Re: SEM-12-004 – Proposals for Implementation of the European Target Model for the Single Electricity Market

Endesa Ireland welcomes the opportunity to respond to this consultation on proposals for meeting requirements of the European Target Model for the Single Electricity Market.

We consider that this consultation paper has been useful in prompting questions about future market design and recognising that there does not seem to be a simple way to implement EU requirements. Given the complexity of the project, Endesa Ireland considers that it is imperative to approach this project from first principles.

Rather than selecting options to implement, at this stage efforts should be focused on developing a set of principles and objectives for the future of the electricity market on the island of Ireland; insofar as the requirements of European Market Integration are known, these should be incorporated. Criteria for the evaluation of any suggestions for changes to the market should also now be developed and this stage of the project could go so far as to identify initial reactions to the components which stakeholders would like to see in each of the four timeframes required by Market Integration Rules, that is Forward, Day-ahead, Intra-day and Balancing.

Endesa Ireland submits that it is too early to evaluate the options, and considers that the assessment included in Table 6 of the Consultation Paper can only be illustrative.[1] We would also note the importance of involving all stakeholders in this project; the project should be led by the RAs rather than the TSOs and should include the TSOs, DSOs, Market Operator, *market participants* and, if possible, representatives from European counterparts, all with equal influence.

As there has not previously been robust debate as to the objectives of market design and the Assessment Framework to be employed in this project and in circumstances where the Network Code on Capacity Allocation and Congestion Management has not been adopted by the comitology procedure and where Forwards and Balancing Network Codes have not been proposed[2], Endesa Ireland considers it premature to narrow down options for the future of the SEM. Any option chosen now, even if a decision was made between 'revolutionary' and 'evolutionary' options may prove to be unworkable, sub-optimal or non-compliant once the full suite of Network Codes is finalised. Other legislative proposals from the European Commission may also impose certain market design requirements, such as the Commission's recent consultation on Governance of Day-ahead Market Coupling.[3] Endesa Ireland notes that communications from the European Commission on the subjects of Renewables and the

[1] Endesa Ireland has a number of observations on that assessment, this is discussed further in question 10 below.
[2] Indeed ACER has not begun the consultation procedure for a balancing Framework Guideline to date.
[3] http://ec.europa.eu/energy/gas_electricity/consultations/doc/20120229_market_coupling.pdf

Internal Market are due this Summer and are expected to discuss the issue of capacity payments; these should be taken into account in this Market Integration Project.

Endesa Ireland considers that using the labelling of 'evolutionary' and 'revolutionary' options is unhelpful as it imposes an unnecessary parameter to potential solutions (a 'thinking inside the box' project). We consider that it would be more constructive to start with a list of principles and objectives, as determined by the process above, and to deduce the optimal design to fulfil those objectives and to comply with the requirements of Network Codes. We have also put forward a list of framework questions which we believe should be explored and debated at this stage, to be followed up by consideration of more detailed issues. We do not think it should be prejudged at this stage whether this design would include elements of current SEM design or the design of other established European markets.

Endesa Ireland is not in favour of change for change's sake and agrees with the RAs that the SEM design has brought significant benefits. To this end, Endesa Ireland is in favour of minimal change, but only if this can achieve compliance with European Union requirements and meets the objectives set for the new market.

We would also note that the Market Integration project is a very large piece of work that will require significant resources from all parties involved. CER has recently announced that work is being reprioritised due to significant resource shortages. The market integration project cannot be permitted to suffer due to resource shortages. We would like assurances that the project will be sufficiently staffed. We would note that CER is funded by industry participants and not by Treasury, so this will not affect government budgets.

1. **Do you agree that the SEM has met its objectives to date?**

Endesa Ireland considers that in general the SEM has performed well in meeting its objectives, such as the attraction of new entrants, which includes Endesa Ireland.

However, a number of changes to the SEM, such as reform of the Capacity Payments Mechanism and uncertainty over locational charges have resulted in there being uncertainty for participants which has the result of increasing risk and cost of investment; ultimately these changes will lead to increased costs for customers. The absence of a means to recover gas capacity costs are also problematic from a generator's point of view. Short-term gas capacity is a short-run marginal cost of generation that, according to licence, must be recoverable from the market. The BCOP must be amended to allow recovery of these costs.

