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I-SEM and the Impact On Renewable Energy – An Update

by **Philip Daly, Jamie Ritchie**

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As the new European supermarket for wholesale electricity is upon us, we examine how the Irish government proposes to accommodate renewable energy.

Less than a year from today, Ireland will implement the Integrated Single Electricity Market (I-SEM), replacing the existing SEM which we have had since 2007. At present, the target date for go live implementation is 23 May 2018. For those of you within the industry who have been living under a rock for the past six years, this is a new Europe-wide trading platform for energy. The platform has been conceived against a background of intra-Europe cross-border trade that has personified the European Union's principles of free trade and integration.

The aim is to encourage more efficient electricity flows across Europe with the introduction of short term day ahead and intra-day trading.

The scale of its proposed implementation on an Irish level has involved intense consultation across the sector in conjunction with the Department of Communications, Climate Action & Environment (the “Department”) in the Republic of Ireland and the Department of International Trade in Northern Ireland.

Much has been recently made of how this new market will affect renewables. Renewable energy is subject to a slightly different pricing model known as REFIT (Renewable Energy Feed-in Tariff), which is designed to incentivise investment in this area. However, renewables present a bit of a conundrum under I-SEM. This is because the new platform has been designed to be driven by market forces, taking into account forecasts against electricity actually generated, and capacity. The problem posed for intermittent renewables, such as wind energy are that they are by definition intermittent. It is extremely difficult to forecast their generating capacity.

The Department has recently published a paper on the subject in which it outlines how the national approach will work: Renewable Electricity Support Scheme: Transitioning to I-SEM (Options Paper). It recognises that there needs to be a pricing model that fairly and efficiently interacts with REFIT. Given that the remuneration mechanism is largely capacity driven, the Department's proposed solution for integrating intermittent renewables to I-SEM will be to give them special treatment in the marketplace. It appears this will be achieved by pooling renewables alongside total market revenues. The apparent logic is to ignore any imbalances between a traded position (that which was forecast) and the actual position (the amount generated).

In summary, this ‘Emerging Approach’, as it has been referred to by the Department, would appear to level the playing field for renewables for future trading of centralised reliability options in a market focused on capacity based remuneration and forecasting.

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