



Electric Ireland Response:

Trading and Settlement Code

**I-SEM Policy Parameters & Scheduling and
Dispatch Parameters**

Consultation Paper

SEM-17-029

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Respondent's Details

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General Comments

Electric Ireland (EI) welcomes the opportunity to respond to the Consultation on I-SEM Policy Parameters & Scheduling and Dispatch Parameters. Consistent with our previous consultation responses of this nature, Electric Ireland views these proposals from the perspective of a standalone supplier and as a representative of the consumer. The background of the ETA parameters have been developed through the market rules working group and the Trading and Settlement Code consultation, to which we responded in January.

Our views on this consultation remain consistent with our responses to other consultations; particularly SEM-15-026 (I-SEM ETA Markets Consultation Paper), SEM-16-075u (I-SEM Trading and Settlement Code Consultation), and our feedback throughout the Market Rules Working Group process.

The key points for Electric Ireland and our customers are discussed below.

Price Average Reference Quantity (QPAR)

Electric Ireland's primary concern is the proposal to implement a very marginal Imbalance Price Average Reference Quantity (QPAR) value of 1MWh. Electric Ireland argued in favour of *wide-ranging* Price Average Referencing as early as May 2015 in our response to the ETA Markets Consultation Paper (SEM-15-026) and we still feel that this approach is the most suitable. While we are pleased to see QPAR included as a parameter we believe that setting this parameter to 1MWh is unsuitable for Go-Live for the following reasons:

- This approach is more likely to result in sharp and volatile imbalance prices – this is actually demonstrated by SEMO's analysis, despite the conclusions presented (see critique below)
- Contrary to the suggestion in the paper, a more marginal price is likely to be more difficult to forecast – many of the arguments advanced could support the opposite conclusion to that reached – participants have very little visibility of how the unique I-SEM Flagging & Tagging approach will work (no market modelling shared) and so in the highly constrained I-SEM market it will be extremely difficult to anticipate which actions will be determined to be energy and which non-energy – a larger QPAR is likely to help with forecasting accuracy
- Market participants should be given time to learn and develop appropriate economic responses to sharp imbalance prices and also to allow RA assessment of what sharpness of price is required to elicit appropriate responses – consider the main driver behind GB's modification P205: "Parties were already doing everything that they could to balance, and having a stronger balancing signal would not change behaviour"

- While the GB target of 1MWh is referenced in the consultation, it should be noted that this is being being achieved via a transitional period spanning several years from QPAR=500MWh to QPAR=50MWh and has yet to reach QPAR=1MWh
- Imposing uneconomic costs on the mass market in pursuit of an economic ideal (beyond that necessary to elicit an appropriate response) is inappropriate: the mass market portion of the demand side cannot respond until smart meters are available (to allow measurement of any response) but will have to bear the increased imbalance risk & cost arising from a very sharp imbalance price
- Given the less than mature development of the interim IDM solution, uncertainties about the final IDM solution (XBID) and ongoing concerns about IDM liquidity, a much sharper / volatile imbalance price raises the risk / cost that market participants will not have appropriate market tools available to enable them to manage half-hourly-granularity imbalance risk effectively
- A more suitable approach would be to employ smoothing initially (in the form of a higher QPAR parameter – EI favours the QPAR=60MWh initially) to reduce the impact of any spurious outputs of a novel and untested approach to imbalance pricing
- Following sufficient operating experience of the I-SEM, it would be possible to back test a variety of QPAR values against the historical data to provide an informed decision about the most appropriate values for this parameter. This may be permit a lower QPAR value in line with the consultation’s ‘economic efficiency’ objectives described.

Quantitive Analysis for the Price Average Reference Quantity (QPAR)

The analysis is caveated as a sensitivity to QPAR rather than a forecast of imbalance prices or of the operating regime but nevertheless the results are used to dismiss higher QPAR values on the basis of an apparent limited impact on standard deviations being a measure of volatility. There are a number of deficiencies in this approach:

- given the focus of the consultation paper on the need for ‘high’ marginal imbalance prices to elicit an appropriate balancing response, one would expect more weight to be given to maximum prices (or a high percentile price) rather than to standard deviations which give the (geometric) average of deviations from the mean across the study period
 - the marginal price (PMEA) daily profile chart in Appendix 2 is cropped so as to be presented consistently with the other charts, but fails to showing the maximum prices for comparison with scenarios where QPAR > 1MWh
- the price distributions are clearly not normal but skewed as can be seen in the Appendix 2 marginal price (PMEA) daily profile chart where the lower standard deviation error bar is below the minimum price for teatime periods! meaning that the standard deviation measure reflects lots of small deviations more than the small number of large (high price) deviations which are of more interest
- BM bids and offers are based on SRMC without any element of natural scarcity pricing – at times of system tightness one might expect different bidding approaches from market participants (with simple bids being free of a Bidding Code of Practice) resulting in a wide

spread of prices in the stack – in this situation different values of QPAR are likely to have a much bigger impact on resultant imbalance prices than suggested

- despite the above described deficiencies of using the standard deviation measure, the analysis shows that QPAR=60 reduces the standard deviation to €23/MWh from €29/MWh for QPAR=1 – this is a 21% reduction in this volatility measure!
- the proposal to determine a comparable I-SEM QPAR to the GB PAR value should consider the likely size of balancing actions (ever likely to be less than 10MW?) as well as the relative proportion of intermittent wind (& solar) generation in the market (higher in I-SEM?) which may be a major driver of imbalance rather than just the gross sizes of the markets

Consequently EI does not accept that the analysis demonstrates that the value of QPAR is secondary and continues to believe that it is important to have a transition which allows learning from experience as GB has done.

Response Period Duration Parameter

There is a risk that the proposed Response Period Duration will be punitively short. While this can be managed to an extent within the normal course of business practice, it will require constant monitoring and a rapid turn around period for responding to collateral top-up requirements.