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12 July 2019

Emailed to: Thomas Quinn ([tquinn@cru.ie](mailto:tquinn@cru.ie)), Karen Shiels ([Karen.Shiels@uregni.gov.uk](mailto:Karen.Shiels@uregni.gov.uk)).

**Re: Balancing Market and Capacity Market Options Consultation Paper**

Dear Thomas and Karen,

I am writing to you on behalf of the Irish Wind Energy Association, which is the representative body for the Irish wind industry, working to promote wind energy as an essential, economical and environmentally friendly part of the country's low-carbon energy future.

IWEA would like to thank you for the opportunity to comment on the Balancing Market and Capacity Market Options Consultation Paper.

Our members are actively involved in trading across all the I-SEM ex-ante markets, including intraday continuous and, as wind energy generators, they are involved in the Balancing Market. Consequently, IWEA want an imbalance price that incentivises organisations to balance in a fair and meaningful fashion.

On this basis we have answered those questions regarding the balancing market (Q 2.1 – 2.4) but not those regarding the capacity market (Q 3.1 – 3.5).

Before considering the proposed move to Simple NIV tagging we will first question the process adopted in this consultation.

IWEA members have given the consultation paper careful consideration and the key points in regard to the process of this consultation can be summarised as follows:

1. There have been several recent modifications to the balancing market, notably Mod 09\_19 which was implemented on 2 May 2019, and major releases of updates to the imbalance pricing algorithm on the 29 January 2019, 26 March 2019 and 12 June 2019. IWEA members believe this consultation is erroneous in assessing the performance of the market prior to the introduction of these changes rather than following the introduction of the changes. An assessment of the recent performance of the market should be used to arrive at a conclusion that the market is not delivering expected price signals.
2. If this assessment concludes that the market is not delivering the expected price signals, IWEA believes it would then be necessary to assess why the preferred flagging and tagging methodology is not delivering the intended results before deciding that the balancing market design cannot work and should be changed.
3. If this assessment concludes that the balancing market design cannot work and should be changed, this decision should only be taken following detailed analysis of a dataset with correct

pricing rather than the dataset used in the consultation, which is known to have manifest errors and is subject to repricing.

In considering the move to Simple NIV tagging, there are several inconsistencies between the approach proposed and EU legislation. The Commission Regulation (EU) 2017/2195 of 23 November 2017, establishing a guideline on electricity balancing (the “Balancing Regulation”), recital 17 states:

*“The general objective of imbalance settlement is to ensure that balance responsible parties support the system’s balance in an efficient way and to incentivise market participants in keeping and/or helping to restore the system balance. This Regulation defines rules on imbalance settlement, ensuring that it is made in a non-discriminatory, fair, objective and transparent basis. To make balancing markets and the overall energy system fit for the integration of increasing shares of variable renewables, **imbalance prices should reflect the real-time value of energy**” <our emphasis>*

Furthermore, Article 6(5) of Regulation (EU) 2019/943 states: “[t]he imbalances shall be settled at a price that reflects the **real-time value of energy**”. Additionally, Article 10(5) of Regulation (EU) 2019/943 further imposes an express obligation on Regulatory Authorities to “take all appropriate actions to eliminate or, if not possible, to mitigate the impact of” any “policy or measure which could serve to restrict wholesale price formation”.

Consequently, Simple NIV tagging, which does not discriminate between actions taken for energy or system reasons, extensively violates multiple EU regulations and it is not possible to implement this and remain compliant with EU legislation.

Noting that the flagging and tagging approach was chosen in the consultation and design process, Simple NIV tagging diverges too far away from what was defined in the consultation and design process prior to I-SEM implementation. This leads to a response that is over damped and risks creating an imbalance price that does not reflect short term price actions.

Furthermore, it creates a dangerous precedent for changing the imbalance price calculation methodology, based on faulty data, without due consideration by the Regulatory Authorities, and with a lack of due process in only having a six-week consultation period.

