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Market Arrangements for Electricity in Ireland Response to document CER/03/230

Price Determination

1. For Generators a number of prices will be determined, one for each Generator Node (Grid Supply Point). The document is not specific on how many there will be. This price will reflect supply/demand to the system as a whole (System Marginal Price of Electricity plus System Marginal Price of Ancillary Services) less transmission losses and cost of ancillary services for the location. In other words Generators will generally receive the Supplier price minus the cost of delivering electricity to the customer base and the cost of the ancillary services involved. The price paid will be the price at gate closure against the actual volume delivered. This will result in different prices for different locations. Does this mean distant generators (eg: Offshore Wind) will receive lower prices? It is not clear why intermittent supply would be penalised by lower prices as it would be charged the full cost of reserve/ancillary services required to stabilise this volatile supply.

2. How costs will be allocated to intermittent supply is unclear and avoided in the text but the natural assumption is to believe each generator unit will be treated separately (a wind farm is probably a unit but it is not discussed). In other word if the wind farm meets its volume prediction exactly, at gate closure, it would be considered to have not consumed ancillary services, whilst if it generates a different amount, it would be charged ancillary services costs. As prices are fixed at gate closure such a mechanism is inconsistent therefore it might be assumed a fixed penalty is set for wind or hydro etc regardless of its performance. If this is so, who sets it? And on what basis is this penalty set especially as the ancillary services/reserve will be provided by the market. This is not discussed in detail in the document. It is not clear how the supply price is allocated to a node. In parts the document appears to assume a node for each generator. Do all generators at a node get the same price? For example, if a wind farm and a system plant connect to the same node or if a reliable wind farm and an unreliable wind farm are connected together, how are the additional costs of ancillary services allocated between the generators at the node or is there a simple node price? The proposal does not allow Generators portfolio bids and each unit will bid separately. How would wind farms be treated?

Ancillary service/reserve

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3. The ancillary services/reserve themselves will also be provided by a competitive market with the lowest and most efficient offers being accepted. Obviously the locational nature of these services will mean specific prices are possible in practice. Wind farms are unlikely to be able to offer these services. But this is important as it will set the discount wind sales may receive compared to fossil fuels.

4. Charges for reserve are allocated and appears to be up for negotiation. It could be argued that A fixed allocation could be made for wind farms.

5. It is not clear how big the discount will be for the intermittent nature of wind and unreliable bids. Arguably it is the case that wind farms and other such plants should not be penalised for submitting inaccurate bids. It is noted that the document allows some latitude.

6. Suppliers are encouraged to offer demand side bids for reduced demand. The document suggests suppliers will benefit by the low prices achieved from their portfolio and therefore do not require an additional incentive to do this. Mathematically this is correct, but some incentive is needed surely.

IT Systems and Cost

7. The proposed scheme is similar to regimes operating in Australasia, Singapore and various parts of the United States. The mechanism has therefore a track record of success and the required IT is available in its generic form. Obviously extensive modifications will be necessary specific to Ireland but the IT can be made to work. The system should therefore work in physical terms. Obtaining details of the experience of the system would be useful.
Experience in the UK (particularly under NETA) and elsewhere shows that the cost of implementing new IT systems and associated resource can lead to very high infrastructure costs. For small generators, these can have a significant adverse impact on the business.

8. In respond to the five key questions:

   a. Demand Side Participation

      From an environmental perspective a demand side element is very sensible and is supported. However second option on pricing is preferable. We

believe prices should be set before the demand is reduced and the supplier and all generators should receive the SMP.

b. Market Information

We support widespread market information. It should lead to healthy competition and should provide new buyers the ability to offer better priced contracts. Information transparency is critical to the running of a competitive market. This information will also allow checks to assess the cost of reserve and ancillary services to ensure full value for intermittent supply.

c. Node Design

Node design is important. For Renewables like wind generation nominations are likely to be Intermittant so the more aggregation at each node for pricing purposes will result in lower discounts for specific wind projects. We believe Large nodes preferable or even no nodes at all. Say a national node where the cost of reserve/ancillary services is spread evenly over all generation facilities may result in a reduction in complexity and cost and arguably fairer.

d. Treatment of Pumped Storage

The proposals for pumped storage are not consistent with a competitive market. It is not clear why the 'pump up' mode be considered negative generation rather than demand. It is also not clear why pump storage should enter into long term contracts with the System Operator. Whilst this is good it appears to be inconsistent with a free market as everyone else is required to compete on a short term basis for what are essentially the same service. It could be argued that this asset should compete on an even basis.

e. Charging for Reserve Costs

The principle of charging for reserve based on the units contribution to a reserve requirement is a sensible argument. However the need for reserve is to ensure a continuity of supply. Therefore customers/suppliers should make

a contribution towards this. It is argueable that this should be a customer charge and not levied on generators at all. Though a fairer option will be some split of the cost between generators and supplies. If all reserve costs are to be allocated to generators as seems likely the contingency costs for generating reserve should be limited to the large plant as small plant do not require reserve. Wind farms should not be penalised for, a) failing to meet their offers/forecasts and b) for not load following and c) general contingency for loss of capacity. If a wind farm is deemed unreliable then it should not require a contingency reserve. If a contingency reserve is set against it then it should not be penalised for being unreliable. There is a risk the discount for wind generation could multiply through the three costs involved. The concept of a fixed discount for wind energy is probably the best method of reducing this discount. Using aggregated data it can be shown a portfolio of wind farms is not as unreliable as would be predicted by a single farm. Charging individual wind farms will result in a large discount.

9. One area not covered in the paper is the financial market which will be necessary to go with the spot market. CFD's or swaps are sensible financial instruments for fossil fuel generators operating in blocks on a half hourly basis however swap's (CFD's) set against intermittant generation on an half hour period are extremely risky financial instruments. Significant financial payments are made in either direction where no generation exists resulting in un-anticipated revenues. This is not a good environment for project financing. Supply companies which can offset wind generation against their demand as negative demand, based on sales of electricity at the node (low voltage) outside the trading system.

10. General Remarks

No specific mention is made of support systems for renewable energy. Without support systems or 'green markets' some renewable like wind farms are not viable. These systems will remain critical for the development of wind farms. Although these changes are important and will impact the overall level of prices the availability of support systems or green markets remains key to the renewable industry.
The system marginal price could be negative so it could be argued that small generators and renewable generators should be excluded from paying this due to the intermittent and less reliable nature of their power generation.