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Sandyford
Dublin 18
Ireland

25/07/2014

Dear Jean-Pierre and Philip,

PrePayPower welcomes the opportunity to respond to the SEM Committee's Draft Decision SEM-14-045 on the Integrated Single Electricity Market (ISEM). In our consultation response, we supported either Option 3 or Option 4, noting a few requirements for Option 3 should it be chosen.

In general, **PrePayPower supports the proposal to move towards a modified form of Option 3, but will reemphasise the necessary components in its detailed design for this to be an appropriate solution for the industry.** While variants of Option 3 introduce greater trading overhead for entrant suppliers, the promise of more liquid forwards trading is adequate compensation for this design choice. The choice of exclusive markets for the Day-Ahead Market (DAM) and Intraday Market (IDM) is also welcome, along with the requirement for mandatory participation in the Balancing Market (BM) timeframe for Balancing Service Providers.

To reiterate our comments in response to the previous consultation (and briefly evaluate against the Draft Decision):

- exclusivity of trading on approved platforms (agree with draft decision, noting our discussion on Forwards Market (FM) below);
- gross generation and gross demand bidding (agree with draft decision);
- unit bidding (agree with draft decision, we have no objection to certain levels of aggregation, as long as it is physically sensible, e.g. wind which is highly correlated, demand side units and of course retail supplier which we felt was a given);
- a single platform for each market for SEM participants (agree with draft decision, noting our discussion on Forwards Market below);
- more discussion and consultation is required on the area of imbalance pricing and settlement (see discussion of balancing market below);
- a long-term price-based CRM should be maintained as a core concept with the SEM design (see further discussion below on Reliability Options);
- a single out-of-market invoicing stream should recover the cost of the CRM (a detailed design issue, but see further discussion below on Reliability Options);
- Market Power Comments (we note SEM Committee's affirmation of the issues of market power, and we reemphasise our consultation response SEM-14-026-PrePayPower)
 - regulation of buy/sell orders through ex post monitoring, with ex ante regulation following predatory pricing behaviour or identified market power;
 - Balance service providers should price their balancing services at cost
 - market making obligations, particularly in FM
- Trading and Market Readiness (while this is an implementation issue, we have grave concerns over project timelines to deliver a fully considered market design AND maintain a sensible market trial duration with engagement of GB participants)
 - the planned market trial duration be protected and extended

- availability of centrally published data from the TSO should be encouraged, both forecasted (wind, load) and outcome market results
- Settlement and Collateral (detailed design requests, support the identification of this area as key for progression with detailed design)
 - settlement timeframes should be accelerated to reduce the requirement for collateral
 - consideration of a single collateralisation structure across all markets should be considered
 - collateralisation of trades should be set to the minimum possible level within the market

We therefore have three areas of particular comment, being:

- Forwards market and interaction with CRM
- Imbalance arrangements
- General project timelines, market readiness

Forwards Market and Interaction with CRM Reliability Options

One of the issues with the current Single Electricity Market is the lack of forwards trading to allow new entrants and non-vertically integrated entities compete with utilities. We note the welcome SEM Committee statement *“The SEM Committee will also consider additional measures to foment liquidity of financial instruments in the forward timeframe within the detailed market design phase of the I-SEM”* was not emphasised with the context of the summarised decision. We believe this **must** be considered by the SEM Committee as part of the detailed design phase.

Our support for Option 3 was contingent on a single platform for forwards trading to promote liquidity; we note this consideration has not been taken on board within the SEM Committee deliberations.

We welcome the addition of the implicit price cap for retail suppliers in the reference market for Reliability Options. We would support the Reliability Option market being referenced against the day-ahead market.

We reemphasise the important of regulatory involvement in the formation of a formal forwards market. The interaction of the forwards market with the reliability options will require a centrally planned approach to be ready in time for the start of the ISEM, i.e. standard two-way hedging forwards contracts cannot be used without taking into account the impact of the Reliability Options. We would welcome early detail on the allocation of monies between suppliers from Reliability Options (e.g. dependent on volume of energy served during those periods, related to the traded position in the reference market, etc.) so that the forwards market can develop accordingly.

Imbalance Arrangements: Price set on the last MW of Balancing Action

A nature of the ISEM Draft Decision is that the last MW of energy balancing action taken by the TSO will set the imbalance price in the market. PrePayPower does not believe that:

- This has been adequately consulted on, other options presented, or its impacts appropriately assessed;

- It is not sensible to proceed with such a fine level of detail in advance of the challenges of identifying energy from non-energy balancing actions in the SEM; and
- When thrown into relief with the likely accelerated timeframes for implementation and delivery of the ISEM, and the lack of market knowledge of those outcomes with **the most volatile energy balancing price signal that could have been chosen**, and the unknown liquidity and pricing of DAM and IDM to avoid such prices (including the aforementioned added complexity to the FM arising from Reliability Options), this places all market participants exposed to greater or lesser degree to the BM in a situation with the worst potential manageable risk.

It remains PrePayPower's view that energy balancing market prices should be calculated and brought in in a much more controlled manner than proposed, or at least that the potential impacts to market participants and potential for mitigating actions to be available (market forecast information and market trials to understand DAM and IDM liquidity) are documented publicly and understood.

General Project Timelines and Market Readiness

We welcome the SEM Committee's strict adherence to project timelines to date, but we are concerned regarding the potential for corners to be cut to meet those timelines. Even outside of the detailed design issues (some of which we believe need further consideration, in particular the forwards market and imbalance price setting, neither of which are flagged as key area for progression of the detailed design), a market readiness programme must start today.

There is added complexity for many traders transitioning to the ISEM which will be different from the transitioning into the mandatory SEM Pool Market which resulted arguably in lower trading overhead. Energy forecasting has re-emerged as a requirement. Reference to the publication of TSO market-wide forecasts was made, but not committed to by the SEM Committee.

PrePayPower requests a full project plan to be published, including expected dates for the requirements for the integration of systems, an overview of the informational support that will be required, e.g. intent to publish TSO market forecasts or not, and detail of the market trial with GB participation. Furthermore, a rough consultation schedule, insofar as it can be known, should be provided for the industry to assist with internal resourcing for ISEM delivery.

Conclusions

In general PrePayPower welcomes the Draft Decision by the SEM Committee. Many of the necessary features of an appropriate market for Ireland are contained within the details presented. At a high level, we would welcome a firmer commitment to the development of the FM and further consideration required around imbalance pricing.

Sincerely,

Cathal Fay