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12th November 2010
Andrew McCorriston (NIAUR) &
James McSherry (CER)

Ref: Principles of Dispatch and the Design of the Market Schedule in the Trading and Settlement Code (SEM-10-060)

Dear Sirs,

Please find attached ESB International's (ESBI) response to the above consultation

Kind regards

Niamh Quinn
Assistant Operations Manager, Independent Generation, ESB International

1.1 Introduction

ESBI appreciates the opportunity to comment on this consultation paper. We have no objection to all or part of it being published by the Regulatory Authorities (RAs). This response is submitted on behalf of ESBI's SEM generation business and its NI and ROI independent supply businesses.

2.1 General Comments on Consultation Process

ESBI recognise that the meeting the Government's 2020 renewable targets presents a significant challenge to all SEM stakeholders. If the volume of intermittent generation on the island is to increase substantially then changes to the market will be required. It follows that a point will be reached when the SEM is no longer fit for purpose. Until the RAs demonstrate that the SEM does not meet its core objectives, ESBI is not in favour of significant change to its HLD. ESBI believe it is imperative that all changes, irrespective of size, are considered in holistic manner in which the effect of all proposed changes are considered in conjunction with one another rather than the current approach where major changes are treated in isolation. A consultation on scheduling and dispatch within the SEM that does not incorporate the work-stream on regional integration appears to be inadequate. Whilst ESBI welcomes the RA's position, which is not to implement any significant changes to the SEM without first assessing the material harm potentially caused by that change, we note that the criteria for assessing material harm has not yet been consulted on.

ESBI are in general agreement with the response to this consultation submitted by the NEAI.

3.1 Principal underlying construction of market Schedule

ESBI welcome the consultation process on the assessment framework. ESBI believe the development of an assessment framework, particularly if it is to be applied to divergences in the dispatch and market schedule, requires greater transparency around the dispatch schedule and the decision making of the TSO. ESBI are concerned that a test of material harm has not been applied to previous changes in the SEM (e.g. TLAFs) and would expect that all future changes to the SEM be treated in a uniform manner.

With respect to determining a threshold of material harm, it is our opinion that the framework should not be limited to assessing the harm to end customers, as suggested by the RAs. Any costs arising from changes to the SEM, be they costs to the TSO, Market Operator, generators or asset owners, are eventually passed onto the end customer.

3.2 Allocation of IMR behind constraints

ESBI is very concerned by the RAs suggestion that the concept of firm access may be disregarded in the market schedule. The SEM was designed based on an unconstrained market schedule. To move away from an unconstrained market schedule, we feel is a disproportionate response to the cost of constraints associated with unused firm capacity. The cost of constraints is dependent on the rate of grid development, which is an issue that generators have no control over. ESBI consider that risk should lie with those who are in the optimal position to manage that risk. Removal of firm access would have serious implications for the financing of new developments and would consequently increase the risk premium on such projects. Firm access is also an essential component in the business models of existing generation, both renewable and thermal. This change, if implemented, would penalise existing generation, both renewable and thermal, for the late development of the transmission infrastructure. ESBI support the position of the TSO set out at the industry forum held on October 13th when it was noted that to model constraints in the market engine represented a significant change to the market.

We are encouraged that the RAs do not intent to implement any such change until a threshold level of “material harm” is breached and we look forward to contributing to a consultation process on this assessment framework.

3.3 Principle underlying Dispatch: Least Cost Dispatch

ESBI agree that the TSO should continue to dispatch the system to minimise production costs, giving consideration to system security but not to the firmness of the dispatch process. The importance of transparency in the SEM was identified as a key feature of the SEM design in the SEM HLD Decision paper ¹ and ESBI believe that every effort should be made to increase the transparency across the market, in terms of dispatch decisions, processes and planned processes in the future. At a minimum, the transmission constraints on the island should be known. ESBI would be in favour of a validated constrained model being made available in a similar manner to the annual publication of the RAs validated Plexos model. Any additional information from the TSOs would be helpful, in particular on curtailed volumes of wind generation, dispatch decisions and spinning reserve.

