

Market Integration Workshop Assumptions & Objectives

3 October 2011
Sheenagh Rooney

Market Integration Project Plan

- ▶ SEM Committee has begun a project to meet FGCACM obligations by 2014 and by 2016
- ▶ 8th August 2011, SEMC published its Market Integration Project Initiation Document
- ▶ Bilateral meetings, 8th September in CER or 9th September in UR Offices
- ▶ **By 2014** – appropriate SEM transitional arrangements ‘may’ be in place which meet the criteria set out in section 1.2 of the CACM, & Network Codes; and,
- ▶ **By 2016** – enduring SEM market arrangements which comply with the CACM target models & Network Codes must be in place.
- ▶ **Decisions 2012**

Objectives of the Day

- ▶ Forum for interested parties to assist in the development of SEM design to meet CACM
- ▶ Focussed engagement on SEM -CACM issues and challenges with industry experts
- ▶ Break out sessions to facilitate group discussion and collate constructive ideas
- ▶ Importance of open full participation by attendees
- ▶ Forum will be a key input into project and SEM Committee decision making
- ▶ Break out sessions – free exchange of views

- ▶ **Compromise:** CACM Section 1.2 regarding implementation:

*'The CACM Network Code(s) may provide for transitional arrangements for the **day-ahead and the intra-day markets of island systems with central dispatch**, as long as these transitional arrangements:*

- are justified on the basis of a cost-benefit analysis;*
- do not unduly affect other jurisdictions;*
- guarantee a reasonable degree of integration with the markets in adjacent jurisdictions;*
- do not extend beyond 2016.*

The transitional arrangements shall be proposed by the relevant NRA(s) for inclusion by ENTSO-E in the CACM Network Code(s). The NRA(s) shall provide ACER with the information required for assessing that the above conditions are met'.

Project Objectives

- ▶ SEM Committee Strategic Objectives, in particular:

Primary Objective to protect the interests of consumers of electricity in Ireland and Northern Ireland

- ▶ Sustainability
- ▶ Costs and benefits of options
- ▶ Contributes to the integration of the European internal electricity market
- ▶ Requirement to be compliant with the CACM target models for the internal market, 2014 and 2016

Project Timetable

Date	Deliverable	Responsible
August – October 2011	<ul style="list-style-type: none"> •TSOs / SO options for 2014 •RA work on day ahead contracts market •2016 scoping paper 	RAs / TSOs / MO
October 2011	Industry engagement	
SEMC Dec 2011	Report project team on potential options to pursue	SEMC
January 2012	Consultation on next steps	RAs
February 2012	SEMC decisions on transitional arrangements to pursue 2016 forward workplan	SEMC

SEMC Project Assumptions

- ▶ Target Model is defined for all member states
- ▶ SEM Committee strategy –compliance by 2016 and a form of ‘transitional arrangements’ by 2014
- ▶ SEM Committee see medium and longer term benefits in greater integration
- ▶ SEMC open to either evolution or revolution at present
- ▶ All–island solutions
- ▶ ACER process important
- ▶ Links with other SEM C workstreams need to be considered
- ▶ Timeframe is tight but achievable

