



Energy for  
generations

# ESB Presentation to RLG Workshop 2.3

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## 1. The detail is important

## 2. We need to try and ensure take a step back and look at the big picture

- Efficient - Making sure the most efficient market signals are delivered (no inefficient exit or lack of entry)
- Enduring - Taking a long term view and sustainability of the market design (due regard to a future signal)
- Economic - Looking at the needs of the future customers and investors.

## 3. Increased risks

- Increased volume and price risk for both generators and suppliers

## 4. The means for the industry to manage risk

- Liquidity requirements
- Non asset backed participants

# Energy Trading Arrangements

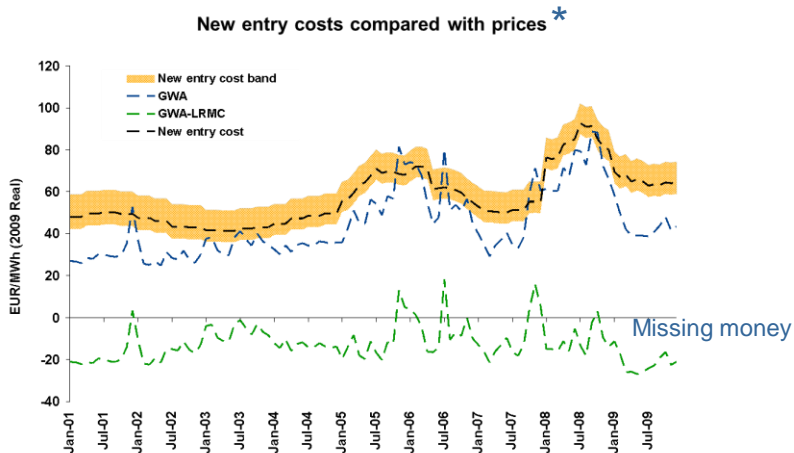
## Understanding the parts and how they fit together



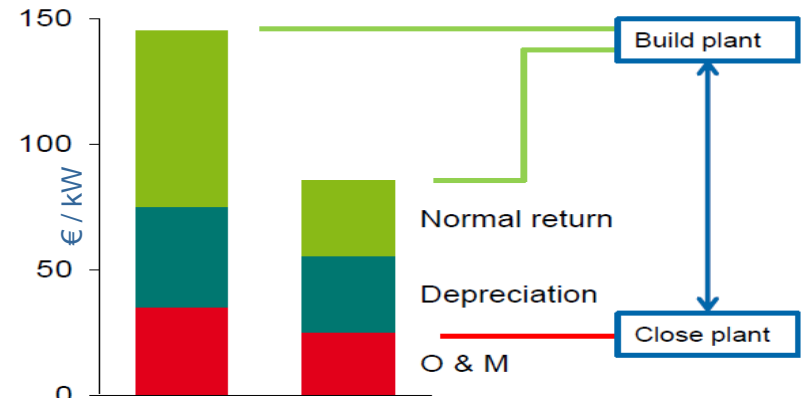
The devil is in the detail – but we should not lose sight of the bigger picture

# Efficient and Enduring Market Design

## Efficient signals for long-term solutions



**\*Margin per year (Income - fuel & CO<sub>2</sub> costs)**



### Efficient, Enduring & Economic markets:

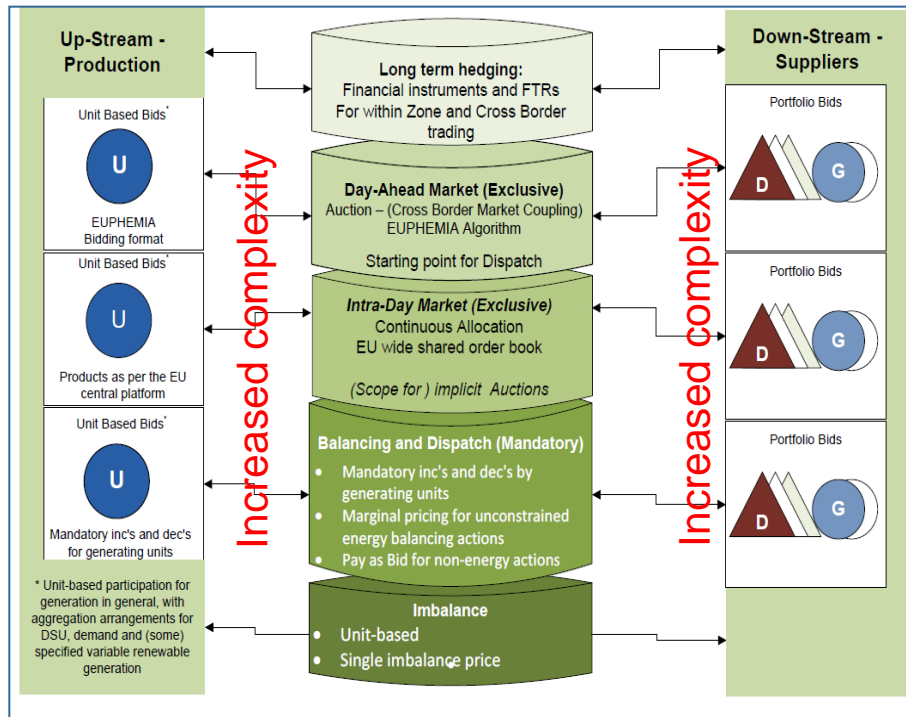
- Avoid designing a market that leads to the missing money problem.
- Making sure the most efficient market signals are delivered (no inefficient exit or lack of entry)
- Markets are moving to capacity payments to accommodate sufficient generation (GB? Germany?)
- Lack of sustainable signals may require a significant change in tariffs at a later stage

