



EAI Response to SEMC Next Steps Proposed Decision Paper
on the Implementation of the European Target Model for the
Single Electricity Market

EAI Response

Status: Final

Date: 03/12/2012

Contents

1	INTRODUCTION	4
2	GENERAL COMMENTS	4
3	HIGH LEVEL PRINCIPLES FOR THE MARKET	4
4	PROJECT PROCESS AND GOVERNANCE.....	5

The Electricity Association of Ireland is the trade association for the electricity industry on the island of Ireland, including generation, supply and distribution system operators. It is the local member of Eurelectric, the sector association representing the electricity industry at European level.

EAI aims to contribute to the development of a sustainable and competitive electricity market on the island of Ireland. We believe this will be achieved through cost-effective pricing and a stable investment environment.

Electricity Association of Ireland

Tel: +353 1 7027605

www.neai.ie

1 INTRODUCTION

EAI (the 'Association') welcomes the opportunity to respond to the SEMC Next Steps Proposed Decision Paper ("the Paper") on the Implementation of the European Target Model for the Single Electricity Market. We have structured our response around the following points

- General Comments
- Key Issues Raised by the Paper
 - o High Level Principles
 - o Project Process and Governance
 - o Market Design and Implementation
- Conclusions

EAI understands and fully supports the objectives of the project. We are also cognisant of the timescales within which the project must be completed and the Association is eager to ensure that the process supports the achievement of an effective market design within these timescales. We have engaged constructively at all stages with the project and will continue to do so for the duration of the project to the extent that the governance structure allows.

2 GENERAL COMMENTS

EAI's principle concern is with the governance of the project to date and the suggested governance going forward. To that end, this response focuses on identifying areas and processes for ensuring that the project includes a transparent and timely engagement with its stakeholders.

The level of consultation and consideration of the commercial aspects of the market design must be commensurate with the risks that are faced by market participants operating and entering the market. In that regard, we believe that the market design project should entail an intensive consultation phase incorporating an inclusive engagement process with **all** stakeholders, such that the new market design and analysis underpinning decision making, reflects, stakeholder views and considerations. This in our opinion will ensure the delivery of an effective market design within the timescales necessary.

While recognising that decisions ultimately rest with the RAs/Departments as appropriate, we would urge that going forward the rationale behind decisions are evidence based and transparent - full consideration must be given not only to system related issues but also commercial impacts. We do not consider that this has been the case to date but it must be the case going forward.

3 HIGH LEVEL PRINCIPLES FOR THE MARKET

EAI accepts the SEM Committee recommendation in relation to the High Level Principles, adapted from the existing SEM High Level Design (HLD) Principles, for the Market to integrate

with the Internal Electricity Market, whereby the market design should “efficiently implement the European Target Model and ensure efficient cross border trade”.

It is important however that this design, while complying with the Target Model, ensures competitiveness on the island of Ireland, such that participants and customers are not disadvantaged relative to European counterparts.

4 PROJECT PROCESS AND GOVERNANCE

The EAI welcomes the commitment to maintain the design stability of the SEM to 2016 without material market changes in the interim.

The commitment to regulatory impact assessments is also a welcome inclusion, however, EAI also believes that rigorous cost benefit analyses must be conducted at key decision points throughout the process and in particular for any proposed design changes. This analysis must take account of the entire spectrum of costs/benefits including market participants’ costs.

To provide for robust assessments it is imperative that the project engages with and includes the perspectives of industry participants. The forum proposed in relation to European issues such as network codes is welcomed. There are useful elements in the governance structures proposed, however we would make the following recommendations, which we believe will greatly enhance the utility and progress of the Forum, namely:

- The Forum should be inclusive of the entire internal market development process - dealing appropriately with Framework Guidelines, Network Codes and Comitology;
- A fluid or joint chair arrangement should be adopted whereby the chair is linked directly to specific item(s) under discussion (i.e. chaired by RAs when discussing Framework Guidelines, TSOs for the Network Codes, and Government Departments for the Comitology stage) with attendance by a representative of the RAs, TSOs, Departments, at each meeting;

Furthermore at the time of Network Codes consultation we would propose that the forum meet to go through technical or commercial details and drafting on a line by line basis where appropriate - this is necessary for stakeholders to gain a proper understanding of the issues at hand as well as to provide effective input to the process.

- Engagement should be on a regular as well as timely basis particularly in advance of key development points in the process (i.e. Draft FG publication, Draft code publication and pre-comitology stages). We note that the level of engagement from ENTSO-E at a European level with regard to some of the network codes has been far from adequate, and we would not like to see such a practice mirror itself in an Irish context.