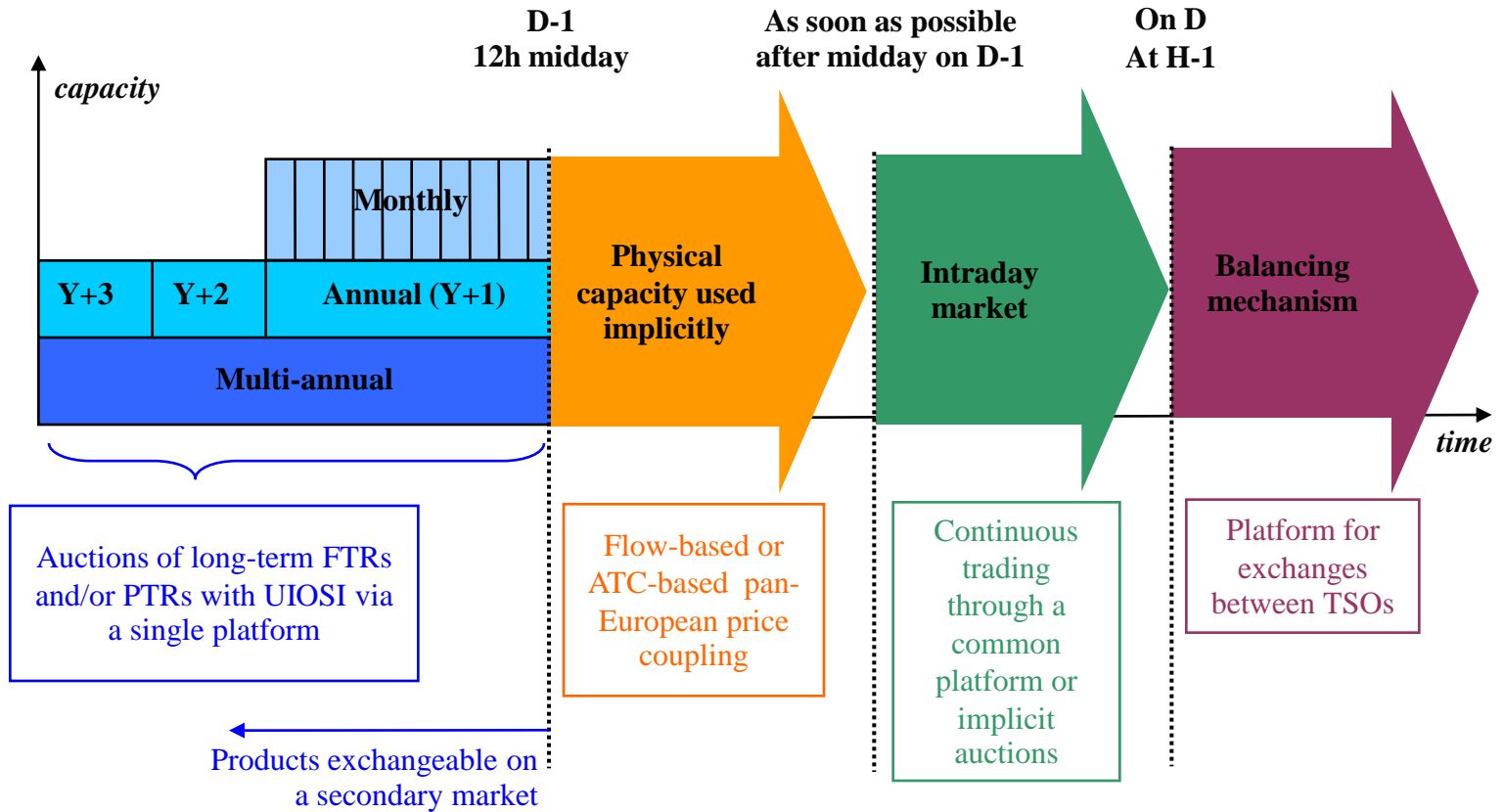
Market Participants Views

- ▶ Supportive of project
- ▶ Wish for inclusive process
- ▶ Wish for certainty on direction as soon as possible yet time for evaluation of options key
- ▶ Project not merely a compliance exercise
- ▶ Who will judge compliance and what latitude is there
- ▶ Concern at resources for project

Key Aspects of the CACM Target Models

3 October 2011
Stephen Powell

European Target Models



SEM & European Design

<i>Characteristic</i>	<i>SEM Design</i>	<i>European Target Model</i>
<i>Market Design</i>	Pool	Bi-lateral Contracts
<i>Trading Day</i>	06AM for 24 hours	23PM for 24 hours
<i>Trading Period</i>	30 minutes	1 hour (for Day Ahead and Intra-Day contracts)
<i>Gate Closure</i>	Trading Day – 20.5hrs (EA1)	Trading Day – 12hrs (Day- 1)
<i>Offers/Bids</i>	Generator Complex Offers (with Commercial and Technical components) Demand does not bid.	Simple Offers and Bids Sophisticated Offers (Block Bids, Linked Bids, Minimum Revenue, Energy Limited)
<i>Intra-Day</i>	2 Implicit Auctions	Continuous Implicit Trading
<i>Form of dispatch</i>	Central Dispatch	Self Dispatch
<i>Firm Pricing</i>	Ex-Post	Day Ahead and Intraday
<i>Financial Contracts</i>	Limited contracts market	Forwards financial and physical markets
<i>Cross Border Settlement</i>	Interconnector Units settle cross border trades.	Shipping agent settles cross border trades.
<i>Capacity Payment</i>	Explicit Capacity Payments	Not considered in the FG CACM