Long term pain for short term gain – ensuring that the market design does not lead to a missing money issue and a lack of investment signals or step changes in tariffs.

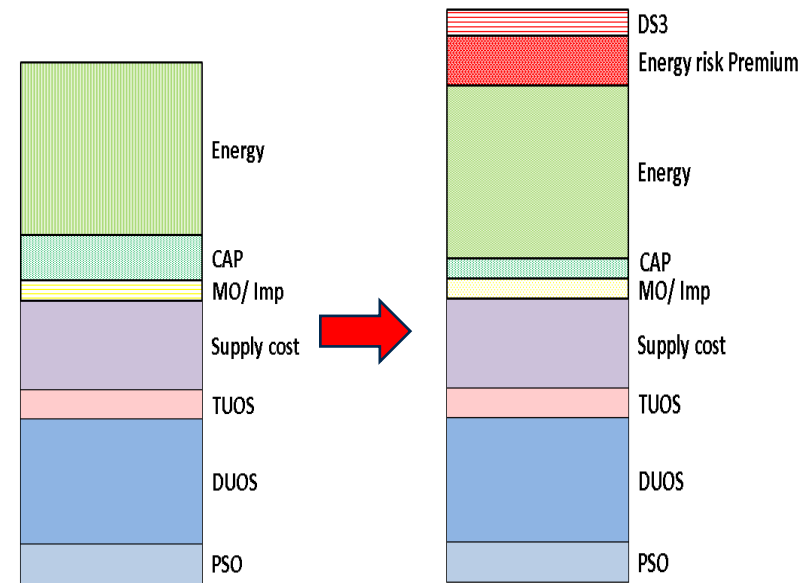
\* Presentation from RWE

# Market Risks and Economic solutions

## Increased risks for Generators and suppliers



Market Risk



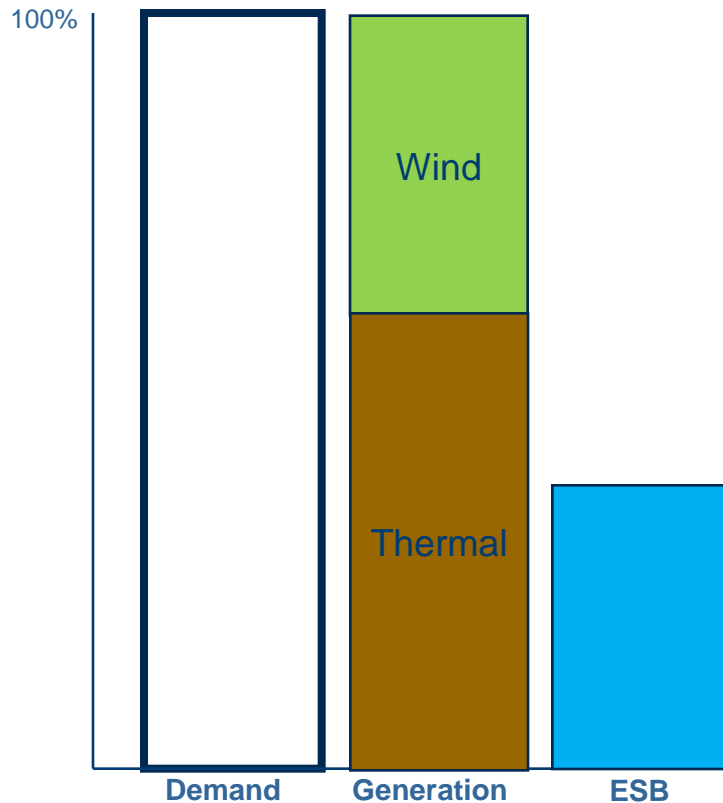
Tariff impact?

Price and Quantity volatility and uncertainty increases the risks faced within the industry. This risk will need to be managed

# Managing the Greater Risk in iSEM

## Liquidity issues

The Market in 2020



- Demand and generation risk in the prompt and spot markets is managed through forwards contracts.
- The Ministers' Renewables Target for 2020 is 40% (wind is currently non hedgeable)
- The hedgeable (dispatchable) plant will provide security, flexibility and the required remaining energy
- The need for shape will add further exposure

Sufficient physical hedges for the suppliers' needs?

# References



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1. [Graham Weale presentation to EAI.](#)

2. <http://www.clingendaelenergy.com/events/event/energy-transitions-across-europe---the-future-challenge-for-utilities-and-governments>