



**Endesa Ireland response to SEM/10/060**  
**Principles of Dispatch and the Design of the Market Schedule in the Trade and Settlement Code**

Endesa Ireland welcomes the opportunity to comment on the draft decision on “Principles of Dispatch and the Design of the Market Schedule in the Trade and Settlement Code” in which the RAs present their proposed positions on the economic, technical and legal issues set out in the consultation paper.

Endesa Ireland is mindful of the difficult challenges which lie ahead and welcomes the work completed to date to enable the development of a clearer road map to progress resolution of these issues from a technical perspective, such as the All Island Grid Study and the Facilitation of Renewables Study. In order to ensure technical difficulties can be addressed in a timely and economically efficient manner, we would like to reiterate our view that it is pertinent that adequate incentive be provided to the TSOs to deliver projects on time and within budget. We would also consider it essential that a steering group is established for Grid25, comprising industry, government and EirGrid representatives to leverage the expertise of all stakeholders to ensure this project is delivered on time, as it is essential to ensure we are able to meet our 2020 targets

As the RAs consider changes to Market Design in order to ensure effective operation of SEM with higher wind penetration, Endesa Ireland very strongly urges the RAs to develop working groups to conduct further analysis to allow for more informed decision-making at an early stage. Endesa Ireland urges the RAs to limit changes to those that are absolutely necessary to address imminent issues, to maintain investor confidence in the market.

It is not clear in this draft decision paper whether the SEMC has committed to performing a regulatory impact analysis of any decisions taken in relation to changes to the design of the market schedule. We would expect that the SEMC would agree with DETI that best regulatory practice includes the use of regulatory impact assessments (RIAs). Therefore, we would expect that any changes to the current market design would not be undertaken without a RIA. This is particularly important in relation to decisions highlighted in this paper, as they will have significant impacts on other aspects of the SEM design. Any changes should be fully impact-assessed to ensure that the SEM will remain fit-for-purpose following any regulatory changes.

Endesa Ireland has set out our main issues in response to the proposed decision in this document. However, we have also participated in the development of the NEAI response, where some of these issues are explained more fully. We are fully supportive of the NEAI response.

### Allocation of Infra-marginal Rent

Infra-marginal Rent (IMR) represents a significant portion of return on investment. In order to provide certainty to generators and encourage future investment, Endesa Ireland considers that forecasting of IMR should be possible to a relative degree of certainty.

Under Option 1, generators that were given firm access rights when the network was sufficiently developed to accept their output will be potentially penalised when new generators with non-firm connections enter an area with insufficient capacity to accept their additional output or where network investment has not kept up with area requirements. Such circumstances are beyond a generator's control, as once generators have firm access granted any technical constraints are the responsibility of the SOs not the generators. This option introduces very significant financial uncertainty for price making generators as IMR becomes extremely difficult to forecast, which in turn increases the risk profiles of projects, discouraging investment.

The proposal to change the allocation of IMR is a significant change to the high-level market design. The high-level market design as set out in AIP/SEM/05/42 states that the SMP "will be set ex-post on an unconstrained basis".

Endesa Ireland has significant concerns that changes to one of the pillars of the high-level SEM design will require a full review of the market design, as the initial design is finely balanced. Changes to one pillar without such a review could result in a market that is no longer fit for purpose. For these reasons, Endesa Ireland is not supportive of the RA's preferred choice of Option 1 for allocation of IMR.

Endesa Ireland is supportive of **Option 2** proposed in the original consultation paper. This option respects firm access rights and allocates IMR only to generators having firm access quantities. This is very similar to current practices with the key difference being that generators will only be included in the market schedule up to their firm access quantities. Endesa Ireland welcomes this change as it resolves an oversight in the initial market design.

In the case of congested areas with potential for wind development, this option will also provide the correct investment signals for the TSOs. We agree with concerns expressed in the original consultation that this may encourage speculative applications for connection offers, creating significant administrative burdens and a longer queue for applicants. In order to alleviate these concerns, Endesa Ireland considers that it would be appropriate require projects to provide evidence that they are prepared to go ahead once a connection offer is granted, i.e. an Environmental Impact Statement which is required to be submitted along with an application for Planning Permission.



We do not support the implementation of Option 3, a variant of Option 2. It respects firm access of generators but also allocates IMR to any “residual capacity” of generators with non-firm access located behind export constraints which can be used to meet system requirements. In this instance, the market schedule is calculated twice; in the first instance only generators with firm access rights are included and any spare capacity is noted; in the second instance, non-firm generation up to the total spare capacity of the export constraint are included. The likely outcome of this option is that the non-firm generators will displace the firm generators in the market schedule, resulting in reduced IMR to generators having firm access. This option increases risk for conventional generators. In addition, we question its feasibility due to the complexity and requirement for significant changes to the Market Scheduling software.

