
Response to the SEM Committee's Consultation Paper

on

Offers in the I-SEM Balancing Market

(SEM-16-059)

from

BORD@NA MÓNA

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1 Executive Summary / Introduction

Bord na Móna (BnM) welcomes the opportunity to respond to SEMC consultation paper on Offers in the I-SEM Balancing Market. Whilst we recognise the RA's intention to support the decisions taken through the Market Power work stream and as such determine bid arrangements which will be applied to actions deemed to be non-energy in the I-SEM balancing market, we do however believe there is a delicate balance in arrangements that will deliver fair and equitable cost recovery and those that are overly prescriptive and put existing generators and prospective new entrants at risk.

Firstly BnM have grave reservations about the proposed changes to the governance and the approach proposed to transfer the details of the definition of SRMC from the Generation Licence to a Balancing Market Offers Principle document.

Secondly BnM believe that the prescriptive approach and the proposed changes to the cost elements which make up SRMC, including VOM, opportunity costs and foregone revenues will lead to under recovery of costs for participants. This may cause real risk and premature exit signals for specific technology types such as peakers which generally wouldn't be expecting to receive an ex-ante position and are called for providing flexibility for non-energy actions in the Balancing Market; in particular those not situated behind known locational constraints.

With this position in mind, BnM do not think that there has been sufficient exploration of the options and impacts of the proposed changes. BnM acknowledge that I-SEM must manage a unique set of challenges not seen in most other European Markets, and would deem the proven methodology outlined in BCoP which addresses the highly constraint nature of the Irish Power Market, and is a proven and agreed solution.

2 Approach to Offer Controls – License Changes

In response to the approach proposed in the Consultation paper to transfer the definition of a stripped down SRMC from the Generation Licence to a subsidiary document, Balancing Market Offers Principles Code of Practice (BMOPCoP), BnM would not agree with this fundamental change in governance as no objective and justifiable reason for this has been put forward by the RA's.

The implication of making redundant the statutory licence condition, which heretofore had delivered stability would then potentially be subject to an undefined change process if referenced in a subsidiary principles document, which would open both existing generators and potential new entrants to uncertainty.

On a without prejudice basis to our preferred position as stated, BnM believe that the reference to SRMC must be maintained as a licence definition, if alternative arrangements are decided upon certainty in the governance of the secondary document must be provided, an approach such as a robust framework along the lines of the existing modifications committee, could be introduced to govern the process for the approval and amendment of any subsidiary documents referenced in the license.

3 Offer Control Options in I-SEM – Proposed Options

BnM's preferred option would be to have a bidding principles arrangement which will be guided by an appropriate BMOPCoP. However BnM have fundamental issues with the proposed changes relative to existing BCoP that are included in both Option 1 Offer Principles and Option 2 Offer Limits. BnM's preferred solution would be an adapted variation of Option 1 that would allow for flexibility and cost recovery.

In reviewing both options BnM believe that Option 2 Offer Limits as presented in the consultation paper is not a complete solution and would require additional consultation and further detail to evaluate as a viable alternative. In addition BnM believe that the only equitable implementation of Option 2 would involve calculating each participant's bids on an individual basis as even within technology groups, plants have very distinct technical offer data which would create very different three part commercial offers in I-SEM. Hence option 2 would not appear to be a very practical solution to bidding non-energy actions in the Balancing Market.

BnM also recognise that the current implementation of SRMC may have been different in the past and as outlined in the paper has evolved over time as market conditions have changed. This definition based approach has allowed for evolution, whereas any methodology which is prescriptive will be limited.

BnM supports the EAI's stated position, that the proposal increases the risk of inefficient market exit and distort investment signals in the market into the future.

In addition, BnM would like to highlight more subtle and nuanced issues representing a deeper dive into specific plant types and the support and flexibility that they provide the power system for non-energy actions.

A pertinent example is that of a participant that is normally constraint on to support the system with non-energy actions that is however, not behind a formally recognised locational constraint. Typically Cushaling Power Ltd, would fall into this category i.e. providing flexibility to the system.

