

IWEA response to the SEM Committee's consultation on I-SEM Policy Parameters & Scheduling and Dispatch Parameters

SEM-17-029

9 June 2017

IWEA welcomes this opportunity to respond to the SEM Committee's consultation on I-SEM Policy Parameters and Scheduling and Dispatch Parameters (SEM-17-029). This is a joint submission between IWEA and NIRIG. The Northern Ireland Renewables Industry Group (NIRIG) represents the views of the renewable electricity industry in Northern Ireland, providing a conduit for knowledge exchange, policy development, support and consensus on best practice between all stakeholders. Committed to making a positive difference, NIRIG promotes responsible development, supports good community engagement and delivers low-cost electricity generation from sources such as onshore wind, tidal, solar and storage using our greatest natural resources.

IWEA has concerns that aspects of the I-SEM market design could increase risks of volatile balancing market prices during the transition from current market arrangements presenting significant yet avoidable commercial risks to wind generators. Whilst IWEA acknowledges that renewable generators must be balance responsible, the transition should be sensibly managed to ensure unnecessary risks are not placed on renewable participants.

IWEA believe the proposal to set the Price Average Reference Quantity (QPAR) parameter to 1 MWh (for half-hour equivalent) at go-live will not facilitate a smooth transition and serves to increase the risk to participants of volatile pricing during the initial stages of the new market. IWEA notes that imbalance pricing based on an average cost of balancing actions remains the norm in major European markets – including Germany, Spain, Austria and France while the GB BETTA market is transitioning over time towards marginal pricing.

IWEA recommends a cautious and conservative approach which involves a planned transition over time towards a QPAR of 1MWh once the following evidence is available to suitably inform a decision:

- (a) the presence of a liquid intraday market and
- (b) detailed modelling based on actual operational data from I-SEM

Evidence of a Liquid Intraday Market

Wind power is unpredictable by nature and imbalances between day-ahead contracts and produced volume often need to be offset in the intraday market. A liquid intraday market is essential as it provides a market over the critical period ahead of gate closure when wind generators can forecast

their generation to a greater degree of accuracy and manage imbalance positions. Without a liquid intraday market, wind will be forced into the balancing market where prices will be set by externalities such as participant trading strategies.

At this time it is unclear whether the intraday market will be sufficiently liquid in the initial stages of I-SEM. The original I-SEM design relied upon XBID, a cross-European continuous intraday market, to provide market participants with a tool that enables them to trade and mitigate exposures to imbalances. However, the XBID market now will not be delivered to I-SEM until at least 2019 and the interim intraday market design is still not finalised, despite I-SEM Go-Live being less than 1 year away.

IWEA share concerns with other market participants that I-SEM will be a new market with inexperienced market participants and under-developed trading arrangements. Participants may initially focus on day ahead market (DAM) trading strategies rather than intraday strategies, raising the potential for inadequate liquidity in the intraday market. Also, the Irish market is still dominated by a small number of large participants. If some or all do not participate in the intraday market, the market will not function correctly.

We note that Section 2.4 of this consultation recognises the uncertainties about the liquidity of the intraday market and its importance;

The success of the transition from SEM to I-SEM ... "is dependent on externalities such as the success of the ex-ante trading arrangements, particularly the liquidity of the intraday market"

IWEA strongly recommends that the SEM Committee implements a price average quantity of sufficient volume to prevent volatile and extreme pricing until such time that it can be demonstrated that the intraday market has sufficient liquidity to allow wind generators to manage their imbalance positions.

Detailed Modelling Based on Operational Data

IWEA has a number of concerns regarding the modelling approach used to inform the QPAR parameter value and therefore does not agree with the SEMO conclusion that;

'the impact of increasing QPAR on decreasing standard deviation of the Imbalance Price appears to be small'

IWEA's concerns about the modelling approach are summarised as follows:

- The consultation makes many inferences from Great Britain's electricity market, BETTA. However, it is essential to note that BETTA is a mature market with experienced market participants and well-established trading arrangements and relationships. I-SEM by comparison will be a new market with many inexperienced market participants and will not have well developed trading arrangements and relationships. Inferences from the GB BETTA market are therefore not directly applicable to I-SEM in 2018.
- The GB BETTA market has very different generation characteristics compared to I-SEM. For example, the penetration of renewable energy relative to installed capacity in BETTA is significantly less than in I-SEM and so it is much less susceptible to price change with changing wind forecasts.
- The imbalance pricing period differs between the two markets. BETTA uses a 30-minute imbalance pricing period compared to I-SEM's 5-minute imbalance pricing period. A 30-

minute imbalance period allows a longer time for incremental and decremental bids to be “netted off” against each other. In a 5-minute imbalance period it can be expected that there is less opportunity to “net off” resulting in more extreme prices in each 5-minute period, which in turn impacts on the 30-minute average Imbalance Settlement Price in I-SEM.

- The values of QPAR assessed in the model (QPAR 1 and QPAR 60) do not sufficiently differentiate between generators at the margin which are typically in the range of 100MW to 400MW. This combined with the model assumption that generators will not submit price bid offer pairs means the model does not offer sufficient granularity of prices at the margin. As noted in Section 3.3 of this consultation, the results of the model found that the same marginal action was used to set the price in each of the QPAR scenarios. This clearly will not be the case in reality where bid offer pairs from different generators will be competing to set the price at the margin and QPAR 60 would be determined from a number of different marginal actions.

As a result of the above observations, IWEA does not have confidence in the model results. IWEA notes that the SEM Committee itself also does not have confidence in the modelling results as noted in section 2.4 of the Scheduling and Dispatch Parameters Report paper included in this consultation.

“While every effort has been taken in the modelling work carried out, this cannot be a substitute to the actual market and system operation experience that will be gained after go-live”

The SEM Committee conclude that as a result, a conservative and cautious approach should be adopted for other parameters, namely LNAF and SIFF. IWEA consider that the same uncertainties also apply to the QPAR parameter and so a similar conservative approach should be taken.

While IWEA disagrees with the conclusion set out in Section 3.3 that increasing QPAR will not impact on the imbalance price, IWEA suggests that if SEMO are of this view then it should not have a difficulty in setting the QPAR value at a higher level, at least in the initial stages of I-SEM to facilitate a smooth transition to the new market.

IWEA strongly recommends that SEMO adopts a conservative approach to setting the parameter for QPAR until such time that there is sufficient operational data to evidence that moving to marginal pricing will not detrimentally affect the market.

IWEA looks forward to further engagement on this issue. Please feel free to contact us if further detail is required on any of the points raised above.