

## **IWEA response to the SEMC Tie-break consultation**

**14<sup>th</sup> October, 2011**

### **1. Introduction**

IWEA welcomes the opportunity to comment on the SEMC consultation on the Treatment of Price Taking Generation in Tie Breaks in Dispatch in the Single Electricity Market and Associated Issues.

IWEA would like to highlight at the outset our concern over the time taken for this consultation process and the uncertainty that this has caused within the wind industry in Ireland. The current framework for implementing energy policy in Ireland is extremely difficult for potential investors with a significant number of highly material issues under review for a number of years. IWEA recommends that the SEM committee should develop a five year policy pathway highlighting issues that it plans to review. This will help promote more certainty within the industry.

A decision paper on the Dispatch and Scheduling consultation was published alongside this consultation. IWEA would like to take this opportunity to comment on both papers as outlined below.

### **2. Hierarchy**

#### *2.1 Interconnectors*

IWEA notes that the hierarchy for dispatch published in the decision paper has not been consulted on. The proposed list is materially different than what was included in the previous consultation. IWEA has concerns that EirGrid, as the owner of an interconnector, has a significant role in preparing and justifying the hierarchy list, and we believe that this may not be appropriate.

The TSO have suggested a hierarchy that will favour interconnection access to the system. With the introduction of 500MW additional interconnection through the East-West Interconnector, it does not seem appropriate that the hierarchy is led by the TSO and an impact assessment should be carried out to highlight how this proposal could affect all market players. By proceeding with this hierarchy the precedent set needs to be considered as this may have implications for the market even after the introduction of a new European target market.

We understand that Regulation (EC) 714/2009 on cross-border exchanges in electricity prevents a TSO from interfering with interconnector flows except for system security reasons. However in parallel with that obligation, a separate governing instrument, Directive 2009/28/EC as transposed in Ireland by S.I.

No. 147 of 2011, obliges the TSO to dispatch wind within Ireland in priority to power generated from any other source, again subject only to system security requirements.

IWEA believes that wind energy should have priority over the interconnector as the promotion of renewable energy is essential if Ireland is to meet our renewable energy targets. Also from an asset owner perspective you have two long term investments in power - interconnection and wind - and one is given preferential access. There has been no justification for the hierarchy that has been submitted and this should be provided along with the merits of different hierarchy permutations.

If interconnector users were to be constrained down then they are in a position to deal with imbalances as they have the opportunity to trade out their position in the BETTA market. This would be more difficult for wind owners, especially smaller players. The SOs have also outlined that there are options for counter-trading. This solution could allow for a possible reduction in the imperfections pot and facilitating wind energy through less curtailment and possibly less constraints. Accepting the potential merits of this solution there would need to be a lot more clarity as well as industry engagement on this.

It does however need to be clarified if the TSO counter trading only occurs during a tie-break situation between wind and interconnection. If this could happen in other situations that could influence the market schedule or usage of plants then this should be consulted upon. Transparency and regular reporting of counter trading by the TSO is essential in order for market participants to see the benefits of this process.

It is important that the level of benefits that the TSO expects and receives from TSO counter trading be reported on. If the TSO were to countertrade, it is likely that they will be attempting to sell an irregular shaped product into a market that is already illiquid and therefore the price that they may receive from selling this power into the BETTA market may be less than a day ahead BETTA traded price. Also, if the TSO were to countertrade, they would probably be doing so at times that the interconnector is importing. Therefore, they will in most cases be trading against a dominant flow. i.e. power will be in the process of being imported into Ireland at a price that is probably less than SMP at the same time that the TSO is attempting to sell back an irregular shape into the BETTA market.

IWEA does also note that the consultation paper states that the hierarchy will be reviewed when appropriate. IWEA is concerned that this will contribute to uncertainty within the industry and would like this further clarified.

### **Response Summary**

In summary, IWEA believes it appropriate that wind generation is given higher priority than interconnectors.

Should the merits of the proposed solution stand up and that it does allow for a possible reduction in the imperfections pot and facilitating wind energy through less curtailment and possibly less constraints, there would need to be a lot more clarity on the proposal as well as industry engagement on this proposal.

