

**Power NI Energy Limited  
Power Procurement Business (PPB)**

**I-SEM Detailed Design**

**Rules Liaison Group  
“Building Blocks” Workshops**

**Response by Power NI Energy  
(PPB)**

26 November 2014.



## **Introduction**

PPB welcomes the opportunity to respond to the RAs request for views from industry on the topics covered in the three Rules Liaison Group Meetings.

In addition to providing PPB's comments on the specific issues discussed during the first set of meetings, this response also highlights some concerns PPB has about the process being adopted.

As a member of the Electricity Association of Ireland (EAI) PPB also endorses the comments being submitted by the EAI on the detailed design process and Euphemia testing.

## **Comments on process and engagement on the development of the I-SEM**

PPB welcomes the Regulatory Authorities engagement with market participants in the development of the I-SEM. The three meetings on the building blocks have been informative but have also raised some concerns. We acknowledge that the size of the overall I-SEM project means that it must be sub-divided into smaller workstreams but it is clear, particularly following the initial three meetings, that the workstreams have strong inter-relationships and this must be recognised and accommodated during the detailed design phase of the overall I-SEM such that the wider picture is fully considered to ensure the overall market arrangements function coherently.

It is also evident that some decisions on the "Building Blocks" are dependant on the design of the Balancing Market which is not to be discussed until 2015. This raises the question as to whether the consultation on the building blocks should be delayed and issued at the same time as the Energy Market consultation or whether there needs to be a mechanism established to enable those matters to be re-assessed in light of the wider market design considerations.

It has also become clear that the proposed three meetings to discuss the trading arrangements is unlikely to provide sufficient time to do justice to the many issues yet to be discussed and it is likely that a full day would be required on each of the substantive issues (e.g. the DAM, the IDM, the BM, etc.). This would both ensure a broad range of views can be considered at an early stage and that cross industry knowledge and experience can be utilised to better inform the discussion and help identify the practical issues that participants will face and which need to be addressed in the design. The design is also extremely critical for market participants and inevitably covers complex (and as previously noted inter-related issues) and such consultations should provide at least 8 weeks for participants to fully consider the issues and satisfy internal governance requirements as they develop their responses.

It is also clear that there is a lot of detail to be addressed in the development of an efficient and coherent market and the timetable to go-live in Q4 2017 is already compressed. We are concerned that there is little slack in the timetable and that any delay to the detailed design phase will lead to compression in the build, test and implementation phases of the project. This was a significant problem in the establishment of the SEM when many of the desired market design features were influenced and/or constricted by

systems. This is an example of what must be avoided in the I-SEM project and consideration must be given at an early stage to some contingency planning as to how the project could either have scope for delay, should that prove necessary, or be de-scoped to provide some slack that is inevitably required in major projects (e.g. by deferring implementation to reform of the CRM). We consider it would be better to have considered such options and contingencies at the outset of the I-SEM project.

## **General Comments on the “Building Blocks” topics**

### ***Transmission Losses***

Transmission losses are a feature of every electricity network and to ignore them automatically creates an inefficiency that will inevitably result in additional costs for customers.

PPB believes that the current method of calculating TLAFs, on an ex-ante locational basis, should continue to be the policy in the I-SEM. However, we are opposed to the proposed approach for dealing with TLAFs in the I-SEM that suggests traded volumes are calculated at the Trading Boundary and physical nominations are made at the station gate. As a new IT system has to be developed for the I-SEM we believe that an automated system solution would be the most practical option for all participants.

As Interconnector flows are used when calculating the Net Demand in each jurisdiction, we consider that they should be modelled as two separate interconnectors within the I-SEM. This will also make the calculation of currency costs easier and may alleviate any potential VAT issues that could arise if they were treated as one virtual interconnector.

### ***Firm Access***

PPB believes it is important to maintain a differential between firm and non-firm access although until there has been further consideration of the various energy markets (and in particular details on the design of the Balancing Market) it is not possible to comment on how this should be implemented across the various markets.

### ***Constraints***

PPB agrees with the principle “*that a generator who is in merit should not be financially disadvantaged by a constraint*”, which we believe should be maintained in the I-SEM. How this is best implemented depends on the details of the Balancing Market design. We are concerned that the simple solution put forward in the discussion paper underestimates the complexity and importance of Tagging and Flagging and the discussions at the RLG meeting highlighted the critical need for a robust and transparent process to Tag and Flag balancing action decisions taken by the TSO.

### ***Priority Dispatch***

PPB agrees that Priority Dispatch is primarily relevant in realtime and hence the Balancing Market is the market that must explicitly and definitively establish the rules. However, it is not possible to comment further on implementation until the design of the Balancing Market is known. We also consider that generators who are conferred the right of Priority Dispatch should be able to decide how they wish to register and trade in I-SEM (e.g. as price-takers or price-makers).

### ***De Minimis Level***

PPB considers there is no impelling reason to modify the De Minimis level at this stage as it can be reviewed separately from the detailed design. We therefore suggest that the current level of 10MW should be retained as the De Minimis level for all technologies.

### ***Currency***

PPB believes that the I-SEM should continue to settle with Dual Currencies and that a change to a single currency would discriminate against participants (and customers) located in Northern Ireland.

Our preference would be that any costs are socialised through an annual fixed tariff with any forecasting errors rolled up through a standard K correction mechanism and applied in the following year's tariff.

### ***Participant Registration***

PPB believes that the registration/deregistration process should be as simple and flexible as possible and therefore we would favour a single registration process for the I-SEM with a single point of contact.

It is important that due process is followed during registration to ensure that modifications similar to the current Mod\_02\_13 *Registration of Charges* are not required in the future. As Agreed Procedure 1 exists and has been refined since the start of the SEM it would be reasonable to use it as the starting point for I-SEM.

### ***Clearing & Settlement***

PPB believes that it would be easier for all participants if there was a single counter party for all markets, including the Forwards Market and the Capacity Market. The current SEM is already highly collateralised and it would not be progress if the I-SEM increased the collateral requirement and reduced the opportunities for "netting". A key objective for the I-SEM should therefore be to minimise the collateral needed in the markets.

In relation to settlement, PPB has no objection to pooling of invoices, providing each cost/payment element is separately itemised on the invoice.

### ***Credit Risk***

PPB is in favour of the market being fully collateralised but with a single collateralisation across all the markets. We would also like to see the acceptable forms of credit extended from the current forms to include Parent Company Guarantees and Insurance.

Any residual bad debt should be smeared across all Suppliers and hence customers. Ex-ante trading should be limited to trading for which there is posted collateral but this highlights the importance of a single netted collateralisation arrangement that provides netting across markets, thereby maximising the trading opportunity for participants.

### ***VAT***

PPB believes that talks with the relevant authorities should be held as early as possible to ensure I-SEM is compliant with all VAT rules in all jurisdictions that apply.

### ***Market Information***

PPB considers that the general principle should be to publish as much information as possible, and to publish it as soon as possible, which will provide full transparency and allow informed participation in all the Energy markets.

We do however have concerns that there may be restrictions that could mean the same principles would not apply to the publication of cross border market offers and bids. If this were the case, it would create an asymmetry that would be disadvantageous to indigenous I-SEM participants. PPB favours equal treatment with the publication of all market data, including in relation to cross-border bids and offers, that affect the outcomes for participants and customers in the I-SEM.