

General Comments

We appreciate that this is a consultation about the High Level Design of a complex new market, but clearly, it is short on detail currently, and our views may evolve or change as the process of defining the detailed mechanisms progresses.

A theme that did run through our answers to your questions was a concern about market abuse/power – so we have brought this out to the front of our response as a general concern. While we accept the good intentions of all parties it is hard to avoid the observation that the Eirgrid/ESB/SONI/NIE Group owns all of the DSO and DNO infrastructure, market oversight/co-ordination bodies and dominant positions in generation and supply – and is also owned by the policy maker (and the taxpayer that picks up the costs of all the systems). It is therefore crucial that all decision-makers in this market, and all related markets, while co-ordinating across multiple stakeholders for the ultimate benefit of consumers, owe their fiduciary duty on Systems Services (“SS”) to that market place. This not only flows through to transparency of decisions and appropriate participation by non-Eirgrid Group representatives (and communication and challengeability of decisions), but extends into proper recognition of conflicts of interest. This is a principle that needs to be properly considered by the SEM Committee, when making observations such as “the majority of respondents favour the energy markets’ DAM auction going first”, whereas most providers that work primarily in SS would prefer to see the SS auction carried out first. The SEM Committee needs to consider whether it is in the interests of the SS system design, and its long-term sustainability to deliver the SS required, by designing the market in the interests of those to whom SS is a secondary interest.

Specific Comments

Question 1: Do stakeholders consider that the commitment to putting these arrangement in place on an enduring basis, at least to 2030, represents sufficient certainty of process?

CM: Yes, the current proposals seem capable of being sustainable and, although they should be fine tuned to ensure they work without fundamental flaws, they should be kept in place for 6 years, or longer, to allow market participants to fully understand and predict mechanisms and to enable investment in new plant/projects;

Question 2: What are stakeholders views on the options and recommendations presented for qualification/registration? Are there further options that may be considered?

CM: We favour more flexibility around qualifying new units, to maximise competition, provided that administration (and associated costs) are kept to a sensible level.

Question 3: What are stakeholders views on the proposed formalisation of the QTP?

CM: The TSOs need to have processes that give it a level of confidence in bidding units’ abilities to deliver, but that can largely be dealt with through the penalties for non-delivery, rather than creating bureaucratic, time-consuming annual re-tests.

Question 4: What are stakeholders views in terms of the introduction of a single System Services Code?

CM: This would make sense.

Question 5: What are stakeholders views on the options in terms of governance of rules changes?

CM: Maximum industry participation, offered through Option 2, is to be encouraged, although it will be important to ensure that potential conflicts of interest are understood and managed.

This is particularly the case where the energy sector is dominated by the Eirgrid/ESB/SONI/NIE group, which owns the TSOs, the DNOs and dominant generation and supply across all the region(s).

Question 6: Do stakeholders have views on the potential to amalgamate different Panel meetings?

CM: Maximum coordination is to be encouraged, although it will be important to ensure that potential conflicts of interest are understood (see above).

Question 7: What are stakeholders views on the funding arrangement proposals?

CM: The costs for procuring System Services should be spread across the Suppliers purchasing energy in the market on the same day that these System Services were provided. This should link low energy prices enjoyed by a Supplier in times of high renewables with the higher costs associated with the consequent need for ancillary services.

As an aside, there does not need to be a budget cap for System Services – with a liquid market of providers bidding in to provide services where the return is high enough, with market entry and exit signals, the cost to the market of the required ancillary services will be their value.

Question 8: What level of involvement should the DSO/DNO have in the governance process?

CM: It is beneficial for the DNO/DSO to be involved in, and be bought in to, the development, and delivery of the System Services.

In all these arrangements, the RAs need to ensure the full impartiality of ESB/Eirgrid/SONI/NIE group, given that it has interests in all levels of the industry.

Question 9: How should the interactions with distribution connected parties be governed?

CM: It is beneficial for providers of Systems Services to have relationships with both TSO and DNO/DSO, but the DNO/DSO must be under obligations to work with and liaise with the TSO to ensure that the provider can deliver the services.

As above, the RAs need to ensure the full impartiality of ESB/Eirgrid/SONI/NIE group, given that it has interests in all levels of the industry.

Question 10: Are there any further considerations for the High Level Design of the Governance Arrangements?

Per above, RAs need to ensure complete transparency of all governance meeting agendas, minutes & decisions, with due consultation and accountability. All participants in such forums must have fiduciary duties to all market participants.

Question 11: What are stakeholders views on the Auction Design options and SEMC Recommendation?

CM: The majority of respondents to date are conflicted in their preference that the DAM auction goes first, as most make the vast majority of their income through energy trading – which is worth way more, as a market than SS, so will prefer to keep this market higher yielding. In particular, inertia/thermal generators will view the SS market as a second/fallback shot at justifying keeping running where they lose out where there are expected high renewables Day Ahead. This is likely to depress the price of their bids for SS (at the expense of keeping energy prices higher).

