Enerco Energy,

Lissarda Business Park,

Lissarda,

Co. Cork

12th July 2019

Re: Balancing Market and Capacity Market Options Consultation Paper

Dear Thomas and Karen,

Firstly, thank you for the opportunity to comment on the Balancing Market and Capacity Market Options Consultation Paper. Enerco Energy are Ireland's largest independent wind energy generator having developed, built, or are currently building, over 700MW of wind farms.

Background and Context

With its existing portfolio of projects, and pipeline of future projects, Enerco Energy – part of the Craydel group - has made a significant contribution towards the Republic of Ireland's efforts to meet its 2020 Renewable targets, and we are keen to be part of the solution in achieving the 2030 targets.

We are actively involved in trading all the I-SEM ex-ante markets, including intraday continuous and, as a wind energy generator, we are involved in the Balancing market. Consequently, Enerco Energy 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), as we are not active in this market.

From the outset we would like to state that fundamentally the basis for this consultation is faulty as it is based on imbalance prices that are known, and accepted, to be wrong from the early days of the market. As such any conclusions based on this data cannot be justified.

Additionally, Simple NIV tagging violates Article 6(5) of Regulation (EU) 2019/943 and Commission Regulation (EU) 2017/2195 of 23 November 2017 which state that imbalance price must reflect the real-time value of energy. Given that Simple NIV tagging will lead to prices based on both system and energy actions it cannot be accepted.

This response is submitted by Enerco Energy and reflects our own particular views, it should be noted that we are actively engaged as a member of IWEA and strongly endorse IWEA's response to the paper.

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?

Enerco Energy 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.

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.

We have significant concerns about moving to simple NIV tagging and strongly oppose it. Specifically, we believe that it will increase locational market power, reduce transparency, distort the balancing and ex ante markets, increase the risk of extreme imbalance prices and undo the work of Mod 09_19.

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. Because 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 leads 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.

Enerco Energy believe that Simple NIV tagging does not adhere to the I-SEM market power mitigation decision. In fact, we believe it would be significantly 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.

This 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 actively encourage its use as a way of enhancing revenue for thermal generators, noting in particular the reduced capacity payments under I-SEM. 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, as they only go up to and including Feb 28th, 2019; whilst Mod 09_19 was implemented on May 2nd, 2019. Furthermore, the prices in the early period of the market are known to be faulty, consequently, any comparison against these prices will be invalid.

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". By not excluding acceptances made for system reasons, the imbalance price cannot reflect the value of energy, but instead will reflect the value of upgrading transmission and distribution network infrastructure.

In seeking to address the higher prices seen early in the market, which have already been dealt with successfully by Mod 09_19, Simple NIV tagging would create imbalance prices that do not fairly reflect short term price actions

Extreme high prices, like those seen on Jan 24th, 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 retrograde step, reintroducing the risk of very high imbalance prices, even if much cheaper units were available.

The papers justification for Simple NIV tagging is partially based on the standard deviation of prices between October 1st and February 28th, which is states was €89.70/MWh – though these are known to be faulty - and would have been €61.37/MWh were simple NIV tagging used instead. It is important to note that most markets see periods of volatility in their early phases and from May 2nd (when Mod 09_19 was implemented) to June 8th the standard deviation in imbalance pricing has been €58.92/MWh – lower than that seen in the initial phase of the market had Simple NIV tagging been introduced.

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

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

We were all too aware of the price issues early in the market mostly notably on Jan 24th, as highlighted in the Consultation paper. Indeed, Enerco Energy were active in the Modifications process, which led to the implementation of Mod 09_19 that resulted from, and resolved, these issues.

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

- *It will increase risk to participants, potentially to such an extent as to drive participants from the market*
- *It will increase locational market power*
- *It will reduce imbalance price transparency and defy European Network Code guidelines by reintroducing system-based acceptances into imbalance pricing*
- *It will be damaging, and potentially very damaging, to sustainable generation*
- *The issue it seeks to solve has already been solved by Mod 09_19*
- *It will distort the imbalance market and, in turn, the ex-ante markets*

Kind regards,

Andrew Burke

Head of Trading

Enerco Energy