

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

Consultation Paper SEM-09-073

AES Kilroot Power Limited Response

September 2009

AES Kilroot Power Limited is pleased to have the opportunity to comment on the recent consultation paper - Consultation Paper SEM -09-073 *Principles of Dispatch and the Design of the Market Schedule in the Trading and Settlement Code*.

AES Kilroot Power Limited owns and operates Kilroot Power Station which is situated on the northern shore of Belfast Lough to the east of Carrickfergus. The plant is comprised of two coal/oil fired steam turbine generating units and four distillate-fired open cycle gas turbines. The total installed capacity is 662 MW. Kilroot is the only non-gas fired power station in Northern Ireland and one of only two coal fired plants in Ireland as a whole.

A desirable feature of any electricity market is that it should meet consumer demand at the least cost of production and the Single Electricity Market (SEM) endeavours to do this over the short term. The longer term needs of the consumer should also be considered in the market when addressing issues such as security of supply and fuel diversity. Appropriate mechanisms should be introduced to deal with these issues.

AES Kilroot welcomes recognition by the RA's that market participants who are running in a constrained mode also provide value to the system and support customer needs. The current market structure does not adequately support the long term operation of these plants due to the lack of infra-marginal rent. This issue must be addressed as acknowledged in the consultation document. Otherwise we will have a system predominantly comprised of wind and low capital high operating cost BNE peaking plant.

Furthermore, it is recognised that the large influx of wind onto the system has highlighted other benefits that large thermal plants bring in respect of reserve and inertia which that are key mechanisms required to run a highly reliable electricity system. Participants providing these characteristics should be rewarded through proper pricing mechanisms to incentivise investment in the future.

In the execution of the proposed changes to the market hardware/software it should be borne in mind that this could also be an opportune moment to properly resolve the multiple fuel remuneration aspect which is a recognised limitation of the current system.

Within the All Island Market (AIM) there are inconsistencies between the two jurisdictions on many levels and full harmonisation of Grid Codes and connection policies should be sought to ensure a level playing field. Modelling should be realistic and reflect the increase in constraint costs as a result of wind and make assumptions on fuel diversity within the market to reduce single fuel exposure. Furthermore, under an increased connection of wind scenario, the increased deep connection costs should be taken into account and not just the impact on SMP when considering options. AES

Kilroot also supports the view that the Transmission System Operators (TSOs) should continue to dispatch the system to minimise costs of production while taking into account system security requirements. In general the TSOs deal with security of supply in the short term but the market does not offer any incentives for longer term security of supply, for example as a result of overdependence on gas.

There are no incentives on TSOs to minimise the constraint costs and this highlights a disconnect between the management of constraints and network ownership. Clearly if the network owner was incentivised to reduce constraints then it follows that investment in the network would result to capture these incentives. We welcome the RA's commitment to bring forward proposals on this issue.

We would agree that the construction of the market schedule should allocate infra marginal rents to plants of real time value. If a marginal plant is supplying a technical service that is required by the system and run in a constrained-on mode then it is unclear as to how this plant would survive in the current structure with BNE based capacity payments.

Modelling of the technical constraints on the system could provide signals for investment in the type of plant required by the TSOs. This would require transparency in the grid requirements. Another option would be to offer ancillary services contracts, over a specified period, which would give investors the signal to provide these services with the certainty of a return on investment.

The harmonisation of the grid code should continue and the differences between the two codes minimised. Derogations under the grid code should be transparent and plant that is flexible and meets the grid code requirements should be rewarded. Non compliant plant should be penalised or excluded from ancillary service payments. Grid code requirements should provide the basis for the ancillary services that are required. One possibility for securing the desired generation characteristics is to expand the ancillary services pot and reward this provision through these contracts.

With regard to accessing the grid when behind an export constraint, we would be in favour of a resolution in line with Option 2 as the lobbying power of new entrants would far outweigh the incumbents. We would also endorse the fact that this option should apply to variable price takers and they should be limited in the market schedule to the maximum of actual output and FAQ.

AES Kilroot agrees that deemed firm access should not be introduced to the SEM.

AES Kilroot can see the need for priority dispatch with regard to renewable energy as long as this is on an all island consistent basis within the market. We do not see the justification for priority dispatch for peat which is an ROI government policy and hence if required should be treated as a constraint and the costs borne by the ROI consumers and not all consumers on the island.

If you require any further information or clarification on the issues addressed above please do not hesitate to contact us.

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