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Dear Philip, Jean-Pierre,

We welcome the opportunity to respond to the SEM HLD Draft Decision paper. In general we are broadly supportive of the I-SEM initiative and view it as an important opportunity to improve the electricity market structure to better serve the electricity consumers on the Island of Ireland. The I-SEM market will represent a significant change to some of the explicit interconnector trading activities currently conducted by ElectroRoute. However, progress in electricity market design is essential and ElectroRoute is committed to continuing to bring efficiency, liquidity and services to the market. ElectroRoute's interests in the new market include that of any potential aggregator role that might be required for the efficient integration of variable renewable sources into the market.

ElectroRoute are currently active in Ireland, UK, Netherlands and France; and is likely to be one of only a few respondents who have current operational experience in several continental European markets. Our experience in these markets and insights gathered in the wider European Target Market project will hopefully prove useful to the RA's as they develop the design of the market.

The following section highlights ElectroRoute's opinions on the I-SEM design decisions so far and highlights key areas for consideration in the next phase of the design process.

General Concepts and Principles

- ElectroRoute is, in general, supportive of the adoption of option 3 as an energy market design and supports the introduction of a complementary capacity remuneration mechanism. However, carefully managing the interfaces between energy and capacity market designs and their interfaces with the renewable support mechanism and ancillary services payment mechanisms will be key.
- We strongly believe that all entities (including generators, suppliers, renewables, aggregators and non-asset backed traders) should be allowed to participate in all sections of the market. Non-asset backed trading entities in particular can be a valuable presence in the market. Companies like ElectroRoute can help to bring liquidity to each market stage and take a view on some of the forecast uncertainties that surround renewable and demand forecasts. This activity will maximize the equalization of prices between different market

stages bringing stability to the market and reducing basis and balancing risks for assets like wind generators. It will also lessen the burden on renewable assets to be the sole actors responsible for forecasting renewable volumes and associated price outcomes.

Exclusive commitment to FTRs over PTRs

- ElectroRoute supports the concept of DA price coupling auctions as an essential part of the I-SEM project and indeed are highly supportive of the introduction of FTRs as a traded instrument. However, we believe that the RAs are wrong to mandate that 100% of the available interconnector capacity be allocated to the DA price coupled auction, effectively eliminating PTRs entirely. In terms of interconnection to GB the RA's are alone among European policy makers in taking this approach. Less than 400MW of the total of 3000 MW of Brit-Ned and IFA capacity has been reserved in this way. We find it unusual that the RA's here have taken such a different approach from precedents on other GB interconnectors.
- Retaining some elements of PTRs will leave open the possibility of tracking physical flows which is integral to the cross border trade of renewable certificates and possible future CRM products. Current activity on the Brit-Ned provides a pertinent example. The majority of long term capacity on the Brit-Ned is sold as a PTR. Although the mathematical optimal approach would be to not physically flow on this capacity but rather to submit it at the DA stage and receive the UIOSI congestion rent (effectively mirroring FTR financial flows). This is not what happens in practice. Almost all long term PTR owners physically nominate flow in the interconnector. What in effect is happening is that parties are landing renewable energy with associated GOO's and LEC's from the continent to GB. The regulations as laid down by Ofgem/HRMC require that actual physical flow be associated with the trade and that sold UIOSI capacity does not represent proof of power transfer. PTRs are enabling large levels of cross border renewable certificate based trade on IFA and Brit-Ned.
- With cross border trade of renewable power and certificates increasing across Europe, ElectroRoute believe the RA's would be naïve to embrace one trend of European energy policy (namely price coupling) to the exclusion of other trends in European markets (namely cross border renewable trade and linked capacity markets). It seems especially odd given that a simple approach of having a mix of FTRs and PTRs keeps all markets open and indeed mirrors the prevailing wisdom adopted across the other interconnectors connecting to GB. The RA's should ensure that a portion of PTR's are retained in the market for this purpose or alternatively ensure that other jurisdictions will acknowledge renewable certified power from Ireland without an explicit associated cross boarder flow.

Capacity Remuneration Mechanism CRM

- There are insufficient details yet to make many comments on the possible design of the CRM. However, it is clear that the variables are highly configurable and need to be

considered carefully. At this stage ElectroRoute believe that the reliability options should be structured as pure financial instruments with no non-linear penalty mechanism. As a financial instrument all parties will seek to ultimately asset back their financial liabilities thus ensuring sufficient physical capacity. However, financial instruments do allow for increased flexibility in this regard and allow for sub-contracting, re-contracting and aggregation arrangements to be entered into with smaller units that may not have the resources to participate directly in the CRM. This approach will yield the maximum efficiencies from cross portfolio contracting, demand side aggregation and aggregation of smaller units etc.

An Efficient Futures Market and the CRM

One of the largest deficiencies of the SEM market is the futures/CfD market. With a limited number of parties involved and large barriers to entry this section of the market requires particular focus from the RA's in the I-SEM design. An efficient futures market, more than any other section of the market, will foster greater supply side competition and ultimately better value for the final consumer. While there is no clarity yet around any elements of the proposed reliability options, it is clear that there is potential for the reliability options to scupper the orderly working of a CfD/futures market. The possibility for a reliability option seller to be over-hedged when also selling a CfD needs to be eliminated without distorting the futures market in any way. The suggestion during the I-SEM Stakeholder Forum - 17th June 2014 that the futures market itself should be compromised by using "bounded CfDs" within the range set by the strike prices of the reliability options is, quite frankly, alarming. No futures market could practically operate with such a compromised instrument. The futures market is vitally important to deliver efficiency and value to the final consumer and no academic concepts should be introduced that would distort or destroy the proper operation of this market.

Market Administration and Operation

Compared to international peer markets that ElectroRoute currently operate in, we observe that the SEM has some administrative weaknesses when it comes to:

- Settlement times. 2-5 weeks in SEM versus next business day in other markets
- Speed and format of data publication.
- Accuracy and timeliness of volume and price publication.
- Inefficient bilateral contracting and clearing process in the CfD markets
- Needlessly high collateralization in PSO and other CfD markets

The I-SEM market presents a great opportunity modernize the administrative and operational elements of the market overall. We suggest the following should be examined and pursued during the next phase of the design process.

- An international tender process to appoint the I-SEM market operator/s. Or failing this, mandating a partnership between the existing market operator and an established international market operator. This approach will provide a means for international best practice to be applied to the I-SEM administration. It will also provide a means to import solutions to “already solved” market problems which will expedite the establishment of the market.
- At a minimum a single market operator and platform must operate the Day-ahead, intra-day and balancing stages of the market. It is essential that a common pool of collateral can simultaneously be drawn upon collateralize all three stages of the market.
- To end the current inefficiencies in the CfD market it is essential that a single sign up, centrally cleared platform for the trade of CfDs and FTRs is established. This will eliminate all the barriers to entry typical of bilateral markets. It is suggested that a leading international market provider be approached to provide these screens/platforms.

ElectroRoute looks forward to continuing to engage with the RAs as the I-SEM design progresses.

Kind Regards



Ronan Doherty, CEO