## *2.2 Sub 10MW generation*

Currently projects in the 5-9.9MW must be controllable but can choose whether to trade through the pool or not. However, 5-9.9MW generators which have entered into REFIT contract in Ireland with a supply company are not able to make a choice to elect to participate in the market. Participation in the market can only be by agreement with suppliers. Suppliers have generally entered into these contracts on the basis of de minimus plant, outside the market, which are netted off supplier demand. Therefore independent generators may not have the option to elect to be traded through the pool. This is a big issue for independent generators. Those that don't trade through the pool do not get compensated in the market when they are constrained/curtailed, even if they have a firm grid connection. This is clearly a discrimination of what tends to be smaller independent generators. The consultation paper does not distinguish between different levels of controllable wind farms and proposes to treat all controllable wind farms equally. However as proposed the 5 – 9.9MW windfarms will not be treated equally, unless they also receive compensation in accordance with their level of firm grid access.

### **Response Summary:**

IWEA supports this proposal as this is most likely to be an issue when there is a lot of wind on the system and prices are low and so we agree with the proposal to treat all controllable wind farms equally. However the market mechanisms need to be put in place so that those generators in the 5 - 9.9MW range which are outside of the market are eligible for compensation. Following discussions with SONI it is noted that wind farms between 5 and 10MW in Northern Ireland are controllable but they are not dispatchable under the grid code in Northern Ireland. This is different to the situation in Ireland where all wind farms above 5MW are dispatchable. The difference in approach between the two jurisdictions would need to be addressed to ensure fair treatment of generators across the island.

## *2.3 Not Decommitting non-renewable generation*

The RAs and TSOs are proposing that when non-renewable generation is redispatched it will only be dispatched down to the minimum generation level rather than to zero output/decommitted.

### **Response Summary:**

IWEA believes that in principle non-renewables should be decommitted before renewables are dispatched down. There is no reason why non-renewable generation should be maintained at minimum generation level except to provide system security. In the event that it is not possible to decommit all non-renewables for reason of system security, all renewables should be compensated for curtailment.

## **3. Constraint Lists and Groups**

In the absence of information relating to the projects included in each group and the associated constraints lists it is extremely difficult to comment on this approach as it is unclear how this will work in

practice. Questions remain around how much generation might be included in a particular group and list and the likely levels of constraint that will be experienced within a group. IWEA requests that the information on what wind farms fall within each group and constraint lists should be published through the appropriate regulator.

IWEA is also concerned that the solution being proposed is constrained by existing systems and that any solution would need to ensure no additional resources. In the RES-E directive there is a requirement to reduce constraint/curtailment through priority dispatch of renewables. With additional resources it could be possible to expand the number of constraint areas and number of categories. Therefore IWEA proposes that solutions involving additional resources be investigated in the context of the RES-E requirement to reduce constraint/curtailment.

IWEA is concerned that the proposals in the consultation will not be enduring and while they protect existing projects they may not give sufficient certainty for future projects. IWEA notes that there is still substantial uncertainty on how the proposals will be implemented.

### **Response Summary:**

In light of the above concerns IWEA supports the principal of constraints groups and lists, however more information is required as to what projects are included, how the areas are defined and the potential to change over time before an informed position can be developed.

IWEA would be concerned also around the modelling of the constraint reports as suggested at the Gate 3 Liaison Group. It is vital that the modelling as closely as possible reflects the proposed decision and that this is also followed through operationally.

It is currently suggested that proposals put forward for the constraint groups and lists would be modelled across the island and that the results of this would dictate the 3 constraint groups. It is vital that projects outside of the constraint groups receive a constraint report that reflects the rule set applied to them which may be different i.e. may not be to honour firmness in the management of constraints. The implications for projects outside the proposed constraint groups would have to be modelled and understood if such proposal were to be workable. In the absence of reliable projection information there is a high potential for financing issues or even failures.

It is vital that what happens operationally, and how it is modelled are in sync otherwise all could be faced with the whole area of constraint management becoming even more of a black box with a lot of volatility and knock-on uncertainty in the market.

The following questions are raised:

- What happens on the day if there is a forced outage/network condition that wasn't expected and this scenario has not been analysed, how will constraints then be implemented as there is not a list available for this scenario?

- Is there a method that could look to constrain the most optimal units to reduce a constraint in real time, while compensating so that we don't end up in a scenario where we have to constrain 10MW instead of 1MW in real time to ensure we follow constraint groupings/listings?

#### **4. Fixing the constraint groups**

The consultation paper states that issue of tie-breaks where choices can be made between price-taking generators will be kept under review in the context of network development and the advent of new non wind price taking generation plant on the all island system. IWEA is concerned that this contributes to uncertainty regarding how enduring this solution might be. Changing the basis of constraints 'no more frequently than once per annum' will lead to unacceptable volatility risk.

