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25<sup>th</sup> March 2015

**RE: I-SEM Building Blocks Consultation Paper, SEM-15-011 (“the Consultation”)**

Dear Kevin and Kenny,

Bord Gáis Energy (BGE) welcomes the opportunity to respond to the I-SEM Building Blocks Consultation and supports the SEM Committee’s (SEMC’s) minded position not to make a specific decision on the policy concepts until detail on the overall design of the trading arrangements is known. Sufficient clarity on the design and rules, particularly the balancing market, is required in order to reasonably model and assess the breadth of the impacts of the policy concepts in this Consultation before finalising positions thereon.

BGE wishes to emphasise the necessity for the Regulatory Authorities (RAs) to carry out robust quantitative analysis of the impact of these policy concepts for market prices and consumer costs, before finalising such concepts. BGE also wishes to reiterate the important role that transparency, liquidity and market power mitigation measures have played in the success of SEM and that the positive effects of such measures should be enhanced, and in no way eroded, under the I-SEM market design.

In this context, BGE puts forward its initial views on the consulted upon concepts but reserves the right to revise its formal position on the issues when the energy trading arrangement decisions are made in Q3 2015.

**1. Treatment of Transmission Losses**

➤ **On island losses**

Notwithstanding BGE’s established position that the current TLAF methodology lacks transparency and discriminates between parties, the methodology and its application will become even less appropriate in the context of I-SEM within a broader European electricity market, the objective of which is to stimulate competition and efficient interconnector flows. Application of locational tariffs on an island the size of Ireland is not conducive to future interconnector flow efficiency or electricity market competitiveness given the approach to losses used elsewhere in Europe and in light of the small, low interconnected nature of SEM. A uniform TLAF approach would assist in moving towards a more level playing field with European (especially Great Britain - GB) counterparts and is more in line with the Target Model objectives of harmonising trading and ensuring efficient interconnector flows.

In light of Target Model objectives, there is a renewed need and indeed an urgency to review the current TLAF policy. Many EU electricity markets, including GB, currently apply a uniform approach to losses and many of these recover the costs through transmission use of system charges, (e.g. Austria, Denmark, Finland, France, Germany).

In the short-medium term, market coupling will occur on SEM-GB borders and GB currently utilises a uniform approach to TLAFs notwithstanding that it is ~10 times the size of the SEM. Considering that the aim of the I-SEM in complying with the Target Model is to optimise interconnector flows and move towards EU-wide harmonisation of trading arrangements, locational TLAFs conflict with this objective. On the contrary, uniform TLAFs applying across all timeframes and to all market participants offer a positive contribution to the levelling of the competitive landscape, in the short-medium term on SEM-GB borders, and EU wide in the longer term. Uniform TLAFs would also be easier to monitor particularly if no, or softer, bidding rules apply in I-SEM. Achievement of EU Target Model efficiency and competitiveness objectives must be the ultimate driver for all policy issues including losses, and compliance with the Target Model will ultimately result in benefits from a consumer cost perspective.

## ➤ **Interconnector losses**

BGE believes that separate representation of each interconnector's loss factors best reflects their respective technical capabilities. BGE would however welcome further insight into the perceived benefits of an averaging approach in terms of flow-efficiency and trading/ countertrading benefits, if any. The chosen approach must protect against stranded costs which the consumer would ultimately bear. In light of current interconnector loss factors,<sup>1</sup> BGE requests further consideration or insight into whether the SEMC intends on retaining the current interconnector loss methodologies and the rationale in terms of retaining / changing the current approach.

## **2. Treatment of Constraints**

BGE supports a policy of keeping generators financially whole in times of constraints while simultaneously incentivising such generators to alleviate such constraints when they are in a position to do so. The optimum policy should result in efficient generation and network investment signals as well as effective mitigation of the negative impacts of local market power.

Greater transparency in TSO constraint actions is required and more real-time information on system wide availability and dispatch information will also be necessary which will assist in providing network and generation investment signals, as well as in managing balancing risk.

A significant concern remains with regard to local market power abuse by plants in strategic locations. This is even more critical in a Pay-As-Bid system where there may be no bidding rules. Strict policing of such plants' bidding patterns will be required given that the opportunity for such plants to arbitrarily benefit from locational advantages will be heightened in the absence of bidding rules and on the introduction of balancing market obligations.

