

Enerco Energy Ltd,
Lissarda Business Park,
Lissarda,
Co. Cork
25th April 2017

Re: SEM Committee Paper (SEM-17-026)

Dear James and Brian,

Firstly, thank you for the opportunity to comment on the Balancing Market Principles Code of Practice Consultation Paper (SEM-17-026). Enerco Energy Ltd are Ireland's second largest independent wind energy generator with close to 300MW of wind assets currently operational, and with a significant pipeline of additional assets in construction.

Enerco agree with the eligible costs listed in the Consultation Paper, but have concerns over the transparency of non-fuel and emissions components of bids and believe they should be broken down into constituent parts, to increase transparency, efficiency and prevent potentially abusive behaviour. Enerco also note that the paper is aimed at Complex bids only, and that because all bids can affect imbalance price, that this consultation should be extended to all balancing mechanism bid types.

Enerco believe that the implementation of a Code of Practice for Complex bidding will significantly improve the chance of the upcoming I-SEM market succeeding, and may enhance the likelihood of the development of a liquid forward market beyond the Day Ahead time frame. Enerco note that when the British NETA market went live on March 27th 2001, imbalance prices were often set at +/- £5000/MWh (noting the then present dual cashout price). To put that in context, a unit of 200MW in size could incur imbalance charges of £1M within the gate closure period, before it was able to close out any position. We strongly believe that such an experience must not be repeated under the I-SEM market, and that the implementation of a Code of Practice for Complex bidding will go some way to achieving this.

Our response to the Consultation Paper is set out below, and we have no objection to our response being published, in part, or in whole.

As a set of guiding principles, we believe that fairness, transparency, competition and efficiency should lead to the formation of imbalance prices that are cost reflective without being excessively penal.

Whilst Enerco note, and appreciate, that transparency is more of an issue for complex bids due to their nature, all bid types (simple, complex etc) can set imbalance prices. As it is extreme imbalance prices, regardless of the bid type that caused them, which can damage participants, and even markets, we believe the Balancing Market Principles Code of Practice should apply to all bid types.

Enerco agree with the list of eligible costs items provided in the paper namely:

- Fuel Costs (*applicable to PQ Pairs, No Load Costs, Start Costs*)
- Emission Costs (*applicable to PQ Pairs, No Load Costs, Start Costs*)
- VOM Costs (*applicable to PQ Pairs, No Load Costs, Start Costs*)
- Gas Transportation Costs (*applicable to PQ Pairs, No Load Costs, Start Costs*)
- Labour Costs (*applicable to Start Costs Only*)
- System Services (*applicable to PQ Pairs, No Load Costs, Start Costs*)
- Heat Provision – for Cogen units only - (*applicable to PQ Pairs, No Load Costs, Start Costs*)

Whilst we note that there are liquid and transparent markets for fuel and emissions costs, against which the pricing of bids can be verified, this is not necessarily the case for VOM, Gas Transportation, Labour or System services. This provides a cause for concern for Enerco, that a lack of transparency in these aspects could lead to discriminatory pricing with the potential to set excessive imbalance prices, which could damage participants and in turn the market.

To prevent such issues arising, and to enhance fairness, transparency, competition and efficiency, Enerco believe that for each cost component (PQ Pairs, No Load Costs, Start Costs) the make-up of this cost component be broken out into its constituent parts (Fuel, Emissions, VOM, Gas Transportation, Labour, System Services). As many of these costs (especially the latter 4) will show little day on day variation the additional work for participants, vis a vis bids under SEM, will be little if anything.

However, by breaking the costs down into their constituent components, it will greatly enhance transparency and the cost reflective bidding sought in Section III Paragraph 4. In so doing, this will encourage competition on each and every item, improving market efficiency and ensuring fairness of price. Breaking down costs by both component and constituent part should also prevent double, or potential even treble, accounting of costs in PQ pairs, no load costs and start costs, preventing “pancaking” of charges.

Greater transparency of bids will allow all participants to be able to monitor and understand how all units bid prices are formulated, helping them spot nefarious activity and aiding the successor to the Market Monitoring Unit (MMU) under I-SEM. Furthermore, it may allow generators to reduce costs by comparing themselves with others, and establishing best practice.

Though it is a minor point, Enerco note that under Section III, Paragraph 9 mentions the possibility for 10 monotonically increasing PQ pairs. We note that this matches the existing SEM, where 2-3 PQ pairs are typically used, and would recommend that, for simplicity and transparency, 5 PQ pairs be used as a limit.

Kind regards

Andrew Burke, Head of Trading, Enerco