



**Electric Ireland Response:
Balancing Market and Capacity Market Options
Consultation Paper**

SEM-19-024

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Respondent's Details

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Introduction

Electric Ireland welcomes the opportunity to respond to the SEM Committee consultation on Balancing Market and Capacity Market Options. The key points for Electric Ireland and our customers are discussed below. Consistent with all of our responses, Electric Ireland views this consultation from the perspective of a standalone supplier and as a representative of the customer. Since I-SEM Go-Live there have been instances of unexpectedly high clearing prices in the balancing market and a degree of volatility in pricing outcomes. These market characteristics differ from the goals of the I-SEM High Level Design and it is reassuring to see that the SEM Committee is taking steps to address this. We are of view, similarly to the SEM Committee view in that pricing in the Balancing Market has not out turned as intended.

We understand the importance of correctly functioning balancing and capacity markets to ensure that customers are not disadvantaged due to unintended inefficiencies in the market design which can result in high imbalance prices and ineffective pricing signals. Critical to the correct functioning of any market is complete transparency in how the pricing outcomes are determined. This allows participants to develop suitable trading strategies and obtain market confidence. Provision of transparency in the decision making methodology by the TSO with regards to the Balancing Market price formation should be at the forefront of any potential change to the rules of the Balancing Market. We would encourage a solution which results in balancing prices that accurately represent system conditions in a transparent manner.

Electric Ireland agrees that steps should be taken to address instances of high prices and volatility experienced but at this moment we are unable to support the proposed Simple NIV Tagging approach outlined in the consultation. It is worth noting that the analysis presented has been based on data which is required to be recalculated (a separate issue to this consultation). Therefore the BM pricing used for analysis purposes cannot be relied on with any degree of certainty. Under the approach outlined there remains a risk of unintended consequences, particularly when considering that the generation mix is expected to change significantly over the medium to long term. This will have long term effects on our cross-border trading and future decarbonisation goals. For participants to have confidence than any approach would deliver the TSO's intended purpose, the changes need to be analysed against correct Balancing Market outcomes.

Electric Ireland is broadly in agreement with the consultation proposals with respect to the Capacity Market option.

Response to Consultation Questions

The Electric Ireland responses to the consultation questions are outlined below:

SIMPLE NIV TAGGING

2.1) Do you support this Simple NIV tagging option and its implementation in the SEM?

At this moment, Electric Ireland is unable to support the proposed Simple NIV Tagging approach for the reasons outlined above. Nonetheless, we fully agree that measures need to be taken to address the issues in the market.

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.

Electric Ireland is concerned that unintended consequences may remain in the Balancing Market under the Simple NIV tagging approach. By depressing the balancing market price at peak times and increasing it at 'shoulder' times we will see changes to bidding behaviours in the preceding markets which may not be to the benefit of customers. The conclusions of the analysis point towards a higher average BM price using the Simple NIV tagging approach. A caveat needs to be applied to this in that it is still unclear what the actual BM prices would have been without the manifest errors present.

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.

Electric Ireland agrees that the simple NIV tagging meets the I-SEM High Level Design, the I-SEM Detailed Design and the I-SEM market power mitigation decision but notes that this does not necessarily mean that the solution will be fit for purpose.

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.

Electric Ireland does not agree with the SEM Committee's assessment. While we acknowledge there is unwanted volatility in the Balancing Market, this volatility acts as an incentive for participants to avoid the Balancing Market. The fundamental changes proposed will result in changes to bidding behaviours in the preceding markets which may not be to the benefit of customers.

REMOVAL OF DIFFERENCE CHARGES WHERE OPERATIONAL CONSTRAINTS ARE BINDING

3.1) Do you support this Capacity Market option and its implementation in the SEM?

Electric Ireland supports the proposed Capacity Market Option. The outlined proposal appears to be an equitable and sensible approach and should incentivise participation and competition amongst participants of the CRM.

3.2) Do you have any concerns regarding the removal of Difference Charges where Operational Constraints are binding, including the risk of unintended consequences? If so, please explain these concerns.

To limit any potential cost on the market, significant monitoring of the operation of the market should be in place to ensure that the outcomes are as expected and to facilitate the introduction of emergency modifications, if required, in order to mitigate any unintended consequences.

3.3) Do you consider this proposed change is in keeping with the broader CRM detailed design? Please explain your view.

Electric Ireland agrees that the proposed change is in line with the broader CRM detailed design.

3.4) Do you have any views on this option from a consumer perspective?

Electric Ireland considers the proposals as beneficial to the consumer as the risk of excess socialisation fund revenue being collected will be reduced. Electric Ireland requests continued transparency of the level of funding in the socialisation fund to ensure these regulated tariffs do not pose an undue cost to customers and so that potential future issues can be identified.

3.5) Do you have a strong view regarding an alternative option which could be implemented, i.e. preferably requiring only a configuration change rather than a system change?

Electric Ireland does not have any views on alternative implementation options.