In addition, the current ancillary service payments do not appropriately value the services being provided. The TSOs have indicated that they will look into the revenue adequacy of generators for the provision of system services. Endesa Ireland would note that this is highly

inappropriate. The RAs should be conducting this analysis; the TSOs are not experts in this matter and it is outside the scope of their responsibilities.

2. **Do you think that any further work should be done on the above projects separate to or as part of the Market Integration project?**

Endesa Ireland considers that work on the projects mentioned in the consultation paper must be done as part of the Market Integration project. We would propose that those projects should not be seen as separate and divisible pieces of work, but as component parts of any changes to the market for the island of Ireland and are managed as part of the Market Integration Project.

In particular, Endesa Ireland is alarmed that EirGrid have explicitly stated that Market Integration developments are not being considered in the DS3 project as this type of short-term planning does not provide the certainty needed by investors and may ultimately be inimical to customers' interests.

3. **What elements of the Target Model are most relevant for the island of Ireland and the France-UK-Ireland region?**

Endesa Ireland considers that all elements of the target model are relevant for the island of Ireland and the France-UK-Ireland region. All Member States will have to comply with all elements of the Framework Guidelines and Network Codes. All of the elements presented in Table 2 must be considered and it is submitted that no one element is of greater importance, they must be evaluated together and an optimum balance found.

A functioning forwards timeframe is necessary for suppliers and generators. The prevalence of competition in generation and supply and investment/market entry and exit decisions will be influenced by the operation of the forwards market. Endesa Ireland would like to see day-ahead, monthly, quarterly, seasonal and yearly (up to Y+5) products available. Suggestions in this paper that the forwards market would run a few hours ahead of the day-ahead market shows a lack of commercial understanding of the value of the forwards market.

Integration with the Day-ahead Price Coupling Algorithm is required; it is important for Irish generators and suppliers that they are able to take part on the same footing as participants in other parts of Europe. Rules around bidding, 'translation of bids' or other market rules should not put Irish or Northern Irish participants at a disadvantage compared to their European competitors or potential counterparties.

The ability for Irish generators and suppliers to partake in Continuous Intra Day trading will be important with increasing levels of wind on the island of Ireland and may help to ease curtailment. A meaningful participation at this timeframe will allow generators and suppliers to minimise the balancing they have to undertake in the balancing timeframe.

The design of a balancing element will depend on the design of the other market segments eg, if central scheduling and ex-post pricing are retained, or whether generators are able to self-schedule; different designs require different balancing incentives. In addition, until the Balancing Network Code is finalised it is difficult to know what the 'goal' is. Endesa Ireland welcomes the RAs' forthcoming work on the necessity or otherwise of central scheduling on the island of Ireland. The design of a balancing market will have an important impact on all participants.

4. **Are there other aspects of the European Internal Electricity Market that should form part of this consultation?**

Endesa Ireland considers that all forthcoming Framework Guidelines and Network Codes must be considered as part of this project, as must any other initiatives coming from the European Union, such as Day Ahead Governance proposals. Forthcoming papers by the European Commission on the subjects of Renewables and the Internal Market should be taken into account as part of this project, and are expected to address the issue of Capacity Payments.

In addition, ease of integration with the day-ahead and intra-day algorithms must be borne in mind at all times. Participants and customers on the island of Ireland must be enabled to avail of the benefits of market integration on a par with their European counterparts.

5. **Is continuous trading as applied in the Elbas market in Scandanavia an appropriate model for Ireland given the levels of wind expected on the system by 2020? What elements of the emerging design of the NWE Intra Day project (eg congestion pricing) are most relevant for Ireland?**

Endesa Ireland would have thought that all elements of the emerging design of the NWE Intra-day project are relevant for Ireland if we are to join that project, and understands that congestion pricing is required by Section 5 of the Framework Guidelines on Capacity Allocation and Congestion Management and is to be determined by the continuous intra-day algorithm. This is further discussed in Article 72 of ENTSO-E's draft Network Code on Capacity Allocation and Congestion Management.

