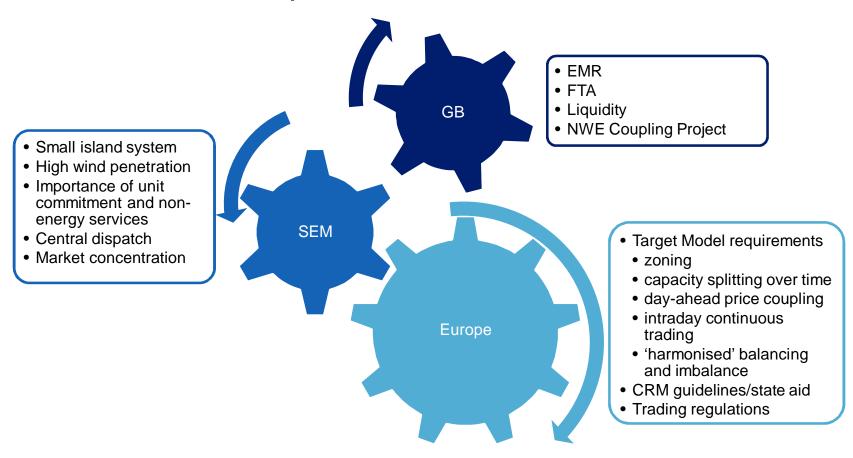


PÖYRY'S VIEW ON MAIN ISSUES FOR PHASE IF OF THE REVIEW OF THE SEM HLD

14 October 2013 Gary Keane

The wider policy context for the Market Integration project is complicated and continues to change

We have extensive experience across all of these issues – both through project work and contributions to public debate





It is important not to forget the range of other issues facing the SEM and its participants

Regulatory change

The Market Integration project

Scheduling and dispatch

Capacity payments (emerging European positions)

Liquidity and market power mitigation

EMR in NI

Tie-breaks in curtailment situations

DS3 (ROCOF and system services)

REMIT, MiFID and market monitoring

Integration of new technologies (storage & DSU)

Networks and retail

Future TUoS & DUoS

Grid25 & RP5

Retail competition

Smart metering

Directed (& Non-) contracts

GUAs

PSO levy

Grid code compliance

Generation mix and price formation

Fossil fuel & carbon prices

Interconnection

High capacity margins

Gas transportation costs

IED implementation

Great Island CCGT

Unit commitment, complex bidding and consequential

impact on prices

Losses on interconnectors

State asset sales

Renewables and carbon

REFIT 2 & 3

FIT CfD

Curtailment & constraints

Grid connection & planning

Future wind load factors

Export projects

Financing

Non-wind renewables

Status of hybrid plant and EfW

De Minimis threshold & Intermediary arrangements



The critical issues for the implementation of the Target Model in the SEM relate to commercial arrangements close to real-time

The DS3 programme will address the arrangements for the procuring of balancing reserves

Zone definition (Pillar I)Formal review requirements

Capacity calculation methodology (Pillar I) Current approach fine for subsea HVDC links

Allocation of capacity between timeframes (Pillar II)
Methodology to be approved, particularly for balancing (and intraday)

Forward (Pillar II)
Harmonisation, including common platforms

Day-ahead (Pillar III)
Bid format, algorithm & timings

Intraday (Pillar IV)
Implicit continuous & short gate closure

Procuring balancing reserves (Pillar V)
Greater cross-border harmonisation

Activating 'balancing energy' (Pillar V)
Greater cross-border harmonisation

(Pillar V)
Balance responsibility – allocation and incentives

Imbalance settlement



We will work to resolve the dilemmas at the heart of how best to implement the Target Model in the SEM

These dilemmas may be perceived and/or real – however, it is clear that operational realities will challenge the 'one size fits all' EU market template

Price coupling

versus

efficient unit commitment

Continuous implicit trading up to 1 hour gate closure versus

TSO (central) dispatch requirements

Arrangements for balancing and imbalance

versus

promotion of renewable energy

Comparable cross-border prices

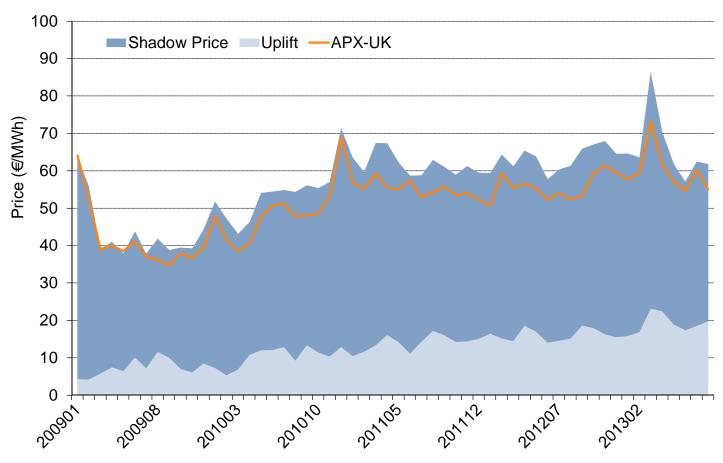
versus

national capacity mechanisms, bid structures and price algorithms



Can price coupling arrangements deliver efficient unit commitment, which is so important for the Irish system?

