

Clive Bowers  
Commission for Energy Regulation  
The Exchange  
Belgard Square North  
Tallaght  
Dublin 24

26<sup>th</sup> November 2014

Dear Clive,

**Subject: High Level Initial Response to ISEM ‘Building Blocks Discussion Papers**

Following on from the Discussion Papers 1.1, 1.2 and 1.3 published by the SEM Committee over the course of October and November and the related workshops, Bord Gáis Energy (**BGE**) has a number of high level comments on the principles proposed and discussed. These comments do not represent BGE’s formal position on these specific issues/matters. BGE will respond formally throughout the consultation process in 2015.

**1) Losses**

In BGE’s view, it is not appropriate to retain a policy whereby losses are accounted for in the wholesale energy market. Given the size of the Irish market and the connection policy that exists, we do not think the current approach to the distribution of losses is appropriate or equitable. In our view, to avoid discrimination between cross border trades and to align better with other European markets, the cost of losses should be smeared equally across all generators and accounted for separately to the market, perhaps through transmission use of system charges.

**2) Firmness, Constraints, Curtailment and Priority Dispatch**

These four areas are very much inter-related and are hugely important in terms of liquidity and price formation in the day-ahead and intra-day markets.

Given the volume of wind both in the market currently and expected in the market over the coming years, the ISEM market design needs to ensure that it incentivises the participation of all wind (both supported and merchant wind) in the day-ahead and intra-day markets. If it doesn’t, not only will the market design have failed in delivering appropriate price signals and liquidity but it will also have failed in terms of ensuring that the customer reaps the full benefit of Ireland’s renewable energy policy.

Incentivisation can be achieved through the market rules relating to firm and non-firm access, as well as the rules relating to constraints and curtailment. On the former, the market rules should allow non-firm generators to bid into the day-ahead and intra-day markets but in so allowing, not expose them to excessive pricing/balancing risks which would in turn act as a disincentive to day-ahead/intra-day participation. At this stage, and without detailed analysis of the market impacts, of the ‘balancing’ options proposed for non-firm generation, BGE suggests that obliging non-firm generators to cash-out at a revenue neutral price in the

balancing market for those non-firm volumes that are constrained/curtailed, i.e. not exposing them to the full balancing price risk, is the most appropriate option. Further incentives for renewable and priority dispatch generation to trade ahead of the balancing market could also be provided by differentiating and giving preferential treatment to constrained/curtailed volumes that are traded in the day-ahead/intra-day markets over those traded in the balancing market.

There was a suggestion that where the TSO takes a balancing action (perhaps many hours in advance of the intra-day market closing), that this action would preclude the volume being available to trade thereafter. Whereby the objective of this proposal may be to ensure that the system balancing actions are respected, the effect of the proposal could constrain the commercial position of participants beyond the firm positions committed in the day-ahead market and unwound in the balancing market. For example, if a unit which has an MEC of 400MW but only traded 200MW in the day-ahead market, a balancing action to constrain this unit down, would not just unwind the day-ahead position but would also inhibit the ability of the unit to trade the additional 200MW without any compensation. This commercial risk would have to be considered to ensure that market participants are not economically disadvantaged as a result of this constraint.

### **3) Clearing & Settlement**

Given the nature of the different markets that will emerge under ISEM, it will be important to ensure that the administrative burden on participants is not exorbitant and that where possible synergies between markets (and possibly market operators) are optimised.

BGE would be in favour of the existing timelines for settlement and invoicing being retained in the ISEM. Accepting that there will be new market timeframes and that at least 2 of the markets will be settled ex-ante as opposed to ex-post, this does not necessitate daily invoicing of all markets. BGE is not aware of any rules, obligations or precedence which oblige the ISEM to be invoiced on a daily basis. To reduce the administrative and cashflow burden on all parties (recognising also that generators will be exposed to balancing risk that will likely be unpredictable), it would be preferable for weekly invoicing to be retained. There would also be benefits if payments between market timeframes could be netted against each other for relevant participants.

### **4) Credit Risk**

BGE does not disagree with the current policy approach to managing credit risk in the SEM. However, BGE strongly advocates that the process in calculating, managing and monitoring credit risk be as simple as possible. It would be preferable if credit risk was managed by a single entity across all market timeframes as opposed to separate requirements for each market timeframe. To the extent that the credit obligations relating to balancing and FTRs are more dynamic, there is precedence for how this exposure can be managed actively without exposing the market (or the central counterparty) to any undue risk. The precedence of how credit requirements are managed in the UK is not a best in class comparator and in BGE's experience can be a barrier to entry and to trade in the market.

### **5) Party Registration**

Again, BGE is of the view that this process should be as simple as possible and preferably be performed by a single entity for each market timeframe.

It has not been formally asked, but at what point will the SEM Committee examine the role of SEMO in the various market timeframes and the administrative roles that will be necessary in the ISEM. No doubt, if

SEMO was to take on certain of these roles – namely the central counterparty – it will impact their commercial standing and require a review of its licence and organisational structure.

Perhaps, the role of SEMO should be consulted on as party of the ‘ISEM Building Blocks’ consultation?

I hope you find the above comments helpful and should you have any queries, please do not hesitate to contact me. As noted at the outset, these comments do not represent BGE’s formal position on any of the issues discussed but reflect BGE’s initial thoughts and concerns on the suitability of certain SEM building blocks in the context of the ISEM. We look forward to further engagement on each of these issues as part of the consultation process in 2015.

Yours sincerely,

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**Jill Murray**  
Manager, Regulatory Affairs – Commercial  
Bord Gáis Energy

{By email}