Endesa Ireland is not well versed in the detail of the Elbas model of continuous trading but understands that Gate Closure is one hour before delivery and prices are set on the basis of a first-come, first serve principle. This approach has attractive features as it allows generators and suppliers a good opportunity to refine their positions quickly and with certainty, which is particularly important for generators with unpredictable output. However, one part of the new market cannot be decided on in isolation from the overall design. Without knowing the features of the rest of the market it is impossible to know if the Elbas model 'fits' and is most beneficial.

Endesa Ireland suggests that the focus should be placed on the high-level design of the market best suited to the Island of Ireland and what aspects of the SEM we wish to retain, along with the appropriate assessment criteria. We can then look to see if any market designs will fulfil the criteria.

We would note that if Ireland is to be part of the NWE region for intra-day trading, it must 'plug in' to the mechanism used in that region. It will be interesting to watch the implementation of the interim solution in 2012; it should provide lessons and further detail to Ireland in deciding what approach to take.

6. **What is your opinion on FTRs versus PTRs as the best approach for interconnectors on Ireland and Northern Ireland borders?**

Endesa Ireland favours PTRs on the basis that they reflect a real position.

Endesa Ireland is unsure what is meant by the statement in section 4.1 of ACER's Framework Guideline on Capacity Allocation and Congestion Management that 'Hybrid solutions, mixing PTR and FTR on the same border, shall not be permitted'. Does this mean that the UK must take the same approach with respect to all UK interconnectors? If so, the decision must be made jointly with the UK and any other potential connectees to Ireland.

7. **What elements of the SEM design are in your opinion not compatible with the Target Model?**

Endesa Ireland considers that compliance with the Target Model is a question of ensuring that trade is possible within the required timeframes, we consider that it is too early to know whether this can be done whilst maintaining the fundamental elements of SEM design. Rather than condemning elements of SEM we are hopeful that it will be possible to maintain those aspects of the SEM that participants agree are valuable and then look to develop options meeting these criteria that ensure that Ireland can fully engage with the European market, so that this can be assessed in choosing a final design.

8. **What elements of the SEM design can and should be retained when implementing the Target Model in Ireland and Northern Ireland?**

Endesa Ireland agrees with the RAs that the SEM has been operating successfully and believes that the core elements should be retained, so long as internal consistency and compliance with European requirements are ensured and all market objectives are met. To our mind the core elements include the maintenance of separation between energy, capacity and ancillary service payments as per current principles. In particular, we believe that the High Level Objective of the SEM should be maintained:

> *The wholesale electricity trading arrangements should deliver an efficient level of sustainable prices to all customers, for a supply that is reliable and secure in both the short and long-run on an all-island basis.*

We also consider that the following principles should be retained:

- Stable, transparent trading arrangements
- Cost-reflective pricing
- Explicit Capacity Payments
- Non-discrimination among participants
- Control of market power

However, even if elements of the current market are ultimately retained, Endesa Ireland believes that the changes necessitated by the Network Codes will be significant, constitute a market re-design and should be acknowledged as such. Endesa Ireland considers that the Evolution/Revolution nomenclature is misleading as all options involve significant change (except perhaps Option 4 if it is not linked to physical generation position).

9. What point on the spectrum of market designs is most suited to Ireland?

Endesa Ireland considers that SEM design has many advantages for Ireland given the features of the energy market here; however, the final option chosen must comply with EU obligations so it must strike a balance between fulfilling these obligations and objectives set as an outcome of this consultation process.

10. Do you agree with the SEM Committee Assessment Framework proposed above?

Endesa Ireland agrees that the Key Assessment Objectives for SEM Design as set out in section 6.4 should be retained, with some amendments. It is presumed that this is what is meant by the inclusion of headings in Table 4, even though there is some combining or re-wording of the titles of those objectives.

We consider that the assessment criteria themselves need some clarification:

The driving force behind the change to the market design is the need to comply with the EU requirements for the **Internal Market**. This should be an initial screen. Any design that does not meet this criteria is not worth pursuing. If we are not compliant, we would prefer to maintain the SEM.