Constraint actions taken by TSOs must not commercially inhibit trading opportunities for market participants or impact access to intraday or Balancing Market (BM) prices. Provision for compensating affected participants in terms of missed trading revenue opportunities must be made, lest it dis-incentivise market participants offering availability or only offering availability at significant costs.

BGE also believes that proper TSO incentivisation to manage constraints will become even more critical in an I-SEM world with increasing wind and imbalance exposure. Such incentives must be carefully balanced against facilitating full exploitation of within-day and BM opportunities by market participants.

Considerable discussions occurred in the Building Blocks' Rules Liaison Groups on the actions that TSOs can take, the timings of which may overlap with market participant trading opportunities. BGE has significant concerns on this issue and emphasises the need to achieve a balance between TSO management of the system and the commercial needs of market participants. It is critical that market participants fully understand the potential role the TSO can play before balancing gate closure. BGE seeks clarity on the TSOs' proposed role as well as quantitative analysis of the impact on prices and market participation before a decision on the most suitable approach from a market and consumer cost perspective can be made.

## **3. Treatment of Firm Access; Priority Dispatch; and Curtailment**

Without full insight or understanding of the potential energy trading rules that will apply to I-SEM, market participants cannot carry out reasonable quantitative assessment which is needed to inform positions. Without such assessment, it is not possible to come to a formal conclusion on the issues of firm access, priority dispatch or curtailment. Robust quantitative analysis of the impacts of policy concepts on market prices and consumer costs is necessary and we urge the RAs to consider assessing the results of such analysis before putting forward formal policy proposals later this year. It was due to a dearth of sufficient analysis and the lack of proper quantification of consumer costs that led to the curtailment decision being overturned in 2012 and the potential for such a situation to arise again must be avoided. BGE does not believe that a decision on these policy concepts can be made at this stage without such analysis, and it cannot be assumed that the impact of these concepts would be the same as under a SEM-type design.

BGE's overarching concern is that a robust, predictable liquid day-ahead market price is critical for an efficient electricity market and the participation of wind will be instrumental in achieving such outcomes. However, the achievement of such prices and efficiency should not be pursued regardless of the cost to the consumer. The

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<sup>1</sup> EWIC's current average loss factor is 0.975 whereas its real loss factor is 0.94

importance of balancing incentives for non-firm/ priority dispatch/ curtailment exposed plant to participate in ex-ante timeframes as against the potential for exorbitant consumer costs cannot be overemphasised.

In the absence of the trading market decisions, BGE's initial views on the above concepts are limited to the following:

- The I-SEM must facilitate robust, liquid day-ahead prices and the participation of wind in the day-ahead timeframe will be central to achievement of such prices. BGE urges the SEMC to avoid the adoption of policy concepts that could dis-incentivise ex-ante trading by non-firm/ priority dispatch/ curtailment exposed plant, and ultimately increase ex-ante prices as a result. This would not be conducive to trading efficiencies or from a consumer cost perspective.

Negative market price and cost outcomes are perceivable for e.g. from the proposal to require non-firm plant that is committed ex-ante, to pay back the imbalance price if they are constrained. However, equally there is a potential consumer exposure if the payback price does not cover the cost of firm plant that will have to be constrained on to cover the volume of non-firm plants the system cannot run;

The potential for negative market price and consumer cost impacts will also be heavily influenced by the decision on how to differentiate between priority dispatch plant that trades ex-ante or just spills into the Balancing Market (BM). In this regard, significant quantitative analysis by the regulators is required before deciding on an appropriate bid price floor in light of expected wind levels in I-SEM, the delay in DS3 roll-out and the size of the market itself;

In terms of curtailment:

- regarding proposal (a) whereby curtailed plants must bid in a dec price reflective of ex-ante firm prices, BGE seeks clarity on how the SEMC believes those prices should be derived (e.g. is it the DA or ID price or a blended price?), as well as how the SEMC will mitigate against consumer exposure to a payback price that does not cover the cost of plant used to replace curtailed plant;
- regarding proposal (b), the cash out and post processing approach, a potential consumer cost exposure is also seen ) in light of the increasing dispatch balancing costs that are already seen with current levels of wind in SEM.

