plant Dynamics</li> <li>• An optimisation time horizon</li> </ul>	<p>see point 2 under General Comments</p>
<p>4. What are your views on the price based method – unconstrained unit from actual dispatch?</p>	<p>see point 2 under General Comments</p>
<p>5. What are your views on the sharpness of the marginal imbalance price? Do any concerns relate to the transition</p>	<p>see point 1 in General Comments</p>

between SEM and I-SEM or are there other broader concerns?	
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**2.10 IMBALANCE SETTLEMENT (SECTION 9)**

<b>Question</b>	<b>Answer</b>
1. What are your views on the issues set out in the imbalance settlement section?	see point 3 in General Comments
2. What are your views on the refined proposal whereby the payment rule applies only to incremental offer acceptance volumes above the PN and to decremental bid acceptance volumes below the PN?	
3. What are your views on the possible consequences of ex-ante trades based on trading periods of different duration to the Imbalance Settlement Period (ISP) and what are your views on the options put forward in the paper.	

## 2.11 OTHER ISSUES (SECTION 10)

Question	Answer
1. Global Aggregation – what are your views on the current policy and the three alternative options put forward in the paper for dealing with global aggregation	
2. Local Market Power – What are your views on whether there are any specific issues in relation to local market power which need to be considered at this stage.	
3. Metering – What are your views on the proposal for metering put forward in the Consultation Paper.	
4. Instruction Profiling – What are your views on the instruction profiling section. In particular, is it feasible to more accurately model the precise loading of units and whether more technical characteristics need to be accommodated in the technical offer data.	
5. Units Under Test –	



<p>What are your views on the two options put forward for units under test in I-SEM.</p>	
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