Integrated Single Electricity Market (I-SEM)

High Level Design for Ireland and Northern Ireland from 2016

Consultation Response Template

5 February 2014

Table Contents

1 PURPOSE OF THIS DOCUMENT

1.1 PURPOSE AND STRUCTURE OF THIS DOCUMENT

1.1.1 This supplementary document provides a template for responses to the consultation document on implementing a new High Level Design ('HLD') for the Integrated Single Electricity Market (I-SEM) in Ireland by the end of 2016. We request all responses to the consultation are submitted in this template, and in **Microsoft Word** format.

1.1.2 This template contains the questions presented in the consultation document.

1.1.3 Responses to the Consultation Paper are requested by 17.00 4th April 2014. Following a review of the responses to this paper the SEM Committee will publish its draft decision on the proposals set out in this paper in June 2014.

1.1.4 Responses should be sent to Jean-Pierre Miura (JeanPierre.Miura@uregni.gov.uk) and Philip Newsome (pnewsome@cer.ie). Please note that the SEM Committee intends to publish all responses unless marked confidential[1].

Jean-Pierre Miura
Utility Regulator
Queens House
14 Queen Street
Belfast
BT1 6ED

Philip Newsome
Commission for Energy Regulation
The Exchange
Belgard Square North
Tallaght
Dublin 24

[1] While the SEM Committee does not intend to publish responses marked confidential please note that both Regulatory Authorities are subject to Freedom of Information legislation.

2 CONSULTATION QUESTIONS

2.1 RESPONDENT DETAILS

COMPANY	Moyle Interconnector Limited
CONTACT DETAILS	Mutual Energy Ltd First Floor The Arena Building 85 Ormeau Road Belfast BT7 1SH
MAIN INTEREST IN CONSULTATION	Interconnector Owner

2.2 GENERAL COMMENTS

- As the interconnector owner we are concerned about the level of financial exposure relating to transmission rights and call for further discussion and more details.

  We would like clarification, relating to all of the market designs, as to who will underwrite the firmness of both Physical Transmission Rights (PTRs) and Financial Transmission Rights (FTRs). We wish to understand the exact role for interconnector owners with respect to issuing, settling and underwriting these products.

  If a FTR or a PTR is held firm from a particular point of time, what level of firmness is expected? Timeframes and associated firmness need to be defined. We would like to see detail on the absolute financial level / exposure and how the counterparty underwriting these rights is expected to back-out this exposure.

  A cap on financial exposure for underwriting such trades is necessary; such as the revenue cap methodology envisaged by the Forwards Capacity Allocation network code. Interconnector owners cannot face unlimited financial exposure. If compensation for the full market spread is expected, the counterparty needs the capability to honour the liability.

  The financial structure of companies bearing this risk needs to be taken into consideration; specifically mutualised companies such as Moyle Interconnector. As a mutual company we cannot underwrite fullness of open ended liabilities.

- Further detail on the financial regulatory obligations energy market participants may face needs be clarified and how the final market will work if multiple regulators are involved.

- Whilst also being reviewed under DS3, Ancillary Services, specifically reserve is something to be considered in the market structure.

2.3 PURPOSE OF THE DOCUMENT (SECTION 1)

Question	Answer
• Which option for energy trading arrangements would be your preferred choice for the I-SEM market, and why?	• Our preference would be a market structure based on the design of Option 3, but refinement is required before it is fit for purpose (see section 2.8). We want effective DAM pricing – which in turn needs liquidity. Ultimately DAM is the reference market, throughout Europe, that will lead to establishment of regional market price indexes. Ireland is too small a market to try to change this and we believe it is better to work with Europe on this. We believe this market structure will most help liquidity for DAM.
• Is there a requirement for a CRM in the revised HLD, and why?	• Yes. Due to the high level of intermittent generation, the proportionately large unit size to demand ratio and the isolation of the NI, ROI and SEM systems a CRM is required to ensure reasonably priced investment. • CRM provides a stable background for investment in new generation. CRM, applied in a strategic way, may also be used encourage and reward flexible and responsive technology, which is desirable given Ireland's large percentage of wind generation. Price signals and incentives should aim to reward capacity for being there at times of system stress.
• If there is a requirement for a CRM in the revised HLD, what form would be your preferred choice for the I-SEM, and why?	• Our preference would be for a form of price based CRM, which recognises the value of interconnectors. We prefer the Long Term price structure as it provides ex-ante prices in a predictable and certain way.