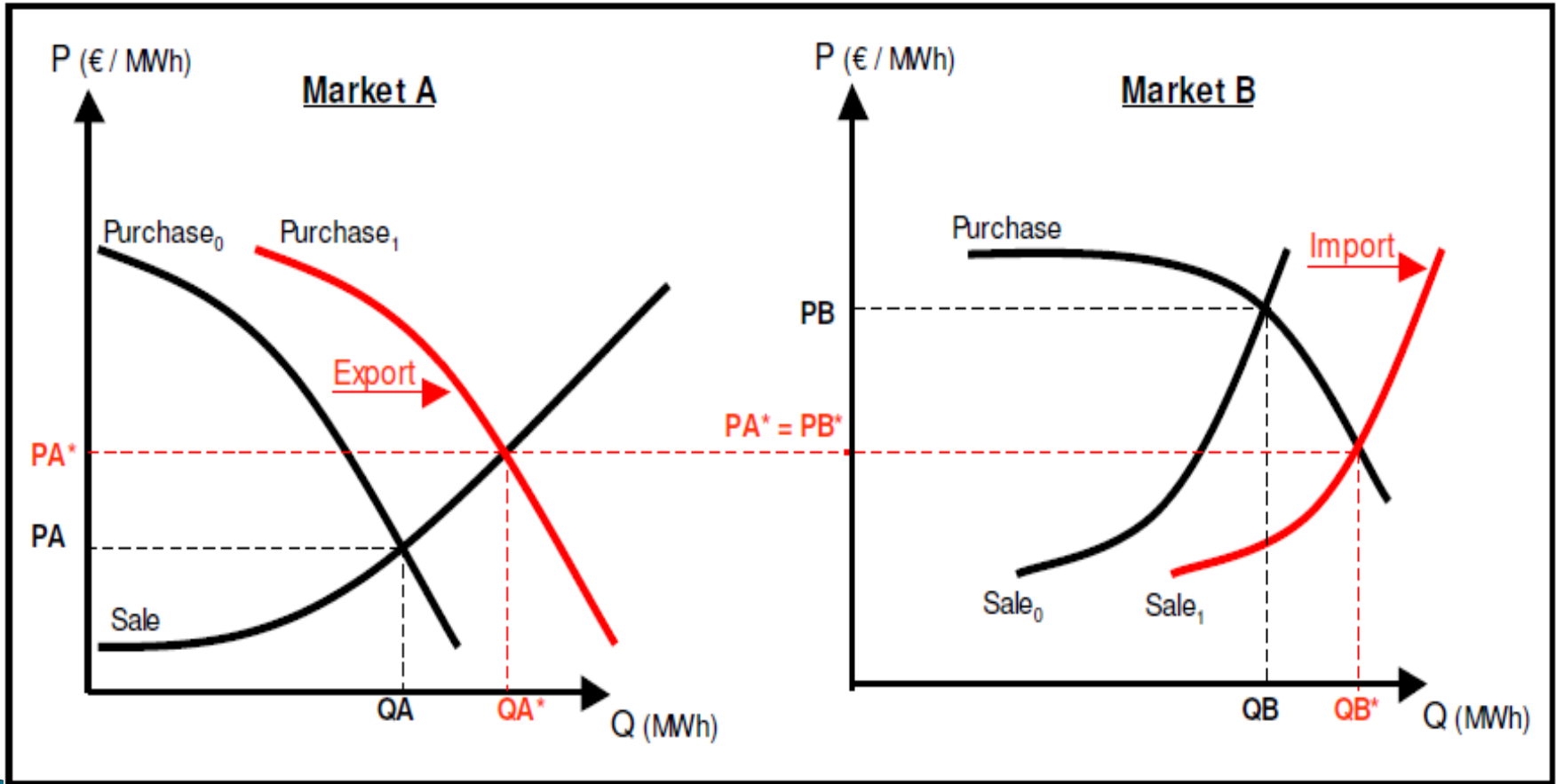
Market Coupling

- ▶ **What is Market Coupling?**
- ▶ Market coupling is:
 - a mechanism for matching orders on PXs in connected markets; and
 - an implicit XB capacity allocation mechanism.
- ▶ Market prices and schedules of the connected markets are simultaneously determined with the use of the available XB capacity defined by the TSOs.

