



**Integrated Single Electricity Market
(I-SEM)**

**Energy Trading Arrangements (ETA)
Markets Consultation Paper**

Consultation Response Template

SEM-15-038

22 May 2015

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PURPOSE OF THIS DOCUMENT

1.1 PURPOSE AND STRUCTURE OF THIS DOCUMENT

- 1.1.1 This supplementary document provides a template for responses to the [ETA Markets Consultation Paper \(SEM-15-026\)](#). We request all responses to the consultation are submitted in this template, and in **Microsoft Word** format.
- 1.1.2 This template contains the questions presented in the consultation document.
- 1.1.3 Responses to the Consultation Paper are requested by 17:00 on 5 June 2015. Following a review of the responses to this paper the SEM Committee will publish its decision on the proposals set out in this paper in September 2015.
- 1.1.4 Responses should be sent to Kenny Dane (kenny.dane@uregni.gov.uk) and Kevin Hagan (khagan@cer.ie). Please note that the SEM Committee intends to publish all responses unless marked confidential¹.

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¹ While the SEM Committee does not intend to publish responses marked confidential please note that both Regulatory Authorities are subject to Freedom of Information legislation.

2 CONSULTATION QUESTIONS

2.1 RESPONDENT DETAILS

COMPANY	Bord Gáis Energy Limited
CONTACT DETAILS	One Warrington Place, Dublin 2
MAIN INTEREST IN CONSULTATION	Generator in only the Irish all-island electricity market and an electricity and gas supplier in only the Republic of Ireland electricity and gas retail markets

2.2 GENERAL COMMENTS

Bord Gáis Energy welcomes the opportunity to comment on this Consultation on the I-SEM Markets Energy Trading Arrangements (SEM-15-038).

BGE is a long-standing advocate of the principles of liquidity and transparency and believes that maximising liquidity and transparency in all market timeframes will facilitate effective competition and efficient price outcomes both of which are core to the consumer's best interests. In BGE's view, designing a market that provides for early TSO actions effectively preserves the status quo in terms of network inefficiencies and generation stack, and in so doing bolsters the position of dominance held by those (mainly portfolio) players with local market power, given the constrained nature of our system. The exposure of market participants to imbalance prices and the DS3 incentives for flexible plant should together incentivise and facilitate market participants to be substantially balanced by balancing market gate closure. Early TSO actions undermine these incentives and are considered a perversion of the market design therefore BGE's overarching position in this response is that early TSO actions must necessarily be limited until the hour before real time.

Liquidity in the Day Ahead Market (DAM) and Intraday Market (IDM) is critical to ensure optimal opportunities for market-based trading to balance positions until Balancing Gate Closure Time (GCT). Limiting early TSO actions occurring between 1-4 hours before real time to unit-commitment only will facilitate the growth of such liquidity². Any other energy or non-energy actions should only be permitted after Balancing GCT.

In the absence of any quantitative analysis it is difficult to know how the different options will affect market outturns, in particular price formation and therefore liquidity (in all timeframes but BGE is acutely concerned as to how the imbalance settlement and pricing options will affect IDM liquidity in particular). BGE urges the SEMC to provide an analysis of the aggregated options to ensure that liquidity is adequately provided for thereby enabling optimal and competitive market and pricing outcomes, before any final decisions on aspects of this consultation are made.

Furthermore, the I-SEM design is being primarily driven by the need to comply with European Internal Energy Market (**IEM**) and Target Model objectives. The rules pursuant to these objectives

² By unit-commitment only, BGE means that between 4 and up until 1 hour before real time, the only actions that can be taken by the TSOs are actions that seek to synchronise a generator to its minimum generation availability in order to provide reserve or address a local constraint (i.e. for non-energy/ system actions only). Decisions on such commitment actions should be justifiable and limited only to when they are absolutely necessary. BGE recognises however that in the transition to I-SEM there may be concern around leaving all commitment actions to 4 hours ahead; on an interim basis and for publically justifiable reasons this earlier unit-commitment actions could be taken but they should not limit participants' ability to trade into balance up to one hour before real time

envisage an EU-wide electricity market on which all market participants compete on a level playing field. The rules also foresee a market solution for economic scheduling of plant and to ensure efficient and optimal interconnector flows, which BGE is strongly supportive of. Market participants are expected to have the maximum opportunity to trade out balance positions insofar as possible up to real time in order to achieve economically efficient outcomes. This will in turn provide the most economic entry/exit signals which will deliver efficient pricing and competition and ultimately will achieve a result which is in the customer's short and long-term interests. The TSO-centred approach taken in this Consultation is considered at odds with these EU objectives and risks frustrating the ability of I-SEM market participants to compete on an equal basis with EU counterparts.