2.4 TOPICS FOR THE HIGH LEVEL DESIGN OF ENERGY TRADING ARRANGEMENTS (SECTION 4)

Question	Answer
• Are these the most important topics to consider in the description of the HLD for the revised energy trading arrangements for the single electricity market on the island of Ireland?	• Yes
• Are there other aspects of the European Internal Electricity Market that should form part of the process of the High Level Design of energy trading arrangements in the I-SEM?	• See section 2.2 “General Comments” with respect to firmness and other comments.

2.5 SUMMARY OF THE OPTIONS FOR ENERGY TRADING ARRANGEMENTS (SECTION 5)

Question	Answer
• What evidence can you provide for the assessment of the HLD options with respect to security of supply, efficiency, and adaptability?	• Please see individual market design responses for our overall evaluation of each market design.

2.6 ADAPTED DECENTRALISED MARKET (SECTION 6)

Question	Answer
• Are there any changes you would suggest to make the Adapted Decentralised Market more effective for the I-SEM (for instance, a different choice for one or more of the topics or a different topic altogether)?	• Certainty could be achieved by a move towards a more mandatory approach in participation, for example a requirement to have a minimum participation in ex-ante markets, although this would undermine the flexibility and voluntary characteristics of the market. However, in implementing a measure as such, it could reduce the risks of poor liquidity by non-participation in the ex-ante market. A consequence of poor liquidity will be an unreflective DAM price.
• Do you agree with the qualitative assessment of the Adapted Decentralised Market against the HLD criteria? If not, what changes to the assessment would you suggest (including the relative strengths and weaknesses of an option)?	• We believe the ex-ante DAM price for settling interconnector flows is good for providing certainty for trading and market coupling and support this characteristic in this market. • The specific arrangements to promote liquidity in the DAM and IDM, such as gross portfolio bidding, may be counteracted by the voluntary participation which allows participants the choice of where to trade. We agree that poor liquidity will be detrimental to the DAM price, when reliant on voluntary trading. An effective price signal is important for interconnector trading and price coupling. • As noted in the above section, the main recommendation we can make to offset this risk would be to implement a minimum level of participation. Otherwise this option allows for market participants to "*sit back and do nothing*" in all the ex-ante markets. It is also possible that all ex-ante trading could take place in the forwards market resulting in a weak DAM and IDM. • We also believe further details, with respect to specific measures to encourage liquidity, are required to ensure fair play and competition. In absence of mandatory ex-ante trading, we reject this market structure.
• How does the	

	Adapted Decentralised Market measure against the SEM Committee's primary duty to protect the long and short term interests of consumers on the island of Ireland?	• In absence of mandatory ex-ante trading and a liquid DAM, we reject this market structure.

2.7 MANDATORY EX-POST POOL FOR NET VOLUMES (SECTION 7)

Question	Answer
• Are there any changes you would suggest to make the Mandatory Ex-post Pool for Net Volumes more effective for the I-SEM (for instance, a different choice for one or more of the topics or a different topic altogether)?	• We do not agree with the mandatory trading in the ex-post pool market; an ex-post pool based approach to the determination of prices and volumes; or the possibility of regulatory intervention to limit trading in the ex-ante markets. • Forced liquidity reduction in the DAM will have an adverse effect on the interconnector trading / market coupling. We do not support this option on this basis. • This option potentially allows for market participants to "sit back and do nothing" in the ex-ante market. We would like to see mandatory trading in the ex-ante market and a *true* ex-ante DAM price. We reject this market design on these points. • This market has also been described as having "*a robust financial derivatives market*" to allow for price hedging whilst mitigating the risk of market participants not trading physical volumes in the DAM. This is a hypothetical assumption which may not be the reality. Financial trading is optional and therefore participants may not choose to conduct financial trades.
• Do you agree with the qualitative assessment of Mandatory Ex-post Pool for Net Volumes against the HLD criteria? If not, what changes to the assessment would you suggest (including the relative strengths and weaknesses of an option)?	• We agree that limited / thin liquidity in the DAM will have an adverse effect on the quality of the price and reduce the efficiency of the IC flows and coupling. • The hybrid nature of this market results in two fundamentally different elements competing against the other for volume activity. The benefit of high liquidity in the ex-ante market has detrimental implications to the perceived benefit of the ex-post pool. Given this dichotomy, we believe this market design is flawed. Aside from the downside associated with potential regulatory intervention, (should there be too much activity in the ex-ante market) the design of the market itself has too many contradictions in its current form. • We believe in liquid trading to drive a true ex-ante DAM price for settling interconnector flows. This would provide certainty for trading and market coupling. We reject this market design for not meeting this criteria.