As indicated in responses to previous consultations, volatility and lack of predictability are a matter of serious concern to IWEA members. The volatility of constraint groups changing will disrupt proper investment decisions and risk analysis processes. The lack of predictability will add costs to investment in the industry. This in turn has a material effect on the competitiveness of the industry on the island. Most renewable generators use project finance and potential volatility as proposed could trigger project default. This would undermine broader investor confidence.

#### **Response Summary:**

IWEA proposes that once a constraint group is defined it should stay fixed. The group should cover the nodes that are included in the lists as this leads to greater transparency. It is accepted that the lists will change as deep reinforcements are done and more projects connect to particular nodes but constraint group boundaries and the nodes should stay fixed.

1. Volatility and lack of predictability are a matter of serious concern to IWEA members
2. It is vital that the modelling as closely as possible reflects the decision and that this is also followed through operationally. Fixing the boundaries of the constraint groups and the nodes within will aid in this requirement.

It is vital however that there is efficient development of the energy infrastructure on the island to resolve the ultimate cause of constraint and curtailment.

Again IWEA would be concerned that the solution being proposed should not be constrained by existing systems or resources. Therefore IWEA proposes that solutions involving additional resources within the SO's be investigated in the context of the RES-E requirement to reduce constraint/curtailment.

## 5. Constraint Categories

IWEA understands that this is an all island consultation and the SEM Committee is keen to find a solution that can be implemented in both jurisdictions. In the absence of a connection policy in Northern Ireland that provides the methodology for the application of firmness and the levels of firmness of a given project it is very difficult to comment on the appropriateness of this method. IWEA notes that there is due to be consultation on connection policy this Autumn and this will go some way toward providing this policy. However, this information is not available in the context of the current consultation, making it extremely difficult for generators in Northern Ireland to examine the impacts of the current proposals.

The 3 categories of 0 – 33%, 33 – 66% and 66 – 100% firm have been proposed in the consultation. EirGrid proposed that access could be split into 3 groups, and have indicated that they have no preference as to what these groups are. We understand that the SEM Committee is keen to use the same categories in both jurisdictions as this is an all-island solution and have therefore proposed that firm access should be the criterion used. Clarity is required as to whether within these groups the wind generation will be reduced on a pro-rata basis or by dispatching down the least amount of MW that alleviates the constraint.

It has to be noted again that in the absence of information around firm access in Northern Ireland it is impossible to comment in a meaningful way on the categories as proposed. There is no indication as to the amount of MWs that would fall into each of the proposed categories, however it is likely that in the near future projects will either be 100% firm or 0% firm. There is a significant difference between the connection process in NI and ROI. The Gate process in ROI allows the possibility of capping the amount of generation connecting at a particular time or in a particular area (until the next Gate), however the process in Northern Ireland has no facility to do this and new projects can come out of planning at any time. This means that there could be a significant number of projects in the 3rd category at any given time.

It is also likely that one of the constraints groups will be in the west of Northern Ireland. A determination is needed as to whether the effect of the non-existence of the north –south tie-line should be treated as a curtailment or constraint.

Clarification is required on if when groups have been determined, will the 3 areas be constrained first, thus potentially reducing constraints in other areas and resulting in less constraints on other areas, with 3 areas identified always being constrained?

### **Response Summary:**

On review of the categories proposed, IWEA has identified challenges in achieving the intent of the SEM Committee wishes in this context.

The issues we would see with the proposed solutions are as follows:

- The proposed solution does not value full firmness.

- It would seem that the middle category of 33-66% would be rarely used given that many projects often move from 0% straight to 100%.
- Also it should be noted that the last category 0-33% is completely open-ended and the constraints are completely uncapped.
- It is not possible to understand what the proposed categories will mean for projects until full modelling is complete.

In response, IWEA has put forward a small number of principles that we believe should be met in order to identify a solution going forward that will address concerns raised:

1. Recognition of 100% firm access which should be a category of its own. This respects the high-level decision that firm capacity should have priority over non-firm capacity.
2. The next categories should each be capped and also each utilised in some way to allow each category be meaningful and transparently to distinguish priorities.

Therefore IWEA proposes the following categories which meet the two key principles highlighted above:

- i) Projects that are 100% firm. This respects the high-level decision that firm capacity should have priority over non-firm capacity. IWEA notes that there is a SONI consultation that will deal with the definition and application of firm access in Northern Ireland.
- ii) A tranche of projects such that projects in this group will see no more than approx. 3-5% constraints. IWEA notes that in the absence of information relating to the amount of projects with firm access and the levels of constraint that are likely to be seen, it is not possible to put a figure on what size this category should be. It is essential that the constraints experienced by this group are capped at such a level that these projects are bankable. IWEA proposed that this group be determined using the date of connection application. This will address the concerns within the industry that projects can have substantially different connection lead times and respects the high level decision that between firm capacities, date order should determine priority.
- iii) All other projects. It should be noted that there may be a requirement for additional categories in the future to ensure any one category does not become too large.