The consultation rightly identifies that in an “Energy Market first” scenario, market power players (e.g. ESB, SSE) will have competitive advantage – not least as they will have pricing information (the consultation document says it’s important DAM Energy Market prices aren’t published before the SS auction, but the big players will know their own bids, so will effectively have this information).

On Option 2 (SS auction before DAM Energy Market), the consultation paper acknowledges this gives providers whose main market is SS a better position, the corollary being that having the DAM Energy Market first favours those for whom SS is an add-on. This begs the question as to why the SS auction is being run on the terms dictated by those who already have a strong revenue base elsewhere, rather than the providers who rely on this market? Surely this is, by definition, conflict/market abuse?

Question 12: Are there any further considerations in terms of the Auction Design options?

CM: Price should be pay as cleared (the consultation paper states that: “it is envisaged that it will have a single clearing price for each product”).

Also, there needs to be planned co-ordination with TSO actions in the Balancing Markets, as providers can’t be punished for failing to deliver SS where they are dispatched by TSO for BM.

Obviously there needs to be a suitable mechanism to reward unsuccessful bidders in the SS market who are subsequently dispatched.

A maximum of 30MW of services should be procured from any one connection, as with early days of DS3, to ensure security of supply through diversity of provision/distributed resources).

Secondary trading is overly ambitious/undeliverable at this stage in the market, although traders and participants should clearly not be prevented from arranging their own adjustments to their raw positions off-market bilaterally with suitable counterparties.

Question 13: What information is required to get a full view of the volumes requirements for System Services?

CM: The SEM Committee needs to be cognisant of its role of enabling smaller/less resourced parties to collect sufficient data to participate effectively in the SS market. Against a backdrop of a dominant single provider across the SEM markets, it is crucial that the SS market, which has a significant number of smaller players, remains liquid, to ensure consumers continue to receive value for money and there are sufficient diverse providers to sustain security of supply.

TSO needs to provide, at a minimum:

1. Long term service requirement outlooks, as with annual generation adequacy/capacity and winter outlook statements; plus
2. Short term day ahead market commentary – e.g. tomorrow morning’s energy mix is likely to be between category 1 (x% renewables) and 2 (2x% renewables) early, moving towards a category 2 (2x% renewables) to category 3 (3x% renewables) by late afternoon. We (TSO) are, accordingly, likely to require above-average volumes of FFR and POR and lower than average RR1, etc.” – maybe even MWh forecasts; plus
3. Detail of the actual/historic delivery of SS in similar conditions, in a user-friendly format, to inform providers what the system may require under different conditions of renewables penetration; plus
4. The Day Ahead energy market results (without prices) as early as possible to service providers, plus updated view on required volumes of each service.

Question 14: What are stakeholders views on the development of Secondary Trading of System Services?

CM: Secondary trading would be too complex at this stage.

Question 15: What are stakeholders views on the proposals regarding Commitment Obligations and Scalars?

CM: We support the requirement for a robust fixed penalty, with a scalar to reflect repeat failures/lower reliability. However, it is critical that providers are not punished where they were available, other than for network failures/constraints/non-firm access, or where the TSO has failed to dispatch them, when available.

Question 16: Do Stakeholders have views on the introduction of the concept of Firm Access to the System Services market?

CM: Firm Access is discriminatory in providing certain providers – particularly the incumbents/older providers – with payments when they bid even knowing they can't fulfil, then punishing others when the DSO takes them out of the market without the provider's prior knowledge. In the consultation paper, the SEM Committee recognises that "locational scalar and layered procurement.....should assist the TSOs in developing market solutions to constraints until the necessary network reinforcements had been made"; surely having the TSO/SS market reward providers that are constrained due to lack of network reinforcements also incentivises the network/systems operators to come up with these solutions ?

Access is in the control of the DSO (or TSO), which should be financially incentivised to fix the issues, by compensating/making whole the providers it is constraining. NIE's initiatives to move from Static to Dynamic network availability is to be welcomed, but the DNOs must move to a stage where Instruction Sets are removed (but in a reliable, not random, way).

Question 17: Do stakeholders have views on layered procurement of System Services? What approach could be taken to support this?

CM: The SEM Committee needs to task the TSO with defining the most economic means, taking into account existing low carbon providers, of delivering the systems required to deliver 95%-100% RES (with tolerable Loss of Load Probability). It must then test the ability of the Day Ahead auction mechanism, once established and predictable (hence investable), to underpin the investments required to achieve this requirement. To the extent only of this failing, longer term procurements can fill gaps, with all parties – new and incumbent – offered equal opportunity to participate. Procurements must be designed to allow smaller-scale partial solutions to aggregate their capabilities to achieve the overall required solution. Diversity and depth of provision is key to ensuring long-term security of supply.

Question 18: Are there any further considerations in terms of Market Design?

CM: The consultation paper rightly identifies market power as a key concern. In addition to our earlier points about this above, and in recognition of the smaller size of many of the SS market participants (as opposed to the mostly very large players in the Energy Markets), but recognising the value of the additional liquidity this brings, the SEM Committee must keep the financial and resource hurdles for these providers to a minimum – e.g. bonding/trading licenses, reporting requirements, etc.