In summary, IWEA has the following specific concerns with the Simple NIV Tagging proposal:

- It is incompatible with the intent of the I-SEM High-Level Design and is contrary to the requirements of specific legislative provisions contained in the Clean Energy Package;
- It will reduce imbalance price transparency and defy European Network Code Guidelines by reintroducing system-based acceptances into imbalance pricing;
- It is flawed as a methodology for generating cost reflective imbalance prices, reflecting the value of marginal energy actions;
- It undermines price signals in the balancing market for flexible generation and storage - both of which will play an important role in meeting Ireland’s 70% renewable electricity target;
- It has the potential to increase locational market power;
- It may further distort the imbalance market and, in turn, the ex-ante markets; and
- It provides an overdamped response to an issue that has already been resolved by Mod 09\_19.

**IWEA responses to questions posed in the consultation paper:**

**Question 2.1: Do you support this simple NIV tagging option and its implementation in the SEM?**

IWEA do not support the use of Simple NIV tagging in I-SEM, the reasons for which are expanded on in our answers to the questions below.

Furthermore, this consultation paper is based on analysis of imbalance prices known to be incorrect from the initial months of market operation. As a result, any conclusions derived from such data must also be faulty.

**Question 2.2: Do you have any concerns regarding moving to simple NIV tagging in the Balancing Market, including the risk of unintended consequences? If so, please explain these concerns.**

From the outset, IWEA members believe that the decision to move to Simple NIV tagging is premature for the multiple reasons outlined above.

IWEA have significant concerns about moving to Simple NIV tagging and strongly oppose it. At a high-level, multiple EU Regulations, which are noted above, state that non-energy actions should be excluded from influencing imbalance price, which is not the case for Simple NIV tagging.

Specifically, we believe that it will increase the risk of extreme imbalance prices and undo the work of Mod 09\_19. Furthermore, it has the potential to increase locational market power, which in turn may lead to further distortions of the balancing and ex ante markets.

For example, if the system were slightly short and power were needed in a specific location, a unit, at a potentially very high price, could be brought on to satisfy that constraint and would now leave the system balanced. As the Simple NIV tagging removes all flagging and tagging this extremely expensive unit would then set an extreme price at a time the system was only slightly short.

Removing flagging and tagging means that there is no distinction between units accepted in the balancing market for energy reasons (the need for power on a market wide basis) and system reasons (the need for power on a local basis – e.g. for constraints). Consequently, it leads to a reduction in the transparency of the balancing market price.

This in turn may lead to market distortion in the balancing market as the unit that sets the imbalance price, for all, is no longer decided by economic reasons, but rather by system reasons – due to the removal of flagging and tagging. Worse still, this inevitably feeds back into the ex-ante markets, distorting them in turn, as they respond to short term price signals from the balancing market.

**Question 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? If you disagree, please explain why.**

The flagging and tagging methodology was clearly decided as the preferred approach for I-SEM for the reasons outlined in I-SEM detailed design (markets) decision paper. As a result, a decision to move to another methodology should only be taken if it is known that the preferred tagging and

flagging approach cannot work. At this time, it is not known that the preferred approach will not work and as a result IWEA believes it is premature to determine compliance with I-SEM design.

Specifically, IWEA believes that Simple NIV tagging does not adhere to the I-SEM market power mitigation decision. In fact, we believe it would be worse than the existing, post Mod 09\_19 implementation, process.

As noted in the consultation paper, the SEM Committees' Market Power Mitigation decision paper outlined the flagging and tagging process, along with application of bidding controls to complex offers in the balancing mechanism, as a way of mitigating local market power in the balancing mechanism. IWEA believe that Simple NIV tagging diverges too far away from what was agreed in the consultation and design process prior to I-SEM implementation.

The SEM Committees' Market Power Mitigation decision paper acknowledged that there was the possibility of market power being exercised in I-SEM, which, in the words of SEM-O themselves, is a small, highly constrained, market. Mod 09\_19 addressed this issue by tagging out such system-based acceptances. Were Simple NIV tagging introduced it would undo the good work done by Mod 09\_19 and reintroduce the issues seen prior to its implementation.

Noting our answer to Question 2.2 above, Simple NIV tagging enhances market power and could potentially encourage its use. This would make the market less competitive, excessively penalising sustainable generation. Furthermore, it would threaten sustainable generation, which by its very nature has no choice but to be involved in the balancing market, endanger participants financially and ultimately threaten system security.

