

Market Integration Workshop 2

Dundalk 21st November 2011

This note summarises the main points that emerged at the Market Integration Workshop in Dundalk on 21st November 2011. It should be noted that these were discussion points only and do not necessarily represent a concrete set of issues for further discussion. Neither do they necessarily represent the views of the RAs or of market participants.

Introduction

The Regulatory Authorities (RAs) updated attendees on project progress since October 3rd (market integration workshop 1 – design issues). Briefings were provided to attendees on developments at a European level both at ACER and at ENTSOE meetings during the last month. The detail from these updates is available in the accompanying slides.

Summary of workshop contributions

The following bullet points detail the points made during the workshop discussions. These discussions took place in breakout sessions which followed the presentations both from the RAs and MO / SOs on issues around any future redesign of the SEM market and options for evolving the SEM design to meet the FGCACM target model.

High Level Design

- SEM advantages should still be borne in mind in any proposed future changes - transparent pricing, efficient price signals and mitigating market power.
- In addition to these original objectives, new objectives have now emerged relating to more interconnection, increased intermittency of generation and FGCACM.
- The design work which led to the establishment of the SEM market remains valid as the characteristics of the market are still the same and the issues faced then remain now. These issues include the island system, large amounts of wind, small market, need for strong investment signals and few large players. To adopt a decentralised market, akin to BETTA, would result in a lot of problems for SEM.
- Views were expressed that it would be better to evolve SEM than abandon it, especially since the target model may not be totally bedded down.
- Whatever changes are made to SEM must be future-proofed and any evolutionary option must be fully compliant.
- Efficient allocation of capacity on the interconnectors on the Island is also key
- We must come up with an outcome which is compliant but desirable for SEM market participants and consumers. On a small island system, the ability to have a market which is attractive to new entrants to maintain investment is vital.
- In relation to other market designs being discussed, concerns remain as to how any of these could be adapted to the Irish market and its characteristics– Nordpool / Iberian or BETTA. Concern also expressed that suppliers would have difficulty participating to the extent required in a bilateral contracts market like BETTA or Nord Pool.
- The point made that two of the key drivers for any SEM Committee decision should be adequate remuneration for participants and price discovery. When will market power

issues be looked at was queried, in particular if SEM becomes a more integrated market with BETTA.

- In any project to make changes to design of SEM it is imperative that the systems changes do not dictate the project. This is in the interests of market participants and consumers.
- Realistic cost benefit analysis of various options being considered is required at appropriate stage.

Dispatch

- Different views were expressed whether a decentralised or centralised model would work best for SEM needs.
- Physically TSOs will have to continue to operate the system regardless; the question therefore is what works best commercially and which is the most efficient model. It was felt that the decentralised model would pose difficulties for Ireland.
- There is a need to keep a centralised model of dispatch for security of supply but market schedule needs to remain close to dispatch. Perhaps the issue is how SEM can accommodate intraday gate closure nearer to real time.
- Difficulty with a decentralised model is the lack of price transparency. New entrants are attracted to SEM market because of this reason and because pool is equally accessible to all.

Trading Arrangements

- New arrangements will only work if benefits can be gained through more efficient pricing.
- Voluntary arrangements for trading power are seen as a positive step. The forward trading timeframe is key for investors and suppliers and the. Day ahead and intraday timeframes are more important for shape.
- Different market participants would have different requirements over different trading timeframes.

Treatment of Renewables and Intermittency

- 2020 renewables target need to be considered.
- It was suggest that there is an inherent conflict between the FG CACM and the requirement under EU law for priority dispatch for renewables.
- FGCACM will improve cross border trade. However, intermittent generation may cause problems and lack of arrangements for tagging green energy could lead to difficulties.
- FGCACM potentially could be regarded as a backward steps in terms of other policy objectives such as meeting renewables targets so it was important to understand impacts.
- With increased wind on the system, any changes to SEM must be capable of providing adequate remuneration to flexible gas plants which have chosen to locate on the Island and how this will break down between market revenues and non-market revenues (ancillary services).

Treatment of Imbalances

- One issue in any market development is how imbalances will be treated, this will be particularly important for wind. Also, constrained running might become more prevalent. Exposure to imbalance prices should be as small as possible.
- Any changes in design which introduce greater risk to trading need to be thought through. Continuous trading intraday would be of benefit to wind but exposure to imbalance prices would not.
- Market power in the balancing market would be a particular issue

Other Points Raised

- View expressed of the difficulty of putting in place more than one pricing zone on the Island of Ireland if the GB market is split into different zones.
- Queries were raised on the interactions between financial contract markets to manage risks and changes to SEM design – firm forwards pool and the need for CfDs.
- Bilateral contracts markets option as presented under evolutionary heading was regarded by some as a revolutionary change.
- In the evolutionary options presented are the original objectives underpinning the SEM still valid?
- Queries were raised on evolutionary market options presented at workshop and how the firm prices and quantities are determined in each timeframe.
- It is possible that the move across Europe towards implementation of capacity payment mechanism will require changes to the target model.
- More attention needs to be given to the impact of various evolutionary options on the capacity payment mechanism.

All participants at the workshop would have appreciated more time to reflect on the issues raised but appreciated that the options will be fully described in the forthcoming consultation paper.

Next Steps

The next steps in the project process were outlined for attendees:

- ▶ SEM Committee briefing on issues November 29th
- ▶ Workshop discussions and slides will be published on website
- ▶ Observations from participants welcomed by 28th November
- ▶ November 21st – December 9th – project team drafting consultation paper
- ▶ SEM Committee December 19th to decide on publishing consultation paper and time for consultation
- ▶ In tandem: Department and European briefings and interactions
- ▶ Workshop 3 on consultation paper – January