

## **SEM Committee's Response to ACER Consultation on the Framework Guidelines on Capacity Allocation and Congestion Management for Electricity (DFGC-2011-E-003)**

The areas covered by the draft for consultation are summarized below. The shaded areas are the main ones addressed in the SEM Committee's response. The four specific questions posed by ACER in the consultation draft are listed in the relevant areas and are in red.

- General Provisions
  - Scope
  - Entry into force of the Network Code(s) and roadmap
  - Definitions and references
- Optimal and Coordinated Use of the Transmission Network Capacity
  - Capacity Calculation
  - Definition of zones for Capacity Allocation and Congestion Management
- Day Ahead Capacity Allocation
  - Capacity allocation methods for the day ahead market
  - Pricing
  - Firmness
- Forward Capacity Allocation
  - Capacity allocation methods for the forward ahead market

**Q1 As price-based market coupling is the mandated capacity allocation method in the day ahead framework, should FTRs be preferred to PTRs for long term capacity allocation?**

- Timeframes, volumes and secondary market with relevance to PTR and FTR
- Intra Day Capacity Allocation
  - A pan European intraday platform

**Q2 Is implementing implicit auctions on top of continuous trading considered to improve the intra-day market?**

- Transitional arrangements

**Q3 Is allowing direct OTC access to the Capacity Management Module important as a transitional feature?**

- General Issues, Requirements and Provisions
  - Timetable
  - Force Majeure
  - Cross border redispatching/countertrade
  - Capacity products co-existence and firmness

Q4 Should the draft Framework Guidelines be more explicit in the area of compensation? If yes, please indicate how.

## 1. **Scope, Network Codes and Governance**

### CACM Requirement:

- *Network Codes to be developed by ENTSO-E for areas in CACM, these to include roadmap for implementation for forward, day ahead and intraday markets. These roadmaps are to provide for the implementation of the provisions of the Network Code(s) by 2014.*
- *For each significant step in the roadmap, ENTSO-E required to provide a clear understanding of the options, if any, and associated costs and benefits’.*

### SEMC Response:

- The SEMC is committed to integration of the SEM into the single European electricity market. However, this must be conditional on ensuring that all the costs associated with the implementation of the CACM target models are outweighed by the benefits that can realistically be expected to flow from the new arrangements. In particular, the target models must dovetail with market arrangements necessary for the integration of renewable energy.
- The Third Package governing regulation for the CACM (Regulation (EC) No 714/2009) states that its aim is to set fair rules for cross-border exchanges in electricity ‘taking into account the particular characteristics of national and regional markets’ as per the European Union’s core principle of subsidiarity.
- The SEMC is concerned that the CACM as currently drafted (in particular the sections on day ahead and intraday) do not take into account or make allowances for the particular characteristics of the SEM regional market; rather the focus is on the predominant decentralised power market design common across highly meshed transmission systems in Europe.
- The CACM requirements for day ahead and intraday network codes and the related requirement to implement their provisions by 2014 will therefore pose significant challenges for the SEM and will inevitably require changes to the design of the SEM. The understanding of the regulatory authorities in Northern Ireland and Ireland is that that no other European electricity market faces such a combination of issues.
- The SEM is a relatively new market and its centralised design resulted from costly implementation, of more than €100m. The SEM has delivered major benefits to customers since it began in late 2007 in terms of greater security of

supply, increased penetration of renewables and transparent cost reflective pricing. Before making major market changes to the SEM, it is incumbent on the regulatory authorities in Ireland and Northern Ireland to ensure that any costs incurred will deliver tangible benefits for the consumer.

- The SEM Committee is keen that benefits for customers are identified at each step (along with any costs) on the roadmap for each of the Network Codes and these benefits should be linked to a cost benefit analysis at the national and regional levels. The SEM Committee is concerned that these issues are not being fully considered in the current draft of the CACM Framework Guidelines and the drive towards integration by 2014. This is because the current draft does not make allowances for the particular characteristics of centralised mandatory pool markets and hence does not take account of the significant costs that would be incurred in adapting or changing a market such as the SEM.

The below sections describe those concerns in more detail.