• How does the Mandatory Ex-post Pool for Net Volumes measure against the SEM Committee's primary duty to protect the long and short term interests of consumers on the island of Ireland?	• Given the hybrid nature of this market and the requirement for dual systems for IDM and the pool, this could prove to be a more costly design from an IT perspective. • We believe in liquid trading to drive a true ex-ante DAM price for settling interconnector flows. We reject this market design for not meeting these criteria.

2.8 MANDATORY CENTRALISED MARKET (SECTION 8)

Question	Answer
• Are there any changes you would suggest to make the Mandatory Centralised Market more effective for the I-SEM (for instance, a different choice for one or more of the topics or a different topic altogether)?	• There are certain similarities between this market and the Adapted Decentralised Market. It is possible that a hybrid market could be borne out of the most beneficial traits of both markets. We like the ex-ante DAM price, prevalent in both markets. Neither market is in a finished state or ready for implementation. However, the Mandatory Centralised Market is heading more in the right direction in terms of its design. • We would like to see physical trading allowed in the Forward timeframe, as in the Adapted Decentralised Market, for cross border trades. We believe there are benefits in doing so; lower risk from using PTRs due to the ability of interconnector users to lock in a price with a counterparty. This allows participants to place a definite value on the PTR and removes the exposure of the DAM price. Whereas FTRs rely solely on the DAM price which is an unknown in the Forward timeframe when a FTR is purchased. • As stated in section 2.2 “General Comments”, we would like clarification as to who will underwrite the firmness of FTRs and PTRs. Whoever is underwriting these transmission rights needs to be in a position to underwrite in fullness. Moyle is a mutualised company and therefore an appropriate financial cap for our business model needs to be considered. The counterparty on the other side of the transmission rights needs to be able to honour the liability.
• Do you agree with the qualitative assessment of Mandatory Centralised Market against the HLD criteria? If not, what changes to the assessment would you suggest (including the	• This market design differs from the others in that it is the only option that allows unit bidding in the DAM, allowing for more sophisticated bid formats. We understand that there are similarities between this market and the Iberian market in this context. Regulators should ensure sufficient modelling is conducted in terms of the impact on DAM pricing and the scheduling given the differences in the bid structure. In Europe IDM bids are expected to be less sophisticated. And Regulators should be

relative strengths and weaknesses of an option)?	confident that PCR / Euphemia can properly couple markets with different bid structures. We believe modelling of these types of bids is a mandatory step that needs to be conducted before any commitment to this market is taken.
• How does the Mandatory Centralised Market measure against the SEM Committee's primary duty to protect the long and short term interests of consumers on the island of Ireland?	• As highlighted above, this is our current market preference. However, as stated above, modifications and checks are necessary before commitment to this this market structure is taken.

2.9 GROSS POOL – NET SETTLEMENT MARKET (SECTION 9)

Question	Answer
• Are there any changes you would suggest to make the Gross Pool – Net Settlement Market more effective for the all I-SEM (for instance, a different choice for one or more of the topics or a different topic altogether)?	• We do not agree with the mandatory trading in the ex-post pool market; an ex-post pool based approach to the determination of prices and volumes. • There is a "disconnect" between the physical flows on the IC (determined by European Market Coupling) and the operation of the pool. • We do not agree that the ex-post pool is where the market lies and therefore reject this market on this basis.
• Do you agree with the qualitative assessment of Gross Pool – Net Settlement Market against the HLD criteria? If not, what changes to the assessment would you suggest (including the relative strengths and weaknesses of an option)?	• See above – we reject this market structure.
• How does the Gross Pool – Net Settlement Market measure against the SEM Committee's primary duty to protect the long and short term interests of consumers on the island of Ireland?	• See above – we reject this market structure.

