



IWEA response to the ACER Framework Guidelines on Electricity Balancing

25 June 2012

The Irish Wind Energy Association (IWEA) welcomes this opportunity to respond to ACER Draft Framework Guidelines on Electricity Balancing. IWEA is Ireland's leading renewable energy representative body representing more than 250 members involved in wind and renewable energy development in Ireland and Northern Ireland (through the Northern Ireland Renewables Industry Group (NIRIG), set up in collaboration with Renewable UK). IWEA represents members with projects across the spectrum, in operation, under construction and awaiting connection. In Ireland IWEA members are involved in the majority of connected projects but also involved in more than 85% of the MW of currently grid contracted projects.

Through NIRIG we represent more than 25 company members that have developed over 85% of renewable generation operational in Northern Ireland today and who will contribute a significant majority of renewable energy required to deliver the 2020 targets.

The IWEA membership base includes all large, medium and many small developers as well as financial, legal advisory, consultancy, contractors and other service providers involved in the renewables sector in Ireland and Northern Ireland.

European Market Integration

IWEA notes that there is significant work to be done in Ireland to align the existing Single Electricity Market (SEM) with the European Target Market and the regulatory authorities are undertaking an extensive work programme to achieve alignment. It is important to note some of the areas in which the SEM has delivered on many of its stated objectives:

- The provision of increased liquidity
- Control of market power
- Provision of a stable, transparent and systematic platform for participants
- Fairness across participants types through the use of a single market price

IWEA is of the opinion that the original attributes of the SEM listed above are still very much relevant and must continue to be taken into consideration in the design of any future market. The requirement to comply with the European Target Model presents opportunities to align trade between the SEM and adjoining markets and the incentivisation of efficient export of energy, however there will also be some significant challenges in maintaining the existing positive features.

IWEA comments on Balancing

As a gross mandatory pool with central dispatch the SEM design has negated the need for a penalising imbalance market which is favourable for systems with ambitious renewable and wind energy targets. Currently renewable generators are not required to provide forecasting data and manage their own balancing. Due to the small size of the Irish market with a significant number of small independent generators, the introduction of balancing requirements would have a knock-on effect on competition in the SEM, pushing smaller independent generators towards the larger utilities. This would be of concern to IWEA members.

IWEA is of the strong opinion that a balancing mechanism with asymmetric prices is entirely inappropriate given the levels of renewable generation planned. Any new market design must include a single price as a balancing price the market as a whole. Asymmetric prices were originally designed to incentivise self-dispatch conventional generation to deliver upon their required contracted position in the market. Given the controllable nature of most types of thermal generation, only relatively small portions of participants' energy were subject to imbalance prices. Variable renewable generation plant typically retains less ability to control output volumes, meaning that larger portions of participant volumes would be exposed to the imbalance mechanism. This would subject market participants with variable renewable assets to arbitrary imbalance penalties. Such arbitrary penalties would severely impact commercial arrangements for renewable energy projects such as PPA price levels and the perception of market risk. Policy objectives such as 2020 renewables targets must be taken into account and balanced against the final market design.

Market evidence from GB suggests that PPA price levels are discounted up to 10% due to the potential costs imposed by the imbalance mechanism. This discount exists despite the opportunity for PPA providers in GB to forecast and trade out variations in renewable output right up to 1 hour before delivery. Similarly the previous Top-up and Spill regime in Ireland placed an arbitrary balancing cost on wind projects of approximately 15% of the market price.

Variations in the system are best managed on an aggregate basis by a single agent i.e. the system operator. Wind forecast errors, load forecast errors, generation trips all contribute to variations on the system. Significant portfolio efficiencies are gained by having the resultant net variation of this managed by a single agent on an aggregate basis. This is particularly relevant in a small island system such as the SEM.

Network Codes on Balancing

IWEA recognizes the EU Target Model aims to have an active balancing market between existing markets and acknowledges that the cost efficient integration of large amounts of wind energy depends on the technical and market rules for balancing the power system. In particular, effective balancing of variable sources of energy depends on performing this activity in an integrated European wide market, beyond national borders or control zones.

IWEA notes that the Framework Guidelines and the Network Codes should allow for a degree of flexibility to enable different internal market structures to meet the cross border requirements in a way that meets the needs of the system. It is also important to recognise that different systems may have different values on specific requirements, and this needs to be taken into consideration in the development of the Framework Guidelines and Network Codes.

In general, IWEA supports the EWEA response to this consultation in particular in relation to the following issues:

1. The scope of the NC on Electricity Balancing foreseen in this FG will not be complete if not all type of reserves are included in the NC.
2. IWEA welcomes provisions included in the FG that state that the NC on Electricity Balancing shall be set to facilitate wider participation of demand response and renewable sources of energy in the provision of balancing energy (national and across-borders) through becoming Balancing Service Providers (BSPs).

IWEA calls for ENTSO-E to strictly adhere to such provisions in the development of the NC on Electricity Balancing, namely:

- Balancing Market opening for all generators
 - Foster liquidity
 - Harmonisation of gate closures as close as possible to real-time delivery
3. IWEA supports the FG requirement on obligation for TSOs to allow participation of non-pre contracted reserves to provide at least balancing energy for replacement reserves as well for manually activated frequency restoration reserves. This will allow non-discriminatory participation of wind generators which are normally not pre-contracted for balancing services. Nevertheless, we call for greater clarity on the rules for providing frequency containment reserves and its rationale for being excluded from this FG.
 4. IWEA calls for strict implementation of the FG requirement on transparency for the definition and methodology in the NC of any unshared bids (also called “margins”) for cross-border balancing energy from replacement reserves, but also the inclusion of provisions for monitoring such decisions in case they are taken.

Imbalance Payments

IWEA notes the draft guidelines state that:

The Electricity Balancing Network Code(s) shall impose that generation units from intermittent renewable energy sources do not receive special treatment for imbalances and have a BRP which is financially responsible for their imbalances.

While IWEA notes the intention of this is to have equal treatment for all, it should be noted that the current SEM design would need to undergo significant changes for this to be introduced, and that this could have a knock-on effect for independent generators and competition in the Irish market. It is

important that the market design, framework guidelines and network codes take the European Policy objectives to increase the levels of renewable electricity generation into consideration.

Conclusions

IWEA welcomes this opportunity to respond to ACER Draft Framework Guidelines on Electricity Balancing. IWEA recognizes that the aim of the target model is to harmonise arrangements such that cross-border trading is facilitated and indeed incentivised. These arrangements should acknowledge and provide for distinct systems across Europe and facilitate asynchronous arrangements within markets where strict harmonization could jeopardize system integrity. Specifically, IWEA notes that there is significant work to be done in Ireland to align the existing Single Electricity Market (SEM) with the European Target Market. IWEA further notes that the cost efficient integration of large amounts of wind energy depends on the technical and market rules for balancing the power system. In particular, effective balancing of variable sources of energy depends on performing this activity in an integrated European wide market, beyond national borders or control zones.