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4th March 2015

Dear Kevin and Clive,

Subject: Comments on ETA Rules Liaison Group workshops 2.1 – 2.3

Bord Gáis Energy (BGE) welcomes this opportunity to provide informal comments on the workshops that have been held to date on the I-SEM detailed design of Energy Trading Arrangements (ETA). BGE has found the Rules Liaison Group (RLG) meetings a very useful forum for the exchange and discussion of design views from both a regulatory and industry perspective and urges the RAs to continue with at least this method of communication for all future workstreams. Please note that at this stage these are high level comments and BGE reserves the right to review and change them upon further consideration.

It is our view that there are certain outstanding issues that are central to the operation of a number of elements of the ETA that would benefit from further insight and discussion before release of the ETA consultation in April/ May. One key area on which diverging understanding and perceptions exist is on the role and use of physical notifications from a market (as opposed to a dispatch) perspective. BGE believes these discussions are hampering the understanding and progress of the energy market design at this stage. BGE strongly urges the RAs to focus on designing workable energy market principles in the first instance, and thereafter deal with dispatch issues related to the system intricacies of the SEM.

1. Operation of the Day-Ahead Market (DAM)

BGE reiterates its desire for a liquid DAM market and for market participant involvement in the development of proposed interactions with Euphemia from a bidding perspective.

BGE believes that there is an urgent need for industry participants to understand as soon as possible how wind will be treated with regard to REFIT pricing and balancing exposure. This information will have a heavy bearing on market interaction decisions on market participant strategies. Specifically, BGE is concerned that there are certain elements within the Building Blocks consultation paper which may actually contradict the general objective of incentivising wind participation in the ex-ante markets, namely the treatment of firm access and curtailment.

BGE very much supports the process that SEMO has adopted to date in ensuring that market participants are involved in the development of an approach to interacting in Euphemia. We also welcome the decision not to rule out any bid-offer formats at this early stage of the testing phases and urges that as much information as can legitimately be shared by SEMO, in terms of Euphemia's operation, and testing inputs / outputs, occurs throughout these testing phases bearing in mind commercial sensitivities.

2. Operation of the Intraday Market (IDM)

BGE requests clarity on the fallback IDM option if the EU option is not available on time and supports the role of periodic auctions operating in parallel to a continuous IDM.

BGE understands that significant delays and uncertainty regarding the operation of the IDM remain at a European level. We would welcome some insight into whether or what fallback IDM approach might apply should the EU IDM option not be available to I-SEM at its proposed inception. Do the RAs envisage that the current IDM approach can continue or perhaps that some form of periodic auctions can be phased in

until the full Shared Order Book Function is available? BGE is in favour of adopting periodic IDM auctions on an enduring basis believing that they will be instrumental to pooling liquidity in the IDM which will prove critical for managing adjustment risks faced by market participants. It is also considered likely that local market power rules for these auctions may be required for plant located in strategic locations capable of influencing prices at the IDM stage.

3. Global Aggregation

BGE submits that global aggregation errors should not have to be managed by suppliers individually given that it is the SOs' role to determine DLAFs and TLAFs. Transparency behind any proposals that deviate from the current calculations are critical given that suppliers and ultimately the end consumer must pay for such errors.

4. Instruction Profiling

With regard to the options of "open" or "closed" instructions, we would welcome further clarity on (i) whether all types of bid formats (simple MWh/ MW based on PNs/ Absolute MW) can be utilised with either "open" or "closed" instructions and (ii) whether it is the case that under the "closed" instruction you are locked in and time bound and prohibited from altering your inc, dec whereas under the "open" instruction there remains the option to alter your inc, dec at anytime after the initial instruction?

5. Metering

BGE believes that as up to date/ real time data on volumes as is possible is necessary to facilitate market participants' balancing of positions in I-SEM. There should be no reductions in existing timelines, indeed more aggressive timelines closer to what occurs in the gas market (where data is conveyed on an hourly basis for large customers and three times daily for daily and non-daily metered customers) would be preferable. The availability of real-time data will also be important for trading/ balancing positions in the intra-day market and should facilitate the aim of a liquid IDM.

With regard to settlement data, given the increase in settlement windows and requirements BGE would welcome adherence insofar as possible to the current D+4 settlement period. More importantly however, D+1 settlement data must provide a very good indicator of the D+4 (/ other chosen settlement period in I-SEM) output, from a certainty perspective.

6. Local Market Power

BGE believes that the risk of local (and wider) market power extends beyond the I-SEM into other arrangements and that a holistic view of market power management across DS3, CRM and ISEM trading is required. Local market power principles are expected to become most important in the context of strategically located plants in a position to manipulate IDM and Balancing Market (BM) prices in particular by virtue of demand and lack of feasible alternative generation in those areas. Outside of the ISEM process, BGE would also, for transparency purposes, welcome more insight into plants that are constrained on/ off in SEM currently.

7. Physical Notifications (PNs)

The use and treatment of PNs, in BGE's view, represents the most contentious outstanding issue in terms of significant uncertainty as to the detailed operation of the ETA. The RLG discussions have centred heavily on the use of PNs and dispatching in line with these. We must remember that we are creating an economic market design and not a constrained market and principles for an unconstrained energy market must not be overshadowed and complicated by the concerns that exist for system operation. The confusion and lack of consensus understanding as to the role of PNs in the market manifested themselves in discussions on the PNs in the various RLGs. BGE recognises the constraints on the Irish system and that the TSO must be enabled to manage these constraints in a timely and cost effective manner. However, the market rules cannot be designed in the first instance on the basis of a flawed system.