## 2. Day Ahead Capacity Allocation

### CACM Requirements:

*Day Ahead Network Code shall provide that the TSOs implement capacity allocation in the day-ahead market on the basis of implicit auctions via a single price coupling algorithm which simultaneously determines volumes and prices in all relevant zones.*

*Only one price (i.e. that calculated by the single price coupling algorithm) calculated per bidding area and per hour. The Algorithm shall allow for block bids and any other products deemed feasible or appropriate.*

### SEMC Response:

- At this stage it is not clear how such coupling in the FUI region can be facilitated without changes to key elements of SEM design. However, the SEM regulators along with colleagues in the FUI region are committed to exploring over the next year how, and the extent to which, the SEM design can be modified to deliver day ahead market coupling. The SEM Committee will explore, with relevant parties (SEM market operator, TSOs, market participants, the PCR and NWE initiatives), the feasibility and steps required for incorporation of the SEM in the pan European market price coupling as required by the CACM.
- However, it is the current view of the SEM Committee that the following elements of the SEM design will make implementation of single day ahead price coupling extremely challenging:
  - The SEM does not have a firm day-ahead market; rather *ex-post* prices, capacity payments and volumes (D+4).
  - Central unit commitment and dispatch in SEM with heterogeneous bid formats between SEM and BETTA. The SEM has complex commercial and technical bids, which will need to be incorporated into the single price-coupling algorithm.
  - There is an explicit capacity payment mechanism in SEM, no “all-in” energy price as in GB and France.
- In light of the above, the SEMC requests that the day ahead network code provides for sufficient flexibility such that centralised mandatory pool systems like the SEM are accommodated without requiring changes to key elements of SEM

design as described<sup>1</sup>. The network code should also include a cost benefit analysis to justify the requirements for market design changes in this area.

- Further, the CACM should be amended to state that centralised mandatory pool markets may implement local forms of market coupling until such time as they are in a position to introduce new market arrangements that are fully in line with the CACM models.

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<sup>1</sup> The SEMC acknowledges that in order to implement market coupling, some form of day ahead reference price will be required in the SEM.

### 3. **Intra Day Capacity Allocation**

#### CACM Requirements:

- *The key feature of the intraday market is to enable market participants to trade energy as close to real-time as possible in order to (re-)balance their position. Intraday trading is particularly important to accommodate intermittent generation and unexpected events such as outages.*
- *The CACM Network Code(s) shall set out all necessary provisions for the implementation of a pan-European intraday platform supporting continuous implicit trading, with reliable pricing of intraday transmission capacity reflecting congestion (i.e. in case of scarce capacity).*
- *The CACM Network Code(s) shall also determine that, where there is sufficient liquidity or in the case of pool markets with central dispatch, regional auctions may complement the implicit continuous allocation mechanism. Where implemented, implicit auctions should have adequate gate closures to provide the necessary flexibility to the market and be coordinated with, and linked to, the pan-European platform*
- *To implement the pan-European platform, the CACM Network Code shall require the development of a pan-European shared order book function and a pan-European capacity management module.*
- *The process to develop in detail and implement the pan-European platform shall be led by ENTSO-E, include the participation of PXs and the consultation of market parties and be subject to regulatory approval. In particular, regulators will require a good understanding of the options and associated costs and benefits for each significant step in the implementation of the approved intraday roadmap.*

**Q2** *Is implementing implicit auctions on top of continuous trading considered to improve the intra-day market?*

#### SEMC Response:

- Robust and liquid intraday day market arrangements are critical for systems with high levels of intermittent generation (for example Ireland and Spain) and high levels of interconnection relative to total generation capacity/peak demand. To this end a project is underway to implement implicit intraday congestion management within the SEM by mid 2012.