IWEA notes that in order to ensure that none of these categories become so large that they are no longer useful and projects within them are not be able to obtain project finance, it may be necessary to have additional categories in the future. These should be based on the same methodology. IWEA notes that additional resources may be needed to implement additional categories; however this may be necessary to ensure that projects can have certainty regarding levels of constraint and that development can continue. By having open-ended groups with

uncapped constraints, there is a significant risk that this could be unbankable, which would stifle development such that targets for renewable generation will not be reached.

## **6. Temporary Connections**

IWEA notes that temporary connections fall into the lowest category of unit for their entire installed capacity up to the MEC that they have applied for in a completed application for connection to the relevant body.

### **Response Summary:**

IWEA's position is that projects connecting under permanent connections are not disadvantaged by projects that are connecting under temporary connections.

## **7. Projects outside the constraints groups and lists**

For those constraints not covered in the constraint groups and lists a least cost dispatch scenario is to be used, with the constraint being eased in a way that would minimise curtailment (whether generator has firm access or not). The constraint would be managed by dispatching down the least amount of MW that alleviates the constraint.

### **Response Summary:**

IWEA in principle would aim to support the proposal that outside the constraints lists the generation will be dispatched down the least amount of MW that alleviates the constraint.

There is significant concern however over the lack of information on how exactly projects outside the constraints groups and lists will be treated. There is currently no indication of what level of constraint will be experienced.

Clarity is also required on how projects behind the North South tie-line will be treated and whether it will be considered a constraint. In particular there needs to be a clearer understanding of how it will impact projects in Northern Ireland as highlighted previously.

## **9. Compensation for Curtailment**

It is proposed that non-firm generators will not get any compensation for curtailment events, i.e. if they are included in the market schedule but excluded from the dispatch schedule.

### **Response Summary:**

The reasons why non-firm generators are not compensated for constraint are clear but there is no clear reason why a non-firm generator is not compensated for curtailment. Firm access and the reasons for curtailment are not interrelated. In section 4.9 of the document that RAs accept that firmness is derived with reference to the physical ability of the network to accommodate output under normal circumstances and not with reference to system operator's decision regarding "curtailment". If only firm generators are provided with compensation for curtailment this appears to be discrimination against non-firm generators especially as the TSOs now have a mechanism/methodology to differentiate between constraint and curtailment.

IWEA proposes that all windfarms, regardless of firm status, should be compensated for curtailment. It is discriminatory for one group of generators to be compensated and another not to be compensated when the reasons differentiating the groups are not material to the reason for compensation. It would also put a strong financial focus on the regulators and system operators to minimise curtailment events. Market mechanisms should be put in place to remove this discrimination and ensure non-firm generators are compensated for curtailment.

### **10. Constraint and Curtailment**

The paper states that where there are both constraints and curtailment issues arising, the TSOs shall first dispatch to manage the constraint issues and then work to address the curtailment issues.

This will serve to minimise the dispatching down of wind relative to an approach whereby curtailment issues are first addressed.

### **Response Summary:**

IWEA has requested that EirGrid provide further clarification on the practical implementation of this proposal and whether a wind farm that has already been dispatched down for constraint purposes will also be curtailed, or whether it is considered to have reached its curtailment point. Given the proposed different financial outcomes of constraint vs. curtailment it is essential that EirGrid can guarantee that constraints and curtailment can always be distinguished and if not in what circumstances.

### **11. Excessive Generation Events**

It is noted that the SEM Committee considers that it is appropriate to reflect the proposals regarding dispatch of price taking generation in the approach to their detailed implementation of their decision regarding the quantity of price taking generators that is charged PFLOOR in an EGE.

**Response Summary:**

IWEA would welcome the intent of the proposals but would seek further clarity on the implementation of same. Clarification is required on what exactly is proposed for an excess generation event – specifically at what point in time to you determine that there is likely to be an Excess Generation Event, how is the output of wind defined against the synchronous generation, does this vary by region etc.

**12. Conclusion**

IWEA welcomes the opportunity to comment on this important consultation. The areas outlined above are of particular importance to the wind industry and have significant implications for the financial viability of projects. Given the seriousness of the issues presented, IWEA would like to request a meeting to discuss our response in more detail.