2.10 CAPACITY REMUNERATION MECHANISMS (CHAPTER 10)

Question	Answer
• What are the rationales for and against the continuation of some form of CRM as part of the revised trading arrangements for the I- SEM?	• Capacity provides long-term investment signals and creates a market that incentivises and delivers a reliable mix of supply solutions. Capacity serves as an incentive for investment and payment towards fixed costs. Capacity payments reward capacity that is actually delivered; help achieve lower cost of finance; lends towards stability for participants entering and exiting the market (avoids boom and bust). • Current arrangements under SEM deliver a final capacity payment price in the ex-post market. However the mechanism for calculating capacity payments contains both ex-ante and ex-post elements. It is possible to forecast capacity payments, with reasonable accuracy. However, we believe by removing the ex-post element in calculating the final price, the volatility in market prices will be removed. • Currently all capacity is paid equally, despite some forms being more reliable, beneficial, flexible and / or responsive than others. Due to Ireland's high percentage of wind generation there is a need for flexible technology to deal with the intermittent nature of wind. Capacity payments should better reward efficient and fast responding technology compared to less responsive / outdated forms. • It is important to know how the new arrangements will work and the impact they will have on market coupling and the DAM price. Removal of the ex-post element will promote trading giving more certainty in relation to the price and therefore it can be properly dealt with in any external algorithm such as Euphemia PCR.
• Are these the most important topics for describing the high level design of any future CRM for the I-SEM?	Whilst we accept this is a high level design, there are other areas that require further clarification in the near future. These are as follows: • Eligibility for the CRM. In the descriptions of CRM design, there is a distinct vagueness in relation to qualifying units. • Timing and distribution of the CRM. • Level of intervention by Regulators

	We wish to see CRM in: • Cross border participation in the CRM – cross border trades should be eligible for capacity remuneration.

2.11 STRATEGIC RESERVE (CHAPTER 10.7)

Question	Answer
• Are there any changes you would suggest to make the design of a Strategic Reserve mechanism more effective for the I-SEM (for instance a different choice for one or more of the topic?)	• More detail, regarding classification of strategic reserve, remuneration and regulatory intervention is required. • Strategic reserve aims to support and encourage capacity with specific traits, such as certain locational and flexible characteristics. We believe interconnectors have high strategic importance and do not support a CRM where an interconnector or interconnector users may not, or cannot, participate. In the absence of this assurance we reject strategic reserve.
• Do you agree with the initial assessment of the strengths and weaknesses of a Strategic Reserve Mechanism? If not, what changes to the assessment would you suggest (including the strengths and weaknesses of an option relative to the others)?	• We believe strategic reserve cannot be the only capacity option – otherwise it may distort trading. • Further clarification on the weighting of Strategic Reserve, in conjunction with another form of CRM, is necessary. • There is a lot of Regulatory and political risk in deciding what technology is eligible for strategic reserve. We would like to see further clarification on the intended beneficiaries of strategic reserve – will it be new capacity only or will it extend to existing capacity? We reject any form of Strategic Reserve which does not extend to, and fairly remunerate, interconnectors
• Would a Strategic Reserve Mechanism work or fit more effectively with a particular option for the energy trading arrangements. If so, which one and why?	• As outlined in the paper, Strategic Reserve could work with any of the market designs. At this stage we do not have an opinion on which market it would work best in. We reject any market that would only introduce Strategic Reserve as a form of CRM. • We do not support this option as the only CRM mechanism and wish to see further classification of which market participants qualify and how they would be rewarded under such a system. • Owing to its highly centralised design, thought should be given

	to the overall amount of centralisation that would result when paired with any of the market structures.

