

**IWEA response to the SEM Consultation on Monitoring the Divergence of the Market Schedule from
Dispatch and the Impact on Consumers**

08 March 2011

IWEA welcomes the opportunity to respond to the Consultation on Monitoring the Divergence of the Market Schedule from Dispatch and the Impact on Consumers.

In our response to the consultation on Dispatch and Scheduling in the SEM, IWEA noted that the market should be stable and that the introduction of the concept of potential major change if a material harm threshold is reached is very dangerous.

IWEA believes that the current framework provides a clear separation of issues that are subject to market forces and issues that are in the realm of system operators and owners and should be subject to incentivisation. This framework provides tools for the regulatory authorities to drive efficiency and reduce costs to consumers. IWEA believes that any move from this framework must be carefully considered to ensure that it does not blur incentives.

The possibility of major market changes creates a significant investment risk. While IWEA appreciates the motivation for the introduction of a concept of “material harm” to potentially trigger future changes we are very concerned that this introduces an open ended risk that will deter investment. IWEA believes that the current framework should remain unchanged with stronger incentives on transmission delivery. We believe that this needs to be an enduring decision.

IWEA is concerned that this consultation introduces uncertainty in the market by introducing increased risk of market change. It should be noted that this consultation is based on possible future scenarios and putting measures in place to determine whether or not changes may be required. IWEA would like to note that there may be other changes required in the coming years, for example with the introduction of further interconnection, that may make these scenarios less relevant or even redundant. Therefore we believe that the consultation is unnecessary and may only introduce more harm than good.

IWEA has previously highlighted concerns over the need for issues to be reviewed within a broad policy framework, rather than in isolation from other vital and highly interrelated SEM topics. The publication

of the Strategic Energy Framework in Northern Ireland has provided a highly structured and clear policy framework for the coming decade and so there is now clarity in both jurisdictions that comprise SEM. These frameworks are highly aligned, both focussing on the delivery of a 40% renewable electricity target by 2020 through the use of support systems external to SEM. These support systems were designed based on a given set of assumptions on the operation of the SEM market. It is IWEA's firm view that these assumptions should not be undermined without proper analysis of the impact on national energy policies.

IWEA recommends that a high level pathway is developed to assist the understanding of the interactions between the various streams of energy policy on the island. This pathway should examine a set of principles for the evolution of energy policy to meet:

- Binding EU renewable energy commitments on member states and the resulting energy policies formed by government;
- The impacts of a change in the fundamental costs of energy from fuel markets to capital markets;
- The aspiration to promote more liquid and efficient trade between SEM and neighbouring markets; and
- The need for strong incentives on transmission asset owners and operators to deliver necessary infrastructure.

While we welcome the opportunity to comment on this consultation, IWEA would like to reiterate that a stable market is required and that the introduction of the concept of potential major change if a material harm threshold is reached is very dangerous. Open ended risks or potential change should not be introduced. We recommend that this process should reach a stable decision that endures until a broader policy review is completed.