BGE urges the RAs to consider bottoming out the role of PNs from a market (as opposed to dispatch) perspective before releasing an ETA consultation given the resonating impact the conclusions might have on other elements including reaching a feasible dispatch and on imbalance settlement.

8. Reaching a Feasible Dispatch

BGE strongly supports the need to enable market participants the opportunity to adjust market positions and inc, dec submissions up to 1 hour pre real-time. Acknowledging however the adjustment faced by the TSOs in achieving a 1 hour gate closure for I-SEM's inception, a reasonable transition period to facilitate the TSOs' adjustment should be considered provided that this does not constrain the commercial rights of market participants to trade in ex ante markets.

9. Format of Bids and Offers, Recovery of Start Costs

RLG discussions concerning the format of bids and offers (simple MWh/ MWs related to PNs/ Absolute MWs) were again heavily linked to the interpretation of the role and treatment of PNs. In essence, BGE believes that market participants should have as much flexibility (as opposed to obligation) as possible to be able to update incs, decs as often as necessary in line with the rate at which costs can change throughout a day. Flexibility to reflect changes in trades and of fundamental market dynamics is of the utmost importance.

In relation to simple bids RLG concerns raised around potential market manipulation should be dealt with within the market power mitigation workstream.

BGE believes that there remains a significant outstanding concern regarding how start-up costs are going to be factored into bids particularly in the BM. This issue would also benefit from further debate prior to an ETA consultation. Taking into account the RLG discussions around using long term contracts for ensuring slow-starting plants recover their costs when required to come on for energy reasons, BGE urges the RAs to avoid locking in signals for slow starting plant through the use of such contracts. Such contracts would dilute the signals for flexibility in the market and a preference is expressed for the adoption instead of suitable signals for plants that are capable of behaving in a manner conducive to responding to energy requirements (as is one of the objectives of the balancing market). Further insight from the RAs as to the expected requirement for such plant given historical system needs and any lack of flexibility, would be welcomed.

10. Imbalance Settlement and Uninstructed Imbalances

Imbalance settlement is another contentious issue particularly in the context of discussion on the role of PNs. Furthermore, the role of the NEMO and the TSO in I-SEM are entirely separate and the discussions around PNs appear to blur the line. Again, in the context of the fact that we are designing an unconstrained market in the first instance, BGE urges the RAs to facilitate discussions and information with regard to explicitly delineating the different approaches to i. market settlement and ii. dispatch settlement and the respective roles of market participants and the TSOs in striving to bring the market and dispatch settlements as close together as possible.

A clear distinction as to the role of uninstructed imbalances, which should relate to the physical instruction of the TSO to the participant, versus the metered response of the participant to that physical instruction is required. BGE believes that significant misperceptions and conflicting understanding of i. energy market imbalances and ii. uninstructed imbalances continue to exist and should be resolved prior to the release of the ETA consultation given that it is fundamental to market operation and settlement exposure.

11. Reserves, Parallel Intraday / Balancing Market trading, Firmness of Instructions

BGE believes that the contracting of reserves by the TSOs through the balancing market should not impinge on market participants options to trade in the ex ante markets. If it is the case that market participants are called for reserve which impinges on potential IDM trades, incs and decs from the affected participant will have to reflect an estimate of the potential opportunity costs of delivering contracted energy. A reasonable approach is necessary to facilitate competitive trading and the potential to reach a more market-based solution in the IDM as well as to mitigate negative impacts on IDM liquidity.

Measures should also apply to ensure that the TSO, over a reasonably short period, phases out any pre-BM energy instructions that impinge on ex ante or balancing market trading.

With regard to the firmness of instructions from the TSO, BGE submits that any instruction from the TSO before the IDM gate closure should be firm. Such an instruction may result in withholding of the instructed volume by the relevant party from the energy market the costs of which are potentially incalculable. If firmness cannot be ensured, it is opined that TSO reserve instructions should not be made until 1 hour pre real time. The TSO must be bound by the commercial dynamics of the market consequential to such reserve requests.

12. Tagging, Flagging and Imbalance Pricing

BGE remains unclear on the delineation between tagging and flagging actions and their input to the proposed pricing process of imbalances in I-SEM. Further discussion is also needed on this area as the RLG discussions raised some important issues on which there is no clear consensus as of yet. Further discussion and analysis is also considered necessary on the RAs' options for possible further (fallback) options for the pricing of balancing actions when very few or no energy only actions exist on which pricing can be based. We reiterate our view that if a low PAR value in pricing is aimed for, there must be a reasonable move towards such to avoid knee-jerk reactions to spiky prices that would inevitably occur in balancing if a move from a socialised balancing regime to one of low PAR value is adopted at the outset in I-SEM.

In conclusion, BGE welcomes the RLG process to date and urges that this element of communication stream continues throughout the detailed design phase of I-SEM. BGE does however urge the RAs to consider holding another ETA RLG(s) to resolve insofar as possible a number of issues on which considerable uncertainty remains:

- The role and objective of PNs and knock on impacts in certain areas including TSOs reaching a feasible dispatch and the calculations in imbalance settlement;
- The delineation between energy imbalances and uninstructed imbalances;
- Recovery of start costs particularly in the balancing market and the use of long term contracts for energy reserves;
- The tagging and flagging of energy/ system actions and imbalance pricing process.

We believe that bottoming out on these issues prior to the release of an ETA consultation will greatly contribute to robust and constructive responses with a view to designing an ETA in line with the HLD that works for market participants, the TSO and regulators alike.

I hope that you find the above comments and suggestions helpful but please do not hesitate to contact us should you wish to discuss any of the above. As noted at the outset, the above are high level comments and BGE reserves the right to review and change them upon further consideration.

Yours sincerely,

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{By email}