¹ AIP/SEM/42/05 The Single Electricity Market High Level Design Decision Paper

3.4 Interpreting Priority Dispatch

ESBI recognise the importance of achieving the Governments 2020 renewable targets and acknowledge that “absolute” priority dispatch for renewable generation is necessary if this challenge is to be met. ESBI is of the opinion that although some curtailment of renewable generation may be necessary for reasons of system security, this should be done in a transparent manner. To this end we believe a weekly publication on the incidences of wind curtailment is of significantly greater use than the quarterly publication suggested by the RAs.

3.5 Hybrid Plant and Priority Dispatch

ESBI believe there is a lack of clarity on what constitutes hybrid generation in the SEM. Further consultation on what generation is classified as hybrid / renewable would be appropriate before a making a decision on the provision of priority dispatch to these generators.

3.6 Deemed Firm

ESBI are concerned that the Governments renewable targets will not be met if the concept of deemed firm access is not introduced. In that context, it is ESBI’s view that investment in generation should reflect where generation is required and can be accommodated on the system. However the responsibility for investing in network infrastructure sits with the TSO. Equally we believe that there is an onus on the TSO to ensure that the network is fit for purpose i.e. can accommodate increasing levels of intermittent generation. Firm access is a requirement when financing new developments.

3.7 Treatment of VPTG

ESBI support the RA’s proposal to align the treatment of VPTGs with the SEM HLD.

3.8 Grid Code Matters

ESBI agree with the RA’s proposal that the TSOs and assets owners should continue to provide information to the market on the technical limitations of the system and the understanding of the impact of increasing levels of renewable generation on the scheduling and dispatch of generation.

ESBI agree that the grid code should be reviewed on an on-going basis, in particular as the generation mix on the island evolves. ESBI are aware that intermittent generation necessitates a complementary mix of thermal generation to meet system requirements. These needs, in particular for increased volumes of flexible generation,

should not be a burden placed on existing generation only. Given the importance of the grid code we feel that were any change to the Grid code proposed, this would merit its own consultation process. As part of such a process the long-term benefit of any proposed changes would have to be demonstrated. ESBI would not support changes to the Grid code being applied retrospectively.

3.9 Tie-breaks

ESBI recognises that the suggested approach to tie-breaks, which is in the event of a tie-break de-loading will be on a pro-rata basis in a manner determined by the TSOs. To give priority to one phase of wind development over another would either be to the disadvantage of existing units or would act as a disincentive effect to the development of renewable generation and consequently deter wind energy producers. ESBI also note that wind generation that is curtailed or constrained will not receive the full benefit of its support scheme. Under current arrangements there is no mechanism to compensate wind generation for the value of their support payment lost due to curtailment.

3.10 Determination of SMP when Demand is met by Price takers

The current methodology that determines the SMP when demand is met by price takers in effect penalises wind generation which is not financially made whole if the SMP is negative. This is contrast to generators, who receive a 'make whole payment' to cover their short run marginal costs. ESBI acknowledges that wind units are free to register as price makers, however given that the unit would have to surrender its priority dispatch it is unlikely that any unit would chose to re-register for this reason alone.

3.11 Demand Targets and Excess Generation Events

ESBI agree with the RA's position that the quantity of generation charged PFLOOR arising from an EGE should not exceed the total system demand. The suggested approach in which the scheduled volumes of price taking generation are pro-rated down is a reasonable method of achieving this.

4 Conclusions

ESBI believe that the interest of customers is best served by a stable and transparent energy market. Investment decisions are based on certainty of the return on that investment. The needs of neither generators nor customers are addressed by a market which is subject to frequent change. Change should only be introduced to

address an identifiable weakness in the market arrangements. Until such time as the RAs demonstrate that the SEM is not fit for purpose we see no reason to move away from the SEM fundamental principles.

The removal of firm access from all generators is a radical change to the market, which we believe will threaten the viability of existing and planned development on the island. As a consequence of this the 2020 renewable targets may not be achievable. We strongly urge the RAs to reconsider their position on firm access and the allocation of IMR behind constraints.