2.12 LONG-TERM PRICE-BASED CRM (CHAPTER 10.9)

Question	Answer
• Are there any changes you would suggest to make the design of a Long-term price-based CRM effective for the I-SEM (for instance a different choice for one or more of the topic?)	• Further clarification on who will qualify for this type of capacity payment is required. We believe this CRM will work and we believe it will apply to interconnectors and therefore accept this form of CRM. We do not support any CRM that does not include interconnectors. • Deviations between forecasted, versus actual available capacity; and forecasted, versus actual demand, will need a mechanism to deal with under or over recovery. Given there is no ex-post element to adjusting capacity payments, as it would distort cross border flows, clarification as to how it will be corrected is necessary. Obviously if capacity is not available at real time, it should not be rewarded through CRM.
• Do you agree with the initial assessment of the strengths and weaknesses of a Long-term price-based CRM? If not, what changes to the assessment would you suggest (including the strengths and weaknesses of an option relative to the others)?	• There is no description of the proposed relative weighting between the annual capacity pot and the monthly ex-ante pot of the capacity payment. Thought could be given to a weekly component in the ex-ante forecast. This could help shape the price by being more reflective of forecasted available capacity etc. • By providing certainty, through firm ex-ante capacity payments, there will be a direct benefit and it will encourage interconnector trading on DAM and IDM. We strongly support the ex-ante nature of this option as it provides certainty that has otherwise been absent in the market design to date.
• Would a Long-term price-based CRM work or fit more effectively with a particular option for the energy trading arrangements. If so, which one and why?	• We do not have a strong opinion on which option it would work best with. However, this type of CRM could be used as an incentive to encourage trading in a particular market timeframe.

2.13 SHORT-TERM PRICE-BASED CRM (CHAPTER 10.10)

Question	Answer
• Are there any changes you would suggest to make the design of a Short-term price-based CRM effective for the I-SEM (for instance a different choice for one or more of the topic)?	• Further clarification on who will qualify for this type of capacity payment is required. We do not support any CRM that does not fairly remunerate interconnectors. • See previous section (2.12). Our CRM preference is a firm capacity price, known in advance of DAM, such as the Long Term price based CRM option, which includes interconnectors in the remuneration.
• Do you agree with the initial assessment of the strengths and weaknesses of a Short-term price-based CRM? If not, what changes to the assessment would you suggest (including the strengths and weaknesses of an option relative to the others)?	• The ex-post pricing element of this option will reduce confidence in final capacity price. There will be deviations between the forecasted price and the final capacity price. Interconnector users may trade less in absence of a firm price. Uncertainty of the capacity price is unnecessary volatility.
• Would a Short-term price-based CRM work or fit more effectively with a particular option for the energy trading arrangements. If so, which one and why?	• See above. Our preference is: a firm capacity price, known in advance of DAM, such as the Long Term price based CRM option. We therefore reject this proposed methodology for CRM and do not wish to see it in any of the markets.

2.14 QUANTITY-BASED CAPACITY AUCTION (CHAPTER 10.11)

Question	Answer
• Are there any changes you would suggest to make the design of a Quantity-based Capacity Auction CRM effective for the I-SEM (for instance a different choice for one or more of the topic)?	• Further clarification on who will qualify for this type of capacity payment is required. We do not support any CRM that does not fairly remunerate interconnectors. • We believe any cross border participation that is permitted should be by way of "right of access" to the market by holding interconnector capacity. Explicit value should be placed on the interconnector capacity. • Available capacity should be rewarded for being available and not left "out of pocket" for not being available due to unforeseen availability issues. This CRM design is penal. Users may opt-out due to penalties and the associated risks. These participants may actually be available at times when capacity is required and therefore unfairly miss-out on capacity payments. • There is a need to protect the competition element of the capacity auction to ensure fair play when participants submit their capacity prices. This will require a level of monitoring from Regulators. • Our CRM preference is a firm capacity price, known in advance of DAM, such as the Long Term price based CRM option, which includes interconnectors in the remuneration. Therefore we reject this CRM option.
• Do you agree with the initial assessment of the strengths and weaknesses of a Quantity-based Capacity Auction CRM? If not, what changes to the assessment would you suggest (including the strengths and weaknesses of an option relative to the others)?	• See above. We reject this CRM mechanism and do not wish to see it implemented.
• Would a Quantity-	

	based Capacity Auction CRM work or fit more effectively with a particular option for the energy trading arrangements. If so, which one and why?	• See above. We reject this CRM mechanism and do not wish to see it implemented.

