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Your reference: SEM-10-60

**Principles of Dispatch and the Design of the Market Schedule in the Trading & Settlement Code**

Dear Sirs,

ESB Wind Development Ltd. (ESBWD) is pleased to submit its response to this consultation.

If you have any questions or would like to discuss any of the matters raised further please do not hesitate to contact me.

Yours sincerely,



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Áine Dorran  
ESB Wind Development Ltd.

## **Introduction**

The first section of the response deals with general comments. The second part gives responses to the specific issues raised in the consultation.

## **Section 1: General Comments**

### Changes to High Level Design of SEM

ESBWD welcome the SEM Committee's proposal not to make material change to the High Level Design (HLD) of the SEM at this time. The introduction of changes such as those detailed in the consultation could have very serious implications for the viability of many wind projects and put the achievement of the Governments' 2020 targets seriously at risk. Such fundamental changes cannot be considered without looking at the market holistically. Other market mechanisms such as Ancillary Services and the Capacity Payment Mechanism (CPM) need to be considered as do implications for out-of-market support mechanisms, such as the Renewable Energy Feed-In Tariff (REFIT) and the Renewable Obligation Certificate (ROC) schemes.

It seems inevitable that at some stage in the future the current HLD of the SEM will no longer be suitable for a market with a high penetration of wind. It is commonly accepted that under current market design energy prices will fall, making it difficult for conventional generators to make a return, and increasing wind generators reliance on out of market remuneration. Any changes or redesign of the market would need to address these fundamental issues.

In the medium to long term it is hoped that regional integration of electricity markets in the EU will occur. Any changes or redesign to the SEM should be done with this in mind to ensure ease of integration with other markets. Currently the design of the SEM is very different to many of the European markets, potentially making this integration more difficult.

### SEM and Renewable Support Schemes

A significant issue facing wind generators is the mismatch between market rules and the out-of-market support schemes for renewable generators. We are conscious of the fact that the policy and structure of the support schemes (i.e. REFIT & AER in ROI and ROC in NI) are not directly within the remit of the SEM Committee or the Regulatory Authorities (RA). However we consider that in order for Government targets to be achieved, the successful parallel operation of both the market rules and support schemes is required. The SEM Committee need to take cognisance of the support schemes in place when considering changes to the market. Without this a diminution of the value of the support schemes may result. It is potentially much

more difficult to achieve structural changes to support schemes than to change market rules.

While the market rules consider generators to be compensated or “made whole” for reductions in their output even when they are in merit order in dispatch, by awarding them the SMP price for their MSQ, this ignores the fact that renewable generators support schemes are based on their actual output. The level of compensation awarded by the SEM will always be less than what was achievable for a renewable generator in NI and more than likely be less than what a renewable in ROI would have achieved.

Neither the ROC nor the REFIT schemes envisaged the high levels of constraint and curtailment which are now forecast within the SEM. The RAs should work with the relevant Government departments to address and rectify this situation. Wind generation is a significant sector of generation in the SEM, with targets of 42.5% and 40% renewables in ROI and NI respectively by 2020. Therefore the electricity market within which wind and other renewable generators operate must take cognisance of the support schemes for them.

#### Equal, Fair & Transparent Treatment of all Wind Generators

For the successful operation of any market, the rules which apply must be fair and transparent. We therefore welcome the SEM Committees approach to the issues in the consultation relating to Least Cost Dispatch and Tie-Breaks.

We agree that dispatch should be on an economic basis and should not include rules which give preference to different classes of wind generation. For the market rules to show preference in dispatch for a wind generator simply because it has been in operation longer would be wholly unfair and introduce a dangerous concept into the market. Such preferential treatment would ultimately mean that new wind generation is being discriminated against, hindered and dis-incentivised.

Market solutions need to be found so that on the one hand older wind generation is not unfairly disadvantaged, but conversely new investment in wind generation is not stifled.

### **Section 2: Responses to Specific Issues**

#### **1. Principles Underlying Construction of the Market Schedule & 2. Allocation of IMRs behind Constraints**

ESBWD welcomes the proposal by the SEM Committee not to make radical change to the design of the Market Schedule at this time. Such fundamental changes cannot

be taken without the impact of doing so being fully understood and also without regard for the other elements that make up the SEM.

