



## **IWEA Response to Consultation**

“The Value of Lost Load, the Market Price Cap  
and the Market Price Floor”

July 2007

## Background

As part of the ongoing specification of the new Single Electricity Market, the regulators have published a consultation paper [ref. AIP-SEM-07-381] titled “The Value of Lost Load, the Market Price Cap and the Market Price Floor”

The Irish Wind Energy Association have reviewed this document and in particular the impact of the proposed negative pricing being allowed in the new SEM on wind generators.

Paragraph 5 (Market Price Floor) of the document states:

*“On the one hand, a negative price floor would allow generators to bid negative prices, as their licences expressly permit them to do. And it would allow negative prices in the SEM in conditions where there is excessive price maker generation. Customers would benefit from negative prices at times of very low demand. And if customers are not exposed to appropriate pricing (including negative pricing) then the efficiency benefits arising from changing demand patterns are lost.*

*On the other hand, a negative price floor would expose price taker generators to the risk of potentially significant losses. The Regulatory Authorities would expect that most if not all price taker generators will be protected from low or negative prices through their contract positions, but they would be interested to know if this is not the case and the extent to which it is not.”*

## IWEA Analysis

We have the following concerns with regard to allowing negative pricing:

1. We are alarmed at the regulators implied view that variable price takers ought not be particularly concerned as long as their contract positions protect them. It is true that most wind farms (to date) have taken long term PPAs to date and are as such protected from market fluctuation. But if prices are allowed to go negative, someone will pay eventually. Under AER and REFIT support mechanism, suppliers or the government (PSO) or both are exposed to the risk that average annual wind prices end up below the BNE (or average SMP going forward). Under the current market, the limits are well defined, and both suppliers and government can quantify their maximum exposure. In SEM it is not yet known how the market will behave and it may be some time before the participants are able to make reasonable assessments of their market exposure. However if the market allows negative pricing, the extra volatility makes it even more difficult to quantify the “worst case” downside risk. We feel that this could very seriously impact the palatability of wind to both suppliers and government.
2. A second concern is more of a logistical one. Wind farms do not have 24 hour operators, and they do not have trading desks. Many are run by small owner/operators and small companies. Suppliers, agencies and intermediaries do have such facilities, but they do not have any remote control over the wind

farm output. The wind operators would have to invest in significant market modeling IT systems in order to try to predict negative pricing and change their output or bidding behaviour to try to minimize its impact.

3. A third concern we have is related to the market signal. We can understand how two or three large thermal generators with different shut-down and start-up costs might wish to battle it out with negative energy bids for the privilege of remaining dispatched for a few hours, rather than coming off the system and cooling down. However variable price takers (mainly wind farms) are committed to taking whatever the market price is. They can only switch off to avoid negative pricing thereby losing priority of dispatch.
3. We are concerned also that the regulator feels that efficiency benefits may give a signal to demand. The negative pricing by the regulators own admission may be a rare and unpredictable event. We find it hard to believe that demand will make investment in control equipment, process change or operator education to try to take advantage of rare, speculative and unpredictable events. Volatility is damaging to both wind generators and demand customers who must make capital investments, and negative pricing increases that volatility.
4. Finally we believe that setting a negative price will result in wind farms being forced to switch off (where they are able to do so) and units of renewable energy being wasted solely for the purpose of sending a theoretical market signal . More-over it is squarely in violation of the RES-E directive, both in the area of priority dispatch and the area of equal access.

### **IWEA Position**

Wind generation is proving very successful in generating competitively priced renewable and carbon free electricity, with 2006 being a record year again with 15,250MW of wind generation installed worldwide. However its competitiveness and value depends on it being able to secure cheap capital from the debt markets, which in turn is related to it being able to secure long term fixed PPAs. We feel that the introduction of a negative price floor in the new SEM could seriously jeopardise wind's ability to operate in SEM. Wind farms need to generate whenever the wind resource is available. If they have to cease generating that will impact on their production and overall viability and prevent utilisation of the free fuel resource. If they are unable to switch off they will be penalised by the negative pricing. It imposes totally unnecessary risk and additional volatility in our annual revenue. This in turn will increase electricity prices for consumers.

IWEA firmly believes the PFLOOR value should be zero for wind generation.