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Date: 20 April 2012

Re: SEM Committee Proposals for Implementation of the European Target Model for the SEM – Consultation (SEM-12-004)

Dear Sirs,

I attach for your consideration the IBEC-CBI Joint Business Council Energy Stakeholder Working Group (JBC) response to the aforementioned SEM consultation, SEM-12-004.

We hope that you and the SEM Committee view these comments as constructive to both this consultation and the overall process. If you have any queries, please do not hesitate to contact me.

Yours sincerely

Erik O'Donovan

IBEC-CBI Joint Business Council
Energy Stakeholders Working Group



Introduction

The mission of the IBEC-CBI Joint Business Council Energy Stakeholder Working Group¹²³ (hereafter referred to the 'JBC') is to provide a voice for business on the island of Ireland, working in collaboration with its member companies and strategic partners, to sustain and develop economic co-operation and advance international competitiveness on the island of Ireland. Energy remains a key policy issue for the business community on the island. The JBC provides an all-island forum for debating and representing the views of IBEC and CBI members engaged in the provision and consumption of energy (primarily electricity and gas) on all issues relating to the fostering and development of a sustainable, competitive and cost-effective energy market for Ireland at: all-island; regional; and Community level. The Group seeks to influence and engage in constructive interaction with EU institutions, Governments, Regulators and other relevant third parties, primarily on energy policy issues.

JBC Response to SEM-12-004

The All-island Single Electricity Market (SEM) has been at the forefront of market integration initiatives in Europe since its implementation in 2007, when the two jurisdictions on the island of Ireland were integrated into a single pool market. The SEM is a significant economic and political milestone and a very welcome development as it provided the necessary structures to foster a competitive and increasingly liberalised energy market. The SEM reflects the central goals of energy policy laid down in the Lisbon Treaty. The SEM has delivered benefits to consumers in terms of energy security, increased renewable energy penetration and cost-reflective pricing. According to the Economic and Social Research Institute, "The new wholesale electricity market for the island of Ireland appears to be working well – it is producing a wholesale price that approximates the long run marginal cost that would apply in a large liquid competitive market."⁴

The JBC welcomes the broader move towards an internal market for energy in Europe. We acknowledge the advantages that such integration could bring, including enhanced competition and enhanced complementarity and economies of scale in meeting policy goals on energy security and sustainability.

¹ Irish Business and Employers Confederation (IBEC) <http://www.ibec.ie/energy>

² Confederation of British Industry (CBI) <http://www.cbi.org.uk/about-the-cbi/uk/northern-ireland/>

³ <http://www.jointbusinesscouncil.com/>

⁴ http://www.esri.ie/publications/search_for_a_working_pape/search_results/view/index.xml?id=3206



However, the implementation of Network Codes and Target Model by 2014/2016 will prove extremely challenging for an all-island market that currently operates a pool regime with long gate closures.

JBC welcomes this consultation and acknowledges the on-going engagement with the Regulators on addressing this challenge. We would like to complement the Project Team for their efforts to date. Nevertheless, we wish to offer some constructive comments on the current consultative process and some high level principles for consideration by the SEMC as this process evolves.

Process

- The consultation paper and the production of the seven technical options have provided a good initiation to potential routes towards the Target Model. The paper has served to reinforce to industry the importance and complexity of the challenge and the benefits of wider dialogue on the associated issues. However, to sound a note of caution, the technical complexity of the most recent phase of the consultation appears to have alienated consumers, who are a key stakeholder in the eventual outcome of the process. The consultation paper and the discussions at the various fora have also served to highlight areas where further dialogue is required and where the project could be enhanced to ensure the effectiveness of the overall process.
- JBC believes that there is insufficient detail on the issues associated with the proposed technical options and the potential implications for our stakeholders at a high level.
 - The consultation provides an assessment framework for decisions on implementing the Target Model. This framework expands the original criteria used in the high level design of the SEM to explicitly include compliance with the internal market and consumer protection. However the consultation only offers a qualitative rather than a quantitative evaluation of the seven options, using this proposed assessment framework. The lack of quantitative evaluation to date means that the implications of the options, whether benefits or risks, are difficult for market participants and consumers to adequately assess.
 - Concern has been raised by some members that the options cannot be seriously considered without the completion of four supplementary pieces of work on the treatment of: capacity payments; renewables; uplift and centralised dispatch. A holistic stakeholder view of the options is difficult until these four areas are understood better.
 - The implementation of the Target Model is taking place against a dynamic background e.g. evolving EU policy developments and Electricity Market Reform in GB. Stakeholder consideration of the options is difficult until this evolving policy context is understood better.



Recommendations

- While acknowledging the significant effort and positive engagement by the Project Team to date, the JBC believe that the consultative process should be augmented to enhance the effectiveness of the dialogue and the overall process. It is suggested that the project evolve further to take on a ‘top-down’ approach, whereby the high level design principles that should apply in the new market are explored, allowing appropriate objectives and assessment criteria that are suitable for the new market context to be discerned.
- In line with this, those aspects of the current SEM that have proved beneficial to both consumers and market participants should also be examined for consideration of their potential application in a new market context.
- JBC would welcome further clarity on the meaning of the proposed assessment criteria e.g. internal market, consumer protection and competition. The opportunity to explore additional assessment criteria, reflecting market and policy changes since the original high level principles were first developed (e.g. changes related to 2020 policy commitments and the evolution of the power system), should be considered. Appropriate weighting of the assessment criteria can only be applied once the final high level market principles and objectives are clarified.
- JBC would welcome further consideration and engagement on:
 - The four outstanding market considerations to this consultation – a programme plan that addresses these items holistically with milestones, analysis and consultation is encouraged;
 - The dynamic background to the Target Model e.g. clarity on how the SEMC consultation fits in with Ofgem’s current consultation⁵ on the implementation of the Target Model in GB would be useful; This could involve joint bi-laterals or information events with Ofgem and DECC.
 - How quantitative evaluation of the final proposed options against the assessment criteria for the benefit of both consumers and market participants will be undertaken. A cost-benefit analysis should be undertaken in this regard.
- Consideration should be given to supplementing the Project team resource by drawing in external market expertise.

⁵ <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?file=EU Target Model open letter.pdf&refer=Europe>



Principles

As stated, JBC believes that the principles, objectives and assessment criteria underpinning the implementation of the Target Model should be augmented to consider the following:

- Any costs incurred with new market arrangements that comply with the Target Model must deliver tangible benefits to business and consumers on the Island
- New market arrangements should enhance not diminish our energy competitiveness; our sustainability goals and our energy security
- New arrangements should be non-discriminatory between market participants in Ireland and the rest of the EU
- The System Operator should not have discretionary power to impact the commercial position of market participants
- The transition to new arrangements should provide an enduring solution that is able to adapt to further change. A piece-meal approach would create the potential for regulatory uncertainty and sub-optimal outcomes leading to unnecessary costs and obstacles to investment.

JBC calls for a positive dialogue on these principles.

In conclusion, progress has been made. The process to date has also highlighted the need for further work and engagement. JBC recommends that the process and underlying principles and objectives of this project be augmented. JBC hopes that these suggestions prove constructive to the process and looks forward to further positive engagement with the Regulators and SEMC.