**Question 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? If you disagree, please explain why.**

Whilst the Simple NIV tagging based prices, shown in the consultation paper, are more stable than those seen in the early days of the market, they do not provide a fair comparison. This is because they only go up to and including 28 February 2019 – once again a period where prices are known to be faulty; whilst Mod 09\_19 was implemented on 2 May 2019.

As noted above, Simple NIV tagging is not acceptable as it opposes several EU Regulations which state that non-energy actions should be excluded from setting imbalance price. In seeking to address the higher prices seen early in the market, which has already been dealt with successfully by Mod 09\_19, Simple NIV tagging risks leading to a response that is over damped and risks creating an imbalance price that does not reflect short term price actions.

Extreme high prices, like those seen on 24 January 2019, are rare events and should reflect the state of the system when under severe stress. As the consultation paper states, on this occasion, a Northern Ireland based unit, run for system reasons, set price at a time when the system, as a whole, was long. If that were the case now, the unit would have been tagged out and could not set price, thus resolving the issue.

If Simple NIV tagging were introduced, and constrained flagging and tagging were removed, such a unit could once again set price, if no other energy actions were required. That is, where this unit,

accepted for system reasons could also satisfy the energy requirements. As such, Simple NIV tagging would be a dangerously backwards step, reintroducing the risk of very high imbalance prices, even if much cheaper units were available.

As such, pricing outcomes under Simple NIV tagging, compared to the post Mod 09\_19 environment are not preferable and are likely to reflect market fundamentals less well. Furthermore, this reintroduces a significant, non-market-based price risk that was removed by Mod 09\_19.

## Summary

IWEA want an imbalance price that incentivises organisations to balance in a fair and meaningful fashion.

IWEA and its members were all too aware of the price issues early in the market, mostly notably on 24 January 2019, as highlighted in the consultation paper. Indeed, our members were active in the Modifications process, which led to the implementation of Mod 09\_19 that resulted from, and resolved, these issues.

As outlined in the introduction to this response, IWEA recommend:

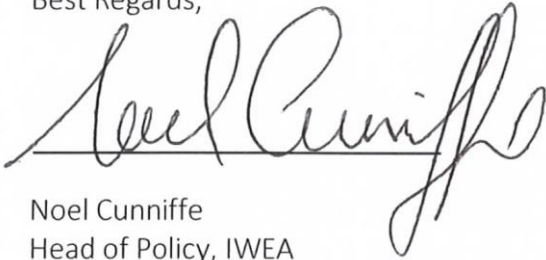
- (i) An assessment of the recent performance of the market should be used to arrive at a conclusion that the market is not delivering expected price signals, i.e. post the implementation of Mod 09\_19;
- (ii) If this assessment concludes that the market is not delivering the expected price signals, IWEA believes it would then be necessary to assess why the preferred flagging and tagging methodology is not delivering the intended results before deciding that the balancing market design cannot work and should be changed.
- (iii) If this assessment concludes that the balancing market design cannot work and should be changed, this decision should only be taken following detailed analysis of a dataset with correct pricing rather than the dataset used in the consultation, which is known to have manifest errors and is subject to repricing.

For reasons detailed in our answers to Questions 2.1 to 2.4 above, IWEA is strongly opposed to the use of Simple NIV tagging as, compared to the market after the implementation of Mod 09\_19:

- It is incompatible with the intent of the I-SEM High-Level Design and is contrary to the requirements of specific legislative provisions contained in the Clean Energy Package;
- It will reduce imbalance price transparency and defy European Network Code Guidelines by reintroducing system-based acceptances into imbalance pricing;
- It is flawed as a methodology for generating cost reflective imbalance prices, reflecting the value of marginal energy actions;
- It undermines price signals in the balancing market for flexible generation and storage - both of which will play an important role in meeting Ireland's 70% renewable electricity target;
- It has the potential to increase locational market power;
- It may further distort the imbalance market and, in turn, the ex-ante markets; and
- It provides an overdamped response to an issue that has already been resolved by Mod 09\_19.

As the leading association for the Irish renewable energy sector, IWEA would consider ourselves as a proactive partner, willing to step out in explaining the benefits of an effective, modern and climate friendly Irish electricity system, and we look forward to continuing our work alongside the SEM Committee in this regard.

Best Regards,



Noel Cunniffe  
Head of Policy, IWEA