Some of the options proposed in the consultation would have serious implications for all generators and would be in conflict with the current principles of the HLD of the market.

We welcome the opportunity to respond to the “Assessment Framework” which is due to be published later this year.

Into the future the wind industry in the SEM will require a market which will facilitate easy export of surplus wind generation. Regional integration and interconnection will be crucial to this. Any changes made to the SEM in the future should bear this in mind.

### **3. Principle underlying Dispatch: Least Cost Dispatch**

ESBWD agree with the SEM Committee’s proposal that the TSOs continue to dispatch on a least cost basis without regard to the firmness of generators.

We would also look for increased clarity on the TSOs approach and methodology used in dispatch decisions that are taken. It is not always clear to generators why they have been dispatched in a certain way. Any communication from the TSOs on this would be most beneficial in increasing the transparency of the dispatch process.

### **4. Priority Dispatch**

ESBWD welcome the SEM Committee’s proposal to apply the principle of “absolute” priority dispatch.

Any plan by the SEM Committee to introduce a “cost parameter” to move away from this to a “qualified” priority dispatch, albeit to only occur in exceptional circumstances, should be consulted on with industry before implementation. Any rules associated with this should be completely transparent.

As highlighted in the proposed position paper the TSOs are required to report to the RAs on the incidences of curtailment of renewable energy. These reports should be made publically available and should be published in a timely manner. The paper proposes that these reports be compiled quarterly. However we would ask for a more frequent update to give as much transparency as possible.

### **5. Hybrid Plant and Priority Dispatch**

ESBWD consider it reasonable that priority dispatch should be afforded, insofar as is practicably possible, to the portion of a hybrid plant that qualifies for this treatment.

### **6. Deemed Firm**

It is disappointing that the SEM Committee has proposed not to re-introduce the concept of “deemed firm access” into the market. There are many risks associated with the development of a wind project, a significant one being the connection of the wind generator to the grid. It is unreasonable to have a situation where the developer must carry all of the risk associated with this even when he cannot influence the situation. Some risk or incentive must be placed with the System Operator (SO). We understand that some delays to delivery of grid infrastructure are outside the control of the SOs, and that incentivisation measures would not be able to address these. It may be more suitable then to allow the costs of such delays, currently borne solely by developers, to be socialised. We urge the RAs to consider some method by which generators can be given some surety on the date of their firm connection. SO incentivisation should play an important role in the methodology selected to achieve this.

It would seem that the SEM Committee is reluctant to re-introduce the “deemed firm” concept perhaps because of the financial implications it may have in terms of compensation to generators. Since “firm” or “deemed firm” generators are compensated in the market for constraints and curtailment whereas “non-firm” generators are not, there is a risk that high levels of compensation would have to be paid out if the network is not delivered on time. It is important to note that if the transmission and distribution systems are delivered on time then the concept of “deemed firm access” will not introduce any additional costs to anyone, but will give the developers the certainty they require. If there is a high level of doubt around the delivery of the infrastructure then the SEM Committee’s focus should be on implementing whatever changes are required to ensure that delivery is on time.

We recognise that a number of wind generators have connected to the system on a non firm basis based on understandings given to them in constraint reports they received. While it is reasonable for such projects to expect some protection, since the assumptions used in the formation of these constraint reports are now invalid, it is important that decisions taken by the SEM Committee and RAs in this regard do not have enduring implications which could end up distorting the market. The number of projects effected is finite and the issue will be limited in duration. We therefore consider it more appropriate that financial compensation be given to these wind generators in an out of market mechanism, rather than making changes to the market and dispatch rules. The level of compensation should be in line with levels indicated in constraint reports or equivalent commitments to wind generators. The cost of providing this compensation should be socialised. We envisage that the costs associated with this are likely to be small on an overall basis. Such wind generators should also be granted firm financial access in line with original dates in their CA.

### **7. Treatment of Variable Price Takers in the Market Schedule**

ESBWD acknowledge and accept the SEM Committee's proposal to revise the rules to reflect the SEM HLD and to align the treatment of Variable Price Takers with that of Price Makers.

### **8. Grid Code Matters and Information on Technical Issues**

ESBWD welcome and support the proposal that the TSOs and asset owners continue to make available information relating to both their views on how technical issues, such as system inertia, will be resolved and also their insights and opinions on what changes to scheduling and dispatch of generation may be required in light of increasing levels of renewable generation on the system. Any changes to current operational practice, which may have material impact on generators, should as a matter of course be subject to a full and proper consultation process.