Market Coupling

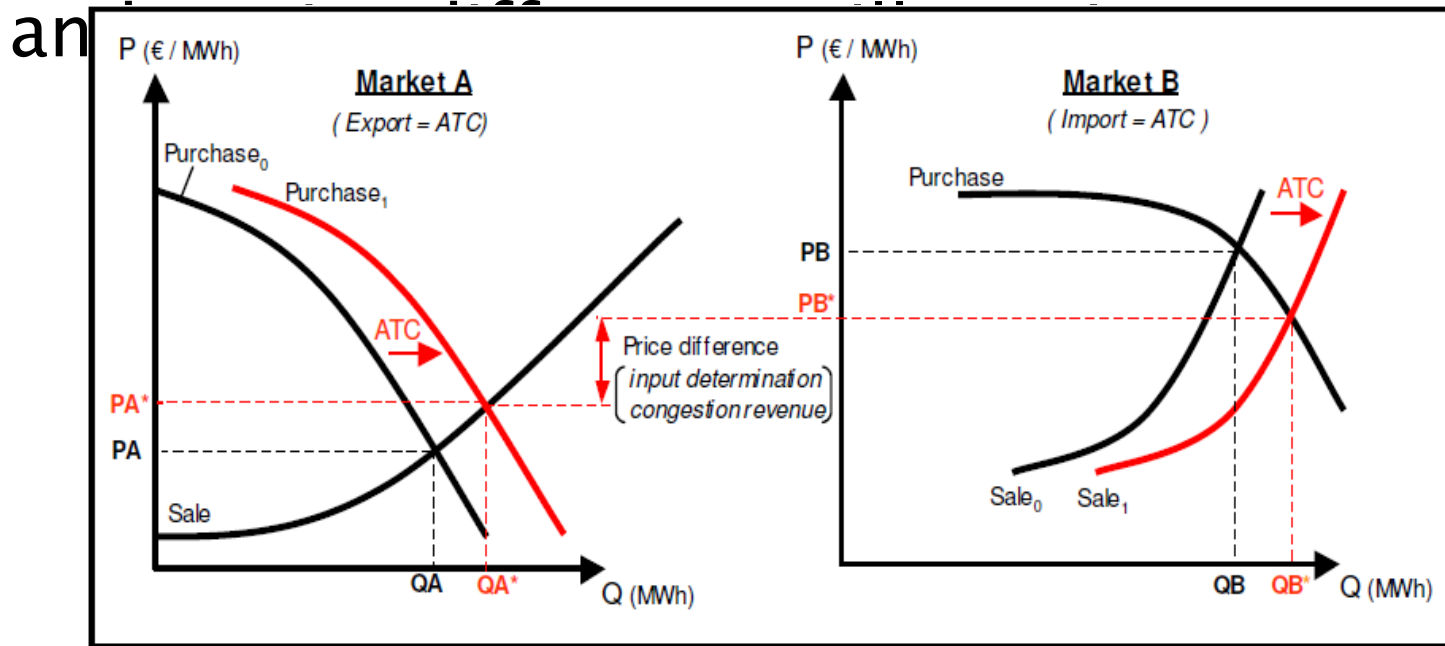
- ▶ The XB capacity is thereby ‘implicitly’ auctioned and the implicit cost of the transmission capacity is settled by the price differences between the markets.
- ▶ If there are no XB transmission capacity constraints, then there is no price difference between the markets and the implicit cost of the transmission capacity is zero.

Market Coupling



Market Coupling

- ▶ If there are XB capacity constraints, these will limit the flows between the coupled markets



Key Messages from the Meetings with PXs, MOs & TSOs

- ▶ SEM perceived as incompatible with PCR and NWE – mandatory pool, complex bids, tightly regulated
- ▶ Two broad options:
 - Significant change to SEM:
 - separate day-ahead, intraday and balancing markets;
 - single firm day-ahead prices and volumes
 - Work around with existing SEM, e.g., CfD day ahead market coupled to NWE:
 - CfD settled against a single hourly reference price in SEM
 - Shipper has firm access to IC capacity and firm right to buy/sell coupled volume on SEM at the reference price
 - Coupling can accommodate capacity payments, losses, BSUoS
 - But can a CfD auction be fitted in between EA1 And EA2?

Key Messages from the Meetings with PXs, MOs & TSOs

- ▶ Inefficiencies in the rules, (BSUoS charges, transmission losses) will become apparent once price coupling begins
- ▶ SEM trading day is going to have to change
 - Implications for bid formats, given gas trading day
- ▶ Day ahead gate closure in the SEM will have to be brought forward to accommodate the 12.00 CET market coupling gate closure.
- ▶ ½ hr pricing in the SEM might be a problem
- ▶ MIBEL (Spain/Portugal) is an interesting market to look at:
 - Voluntary net pool with elements of central dispatch
 - Considerably simplified technical bids c/w 10 years ago
 - Planning on keeping intraday explicit auctions

CACM & SEM

3 October 2011

Philip Newsome

CACM & SEM: A Consistent Design

- ▶ What should the relationship between day ahead and intra day be in the SEM CACM market?
- ▶ Core focus of project is on day ahead and intraday but internal market covers forward and balancing cross border rules too.
- ▶ Importance of interactions between timeframes:
 - Forward
 - Day Ahead
 - Intra Day
 - Balancing

CACM and SEM: A Consistent Design

- ▶ What are the key objectives of the CACM?
 - Creation of the internal market
 - Efficient cross border allocation across timelines
 - Common trading platform for long term capacity
 - Centralisation and pooling of PX liquidity day ahead and efficient adjustment market intra day
 - Efficient cross border balancing arrangements
- ▶ Day ahead implicit auction, intra day implicit continuous
- ▶ How can SEM be adapted to meet these, which timelines are most important?
- ▶ What are key considerations for SEM in meeting these?
 - Suitable market for intermittency and renewables
 - Competition: liquid spot and intra day markets
 - Security of supply: dispatch arrangements and investment incentives, infrastructure

Next Steps

- ▶ Goal of workshop was to harness industry expertise
- ▶ Stakeholder input into project solutions important
- ▶ RAs will document contributions from workshop and publish
- ▶ Additional input welcome before 14 October
- ▶ Date TBC for next industry engagement