CER
Commission for Energy Regulation
An Coimisiún um Rialáil Fuinnimh

Utility Regulator
ELECTRICITY GAS WATER

Target Model Next Steps Proposed Decision Paper

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Belfast, 27th November 2012

Consultation Paper

Commission for Energy Regulation
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- Explanation of the Target Model and identification of disparities between SEM and CACM
- Identification of drivers for present SEM market design
- Proposed evaluation criteria / high level objectives
- Four potential options for SEM evolution – SEMO / TSOs
- Options for SEM replacement outlined – BETTA, MIBEL, Nordpool
- Costs, legal considerations and initial evaluation of options presented
- Role of Member States in any redesign
- Consultation of 3 Months. Stakeholder workshops and bilateral meetings

Responses

- 22 Responses received
- Overall support for project and approach and views given on next steps
- Many respondents feel that SEM is a good market which has achieved its objectives but acknowledged need for it to develop
- Some argued for joining BETTA and/or adopting a BETTA style bilateral market
- Others argued that a pool is more efficient than physical bilateral market for small island system with high penetration of renewables
- Other key issues covered by the responses were:
  - Central v Self dispatch
  - The treatment of renewables and priority dispatch in a revised market design
  - Investment certainty and capacity payments
  - EMR

Proposed Decision Paper

- **Purpose of Paper:**
  - To set out **the SEM Committee's views** on the issues raised by respondents to the consultation
  - To issue a **recommendation to Departments** on high level principles, governance arrangements and next steps in the process
  - To set out **developments in our thinking** since the Consultation Paper was published:
    - central vs. self-dispatch
    - Renewables
    - Capacity mechanisms
  - To set out the **SEM Committee's decisions** and working assumptions on a number of issues

Proposed Decision Paper

- ***Recommendations to Government**:*

  1. ***High Level Principles*** for the Market

  a. Security of Supply, Stability, Efficiency, Practicality/Cost, Equity, Competition, Environmental, Adaptive

  b. New Principle – The Internal Electricity Market

2. ***Governance and Project Arrangements***

  a. DCENR – DETI JSG Sub Committee on TM implementation
  b. UK Ireland Steering Committee
  c. Regulatory Authority Project Office
  d. Joint Regulatory Arrangements with Ofgem
  e. A Stakeholder Forum on the European Internal Market

Proposed Decision Paper

- ***SEM Committee Proposed Decisions:***

1. European Target Model will be implemented in the SEM by 2016 in a **coherent and stable** manner

a. The Five Pillars of the Target Model:

- Capacity calculation and **zones** delimitation
- Cross border **forward** hedging and harmonisation of allocation rules
- **Day Ahead** market coupling
- **Intra-day** continuous trading
- Cross border balancing

b. A review of the **bidding zones in the SEM will be considered as part of** the implementation of the Target Model.

c. **SEM Design Stability to 2016**: We commit to maintaining the current structure of SEM until 2016 where possible and will not approve material market changes between now and then.

d. **Impact Assessment:** Redesigned SEM shall be subject to a regulatory impact statement consulted upon and a CBA, where appropriate

Proposed Decision Paper

- ***SEM Committee Proposed Decisions:***

2. Market Design:

a. ‘evolutionary options’ described in the consultation paper should not be pursued further.

b. SEM RAs will work jointly with Ofgem on efficiently implementing target model together both in SEM and BETTA

c. There will continue to be market power mitigation measures in the SEM.

3. Central Dispatch

- There will be a working assumption that changes to the SEM high level design will be based on central dispatch.

Proposed Decision Paper

- ***SEM Committee Proposed Decisions:***

4. Promotion of Renewable Energy Sources

- Changes to the SEM High Level Design should promote, where appropriate, the use of energy from renewable energy source, as set out in legislation

5. Capacity Mechanisms

- It is important that the total remuneration from energy payments, capacity payments and ancillary services is sufficient to ensure security of supply

- The capacity payments mechanism will need to avoid distortions in the internal market and comply with relevant EU rules

Proposed Decision Paper

- Comments invited on the SEM Committee's Next Steps Proposed Decision Paper, in particular:
  - recommendation to government on High Level Principles for redesign of the SEM to implement the Target Model
  - Dispatch reports
- All responses to be received by **noon on 21 December 2012**