With regard to the TSOs actions in relation to Grid Code enforcement and review, ESBWD welcome these initiatives in so far as they are reasonable and proportionate. The Special Protection Schemes (SPS) in NI have proved to be very effective in allowing flexibility in connecting to the network in NI. Their use has meant the network can be used to its best extent which is very positive. However, the interaction of the SPSs and the SEM is not clear. We are pleased that the RAs will be investigating this further and look forward to responding to further consultation on this matter.

### **9. Tie Breaks**

ESBWD consider that the proposal put forward by the SEM Committee to use a pro-rata approach is the best option. Anything other than this would lack transparency and be inherently unfair. There is no precedence in the SEM of giving any wind generators any type of "grandfathered" entitlements in their treatment in dispatch. To do so would create different classes of wind generators in the market.

Giving preference to older wind generators would effectively mean that the level of constraints and curtailment facing new wind generators would be completely prohibitive and would undoubtedly lead to much reduced levels of future investment. Ultimately there would be a risk that the 2020 targets would not be met.

Existing "firm" wind generators will receive partial compensation<sup>1</sup> for the times when they are deloaded, whereas newer "non-firm" generators will not. We consider that this differentiation alone is sufficient in terms of the preferential treatment the market

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<sup>1</sup> E.g. partial compensation in the event that  $SMP + Capacity < REFIT$

rules give to existing firm generators. Newer wind generators who build on a non-firm basis are aware of the risks they face in terms of non compensation, however they are entitled to compete with all other generators. To restrict the right of new wind generators to compete in any way would disincentivise new entry into the market.

As discussed earlier, we recognise the potential additional impacts that the pro-rata approach may have on existing wind generators. Equitable solutions must be found which balance the requirements of both existing and new wind generation. We consider that a one-off limited out of market mechanism be used to provide compensation to wind generators which are adversely impacted as a result of understandings they received from the SOs at the time of their connection which are now proving to be invalid.

As mentioned earlier we would like to see frequent publications from the TSOs reporting on the incidences of curtailment which have occurred. The reports should detail the reasons why curtailment was required, the actions taken by the TSOs and the level, duration and location of curtailment.

#### **10. Determination of SMP when Demand is met by Price Takers**

Wind generators should have the ability to protect themselves from negative prices in the market. It is unreasonable to expect generators, which effectively bid in at €0/MWh, to pay in situations where demand is met by price takers. The situation could arise where a wind generator has been dispatched down so is not actually outputting and yet is included in the Market Schedule when prices go negative and therefore has to pay. On the one hand the generator is not generating, so will not receive any out-of-market support payment (since this is based on actual output), and on the other it actually has to pay since it has been included in the Market Schedule. This situation seems fundamentally wrong. Ultimately it could lead to large increases in the amount of money generators will have to receive via support mechanisms to compensate them for these negative prices, without any consequential benefit to the consumer.

Conventional generators will never be faced with this situation and so will never have to pay for the privilege of generating (unless they bid to this effect). It is unfair to discriminate against wind generators.

The only option currently available to wind generators to protect themselves from this situation is to become Variable Price Makers (VPM). In addition to the barriers that exist relating to Intermediaries, wind generators who opt to become VPMs will lose their priority status. This effectively means that no wind generator is ever likely to choose to become a VPM.

The market rules need to be changed to allow a wind generator retain its priority dispatch status and still protect itself from negative prices. Wind generators should be able to opt to turn off in the event that prices go negative without having to lose their priority status. In summary, the rule set for VPTs is a vehicle by which priority dispatch of generation can be delivered in the SEM and therefore to the extent that the rule set could lead to the perverse situation as described above, then the rule set should be amended.

### **11. Demand Target and EGEs**

No analysis has been presented as to the scale of the Excessive Generation Events (EGE) that is predicted. If regular EGEs are being forecast then this is clearly a signal that other mechanisms (e.g. interconnection, demand side response, storage) are required on the system. However we agree that the amount of VPTs which are subject to PFloor should not exceed demand. In line with rules on Tie-breaks the pro-rata approach is the fairest and most transparent method by which to reduce generators' MSQs.