



**ESB Response to Implementation of the  
European Target Model for the SEM  
Next Steps Proposed Decision Paper**

**SEM-12-105a**



## Introduction

ESB welcomes the opportunity to respond to the SEM-C Next Steps Proposed Decision Paper. Given the timescales for compliance with the Target Model, we are eager to engage fully and constructively with the RAs at all stages of the process and look forward to further discussions on this matter going forward. Our comments in respect of the process, SEM re-design options and ESB's position are highlighted below.

### 1. Project Governance Process

In our previous submission on the issue of SEM integration with the Target Model, we stressed that it was important that market participants, TSOs and other stakeholders were provided equal opportunity to engage with and influence the eventual choice of market design. ESB reiterates this point and seeks full, meaningful and timely engagement in the subsequent phases of the project going forward to include the provision of an equal platform for consideration of system as well as commercial issues. ESB welcomes the proposed governance arrangements regarding European market developments and, in an effort to enhance the arrangements further, would make the following suggestions to assure industry is fully engaged with the process:

- i) A stakeholder forum on European Framework Guidelines, Network Codes and Comitology, jointly chaired between the RAs, TSOs and Government Departments
- ii) A SEM re-design stakeholder forum chaired by the RAs, whereby industry views are afforded the opportunity to submit opinions in advance of decisions such that markets practitioners are embedded in the process and their views fully considered in any re-designed SEM
- iii) A commitment by the RAs that future engagements/analysis by TSOs/MO on this subject is published and consulted upon in advance of decisions
- iv) Cost benefit analysis/impact assessments to be published in advance of/as part of consultations on key issues (e.g. High Level Design)

ESB remains committed to supporting this project going forward and will engage constructively at all stages of the process, while having due regard to our commercial risks that are incumbent on us to protect.

### 2. SEM High Level Design

Despite having concerns with the level of engagement afforded industry on the topic, used to reach the decision, ESB is broadly supportive of the SEMC decision that a working assumption for changes to the SEM high level design will be based on central dispatch.



That said, in our response to the initial consultation on Proposals for the Implementation of the European Target Model for the SEM, ESB pointed out that we believe the expanding BETTA option had distinct merits (in terms of lower implementation costs) over and above any option to replace SEM in its entirety with a new set of market rules and systems. We also believe that a larger market (as would be the case in a conjoined British-Irish electricity arrangement) would bring benefits, to practitioners and consumers, not available in a smaller market. We still believe this to be the case and therefore, should the working assumption of central dispatch become untenable in the course of high level design drafting, we would urge the RAs to give serious consideration to the expanding BETTA option as a valid design option, the merits of which are assessed equally and without prejudice against other high level design options via rigorous cost benefit analysis.

### **3. Clarification of ESB's position**

In the Next Steps Proposed Decision Paper's discussion on respondents views on SEM re-design options, the RAs have commented on one respondent's arguments for a move to a bilateral trading arrangements as well as the detail that respondent provides regarding price reductions in NETA. While the respondent is not specifically named we believe they are attributable to ESB's submission, furthermore we believe our views have been misinterpreted by the RAs in this discussion section. We would like to take this opportunity to clarify our position:

- ESB did not argue "for a move to bilateral trading arrangements to replace the SEM on the grounds that it would mean closer market integration with GB and beyond." As stated previously ESB argued that the expanding BETTA option had merits (primarily in terms of cost implementation) and encouraged the RAs to explore this further. Indeed ESB explicitly stated in its response that we did not believe "a specific bilateral market for SEM would be prudent...".
- In an effort to demonstrate potential benefits for consumers from what would be a similar change (were the expanding BETA option followed), ESB suggested that it was "more plausible than not" (on the basis of independent reports) that market design changes may have been a contributory factor for some of the price changes observed in the move from the England & Wales Pool to NETA. This view is in line with that of the Regulatory Authority in GB, the UK Government and the National Audit Office and is not purely an ESB claim.

### **4. Additional Comments on SEMC Decisions**



- ESB accepts the continuation of market power mitigation measures in the SEM and believes that the Bidding Code of Practice should be retained as the primary mechanism in this regard.
- ESB welcomes the proposed decision that design changes should promote Renewable Energy Sources, however we would seek clarification from the RAs as to the meaning of any potential caveat to this commitment by the use of the term “where appropriate”.
- ESB welcomes the commitment from the SEMC for sufficient remuneration from a combination of energy, capacity and ancillary services payments to ensure security of supply and avoid market distortions, particularly in light of the recent EC communique on this subject.