



An Coimisiún
um Rialáil Fóntas
Commission for
Regulation of Utilities



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RE: SEM Committee Decision Paper SEM-22-009

Dear Noel, Steven,

Thank you for your letter dated 8 April 2022 seeking clarification in a number of areas in relation to the SEM Committee Decision Paper SEM-22-009, required in advance of the RESS 2 auction window, which opens on 2 May 2022.

Following on from our engagement on 25 April 2022, we have set out a response in relation to the clarification queries you have raised below and provided further detail on each query in Appendix 1.

Market vs Non-Market Based Redispatch

It is clear that the intent and the requirements of the Regulation (EU) 2019/943 is to introduce market-based solutions for redispatch. The **enduring solution** must reflect these requirements. This will require significant system changes, considerations for other future market design programmes and significant engagement with industry through workshops hosted by the TSOs. It is likely that this process will continue for a number of years.

As such, the SEM Committee has decided that until the conclusion of this engagement and agreement on any system implementation, it is appropriate to treat all redispatch applied to both priority dispatch and non-priority dispatch units, in relation to **constraints** and **curtailment** in the SEM, as **non-market based redispatch**. This initial arrangement will be based on the interim continuation of existing requirements of non-dispatchable but controllable priority dispatch units applied today and the current operation of the system will be maintained.

Furthermore, the SEM Committee proposals on the treatment of market-based solutions, documented in SEM-21-027 and SEM-22-009, have not changed. However, the TSOs have provided further information to the RAs, which indicates that the system changes to give effect to this are complex and will likely require a number of years of design and implementation. The SEM Committee has therefore decided that these system design issues must be considered as part of the transition to enduring market-based solutions through industry workshops. In the course of these workshops, options may arise for interim implementation - any such options may require regulatory approval

Market Compensation for Redispatch – Generators without Priority Dispatch

Your understanding in this area is broadly correct. The SEM Committee has decided that in order to implement the requirements of Article 13(7), there is a need to separate compensation mechanisms in terms of costs associated with lost revenues in the market and revenues associated with foregone government support associated with the jurisdictional renewable support schemes.

The decision, on **market revenues**, is that all units will initially receive compensation in the SEM for non-market based redispatch (in relation to both **constraints** and **curtailment**), where **firm**, at the better of their complex bid/offer price or imbalance settlement price up to the level of their Firm Access Quantity as is the case for constraints today (with wind and solar units essentially retaining their ex-ante revenue, as such volumes are settled at a deemed decremental price of zero).

For clarification, this will result in the retrospective payments of compensation for market revenue from January 2020 for **curtailment only**. In the context of the current and expected next two years' high prices, the SEM Committee has decided that any retrospective payments for **curtailment** associated with this Decision, should commence in tariff year 2024/25.

The SEM Committee has decided that no changes to the BCoP (or BMPCoP once in force) will be required at this point due to the separate compensation mechanisms. In other words, foregone support may not need to be reflected in a market bid for redispatch as the jurisdictional process can account for the foregone revenue that might arise from a decremental action for redispatch. As stated in the SEM Committee decision - the SEM Committee has decided all units, where firm, will initially receive compensation in the SEM for non-market based redispatch (in relation to both constraints and curtailment).

Jurisdictional Compensation for Foregone Supports

The SEM Committee has decided that further decisions in relation to the financial compensation related to the Government incentive schemes or support mechanisms, will be made in the respective jurisdictions, in line with the principles stated in SEM-22-009.

As confirmed above, the SEM Committee has decided that no changes to the BCoP (or BMPCoP once in force) will be required at this point due to the separate compensation mechanisms.

This is not to say that a review in this area will not take place. This review will need to consider the modalities of the submission of COD, both complex and simple, by non-priority dispatch renewable units to facilitate TSO scheduling and dispatch. Such work will progress as appropriate in light of the TSOs' workshops.

We hope this provides clarity on this matter and welcome future engagement. As discussed at our meeting of 25 April, we propose to publish this letter on the SEM Committee website in the coming days.

We will be in touch with you, your members and wider stakeholders in due course in relation to any events or industry wide communication.

Yours Sincerely,

(no signature required – sent by email)

John Melvin
Director
Security of Supply and Wholesale
Commission for Regulation of Utilities

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Appendix 1: Clarification questions

1. *With respect to the Paper, can you please confirm how a) oversupply and b) curtailment will be treated for the purposes of the interim arrangement, and is this a DECISION?*

RA response:

*The SEM Committee has decided, that as matters presently stand, it is appropriate to treat all redispatch applied to both priority dispatch and non-priority dispatch units, in relation to constraints and **curtailment** in the SEM, as **non-market based redispatch**.*

Oversupply, as the RAs understand it, is the scenario where available generation is in excess of market and system needs. The RAs understand this to relate to energy balancing by TSOs, and no new market rules are required in this regard.

In relation to scheduling and dispatch, the SEM Committee has decided that for an interim period, until system implementation of the enduring market-based redispatch arrangements, the current operation of the system will be maintained. Therefore, curtailment, and 'oversupply', or energy balancing on such units, will continue to apply to all units on a pro-rata basis.