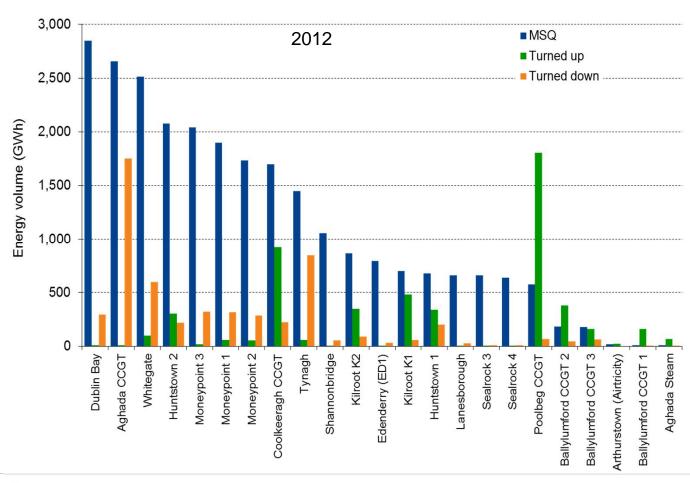
Even under current SEM arrangements, start-up and no load costs increasing in importance in consumer bills – highlights importance of including this in the optimisation





How will continuous intraday trading interact with the ability of the TSO to dispatch the system?

System dispatch increasingly influenced by factors not recognised in trading of standard energy products





Any changes to the arrangements for ex-post pricing will need to consider the impact on renewable energy

The Target Model uses the term 'imbalance settlement' to refer to ex-post pricing

Balance Responsible Party means a market participant or its chosen representative responsible for its Imbalances.

Changes to the SEM High Level Design should, in line with our statutory duties, promote, where appropriate, the use of energy from renewable energy sources, as set out in legislation.

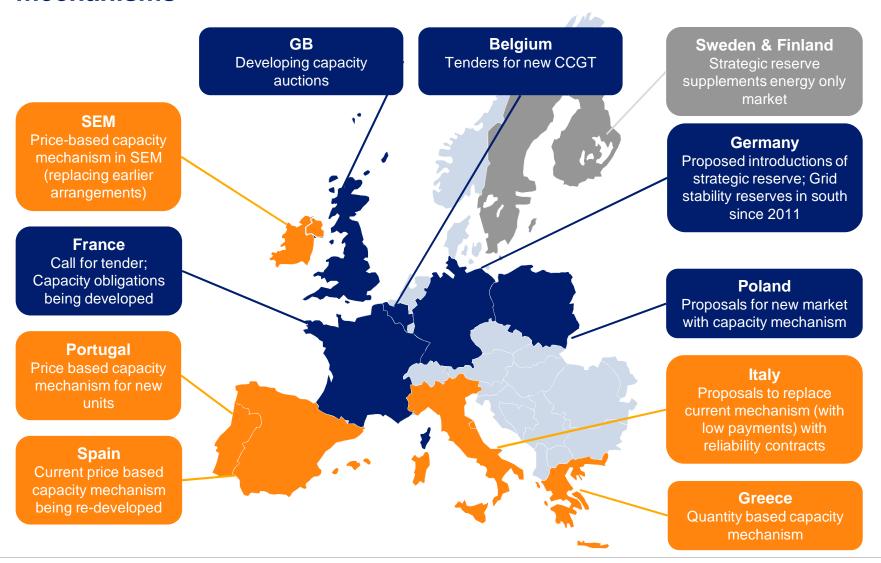
Imbalance arrangements

Each TSO shall design the Imbalance Settlement mechanism in order to encourage Balance Responsible Parties to be balanced as close to the physical reality as possible

It will not rely on a process whereby market participants are required to enter into matched physical bilateral contracts and where there are financial penalties imposed for not doing so



There is a fierce European debate on the future of national capacity mechanisms





This will be a high-profile, challenging and interesting project – positive engagement with industry required for success

SEM is not facing these issues alone – discussions here will be reflected in wider European debate about the market integration process

Price coupling versus efficient unit commitment

Continuous implicit trading up to 1 hour gate closure versus TSO (central) dispatch requirements

Arrangements for balancing and imbalance versus promotion of renewable energy

Comparable cross-border prices versus national capacity mechanisms, bid structures and price algorithms

Coherent
alignment of
rewards, risks
and
responsibilities
(across
scheduling and
dispatch)

solution that delivers real benefits for Irish consumers timely and robust elivering workable,





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