Industry Governance Group

The Paper does not appear to give the same focus to the SEM integration project as to European developments. In fact we note that no explicit provision for industry engagement with the SEM integration project itself has been outlined in the Paper. While we do not doubt that engagement will be a key part of the RAs endeavours, given our opinions expressed above we would welcome concrete proposals at this time.

On that basis, the EAI recommends:

- The addition of a 'SEM Integration' specific stakeholder group to the project governance arrangements to incorporate:
 - o A 'project' stakeholder forum, inclusive of government departments, regulatory authorities, industry participants and system operators, to meet monthly or more often as necessary, to receive reports on the progress of the project;
 - o A 'design' stakeholder forum to discuss the various and specific topics under consideration **both before and during** the formal consultation process;
- A project work programme detailing timelines, milestones, key activities, consultation periods along with the appointment of an experienced and dedicated programme manager.

We believe such a grouping would allow market participants to pro-actively contribute in advance of public consultations being issued as well as during the consultation process and should allow for more robust and timely decisions.

It is also possible that some of the industry structures employed in the original SEM Design could be re-established and applied for the 'Integration Project' - this could be incorporated under the auspices of the proposed Project Office. While this could be beneficial, improvements can always be made. It is incumbent on the RAs to ensure that sufficient time is given for participants to formulate opinions on topics and that their views are considered in advance of key decisions. The RAs must also ensure fair and balanced engagement with industry whereby commercial impacts of design decisions are given equal status with system issues. This is critical for the achievement of an efficient and timely outcome.

Industry Representation

As suggested previously, we believe that the project team would benefit from the use of a SEM practitioner. This resource would provide expertise and would report to the project as any other resource. The resource need not be an EAI member, but a party familiar with the commercial and operational aspects of the market from a supply and generation perspective.

In our experience, no project of this complexity has been successful without the necessary resources, full transparency, meaningful engagement and ample opportunity to challenge. Our members look forward to engagement on this basis moving forward.

5 MARKET DESIGN AND IMPLEMENTATION

The EAI welcomes the decision to no longer pursue the ‘evolutionary options’ proposed in previous Consultation Paper.

We note the decisions to review the bidding zones in the SEM and to develop a capacity mechanism which, combined with energy and ancillary service payments ensure total remuneration for market participants. The EAI urges the RAs to consider the investments made to date as well as security of supply issues for areas affected by transmission constraints when considering these aspects of the market.

The EAI also notes the proposed decision on central dispatch as a “working assumption” upon which any future design will be based, however, it is not clear what this achieves at this stage. With reference to this working assumption the EAI has the following comments:

- To date, no clear definition on whether central dispatch incorporates central scheduling/commitment has been made. The EAI calls for clarity on this subject;
- By taking this decision on dispatch, SEMC is making a fundamental design decision while still at the “agreement on principles and objectives” stage of the project. Making such an assumption in advance of detailed design or substantive analysis could unduly increase project risk and ultimately cost. Good process calls for the consideration of all feasible options, with the support of independent market design expertise and consultation with market participants as the process develops.
- It was the expectation of the EAI that the examination of the dispatch issue, as well as Renewable Integration and Capacity Mechanisms, and Uplift would be consulted on with stakeholders in advance of the publication of a Proposed Decision on the issues. As raised in the previous section, this is concerning for our members and we ask that in future all issues are consulted on, with a full impact assessment where possible, in advance of a Proposed Decision being made.

Finally, with respect to **renewable energy sources**, the EAI notes the decision with regard to RES and that the SEM Design should “promote *where appropriate* the use of energy from renewable energy sources”. Although we welcome the commitment to promote renewable energy sources, clarity is required with respect to the provision of “where appropriate”. Specifically, clarity is needed around the criteria which would indicate when it is ‘appropriate’ or when it is ‘not appropriate’ to promote renewables.

6 CONCLUSION

The EAI welcomes the proposed decision paper as the next step in the process of compliance with the Target Model. Our concerns primarily centre on the risks posed by a highly complex

project which must be completed within a set timeframe and the process on which such a project is driven. We therefore urge the following enhancements to apply going forward:

- A proactive and timely engagement process with consideration of all stakeholder opinions;
- Improvements to the governance structures as proposed;
- Clarity on specific items where noted above;
- Evidence-based decision making at all times with rigorous cost benefit analysis at key points where appropriate.

In all of this we believe an objective source of market design expertise with sufficient resources is crucial and that any such resource(s) is independent, such that it is not aligned with any licence holder in the SEM.

We remain available to engage with and assist the Regulatory Authorities wherever possible and look forward to further discussion on this matter.