With a view to promoting liquidity and transparency, minimising early TSO actions and, achieving effective competition and efficient market and price outcomes in the interests of the consumer, BGE's key preferred design proposals therefore include:

- TSO actions should be limited to unit-commitment only up to 4 hours ahead of the balancing market gate closure.³ The draft Balancing Network Code⁴ itself envisages a balancing market where market participants will have the maximum opportunity to commercially trade out positions until balancing Gate Closure Time (**GCT**);⁵
- IDM periodic auctions should be adopted on an interim and an enduring basis in I-SEM to maximise liquidity and transparency in bidding as well as potentially acting to mitigate market power exertion. A continuous trading platform akin to the Tullett Prebon financial over-the-counter platform may be an additional interim solution (from a continuous trading perspective) to maximise opportunities to mitigate the risks of sudden supply/ demand needs;
- BGE believes there should be transparency with the TSO in both the traded position and physical position of participants to enable the TSO to take economic and timely actions. On that basis, BGE has in its response differentiated between PNs (as a indication of updated traded positions) and FPNs (as an indication of physical commitment) but in a way that, when combined with the imbalance settlement rules, incentivises alignment between them by gate closure;
- Physical Notifications (PNs): PNs should represent the traded commercial position of each unit and therefore should be exactly linked to ex ante trades, while not necessarily being physically feasible. This will maximise incentives to trade in the IDM such that an entirely physically feasible position is eventually achieved. TSOs will also have the correct information against which early commitment actions can be taken minimising outcomes where incorrect PN quantities or related bid-offer prices influence balancing decisions and consequently balancing prices;
- Final Physical Notification (FPNs): FPNs should represent the expected physical commitment of a unit, but need not exactly match ex ante trades. They should be updated throughout a day through indicative FPNs so as to inform the TSO of expected commitment positions and they should be physically feasible at gate closure. This provides the best information to the TSO to enable decisions on early commitment actions or potential post-balancing GCT actions;

³ BGE recognises however that in the transition to I-SEM there may be concern around leaving all commitment actions to 4 hour ahead; on an interim basis and for publically justifiable reasons this earlier unit-commitment actions could be taken but they should not limit market participants' ability to trade into balance up to one hour before real time

⁴ September 2014 version

⁵ Article 25 of the Code for e.g. provides that balance responsible parties shall have the right to adjust their balance position before and after the intraday gate closure time

- Information imbalance charges should be applied to FPNs at balancing market gate closure only so as not to reverse the benefits of not requiring PNs to be physically feasible, as noted above; the charge in BGE’s view negates the need for separate application of uninstructed imbalance charges or GPIs in I-SEM considering that plant availability and instruction profiling will endure in I-SEM. Otherwise trading may be viewed as prohibitively risky in light of a potential plethora of penalties which would negatively impact liquidity;
- MW Absolute bid formats should provide explicit advanced information on a range of costs for deviating from PNs regardless of PN positions enabling transparent, economic TSO decision making and reducing price update requirements for market participants;
- Market participants should be permitted to update any yet-to-be- accepted balancing market bids and offers up to real time to maximise liquidity and trading opportunities and minimise incentives for early TSO intervention;
- Where early TSO commitment actions are taken, market participants should take substitutive actions in the IDM to minimise Dispatch Balancing Costs (DBC) and increase IDM trading (and thus liquidity);
- DS3 reserves and non-energy actions should be procured based in balancing market incs, decs. Non-energy actions should be paid for via DBCs;
- A regulated bid methodology should apply to plants in import constrained zones to mitigate the influence of those plants on end consumer prices and help identify the cost to the market of facilitating the long term position of these plants (through DBCs) and identify the elements of the network that need most immediate attention to alleviate local constraints;
- An unconstrained stack taking account of technical plant characteristics as well as an optimisation time horizon should be used in imbalance pricing. This should help smooth the transition to I-SEM, is transparent and should allow for more robust, predictable and stable price outcomes;
- Start and no-load costs should be implicit in the imbalance price but it is critical that some form of control is applied such that price volatility is minimised in the interests of efficient, stable consumer prices. BGE urges the RAs to hold further topic specific RLGs to consider how start costs can be best reflected within the unconstrained stack to achieve the appropriate balance between price signals and market risk;
- More detailed and focused RLGs examining the issues of PNs, trading in the opposite direction to the TSO, imbalance pricing and settlement in particular are required alongside detailed quantitative analysis of the impacts of various option choices before reasonably informed opinions on these options put forward in the consultation can be made. The solutions should not facilitate market power exertion, must be transparent and should incentivise liquidity (or at least not dissuade IDM participation) with a view to obtaining predictable market and price outcomes. BGE would welcome affirmation that further RLGs/ stakeholder engagement will be held on these issues before any proposed or final decision.

