

**Submission by Bord na Móna**

**to the**

**Implementation of the European Target Model for the SEM**

**Next Steps Proposed Decision Paper**

**SEM-12-105a**

**Date 21st December 2012**

## **Submission to the Implementation of the European Target Model for the Single Electricity Market, Next Steps Decision Paper**

### **Response to the Proposed Decision**

#### **Introduction**

Bord na Móna (BnM) welcomes and values the opportunity to contribute to the proposed decision on the Implementation of the European Target Model for the Single Electricity Market (the consultation), SEM-12-105a.

While it may appear obvious, it is essential that a primary objective of the redesigned SEM is to ensure that its structure allow investors to recover a reasonable rate of return for the risks involved in bring assets into the market. Not meeting this objective will ultimately result in market failure.

Given the breath of the topics involved, the high level nature of the proposed decision and the commitment from the SEMC to *'continue its inclusive approach'*, the commentary in this submission is based primarily around the SEMC's decisions contained in the consultation. However, while a market redesign should be a once in a generation event, the current transition in the power system is perhaps best described as a once in a lifetime event – and therefore this submission is heavily influenced by the need to ensure that the market redesign promotes our RES ambitions.

In the first instance, Bord na Móna concurs with the SEMC's definition that the task at hand is not merely compliance with a European Regulation but to implement the Target Model in a manner which best serves the interest of consumers and is best coordinated with the other strategic goals of national and European energy policy i.e. integration of renewables, promotion of competition, and security of supply.

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Secondly, BnM supports the principle of including as an addendum to the existing high level principles that the market design should efficiently implement the ETM and ensure efficient cross border trade.

### **European Target Model**

While it is acknowledged that the high level design of the European day-ahead and intra-day markets have been clear for a number of years, Bord na Móna contends that the final structure remains a moving target. To support this assertion, attention is drawn to uncertainty around the delivery of the NWE project, or closer to home the reforms being implemented in GB, which when ultimately bedded in and operational will have a discernable impact on the future all-island market. In addition, the EU Commission have stated their intention to commence assessments and possibly introduce formal structures in regard to how the European Electricity Market interacts with RES supports and Capacity Remuneration Mechanisms (CRMs), both of which have been identified in the draft decision as inherent components of the new market design. Both topics are discussed later in this submission.

### *Certainty & the ETM*

It is in light of the above, Bord na Móna in the interests of regulatory certainty, welcomes the commitment from the SEMC to effectively freeze the current design and operation of the SEM until 31<sup>st</sup> December 2016.

### *Capacity Calculations and Zones*

There are forthcoming obligations under the CACM Network Codes to carry out a review of the configuration of Bidding Zone(s) in a control area; the purpose behind these reviews is primarily to assess the efficiency of the configuration in relation to possible alternatives. The criteria for this assessment is based upon overall market efficiency taking into consideration factors including, but not limited to, economic surplus, liquidity, market power, effective competition, price signals, and transactional costs. Given the assessment criteria, it would appear difficult to carry out such an objective review without the actual market under assessment being operational in the first instance; noting that the SEMC have indicated that they will

not approve material market changes before 31<sup>st</sup> December 2016, it would appear reasonable that reconfiguring bidding zones would constitute a material change leading to the conclusion that it would not be logical or efficient to initiate such a review prior to 2017.

#### *ETM Markets - Timeframes*

The draft decision paper succinctly describes the principles and outlines the challenges which lie ahead for the market design across each of the proposed four timeframes. Bord na Móna appreciates the high level attributes of these descriptions and acknowledges that the Next Steps paper, by its nature is not the document to contain an exhaustive list of the detailed minutiae which needs to satisfactorily addressed.

#### *Interactions between the ETM and other areas of Energy Policy*

Bord na Móna welcomes the undertaking by the SEMC to adopt a holistic or ‘*joined up thinking*’ approach when re-designing the SEM to ensure congruence and coherence with other areas of Energy policy, in particular policy objectives and policy instruments used to promote RES-E and ensure national compliance with European obligations and targets – please see below the section on renewables.

#### *Impact Assessment*

Bord na Móna also supports the SEMC decision that the redesigned SEM will be subject to a regulatory impact statement and a cost benefit analysis. While the inclusion of the phrase ‘*where appropriate*’ may be a legal legacy from the drafting process; in the interests of transparency and in a desire to achieve the most optimum solution, Bord na Móna would advocate that the scope and terms of reference for the RIA and CBA should fundamentally capture the totality of the redesign.

### **Market Design**

Bord na Móna can now broadly support the proposed SEMC decision to no longer pursue the so called ‘evolutionary options’. However, Bord na Móna did suggest in our response to (SEM-12-004) that there is merit in further investigating the ‘overlying’ of financial instruments on the existing market structures. It appears that

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the SEMC are minded to revisit some elements of this option during phase 2 of the project, BnM would endorse such a proposal.

As regards the proposed decision to work jointly with Ofgem, BnM view such a relationship as being critical to the success of the SEM redesign.