It is generally accepted that this category of unit while providing valuable flexibility to the power system on a regular basis is not likely to get an ex-ante position, unlike Baseload and Midmerit units which would expect to have a firm position Day Ahead.

In the proposed regime, plants such as CPL will recover less costs than they do today for providing the same service. This ‘missing money’ creates unintended exit signals in the near term and deters new investment in the longer term.

Additionally, it is possible a very precise rules set for energy trading in one market, may bleed in other (earlier) markets timeframes, impacting cost recovery and new investment at a market wide level.

In theory, recovery for these variable cost such as VOM, opportunity costs and foregone revenues could be recovered through the CRM, despite being designed for long term adequacy issues rather than shorter term flexibility. It should be noted that the CRM workstream is subject to ongoing and open consultations. However, the CRM Parameters consultation paper which was published on the 8th of November 2016 appears to assume that these costs will have been already recovered in the energy market. - *“we would expect the generator to cover the variable fuel costs and other variable costs through energy and ancillary services”*.

Furthermore, in practice expecting a plant which provides valuable flexibility for the system to recover missing money associated with short term costs elements in a long term capacity market auction at best disadvantages that plant and at worst over inflates the price the consumer has to pay for long term adequacy assuming it is the marginal plant at the auction.

We would like to reserve the right to further comment on the interactions of offers in the Balancing Market and the CRM as part of the response to the CRM Parameters consultation.

4 Further BnM Balancing Market Concerns

As we are approaching the end of the I-SEM market design and consultation phase for the Balancing Market work stream, we would like to reiterate concerns that we previously raised regarding the representation of costs and bids for partially supported hybrid plant participation in the Balancing Market.

BnM have previously commented that it is unclear how partially supported hybrid generation units will be treated in the I-SEM, and more specifically clarity on constructing offers and bids into the Balancing Market that ensure their operational costs are recovered. This is complicated both by the fact that not all such units will have a fixed fuel mixture throughout the day, and by the fact that only a proportion of their output will be supported by out of market payments. The SEM Committee had

responded¹ however we believe that there may not be a clear understanding of partially supported (Biomass) hybrid generation such as Edenderry Power Limited and how the fuel mix is determined. Unlike other supported plants such as waste to energy plants, EPL will not know the fuel mix ex-ante, which is determined analytically ex-post, with a fuel mix granularity of one day. With this in mind, BnM would appreciate an opportunity to continue these discussion on partially supported hybrid plant bidding in the BM with the RA's.

5 In Summary

In summary BnM recognise the need to separate perceived market manipulation from flexible market actions, however BnM believe in further progressing the implementing a Market Power Mitigation action, the scope has extended beyond its original remit of controlling non-energy actions in the BM for plants behind known locational constraints and inadvertently placing cost recovery restrictions on other flexible plant such as illustrated above.

BnM have grave reservations about the proposed changes to the governance and the approach proposed to transfer the details of the definition of SRMC from the Generation Licence to a Balancing Market Offers Principle document.

BnM also believe that the prescriptive approach and the proposed changes to the cost elements which make up SRMC, including VOM, opportunity costs and foregone revenues will lead to under recovery of costs for participants. This may cause real risk and premature exit signals for specific technology types.

As a final comment BnM would like to reiterate as is evident from this consultation paper there are overlaps and interactions between the Energy Markets Work stream and the CRM Work stream that should not be looked at in isolation and a full exploration of the options and impacts should be considered. Given the complexities BnM would gladly welcome the opportunity to explore these interactions through an industry workshop forum.

For and on behalf of Bord na Móna,



Adele Woods

Wholesale Market Manager, BnM Powergen.

¹ SEM-15-065 - "The SEMC is of the view that partially supported hybrid generation units will be better able to represent their operational costs in I-SEM than in SEM, as they will be able to submit different bid-offer prices to the Balancing Market for each settlement period. This will enable them to represent their changing fuel mixture throughout the day in their offers and bids".