In addition, a vision for market integration must be specified at the outset – this spectrum can be seen to range from minimum compliance to maximum harmonisation. The spirit of the Target Model is that there would be free trading and price convergence; for so long as prices are formulated in a different way in different markets there will not be convergence and we must decide what the ultimate aim for the market on the island is, as this will determine market structure.

The concept of **Security of Supply** is defined from the TSO perspective only; this is a multi-faceted concept and other aspects must be included, such as that the design should help to ensure an appropriate fuel mix on the island and sent robust investment signals to ensure generation adequacy. Endesa Ireland points out that the SEM Committee's Assessment in Table 6, which simply states that Central commitment is a benefit for short term security of supply is overly-simplistic and welcomes the RAs' commissioning of work in this area. The assessment of long term security of supply does not address revenue adequacy and fuel mix.

The concept of **Protection of Customers** must be specified; as set out in the consultation paper it is very broad and there is a lot of room for interpretation. This leads to decision-making that is not transparent. It is suggested that the 'Original Assessment Criterion' used in deciding SEM High Level Design can be adopted for this purpose '*The wholesale electricity trading arrangements should deliver an efficient level of sustainable prices to all customers, for a supply that is reliable and secure in both the short and long-run on an all-island basis*'. As this overlaps with other criteria included in the paper, we consider that it is unnecessary to include it as an objective on its own.

The objective of **Efficiency** must be interpreted more broadly than dispatch efficiency; the definition set out in section 6.4 may no longer be relevant *'Market Design should, in so far as it is practical to do so, result in the most economic (ie least cost) dispatch of available plant'.* The TSOs indicated at the meeting between NEAI members, RAs, TSOs and MO that the new principle for dispatch might be the minimisation of costs for deviation between market and dispatch schedule. This proposal would require detailed analysis in the context of an overall design before any decision is made.

In addition to the existing definition of **Adaptability and Stability,** this criterion should include the ease of incorporation of any future European Developments.

Endesa Ireland agrees with the description of the objective of **Equity** as set out in Section 6.4 but considers that it has not been correctly interpreted in the assessment of options in Table 6 of the Consultation Paper, where SEMO states that 'design is unlikely to be the deciding factor in considerations of equity' – in section 6.4 the criterion equity is elaborated 'The *market design* should allocate the costs and benefits associated with the production, transportation and consumption of electricity in a fair and reasonable manner'. Endesa Ireland does consider that market design is a key factor in allocating those costs and benefits and believes this criterion deserves deeper analysis, once a more detailed design/design options have been developed.

The criterion **Environment/Renewables** is a new criterion in addition to the initial SEM criteria. It is not clear what is meant by this. Under the SEM, the market design was to be blind to technology, to ensure the design worked for all technologies. Endesa Ireland considers that

this objective should be maintained; the market design should not discriminate in favour of any technology type.

As set out above, Endesa Ireland considers that it is premature to assess the options presented, as the assessment criteria have not been robustly debated, and there are a number of important details to be developed with respect to each option. Endesa Ireland has a number of observations on the assessment carried out by the SEM Committee in Table 6 but hopes that this can be discussed fully at a later stage in the process when the assessment criteria have been decided and the options are more developed. For example, the assessment under the criterion of 'Competition' asserts for Option 1 that 'provided it limits bilateral contracts is favourable to competition'; for Option 4 it is stated 'This option scores well on this criterion since it retains the SEM with complex bidding, thus making market monitoring easier and more effective' – Endesa Ireland does not consider that either of these opinions have been substantiated.

11. **Is the ranking of criteria/objectives the right one? Is the application of weighting factor appropriate? What weighting would you give each one?**

As stated above, Endesa Ireland considers that the compliance with Internal Market rules must be an absolute criterion, as Ireland and the UK will be subject to infringement proceedings if it does not comply; in that case both Member States would ultimately be required to put compliant arrangements in place, which would impose an even higher cost on customers.

Endesa Ireland considers that the Assessment Criteria proposed is too rigid; rather than ranking criteria, Endesa Ireland suggests that the RAs should seek to assess the options to find the solution with the best overall balance of benefits to allow for the implementation of the optimal solution, provided they meet the over-riding criteria of compliance with the Internal Market.