2.15 QUANTITY-BASED CAPACITY OBLIGATION (CHAPTER 10.12)

Question	Answer
• Are there any changes you would suggest to make the design of a Quantity-based Capacity Obligation CRM effective for the I-SEM (for instance a different choice for one or more of the topic)?	• Further clarification on who will qualify for this type of capacity payment is required. We do not support any CRM that does not fairly remunerate interconnectors. • We believe any cross border participation that is permitted should be by way of "right of access" to the market by holding interconnector capacity. Explicit value should be placed on the interconnector capacity. • Available capacity should be rewarded for being available and not left "out of pocket" for not being available due to unforeseen availability issues. This CRM design is penal. Users may opt-out due to penalties and the associated risks. These participants may actually be available at times when capacity is required and therefore unfairly miss-out on capacity payments. • There is a need to protect the competition element of the capacity auction to ensure fair play when participants submit their capacity prices. This will require a level of monitoring from Regulators. • Our CRM preference is a firm capacity price, known in advance of DAM, such as the Long Term price based CRM option, which includes interconnectors in the remuneration. Therefore we reject this CRM option.
• Do you agree with the initial assessment of the strengths and weaknesses of a Quantity-based Capacity Obligation CRM? If not, what changes to the assessment would you suggest (including the strengths and weaknesses of an option relative to	• See above. We reject this CRM mechanism and do not wish to see it implemented.

the others)?	
• Would a Quantity-based Capacity Obligation CRM work or fit more effectively with a particular option for the energy trading arrangements. If so, which one and why?	• See above. We reject this CRM mechanism and do not wish to see it implemented.

2.16 CENTRALISED RELIABILITY OPTIONS (CHAPTER 10.14)

Question	**Answer**
• Are there any changes you would suggest to make the design of a Centralised Reliability Option CRM effective for the I-SEM (for instance a different choice for one or more of the topic)?	• Further clarification on who will qualify for this type of capacity payment is required. We do not support any CRM that does not fairly remunerate interconnectors. • Available capacity should be rewarded for being available and not left "out of pocket" for not being available due to unforeseen availability issues. This CRM design could prove penal. Users may opt-out due to penalties and the associated risks. These participants may actually be available at times when capacity is required and therefore unfairly miss-out on capacity payments. • Our CRM preference is a firm capacity price, known in advance of DAM, such as the Long Term price based CRM option, which includes interconnectors in the remuneration. Therefore we reject this CRM option.
• Do you agree with the initial assessment of the strengths and weaknesses of a Centralised Reliability Option? If not, what changes to the assessment would you suggest (including the strengths and weaknesses of an	• See above. We reject this CRM mechanism and do not wish to see it implemented.

option relative to the others)?	
• Would a Centralised Reliability Option work or fit more effectively with a particular option for the energy trading arrangements. If so, which one and why?	• See above. We reject this CRM mechanism and do not wish to see it implemented.

2.17 DECENTRALISED RELIABILITY OPTIONS (CHAPTER 10.15)

Question	Answer
• Are there any changes you would suggest to make the design of a Decentralised Reliability Option CRM effective for the I-SEM (for instance a different choice for one or more of the topic)?	• Further clarification on who will qualify for this type of capacity payment is required. We do not support any CRM that does not fairly remunerate interconnectors. • Available capacity should be rewarded for being available and not left "out of pocket" for not being available due to unforeseen availability issues. This CRM design could prove penal. Users may opt-out due to penalties and the associated risks. These participants may actually be available at times when capacity is required and therefore unfairly miss-out on capacity payments. • Our CRM preference is a firm capacity price, known in advance of DAM, such as the Long Term price based CRM option, which includes interconnectors in the remuneration. Therefore we reject this CRM option.
• Do you agree with the initial assessment of the strengths and weaknesses of a Decentralised Reliability Option? If not, what changes to the assessment would you suggest (including the strengths and weaknesses of an option relative to the others)?	• See above. We reject this CRM mechanism and do not wish to see it implemented.
• Would a Decentralised Reliability Option work or fit more effectively with a particular option for the energy trading arrangements. If so, which one and why?	• See above. We reject this CRM mechanism and do not wish to see it implemented.