When market-based redispatch is in place it is explicit in the Regulation that market resources must be exhausted before non-market based measures can be implemented. Any market-based mechanism would clearly need to consider tie-break rules.

2. *Per our understanding, constraints ("as matters presently stand") are to be managed on a pro-rata basis in constraints groups. Is this correct, and is this a DECISION? Can you please confirm that the existing constraints groups will remain in their present condition for the duration of the interim arrangement?*

RA response:

Correct, as per above, the SEM Committee has decided that for an interim period, until system implementation occurs, supported and clarified through industry workshops, the current operation of the system will be maintained. Therefore, the treatment of constraints will continue on a pro-rata basis within a constraint group.

In relation to your question on the existing constraint group, such a restriction would be inappropriate and may risk system integrity.

3. *Can you please confirm if a DECISION has been made to implement market-based re-dispatch at some point post 2026, or is this simply a 'minded-to position', with a further consultation and/or a SEM Committee Decision anticipated when the specific re-dispatch regime is clarified through engagement with industry and the TSOs?*

RA response:

*The Regulation **requires** an introduction of market-based solutions for redispatch. The enduring solution is for the TSO systems to reflect these requirements. Due to the significant system changes required, this will require significant engagement with industry. Following this engagement, a final proposal setting out the modalities of the implementation of market-based redispatch from the TSOs will then be subject to SEMC approval. The Regulatory Authorities will continue to engage with the TSOs and interested stakeholders in relation to this project.*

- a. *In relation to the specifics of an enduring regime, we note reference in the Paper to non-Priority Dispatch units being redispatched first, ahead of Priority Dispatch generators (termed "grandfathering") and it is our current understanding that this would apply to both constraint and curtailment (inc. oversupply). Is this correct, and is this a DECISION?*

RA response:

As per above, the requirement of the Regulation is to introduce market-based solutions. The SEM Committee proposed in SEM-21-027 that new renewable units should be treated in a market-based merit order with other non-priority dispatch units, prior to application of constraints to priority dispatch units. The SEM Committee also indicated a preference for a continued pro-rata approach to curtailment, if this could be facilitated in systems. The SEM Committee decision stated that the position in relation to dispatch issues covered by SEM-21-027 was unchanged. The specific modalities of implementing this decision will be progressed through the forthcoming TSO workshops.

- b. *Subject to the clarification of Question 3(a) above, if a DECISION has been made to move to market-based re-dispatch at some point post 2026, can you please confirm whether all generators would be free to bid a price at which they are prepared to be redispatched in such an enduring system?*

RA response:

The SEM Committee has decided that no changes to the BCoP (or BMPCoP once in force) would be required at this point due to the separation between revenues in the market, based on the extension of mechanisms in place today for constraints and curtailment, and revenues associated with foregone support, due to the continued application of non-market dispatch to all relevant units for an interim period.

This is not to say that a review of the BMPCoP in this area will not take place. This review will need to consider the modalities of the submission of COD, both complex and simple, by non-priority dispatch renewable units to facilitate TSO scheduling and dispatch. Such work will progress as appropriate in light of the industry workshops on the treatment of new units.

4. *We note that the Paper appears to be silent with reference to any incentivising of generators voluntarily giving up Priority Dispatch. Responses on this matter in the consultation was seeking clarity and commenting on the strength of the potential incentive. Therefore, we would have expected some reference. Can you please clarify whether this aspect of the implementation of Article 12 and 13 has been reconsidered, or postponed to a later date for consideration?*

RA response:

Once the implementation of the enduring solution is complete, the SEM Committee is of the view that incentives will be there for units to be able to make a choice on whether they wish to retain their priority dispatch status or not. It should be noted that the provision of incentives to voluntarily give up PD is an optional provision of the Regulation and not a requirement.

5. *Are we correct in understanding the following in relation to non-Priority Dispatch Units?*
- a. *That non-Priority Dispatch Units will be treated, in terms of compensation, as Priority Dispatch units for an interim period, as follows:*
- i. *DECISION: Traded energy on firm capacity that is constrained will be compensated as per the market rules as today. No change to the Bidding Principles is envisaged during the interim period.*

RA response:

Correct - All units will initially receive compensation in the SEM for non-market based redispatch (in relation to both constraints and curtailment), where firm, at the better of their complex bid/offer price or imbalance settlement price up to the level of their Firm Access Quantity as is the case for constraints today (with wind and solar units essentially retaining their ex-ante revenue, as such volumes are settled at a deemed decremental price of zero).

The SEM Committee has decided that no changes to the BCoP (or BMPCoP once in force) would be required at this point due to the separation between revenues in the market, based on the extension of mechanisms in place today for constraints and curtailment, and revenues associated with foregone support due to the continued application of non-market dispatch to all relevant units for an interim period.

- ii. *DECISION: Further compensation for constraints up to the level of any foregone support, if any, will be managed outside the market, on a jurisdictional basis.*

RA response:

Correct - The SEM Committee has decided that in order to implement the requirements of Article 13(7), there is a need to separate compensation mechanisms in terms of costs associated with lost revenues in the market and revenues associated with foregone government support associated with the jurisdictional renewable support schemes.

