



**Budget Energy Response to SEM Committee Consultation
Paper SEM-19-024**

I-SEM Balancing Market and Capacity Market Options

12th July 2019

1. INTRODUCTION

Budget Energy welcomes the opportunity to respond to the SEM Committee Consultation Paper SEM-19-024 titled “Balancing Market and Capacity Market Options.” (the “Consultation Paper”). Budget Energy agree that the high volatility and price outcomes seen in imbalance prices since the commencement of the new market are a cause for concern. We acknowledge steps already taken by the SEMC to prevent extreme price outcomes. We support the view that the performance of the current imbalance algorithm should be reviewed, and potential changes considered to deal with any shortcomings. However, we are of the opinion that the timing of the consultation could have been pushed out to allow for a longer analysis period. The below sections detail Budget Energy’s comments with respect to the two options put forward.

2. OPTION ONE: SIMPLE NIV TAGGING IN THE BALANCING MARKET

2.1) DO YOU SUPPORT THIS SIMPLE NIV TAGGING OPTION AND ITS IMPLEMENTATION IN THE SEM?

From the consultation, it appears that simple NIV tagging allows for a greater degree of transparency, more stable price outcomes, while also incentivising balance responsibility more effectively than imbalance price outcomes to date. Budget Energy would support any change to the Balancing Market that yields these results. As the implementation of simple NIV tagging would only require a configuration change, it is a cost-effective solution to the shortcomings of the current imbalance pricing algorithm.

2.2) DO YOU HAVE ANY CONCERNS REGARDING MOVING TO SIMPLE NIV TAGGING IN THE BALANCING MARKET, INCLUDING THE RISK OF UNINTENDED CONSEQUENCES?

We are concerned that the analysis is not based on a long enough time horizon and so does not provide a complete view of the impact of simple NIV tagging compared to the current imbalance algorithm. The analysis in the consultation only covers a five-month period, at the beginning of I-SEM. As such, it does not take account of the performance of the current imbalance pricing algorithm across other months with differing system conditions. The period from October to February covers the winter period which is generally characterised by higher levels of demand and wind output and could be extended across a longer timeframe to review the performance of the imbalance prices over the summer period.

In addition to this, the analysis was carried out on the original imbalance pricing algorithm, however, this has since been modified by the removal of the locational constraints on 2nd May 2019. For the

period from 2nd May to 5th July 2019, the standard deviation is 51.17 compared to 89.70 for the analysis period in the consultation. Therefore, imbalance prices since the removal of locational constraints have been less volatile than the period from October to February. Although we acknowledge that the decrease in volatility may not necessarily be underpinned by the removal of the locational constraints and may just be a consequence of lower wind output and demand on the system, extending the analysis to a more recent date could be a beneficial exercise.

2.3) DO YOU AGREE OR DISAGREE THAT SIMPLE NIV TAGGING MEETS THE I-SEM HIGH LEVEL DESIGN, THE I-SEM DETAILED DESIGN AND THE I-SEM MARKET POWER MITIGATION DECISION?

Budget Energy have a shared concern with respect to local market power under the current flagging and tagging approach and recognise the importance of taking measures to mitigate this market power. We agree that simple NIV tagging would effectively mitigate local market power.

The I-SEM detailed design states that the marginal price should reflect the cost for generating one more or one fewer MWh of electricity within the balancing market timeframe. We concur that simple NIV tagging is in line with the high-level design and the detailed design as the cost of the additional MWh of electricity in either direction should be reflected within the incremental and decremental price stacks.

2.4) DO YOU AGREE OR DISAGREE WITH SEM COMMITTEE'S ASSESSMENT THAT THE PRICING OUTCOMES UNDER SIMPLE NIV TAGGING ARE PREFERABLE, GIVEN MARKET FUNDAMENTALS?

Budget Energy's preference is to achieve price outcomes that have a reasonable level of volatility and reflect the direction of the NIV and agree that price outcomes from the simple NIV tagging approach presented in the consultation are more in line with expectations.

However, simple NIV tagging has on average increased imbalance prices over the analysis period, while not capturing all the constraints currently provided for in the current imbalance pricing algorithm. These constraints may have to be accounted for outside of the imbalance price algorithm in Dispatch Balancing Costs which could potentially push up imperfections. Analysis of changes proposed in option two show that the socialisation fund multipliers could also potentially increase due to shortfalls that may arise between difference payments and difference charges. These increases in wholesale costs will have a negative impact for the end consumer.

3. OPTION TWO: REMOVAL OF DIFFERENCE CHARGES WHERE OPERATIONAL CONSTRAINTS ARE BINDING

3.1) DO YOU SUPPORT THIS CAPACITY MARKET OPTION AND ITS IMPLEMENTATION IN THE SEM?

Budget Energy acknowledge that the current design of the CRM is such that generators who hold RO's are exposed to difference charges during periods where they cannot be dispatched due to an operational constraint. We agree that in these circumstances, generators should not have to pay difference charges, providing they are available to generate at the time of the constraint.

3.2) DO YOU HAVE ANY CONCERNS REGARDING THE REMOVAL OF DIFFERENCE CHARGES WHERE OPERATIONAL CONSTRAINTS ARE BINDING, INCLUDING THE RISK OF UNINTENDED CONSEQUENCES?

From the consultation, it is clear that the implementation of this option could potentially result in a shortfall in difference charges. The magnitude of the shortfall presented in the analysis for the 9th of October was significant. Also, the consultation seems to suggest that the changes could result in non-competitive behaviour by generators in the CRM. We would have concerns about the impact that any potential shortfalls would have on the socialisation fund along with the potential for capacity tariff increases as a result of uncompetitive behaviour.

3.3) DO YOU CONSIDER THIS PROPOSED CHANGE IS IN KEEPING WITH THE BROADER CRM DETAILED DESIGN?

Budget energy are of the view that the proposed change is in keeping with the broader CRM detailed design as the change only refers to instances whereby a generator or RO holder is available for dispatch, but operational constraints which are outside of their control prevent the dispatch action from actually taking place.

3.4) DO YOU HAVE ANY VIEWS ON THIS OPTION FROM A CONSUMER PERSPECTIVE?

We would like to reiterate our statement in section 2.4, that if the proposed changes in the consultation are to be implemented, the end consumer would suffer as a result.

3.5) DO YOU HAVE A STRONG VIEW REGARDING AN ALTERNATIVE OPTION WHICH COULD BE IMPLEMENTED, I.E. PREFERABLY REQUIRING ONLY A CONFIGURATION CHANGE RATHER THAN A SYSTEM CHANGE?

Without having in dept knowledge of the system operators real-time dispatch and scheduling tools (RTD) and its inner workings, along with SEMO's downstream systems, it is difficult to propose

alternative options that only require a system configuration change. Therefore, at this time, we do not have any views on alternative options but would welcome any proposals of alternative options for comparison purposes.

We hope that you find these comments of use and submit them for your consideration. We would be pleased of course to discuss any aspect of our responses should you so wish.

For and on behalf of Budget Energy Limited



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