- As noted in ERGEG's Initial *Impact Assessment on the Draft Framework Guidelines for CACM*<sup>2</sup>, while it is easier and less costly to implement for many Member States, implicit continuous allocation is less economically efficient than the implicit auction system that is prescribed for the day ahead stage. Clearly, the importance of efficiency at the intra day stage is even greater as increasing intermittent generation comes onto the European (and Irish) system in the coming years.
- The Impact Assessment also makes the point that implicit continuous trading 'may favour larger market players' as 'it requires a team of dedicated experts continuously following the market'. This is obviously an important concern for markets with relatively small market participants such as the SEM.
- In addition, implementing continuous implicit intra-day trading would likely put a significant strain on the Irish system operator's ability to manage the system with high levels of intermittent generation within existing security of supply standards. This would not be as serious if there was flexibility in the requirement for continuous intra day trading such that it was limited in time and sufficiently far in advance of real time to allow the system operators in the SEM to maintain a system of central unit commitment and dispatch and combine continuous trading with its system of intra day auctions.
- It is important that, in the final version of the CACM Framework Guidelines and intraday network code, there is flexibility in terms of gate closure and how implicit auctions may be combined with continuous trading in particular for island systems with central dispatch in order to ensure that intermittent renewable generation can be accommodated in the market.
- The SEM Committee is aware that there are still a number of unresolved questions about how the enduring intraday continuous trading solution for the North West Europe (NWE) region will operate and how and when it can be extended beyond the NWE region to other regions and other markets where changes may be costly to implement.

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<sup>2</sup>Ref: [http://www.energy-regulators.eu/portal/page/portal/EER\\_HOME/EER\\_CONSULT/CLOSED%20PUBLIC%20CONSULTATIONS/ELECTRICITY/draft%20Framework%20Guideline%20CACM%20Electricity/CD/E10-ENM-20-04\\_FG-CACM\\_IIA\\_8-Sept-2010.pdf](http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_CONSULT/CLOSED%20PUBLIC%20CONSULTATIONS/ELECTRICITY/draft%20Framework%20Guideline%20CACM%20Electricity/CD/E10-ENM-20-04_FG-CACM_IIA_8-Sept-2010.pdf)



If the final model for intraday which emerges is closer to an auction type system with congestion pricing, it will be easier to implement in SEM, potentially delivering benefits at lower cost. As the specificities of the intra day target model are developed, it will be important to ensure that this flexibility is enshrined in the intraday network code.

- The SEMC considers that flexibility in the CACM wording which would allow the implementation of implicit auctions in addition to or in place of continuous trading would improve the intra day market target model and allow SEM to comply more easily with the CACM requirements. This had been allowed for in previous CACM Framework Guideline drafts which indicated implicit auctions as well as or instead of continuous trading would be acceptable.
- As stated in the CACM section on intra day capacity allocation, it is crucial that national regulatory authorities are presented with a good understanding of the options and associated costs and benefits for each significant step in the implementation of the approved ENTSO-E intraday roadmap. It is expected that TSOs will provide an analysis of the costs of implementing continuous trading in all Member States and carefully weigh these against its purported benefits.
- In conclusion, the SEM Committee is of the view that the arrangements for intraday capacity allocation in the CACM should be forward looking and ensure that adequate intraday arrangements are implemented that both comply with the CACM Framework Guidelines and network code and facilitate the efficient integration of renewable energy in line with EU targets and future looking projects such as the North Seas Offshore Grid Initiative.

#### **4 Conclusion**

In conclusion, the SEMC is seeking amendments to the CACM Framework Guidelines to reflect fully the issues posed by the particular characteristics of the regional SEM market and transmission system. These characteristics are: a centralised pool market on an island system with 15 per cent or less of interconnection relative to peak demand.

Specifically, the SEMC requests that:

- a cost benefit analysis is undertaken by ENTSO-E or ACER on the proposed changes to national market designs that will be engendered by the day ahead and intraday network codes that implement the CACM target models.
- the CACM Framework Guidelines and the day ahead network code provide for sufficient flexibility such that centralised mandatory pool systems like the SEM are accommodated without requiring changes to key elements of SEM design, as described above.
- the CACM Framework Guidelines be amended to state that mandatory pool markets may implement local forms of day ahead market coupling aligned with the spirit of the CACM Framework Guidelines, until such time as they are in a position to introduce new market arrangements that are fully in line with the CACM models.
- the arrangements for intra day capacity allocation in the CACM Framework Guidelines and related network codes be forward looking and demonstrably facilitate the efficient integration of renewable energy in line with EU and national targets. The CACM Framework Guidelines should allow for the implementation of implicit auctions in addition to or instead of continuous trading for specific cases such as the SEM.