



# **Integrated Single Electricity Market (I-SEM)**

**High Level Design for  
Ireland and Northern Ireland**

**Response to SEM-14-045**

**Vayu Limited**

**July 2014**

Vayu Limited (“Vayu”) welcomes the opportunity to comment on this material draft decision paper SEM/14/045 that forms part of the process for implementing a High Level Design (“HLD”) for the Integrated Single Electricity Market (“I-SEM”) in Ireland and Northern Ireland by the end of 2016.

It is clearly appreciated by all in the final decision making process that the changes in the wholesale electricity markets will have a profound effect on all electricity users throughout the value chain – from the upstream wholesale gas market through to households. We therefore urge the regulatory authorities (“RAs”) to pay very close attention to the measured feedback in all responses.

We, in Vayu, are looking forward to engaging in the detailed design phase of the market structures, both on the energy trading arrangements and on the final Capacity Remuneration Mechanism (“CRM”). However, we are concerned at this stage in the process that the RAs will compress this most important design phase of the project into a timeframe that is shorter than is required – substantive decisions in areas such as liquidity, market power mitigation, testing of Euphemia and access to real time demand data for energy trading are still required.

There are a number of points in the draft decision that we would like to address in the following areas:

- Visibility of Demand
- Implementation Timeframe
- Mandatory vs. Optional participation in the Day Ahead Market
- Refit Pricing Methodology
- Capacity Remuneration Mechanism
- Aggregator of Last Resort
- Forward Markets

### **Visibility of Demand**

As a key part of the new I-SEM, all participants will have to become balance responsible. At present demand units are at a disadvantage as there is no real time information available. In the best cases, for quarterly hour meters the usage information is received D+1, which is already too late to use for forecasting in the DAM timeframe. Therefore we feel that more frequent demand information should be provided by the Market Operator to enable suppliers to better manage their consumption profile – especially in the IDM and balancing timeframes.

### **Implementation Timeframe**

It will not have gone un-noticed by the RAs that there have been delays in delivering an IDM across the EU in line with other guidelines and network codes. As this may not be finalised until 2017, we believe it may be prudent to consider a more measured approach in terms of overall project delivery timeframe and one in which all issues can be discussed.

## **Mandatory vs. Optional participation in the Day Ahead Market**

One of the key benefits of the proposed option is the high degree of liquidity and transparency in the Day Ahead Market (“DAM”), which would result in efficient flows of electricity across the interconnectors.

With increased penetration of renewables on the grid, we feel that in order to force liquidity into the I-SEM it will be necessary to make participation in the DAM mandatory. Demand units do not have real time consumption data and will rely heavily on forecasts. Therefore, it is likely that most demand will participate in the DAM, with corrections in the Intraday Market. We feel that, as most liquidity is expected to be in the DAM, this should be made mandatory. This would also support an incentivised and accurate DAM.

## **Refit Pricing Methodology**

We feel that the key principle for the Refit Reference Price of it being achievable should be restated. Therefore we feel that Refit Reference price should be indexed to the revenue of the renewable project and not to the DAM index.

## **Capacity Remuneration Mechanism**

We believe that active demand resources should be able to participate in the Capacity Reliability Auctions as negative demand, as it provides the same functionality as a generator. In this case the Demand Unit will provide a reduction in usage when the strike price is reached upon system stress events.

## **Aggregator of Last Resort**

We feel that the role of the aggregator of last resort should be driven commercially and not undertaken as an additional role by the TSO. This is something that it is currently being provided by a number of existing aggregators companies in the Iberian Market.

## **Forward Markets**

We reiterate that the new market should increase liquidity in the forwards market. In our view, the introduction of capacity reliability options should also not reduce liquidity on CFDs or increase the complexity of financial products between market participants.

## **Conclusion**

In summary, we firmly believe that the timeframe within which the detailed design phase and final delivery of the I-SEM should not be shortened. Industry has a wide range of competing interests, but equally has a number of subject matter experts in their specialised fields. The technical and commercial expertise of these industry experts will be an important step for the design phase.

We would welcome the opportunity to discuss the issues highlighted this response and access to the detailed design scope as soon as possible.