

Balancing Market and Capacity Market Options Consultation Paper

Consultation Response from



July 2019

Introduction

Bord na Móna (BnM) welcome the opportunity to respond to the CRU's consultation "*Balancing Market and Capacity Market Options Consultation Paper*".

The consultation examines two additional options for potential change to the balancing market design and settlement process which aim to mitigate the extreme price events or the exposure to extreme price events for Reliability Option holders. The options examined are simple NIV tagging, and the removal of difference charges for generator units which are available to deliver but cannot meet their reliability option obligation due to binding operational constraints.

Section 1:

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

Although BnM see merit in implementing simple NIV tagging; it is a simpler approach than the second option and it aligns better with the direction of the net imbalance volume, however, at this point in time we would not support the implementation of simple NIV tagging for the reasons stated below.

BnM's view is that it is too early in the process to completely remove the current imbalance price methodology and replace it with a new radical process without in-depth analysis of potential consequences. To this point, BnM believe that the CRU should form a working group, involving Industry and SEMO. The aim of the group would be to review Balancing Market prices and examine the impact of a suite of potential options towards resolving issues with the imbalance price methodology.

BnM further submit that any modification to the Balancing Market should be progressed through the Balancing Market Code Modifications Committee which has an established track record of facilitating constructive and interactive debate and engagement between all key stakeholders and subject matter experts on complex and fundamental issues associated with market design, similar to the Market Rules Working Group process for I-SEM.

The rationale and analysis supporting the simple NIV tagging proposal outlined in this consultation is based on a suite of analysis of the existing ISEM pricing data which is known to be incorrect due to numerous upheld pricing disputes. Also, prices used in this analysis did not take into consideration the latest Modification (Mod_09_19) approved by the Balancing Market Code Modification Committee, which removes certain locational constraints from the imbalance pricing calculation. The inclusion of this Modification in the data set would have the effect of removing some of the high price events experienced on the 9th of October 2018 and the 24th of January 2019 and therefore impact the statistics and analysis presented. BnM believe that it is not prudent to draw any conclusions from this study, using an inaccurate price set, and would advise that it would be inappropriate to make a decision to completely overhaul the imbalance pricing methodology without firstly understanding the impacts of using data that is representative and has undergone repricing for all known errors.

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.

BnM would be seriously concerned with the implementation of simple NIV tagging in the central Market systems, based on the current set of analysis. The new proposal is a significant deviation from

the current Imbalance Pricing calculation and the rationale and assessments provided do not give the level of verification required to determine that the proposal will not generate unintended consequences. In addition to using an appropriate repriced data set, additional testing and risk analysis would be required. BnM believe it is key that this process should involve engagement with Market participants to ensure that the new pricing methodology will not have any unintended consequences.

In examining some of the pricing statistics presented in the paper, BnM are concerned that the simple NIV tagging price seems to steeply decrease the volatility of imbalance prices with a greater convergence towards Day-ahead Market prices. Although any insights taken from this analysis should be taken with prudence due to the highlighted issues with the pricing data, the kurtosis (skewness) of the price distribution is greatly reduced from a value of 471.577 of the original pricing data to a value of 15.302, which is much closer to the Day-ahead price distribution of 13.302. BnM would be concerned that this may have unintended consequences, such as transferring liquidity from the Day-ahead Market to the Balancing Market. There is a balance to be struck between having adequate price volatility to drive liquidity in the ex-ante markets, and balance responsibility, which in turn will optimise flows across the interconnectors. BnM believe that a full assessment of the consequences of the simple NIV tagging should be conducted, in conjunction with exploring other options.

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.

BnM is satisfied that the simple NIV tagging is aligned with the I-SEM High Level Design principles.

The I-SEM detailed design was discussed and developed through the Market Rules Working Group process which involved market participants, SEMO, the TSOs and the RAs. This was an appropriate forum that enabled constructive and interactive debate and engagement between all key stakeholders and subject matter experts over several months on complex and fundamental issues associated with market design. Following this involved process and the consultation that followed, the current Tagging and Flagging process was considered the most appropriate, given the intent of the High Level Design to identify the marginal cost of energy actions and the characteristics of the all-island market with high levels of constrained TSO actions required to manage the system safely and securely.

The simple NIV tagging approach was considered in the I-SEM Detailed Design. However, this simple tagging approach was ruled out as it was not deemed to be optimally aligned to the High Level Design when compared to the current flagging and tagging solution, as the price formed is not as reflective of the most expensive action taken by the TSO to balance the system.

BnM agrees that the simple NIV tagging is in line with the requirements under the I-SEM market power mitigation decision.

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.

BnM disagrees with this statement based on comments stated in response 2.2 above, relating to the steep decrease of volatility in imbalance prices compared to the original price set, and the unknown

consequences of same, given the unmeasured impact of Mod_09_19. As mentioned in response 2.1, it is important to note that a repricing exercise of the Market covering pretty much every day of the Market since the start is imminent and it is too early to drive conclusions from the pricing exercise without access to the final set of prices.

Section 2:

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

BnM support the implementation of the Capacity Market option presented in the paper as it removes the unintended consequence of exposing plants holding a Reliability Option to Capacity Market difference payments, in circumstances where they are in merit and available to deliver and are not dispatched by the System Operator. Although this solution removes the unintended consequences it does not deal with the underlying issues with the imbalance pricing. As mentioned in section 2.1 the establishment of a working group with Industry to examine other potential options would be the best way forward. BnM also welcome the proposal of the dynamic approach whereby additional constraints could be added over time.

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.

BnM would not have additional concerns.

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

BnM strongly agree that the proposed change is in line with the CRM detailed design as well as with the hierarchy of obligations within the Balancing Market Principles Statement (BMPS). The number one priority in scheduling and dispatch is 'ensuring system security' which underpins the contract promise from the SOs to the generator, and vice versa. The CRM current methodology is designed to incentivise plant reliability. At present, there are 'available' and 'reliable' flexible plants being penalised for non-performance difference charges. This proposed option goes somewhat to addressing this issue.

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

This option will have the effect of reducing the PSO, pushing prices down. While acknowledging that there is a likely modest impact on the socialisation fund we believe that this impact on 'efficient operation of the SEM' is sub-ordinate to 'ensuring operational security', in line with the BMPS hierarchy of obligations within the scheduling and dispatch process which describes the following order: 1. Ensuring operational security; 2. Maximising priority dispatch generation and 3. Efficient operation of the SEM.

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?

As mentioned earlier it is BnM's view that a working group involving Market Participants, the TSO and the RAs should be established to take a deeper review of the existing issues in the Balancing Market in order to propose viable alternatives.

Finally, it is the ultimate objective for all stakeholders that there is a sustainable and coherent balancing market and a pricing mechanism that provides a clear signal for industry to help the TSO balance the system. BnM look forward to further engagement with the RAs and SEMO in relation to these matters.

If you have any queries or require clarification on any point, please do not hesitate to contact me.

For and on behalf of Bord na Móna



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