Quantitative analysis of the effects of the various curtailment proposals is critical for this decision in particular. BGE believes that option (a) is quite complex and option (b) involves significant administration and auditing needs. Subject to the outputs of the aforementioned detailed analysis, it may prove simpler and not involve too much additional cost to treat curtailment similarly to constraints;

- Firm plants that are constrained should continue to be held financially whole in I-SEM;
- TSOs must provide regular real-time information to all generators to enable them to exploit their full commercial opportunities to trade in and out of market positions.

#### **4. De Minimus Level**

Given the current levels of wind in SEM, BGE supports retention of the 10MW de minimus level at this point in time.

While BGE supports the use of aggregators as a route to market for smaller players, we wish to emphasise the key role that current suppliers play in providing this option for smaller players in the SEM which is achieved through intermediary arrangements. Confirmation that these arrangements will be retained in their current format and that intermediary volume aggregation can continue is requested. Requiring separate participant registration and invoicing for each intermediary agreement, would introduce unnecessary complexity and additional costs which is not conducive to market development.

BGE also sees benefits, particularly from a forecasting perspective, in requiring units under 100kW to participate only through aggregation.

#### **5. Treatment of Currency**

BGE supports the retention of the dual currency approach for I-SEM. Suppliers must have certainty over the process for recovery of costs and an ex-post approach to levying costs on a subset of the market such as suppliers is not supported. BGE would prefer a process that would enable easier validation and predictability

of costs and believes that a regulatory approved annual tariff process socialised across all suppliers would better facilitate transparency and line item validation.

## **6. Market Information**

BGE believes that more regular and granular information beyond that already published by SEMO and the TSOs in particular will be required in I-SEM. The information published by the ROI and NI TSOs must be comparable, particularly with regard to regular wind and demand forecast updates. The transparency of commercial and technical offer data currently available to the market is heavily facilitated by the bidding code of practice (BCOP), but the need for such detail will become even more important in I-SEM if market participants are to be given an equal chance to compete with larger portfolio players.

Additional information currently lacking includes market-wide data relating to real-time and forecasts of curtailment and constraints volumes and plants, as well as de minimus and non-firm volumes. TSO actions in the BM must critically be transparent for both system and energy actions and as much notice as possible of TSO constraints must be given to affected parties (while not impinging commercial opportunities). Real-time information on the operation of the system and constraints is one of the most important pieces of data and the extent and regularity of information required should be revisited in the market power workstream.

In light of REMIT requirements, a uniform approach to outage publication must be adopted by market participants and TSOs alike. Such publications are not currently occurring to the same standard across the market. BGE again urges the creation of a central REMIT platform for publication of such information as soon as possible. Streamlined reporting of outages planned, forced, cancelled and updated as well as testing information will be central to influencing market trading decisions.

Regular, timely settlement information is also required to enable suppliers to achieve as balanced a portfolio as possible which will have knock-on impacts on consumer costs.

In conclusion, BGE is in favour of postponing final decisions on these important policy concepts until such time as reasonable quantitative assessment can be carried out on the effect of these policy concepts in the context of energy trading arrangements/ rules. Before these policy concepts are finalised, robust quantitative analysis should be carried out by the SEMC in order to fully ascertain and understand holistically the impacts on market prices and consumer costs of adopting particular policies. BGE is ultimately in favour of incentivising as much participation as possible in the day-ahead market which by necessity requires rules that enable wind to participate in ex-ante timeframes without exposure to arbitrary penalties to the ultimate detriment of prices and consumer costs.

BGE also commends the Regulators' stakeholder process to date and believes that the group workshops to date have been a very useful forum for sharing ideas, opinions, questions and answers across industry and the regulators alike. Notwithstanding that certain aspects of the energy trading arrangements would benefit from specialised focused groups we urge the SEMC to at least continue with the general industry workshop format as a minimum for all further work streams.

I hope that you find the above comments and suggestions helpful. Should you wish to discuss any of the above please do not hesitate to contact me.

Yours sincerely,

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**Julie-Anne Hannon**  
Regulatory Affairs – Commercial  
Bord Gáis Energy

{By email}