12. **What other criteria, if any should the SEM Committee apply when making its decision on implementing the Target Model?**

Endesa Ireland considers that a number of new criteria should be added:

Non-discrimination is a principle that must be respected by any market changes, this will include non-discrimination between generators or suppliers on the island and also that participants here do not operate at a disadvantage vis à vis participants in other Member States, for example capacity charges should not operate to inhibit exports and generators on the island of Ireland should be able to participate in the UK balancing market and vice versa. Also, if the forwards market is limited to IC capacity holders, and trades made were to be backed by physical generation this may cause discrimination concerns. This concept could be included in the **Competition** objective.

Endesa Ireland also considers that **Promotion of Efficient Use of the Interconnectors** should be included as objectives.

13. Do you support any of the above evolutionary options for the SEM?

Endesa Ireland considers that there are too many outstanding issues for clarification to unreservedly support any of the evolutionary options, but considers that Option 4 may have the potential to meet EU requirements and to preserve the positive benefits of the SEM to a greater extent than the other options presented. A preliminary question which must be clarified around this option is whether any CfD trades are to be backed by physical generation/flows, and how the mechanics of completing a CfD and the shipping agent's role would be addressed. The question of how the shipping agent's expenses, and payments made under CfDs are to be reimbursed must also be dealt with; it must be clear who is to bear these costs.

14. Are there any other options that you think would better meet the objectives?

Endesa Ireland considers that once objectives for the market have been finalised, when the full extent of the requirements of the Network Codes are known, when our neighbouring markets have completed their market integration changes and when the day ahead and intra-day algorithms have been finalised other options or sub-options may emerge. It is necessary to progress this project before that point, but there must be flexibility to adapt in order to incorporate the above developments.

15. Are these options, in your opinion, consistent with the Target Model?

As pointed out in this consultation paper there are a number of differences between the Target Model and the SEM Market, most of these would remain under the Options 1-4 as set out in the consultation paper, and a number of important queries as to how these options would work are set out in this response. However, the market on the island of Ireland does not need to match exactly the ideal target model, rather it must comply with the network codes as finalised by ENTSO-E and approved by the comitology process, so the question becomes whether it is compliant with those codes and meets the objectives set for our market.

Endesa Ireland considers that it is very difficult to answer this question at this stage, given that none of the network codes have been finalised, and a number of framework guidelines have not been completed. The intra-day and day ahead algorithms have not been finalised either, so it is difficult to assess how the Irish market would interact with them. Until such point in time as those elements are finalised it is difficult to conclude whether any option is fully compliant.

16. Are these options presented in sufficient detail for a high level design decision to be made?

Endesa Ireland considers that there are too many details outstanding for a decision to be made on pursuing one particular option, or on making a decision between 'revolutionary' and

‘evolutionary’ options. Rather, Endesa Ireland considers that the options presented have been useful in flushing out the type of outstanding details that must be addressed, some of which should be addressed as high level issues which may be used to develop a framework for the market design.

Endesa Ireland favours this project staying at a high level and defining objectives and principles at this stage. There are also a number of framework questions that must be considered at this point, to inform thinking and identify constraints. Endesa Ireland, as a member of the NEAI, has been involved in the communications and workshops set up by the NEAI to discuss questions on options posed by members – Endesa Ireland has considered those questions and clarifications provided by the RAs/TSOs/MO and considers the issues below to be the key considerations at this stage. A number of further questions will also need to be assessed at a later stage in the process.

Framework Questions

Central Dispatch & Scheduling

One such question is around the issue of dispatch and scheduling, whether central scheduling is absolutely necessary on the island, and if so, how the TSO would take scheduling decisions under the options presented. Endesa Ireland welcomes the work being undertaken by the RAs on the first question. Endesa Ireland considers that central scheduling is not a necessity, as the TSOs would maintain the final control over dispatch in the event of a problem. The limitation of options is not appropriate until this question has been fully considered.

Settlement and Credit Cover

Endesa Ireland believes that arrangements for credit cover will be an important issue in the new market. If elements of the SEM are carried over, requiring credit cover for each trading timeframe would impose large costs on participants and would constitute a barrier to entry.

Priority Dispatch

Arrangements for priority dispatch under any options assessed must be clarified, as must the costs imposed by those arrangements.