BnM welcomes the fact that the SEMC have indicated that market power mitigation measures will continue in the redesigned SEM. Market power mitigation was previously part of a quartet including Central Dispatch, RES facilitation and CRMs which were earmarked for ‘further exploration’. The proposed decision expressly considers the latter three, but there is little examination of market power measures. It has been noted previously that the definition of the ‘market’ must not be too limited, so that current SEM participants are not disadvantaged, by the rules necessary to facilitate efficient cross border trade, relative to players in the wider integrated European market. However, this objective must be balanced with the continuation of ‘traditional’ market power mitigation measures in the ‘domestic’ market. Bord na Móna acknowledges that finding such a balance is not straight forward and will require detailed consideration.

### **Central Dispatch**

In previous submissions, Bord na Móna have contended that the technical requirement of the power system on the island of Ireland when seen in the light of ambitious RES targets would be best served by a system of Central Dispatch. Bord na Móna therefore welcomes the working assumption that the new SEM high level design will be based on central dispatch.

### **Renewables**

In the first instance, Bord na Móna welcomes the clarification provide by the RAs at the Belfast workshop (27/11/12) that the inclusion of ‘where appropriate’ qualifying the promotion of RES was superfluous and suggest that this position be reflected in final decision paper.

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As stated above, Bord na Móna roundly welcomes the SEMC's stated ambition of joined up thinking in relation to SEM redesign and wider Energy policy. The practical manifestation of supporting RES generation is the provision of Priority Dispatch in the market design. It also must be remembered that although wind is the preeminent source of renewable power, it is not the only one. Irish government policy has a stated position, included in the National Renewable Action Plan (submitted to the EU Commission) of promoting and supporting RES from biomass in hybrid stations via an approved REFiT scheme. A commitment to 'joined up thinking' suggests that the market redesign will facilitate an alignment with this policy such that hybrid plants generating renewable power can qualify for Priority Dispatch in a manner consistent with government policy and the underlying support scheme.

### **Capacity Payments**

Again Bord na Móna welcomes the proposed decision that capacity payments should form an element of revenue remuneration in the redesign SEM. However, it is critical that the capacity mechanism delivers on its objective of attracting necessary investment and insuring that such investments are sufficiently remunerated. The current mechanism employing the BNE approach has clearly failed – each year the result of the 'consultation' concludes that the BNE is a peaker located in NI, yet it is understood that the government in NI are considering introducing emergency legislation such that 'out of market' support can be offered to incentivise industry to invest in new plant on fears that generation adequacy is not sufficient. It is important to realise that the overall high level design of the BNE process remains fit for purpose, however, its failure to deliver optimum outcomes results from input assumptions that do not match reality, most notably the forced outage rate, the employed WACC and IMR reductions.

Notwithstanding the forthcoming European consultation on CRMs where the direction of travel appears to be benevolent support for capacity mechanisms in so far as there is harmonisation at borders and market distortions are minimised – it is essential that a redesigned CPM achieve the aim of attracting appropriate investment and ensuring that such investments are not stranded. In addition, the structure of the on-going DS3 program is beginning to take shape; primarily this program is

examining what system services will be necessary to ensure the safe and secure operation of a power system with world leading levels of system non-synchronous penetration. While possibly convenient and potentially attractive from an ‘optics’ perspective, the future merging or intermingling of these two distinct revenue streams must be avoided.

### **Governance & Project Management**

There has been considerable debate over the level of consultation and the governance of the project to date. Bord na Móna attended the recent Belfast workshop and are also privy to the discussions from the recent bilateral meeting between the RAs and the EAI (20/12/12). In first instance, Bord na Móna welcomes the renewed level of engagement and is four square behind the comments contained in the EAI submission to this proposed decision – it would therefore be superfluous to simply ‘cut and paste’ the EAI position into this document.

### **Conclusion**

Bord na Móna has examined SEM-12-105a and commented on each of the proposed decisions published by the SEMC. First and foremost it must again be reiterated that the enduring success of the redesign will be predicated on structures which provide a reasonable rate of return for investor who deliver assets into the market.

In summary Bord na Móna broadly welcomes the majority of conclusions reached by the SEMC including but not limited to the commitment to ‘freeze’ the current market design until the end of 2016, the ambition of joined up thinking aligning the new SEM with wider Energy policy objectives and the working assumption of central dispatch in the redesigned market.

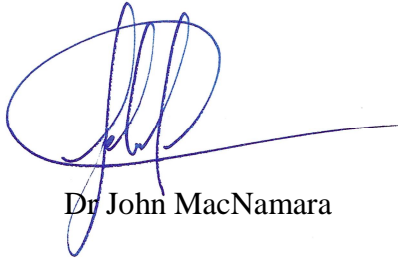
Bord na Móna also support a market redesign with an objective to promote RES. Priority dispatch is the practical manifestation of this high level objective – this submission highlighted that wind is not the only source of RES and that Energy policy in Ireland supports hybrid stations, concluding that qualification for priority dispatch should not frustrate government policy. The submission also commented on the need

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for the future CPM to be operationally fit for purpose and reiterated that the temptation to ‘merge’ capacity payments and remuneration for system services must be avoided. Finally, BnM supports the EAI’s position around the future governance and consultative process necessary for the optimum delivery of the ETM project.

Bord na Móna will continue to enthusiastically engage with the RAs and other stakeholders in this consultation process.

For and on behalf of  
Bord na Móna,



Dr John MacNamara

21<sup>st</sup> December 2012