- iii. *DECISION: Traded energy on firm capacity that is curtailed will be compensated as per the market rules for constraints and will be paid retrospectively from January 1st, 2020, with payments commencing in October 2024.*

RA response:

Correct - All units will initially receive compensation in the SEM for non-market based redispatch (in relation to both constraints and curtailment), where firm, at the better of their complex bid/offer price or imbalance settlement price up to the level of their Firm Access Quantity as is the case for constraints today (with wind and solar units essentially retaining their ex-ante revenue, as such volumes are settled at a deemed decremental price of zero).

This will effectively extend the settlement arrangements in place for constraints in the market to curtailment for all units.

The SEM Committee has decided that costs accrued due to the requirements of the Regulation from January 2020 will be compensated based on the above principles. In the context of the current and expected next two years' high prices, the SEM Committee has decided to implement and compensate any payments for curtailment associated with this Decision, beginning in tariff year 2024/25 (including any payments accruing since entry into force of the Regulation).

- iv. *DECISION: Further compensation for curtailment up to the level of any foregone support, if any, will be managed outside the market, on a jurisdictional basis. This will follow the same time-period (retrospectivity to January 2020, commencing October 2024).*

RA response:

Correct - The SEM Committee has decided that in order to implement the requirements of Article 13(7), there is a need to separate compensation mechanisms in terms of costs associated with lost revenues in the market and revenues associated with foregone government support associated with the jurisdictional renewable support schemes.

- b. *Should the response to Question 3 mean that post-2026 market-based dispatch redispatch is implemented in some manner, that subject to the transition to an enduring regime:*
- i. *Non-priority units will be able to reflect the costs of lost market and foregone support when dispatched down, for both constraint and curtailment in their market bids. For the avoidance of doubt, can you please advise if there will be any limitations on this approach if a unit is non-firm? Is this a DECISION?*

RA response:

See answer to 3 b. - The SEM Committee has decided that no changes to the BCoP (or BMPCoP once in force) would be required at this point due to the separation between revenues in the market, based on the extension of mechanisms in place today for constraints and curtailment, and revenues associated with foregone support due to the continued application of non-market dispatch to all relevant units for an interim period. As stated in the SEM Committee decision - the SEM Committee has decided all units, where firm, will initially receive compensation in the SEM for non-market based redispatch (in relation to both constraints and curtailment).

If a non-firm unit is constrained below their ex-ante market position, any action to turn a unit down in the range above their Firm Access Quantity is considered an imbalance, rather than a redispatch action, as the market position of the unit is not firm above their Firm Access Quantity level. This imbalance is purchased by the generator unit at the Imbalance Settlement Price.

- ii. *Treatment of constraints and curtailment (inc. oversupply) in any future marketbased arrangement will be on a "grandfathered" basis i.e., with non-priority units dispatched down ahead of priority dispatch units. Is this a DECISION?*

RA response:

See answer 3 a. - As per above, the requirement of the Regulation is to introduce market-based solutions in so far as possible. The SEM Committee proposed in SEM-21-027 that new renewable units should be treated in a market-based merit order with other non-priority dispatch units, prior to application of constraints to priority dispatch units. The SEM Committee also indicated a preference for a continued pro-rata approach to curtailment, if this could be facilitated in systems. The SEM Committee decision stated that the position in relation to dispatch issues covered by SEM-21-027 was unchanged. The specific modalities of implementing this decision will be progressed through the forthcoming TSO workshops.

6. *The Decision Paper contains several guidance statements around the further possible jurisdictionally managed compensation for constraint and curtailment for firm windfarms which are in receipt of government subsidy. In summary, the intent appears that REFIT and ROC supported generation should not receive any further jurisdictional support for their power, whereas CPPA/RESS generation (due to the potential to include the extra certainty into a lower offer price and thus be “no regrets” for the consumer) should be able to receive this further compensation up to the level of financial support. The status of these guidelines is unclear to us. Can clarity please be provided on the following:*
- a. *Is the intent of these guidelines that they should endure post 2026? This implies that no change to Bidding Principles or market rules which might allow recovery of subsidy foregone through the market, funded by the Imperfections Charge, is intended at any stage (Interim or Enduring) at this time?*

RA response:

Correct – See above - The SEM Committee has decided that no changes to the BCoP (or BMPCoP once in force) would be required at this point due to the separation between revenues in the market, based on the extension of mechanisms in place today for constraints and curtailment, and revenues associated with foregone support due to the continued application of non-market dispatch to all relevant units for an interim period.

This is not to say that a review of the BMPCoP in this area will not take place. This review will need to consider the modalities of the submission of COD, both complex and simple, by non-priority dispatch renewable units to facilitate TSO scheduling and dispatch. Such work will progress as appropriate in light of the TSOs’ workshops on the treatment of new units.

- b. *Are these guidelines a DECISION?*

RA response:

Further decisions in relation to the financial compensation related to the Government incentive schemes or support mechanisms, will be made jurisdictionally by the Regulatory Authorities within the parameters laid down in the principles of the Decision paper.