BGE believes that the fulfilment of EU objectives and of the principles of liquidity and transparency and their knock on beneficial impacts on mitigating the potential for market power exertion and on ensuring competitive market and pricing outcomes, is dependent on the above options being applied in a collaborative manner. Their success is heavily interlinked and BGE urges the SEMC to consider this before coming to a proposed decision or indeed final decision on any aspect of this Consultation. BGE is also of the view that a holistic perspective of the market design is required and should decisions in the capacity remuneration mechanism and DS3 workstreams result in outcomes that impact on BGE’s key principles for the I-SEM design as outlined above, further consultation on the affected issues with market participants may be required.

We hope that you find the comments above and in the remainder of this response useful. Please do not hesitate to contact me should you have any queries thereon.

Yours sincerely,

Julie-Anne Hannon
Regulatory Affairs – Commercial
Bord Gáis Energy

2.3 SYSTEM OPERATION IN THE I-SEM (CHAPTER 2)

The procurement and dispatch of system services will be critical in delivering an efficient and competitive market. On that basis, BGE believes that the principles of liquidity and transparency are as important if not more important in this part of the market design given the level of constraints on the system. Therefore, in this context and with a view to achieving competitive market and price outcomes in the consumer’s interest, BGE believes that early TSO actions should be minimised. This will deliver the following outcomes:

- ensure liquidity in all three physical markets: day-ahead market (**DAM**), intraday market (**IDM**), balancing market (**BM**);
- ensure transparency in TSOs’ and market participants’ actions;
- mitigation of potential market power exertion;
- proper incentives for ex ante participation of wind in the market, and;
- appropriate signals for investment in flexible generation.

Permitting early TSO actions without fully considering their contribution to meeting or impacting on achieving the above noted minimum needs for I-SEM, is not in BGE’s view conducive to a robust market design.

Moreover, this Consultation should be driven by the SEM Committee’s (**SEMC**’s) primary duty to the consumer, which requires application of the I-SEM principle of a “preference for a competitive approach that is in the interests of consumers, in accordance with the statutory duties of the SEM Committee” above any of the other five I-SEM principles.⁶

BGE’s views on this section and all subsequent answers that relate to TSO interactions in IDM and BM must be read in the context of our overarching position that early TSO actions are unit-commitment only.

Question	Answer
1. What are the impacts of early action by the TSOs on the Intraday Market?	<p>BGE’s key concerns with regard to the level of TSO intervention in the market, relates to the key design requirements of liquidity and transparency across all market timeframes and in all TSO and market participant trading actions.</p> <p>The Consultation appears to be seeking to design the market around a constrained system rather than from the perspective of market participants striving for economically efficient pricing outcomes that ultimately benefit the consumer. Permitting early TSO actions in the IDM goes against the spirit of an unconstrained market and interferes with market dynamics. This, coupled with</p>

⁶ The 6 principles as outlined in the I-SEM High Level Design being:

I. Preference for a competitive approach that is in the interests of consumers, in accordance with the statutory duties of the SEM Committee.

II. Access to all I-SEM market places for participants of all sizes and technologies.

III. Liquid trading of financial forward contracts for effective hedging of short term prices, which is particularly important for independent generators and suppliers.

IV. Liquid and transparent centralised short term physical markets that are coupled with European trading mechanisms, and are exclusive routes to physical scheduling.