#### Priority Dispatch

Endesa Ireland recognises the importance of meeting our renewable energy targets for 2020, however, we believe that cost must be a primary factor when looking at strategies for meeting these targets. We would like to reiterate our preference for Option 2b in the original consultation paper. For this option, plant is dispatched purely on economic merit; in tie-break situations generators with priority dispatch are given precedence. We believe that this is compliant with Directive 2009/28/EC and consistent with both the letter and the spirit of the Directive. It must be remembered that the Directive was written to take account of the bilateral markets in place throughout Europe.

In the event that the SEMC continues with their proposal for unqualified priority dispatch, we consider it necessary that any additional costs associated with prioritising renewable energy need to be accounted for, including its impact on constraint costs, reserve costs, SMP and CO<sub>2</sub> emissions. We believe that this information should be published on a quarterly basis to ensure that citizens have a full picture and are aware of both the costs and benefits associated with renewable energy.

#### Tie Breaks

For tie break scenarios, the RAs propose that deloading should be instructed on a pro-rata basis in a manner determined by the TSOs. This proposal is significantly different than the Trading and Settlement Code, Section 4.76, which states that in tie break situations, “the MSP Software will resolve the order in which Generator Units are scheduled using a systematic process of random selection”. The solution was adopted due to its non-discriminatory manner. In the event that dispatch rules will not be aligned with the Trading and Settlement Code, Endesa Ireland considers that deloading based on connection dates would be the most logical solution. This would ensure that generators who were commissioned at an early stage would not be constrained down due to subsequent entrants, providing needed certainty to wind generators.



### Deemed-firm Access

Firm access to the transmission grid is a requirement for conventional generators. When making an investment decision, that date by when the TSOs have indicated a generator will have firm access to the transmission network is taken into account by investors and by their banks. Changes to the firm date can have significant impact on the viability of a project. Currently, there is no incentive on the TSOs to ensure that these dates are met and there is a significant risk to investors.

Endesa Ireland considers that connection offers issued should include a date for when deep works are due to be completed, along with a guarantee that in the event that the TSOs do not complete the deep works by the scheduled completion date, generators will be awarded deemed-firm access. Ensuring that scheduled completion date targets are met is the responsibility of the TSOs – generators are unable to manage the risk associated with delays to the deep transmission works and therefore it is inappropriate to apportion this risk to the generator. Endesa Ireland considers that deemed-firm access is necessary to ensure a favourable investment climate in Ireland.

### Grid Code Requirements

Given the unique challenges Ireland faces as we progress to higher levels of wind penetration with relatively limited interconnectivity compared with other countries, Endesa Ireland agrees with the the proposal that stricter enforcement of Grid Code compliance – by both renewable and conventional plant – is necessary. In addition, regular review of the Code itself is necessary to achieve efficient system operation. Endesa Ireland considers that in order to ensure that the Grid Code requirements are appropriate, it is essential for CER to engage full-time staff with a high level of technical expertise to ensure that the proposals put forth by the System Operators are appropriate and reasonable and do not act as a disincentive to investment. The TSOs look at the systems requirements from a technical perspective and may be seeking the implementation of requirements that are not necessary, but are nice to have. Currently, there are provisions in the Grid Code which Endesa Ireland considers unnecessary. In addition, Endesa Ireland considers that economic reality must also play a role in the development of Grid Code requirements. While most requirements can be provided, there are associated costs that generators must be able to recover. Ancillary Service payments must be considered in conjunction with Grid Code requirements. It is imperative that the RAs can come to an independent view of what is necessary to ensure system security, rather than relying on the System Operators or external consultants to provide them with advice. In addition, any review of Grid Code requirements must be undertaken in conjunction with a review of the Ancillary Services Scheme.



### Grid Incentivisation

The delivery of the infrastructure to support the progression of the SEM in a timely and efficient manner is key to reducing transmission constraints, thereby ensuring that constraint payments are kept to an appropriate level. This will also ensure that new generation can obtain firm access to the transmission system. It is Endesa Ireland's view that timely delivery of grid infrastructure will resolve many of the issues raised in the consultation paper such that the SEMC can determine that it is not necessary to implement the changes to the design of the market schedule in the proposed position paper.

The proposed position paper noted that CER has progressed the development of incentives for EirGrid in the context of the consultation on TSO and TAO transmission revenue for the period from 2011 to 2015. The TSO/TAO transmission revenue consultation paper referred to the development of network delivery incentives for the TSO. However, these incentives were not set out in the consultation paper.

We would urge CER to prioritise a consultation on a comprehensive and effective incentive program for the full Grid25 project, not just for the 5 year revenue period. Endesa Ireland considers that timely implementation of Grid25 may prevent the constraint payments in the SEM from reaching a level of material harm. In addition, we consider that the determination of material harm must appropriately assign risk. If constraint costs are high because the TSOs have not delivered to schedule, generators should not be penalised.