Legislation/Licences/ Duties

Another factor that must be considered is the limitations and obligations imposed by domestic legislation. The question as to whether this legislation can be changed, whether it is acceptable to both governments to do so (or whether they have any opinions on the matter) and the timeline for any amendment must also be considered. We acknowledge that this may have to wait for a later stage in the project but believe that it should not be left until a point where choices are restricted by parliamentary timetables.

The question has also been raised whether it is in the remit of the SEMC to decided on a regional market design, as their duties are limited to the SEM. This issue needs to be explored as a matter of urgency.

The need, and time required, to amend licences must also be borne in mind.

Further Questions

Market Prices/Capacity Payments

Endesa Ireland considers that a lot of work is required on how any ex ante price (if part of a developed option) is to be formulated. In particular the question of capacity payments must be addressed; Endesa Ireland considers that a capacity payment should be retained. Therefore the interaction of capacity and energy payments must be dealt with and it must be ensured that there is not discrimination between different participants.

Endesa Ireland is also keen that the new market design should not create barriers for participants from Ireland and Northern Ireland compared to participants in other Member States.

The continued relevance and role of the BCOP must be considered, and the issue of whether it would apply selectively to certain timeframes must be explored. Any discrimination issues that that may create should be assessed: for example, might a generator sell at a different price through the common algorithms than domestically, and is that an issue?

Interaction between Market Schedule and Dispatch

Endesa Ireland notes the TSOs' statement at the meeting arranged between the NEAI, RAs, TSOs and MO, that the TSO might make dispatch decisions based on the principle that it would minimise the cost of the difference between the dispatch and market schedules. This raises a number of questions and was not discussed in the consultation paper. This is a fundamental change to the market and will have significant impact on non-firm generators; this will need to be considered in any change to the dispatch procedures.

In addition, it must be considered how and when the market schedule is assessed for that purpose and what prices are used to calculate the cost of deviation – for example it was suggested at the meeting on 30/3 that there may be a within-day window for submission of dispatch bid. Another question is what point dispatch instructions affect how a generator can bid into subsequent timeframes – is a station assumed to be at a start point of its market or dispatch level of generation? Would this be impacted by overlapping trading days?

Having received a dispatch instruction away from its market position, let us assume that the station is dispatched up, may a generator then sell that extra generation in subsequent intra-

day opportunities. More generally, the issue of what a generator would be paid if its contracted position does not match its dispatch must be explored.

Endesa Ireland is uncomfortable with the idea that a third party would screen bids for feasibility or that a generator's complex bids may be 'translated' into simple bids for input to the day-ahead or intra-day algorithms. Endesa Ireland questions whether this is practically feasible and would strongly prefer that generators would remain responsible for their own bids; the logic of a balancing market is somewhat undermined by the screening of bids.

Endesa Ireland is alarmed by statements by the TSOs as to SO counter-trading in order to minimise constraints. Endesa Ireland believes that it is not the TSO's role to trade commercially, and considers that participants must be given every opportunity to trade out positions. With 1 hour gate closure, Endesa Ireland considers that participants should be able to position themselves appropriately, minimising the need for SO countertrades. Endesa Ireland wonders, if option 4 were adopted, whether the Shipping Agent would be responsible for trading out any positions that cannot be delivered.

These are the types of issues which must be considered before a decision is made on whether to proceed with any particular option.

Role of Balancing Market

Bearing in mind that draft Framework Guidelines have yet to be published on the subject, another crucial question is how the balancing market would work, whether imbalance prices are designed to be penal and based on real time or ex post prices. If so, participants must be given every opportunity to refine their position, which should not depend on whether there is available interconnector capacity.

The question of when balancing actions would be taken by the TSO must also be considered, for example would a generator who trips have an opportunity to trade out its position before the TSO takes action? The issue of whether imbalance prices refer to a particular generation unit or to a portfolio must also be thought through.

Further to the meeting of 30/3 Endesa Ireland understands the RAs position to be that the same imbalance price would apply to all ex-ante trades, regardless of the timeframe the trade took place in, and would be based on the cost of residual balancing actions by the TSO. This should be discussed further and assessed for suitability within all possible options.

17. **Do you agree with the assessment made above by SEMO and how do the above options measure up against the assessment criteria set out in Section 10?**

Endesa Ireland considers that it is too early in this market integration project to compare the options against a set of assessment criteria which have not been finalised. We consider that there are too many outstanding questions within each option to make a fully informed judgment. Endesa Ireland would prefer that the overarching objectives be set out at this stage, and the key questions outlined by participants and RAs so far be dealt with, such as central scheduling, dispatch decisions and implications, treatment of renewables, capacity payment mechanism, philosophy of the balancing mechanism, pragmatism of overlapping days and formation of ex ante price.

Endesa Ireland is perturbed that the SEMO Assessment uses different criteria than those described in Section 6.6. However, the assessment is worthwhile and the additional criteria used by SEMO should be evaluated to ascertain whether they should be added to the final assessment framework. The statement in the Price Formation and Liquidity category that in Option 1 the bilateral component of the option would have to be limited to 'avoid a wholesale move to a bilateral market' is not an objective assessment and demonstrates a prejudgment. The assessment for 'new entrants' which concludes simply that a pool market is attractive to new entrants is overly-simplistic.

Endesa Ireland considers that the statements by SEMO with respect to the Renewables criterion for Option 2 and Option 4 that prices paid to renewable generators would be mitigated by REFIT and ROCs must be debated; these schemes should not stay in place indefinitely and shortfall in remuneration (or by the same logic overcompensation) should not be hard coded into market design; a support scheme should not be used as mitigation. A similar statement is made by the SEM Committee with respect to Option 4 in Table 6.

18. **Should a pilot project be set up to explore the possibility of Option 4, by end 2012?**

If the RAs obtain assurance from the European Commission that Option 4 complies with EU requirements, Endesa Ireland would welcome a pilot project to explore the implementation of the option, provided the costs of doing so are reasonable. This would enable Ireland and Northern Ireland to engage with early developments by other members of the FUI region to introduce market coupling and day-ahead trading by joining either NWE or CWE. By being involved, all parties will gain knowledge and experience, and if the solution is shown to work and complies with EU requirements the need for change will have been minimised and the benefits of SEM preserved.

19. **Should the SEM be replaced by a completely new set of electricity trading arrangements in 2016?**

Endesa Ireland considers that it is too early in the Market Integration Project process to address this question. For the reasons set out above, Endesa Ireland does not consider it apt to definitively decide on one course of action, but has a general preference for maintaining the benefits of the SEM if possible. However, this preference is subject to that meeting EU requirements and fulfilling objectives decided on as an output of this consultation.

20. What are the advantages and disadvantages of the revolution approach discussed above?

Endesa Ireland considers that once the overarching questions outlined above have been clarified, these options and any others which emerge should be evaluated against the agreed assessment criteria. Endesa Ireland does not find the distinction between revolutionary and evolutionary options helpful as a framework for assessment, there is great variation within each category. Endesa Ireland does not consider that these options have been set out in sufficient detail to allow a full evaluation at this stage.

21. What are your views on the BETTA options discussed in this section?

Endesa Ireland considers that it is too early in this process to definitively support a particular option. As outlined above, as a general principle Endesa Ireland favours an approach whereby change to the current market design is minimised, so long as the new market is internally consistent and is compliant with EU requirements and assessment criteria decided.

The BETTA market is in flux, with the EMR project and the changes to that market that will be required by the network codes. In these circumstances it is not clear what exactly the BETTA market will comprise in 2016.

22. What are your views on implementing a Nord Pool or MIBEL-style market in Ireland and Northern Ireland?

As set out above, Endesa Ireland considers that it is too early in the Market Integration Project to reach a conclusion on any particular option. We have yet to define our objectives and our assessment criteria. In addition these options have not been explored in sufficient detail to evaluate.

Endesa Ireland also notes that those markets will not necessarily be compliant with the network codes, so changes to the markets must be monitored.

Endesa Ireland considers that it is not helpful to pick a market that the SEM will seek to emulate. Rather, we should set out the market objectives, then look to develop options that best meet these objectives. This is likely to be an amalgamation of different market designs.