V. Balance responsibility for all participants to ensure that their notifications of generation or demand best reflect their actual expectations. VI. An explicit capacity remuneration mechanism to help deliver secure supplies for consumers in the all-island market, particularly with increasing variable generation.

	<p>the level of complexity involved in trying to balance TSO desires to intervene in the IDM with market participant competition, will inevitably impact predictability in market outcomes and pricing, damaging investment incentives.</p> <p>Critically, early actions would affect IDM liquidity and dampen the signals for flexibility undermining the objectives of the DS3 project as well as investor certainty in a market where back up thermal generation is necessary. Early TSO actions pre-suppose commercial decisions and dissuade market participants from balancing up to real-time themselves which is not the most economically efficient method of ensuring a balanced system, and is contrary to the Balancing Network Code’s vision.</p> <p>Local import constraints and consequential local market power potential are directly attributable to network inadequacies. Facilitating TSO early actions due to grid inadequacies prolongs the local market power issue to the detriment of liquidity and competition. The issue of local market power in local import constraint zones will become more prevalent and damaging in I-SEM from market competitor and consumer cost perspectives, and unless an action plan (discussed in answer 2 below) is adopted in the short term, DBCs will increase and competition will become even more concentrated with inevitable impacts on consumer prices.</p> <p>Inefficient pricing and market outcomes are also likely in cases where TSOs may decide to intervene on behalf of non-dispatchable demand without the relevant supplier’s knowledge which could mean that a supplier’s subsequent action may inadvertently end up undoing the TSO’s initial action. Mitigating these inadvertent outcomes would likely require regular TSO-market participant communications which could become complex and burdensome.</p> <p>Importantly, BGE believes that the SEMC’s noted potential impacts of not permitting early action by the TSOs,⁷ are in fact mitigated by new design attributes of the I-SEM, the most prominent of which is the late start to the trading day. A trading day that commences at 11pm as opposed to 6am, and with market results up to 11 hours ahead of 11pm, will allow the majority of plant in the market sufficient time to react to market results regardless of their start up times, particularly as the usual peak periods will not materialise until up to 8 hours after the trading day commences (and up to 19 hours after Euphemia results are expected).⁸ Further measures to alleviate these concerns are outlined in answer 2 below.</p>
2. What measures can be taken to minimise	As outlined in the General Comments section, BGE submits that only unit-commitment actions should be permitted by the TSO until after the balancing gate closure time (GCT). This approach would enable market participants to maximise commercial trading opportunities; is in line with the Balancing Network Code (NC); and avoids the impacts on IDM liquidity and transparency

⁷ These include concerns over regular breaches of operational limits when insufficient synchronisation time is given; heavy reliance on quick start generators at the expense of longer notice less expensive plants; increased wind curtailment due to the need for long notice shut down times

⁸ Based on a traditional winter peak period of 7am and on the assumption that Euphemia results will outturn ~noon daily

<p>early actions by the TSOs?</p>	<p>as discussed in section 2.3, answer 1 above.</p> <p>BGE believes that the ability of the TSO to solely take such commitment-only actions before balancing GCT should be reflected in a defined principles document. The document should provide (inter alia) that:</p> <ul style="list-style-type: none"> • These unit-commitment actions are permitted to maximum 4 hours before real-time; • All energy (only in the hour before real time) and non-energy (only in the hour before real time except for unit commitment actions) actions must be taken within the market. The use of balancing market bid-offers is efficient, objective, and transparent and should enable predictable market outcomes and avoid distortion or pollution of imbalance prices by contracts outside the market.⁹ <p>BGE is not in favour of proposed contracts outside the market¹⁰ as these are not conducive to transparency, liquidity, competition or predictability of market outcomes all of which are necessary for investor certainty and a well-functioning market. Contracts may also be subjective and open to pricing abuse particularly when units located in an import constrained zone are a necessary counterparty to some or even all of these contracts. Extra contracts outside the market would cloud market transparency, add to market complexity and ultimately undermine certain DS3 products.</p> <p>BGE sees the defined principles document for non-energy actions covering non-energy actions that arise in two distinct scenarios:</p> <p>1. System actions required for reserve reasons – DS3 contract treatment: To maximise the efficiency and minimise the costs of DS3 contract utilisation, units with DS3 contracts should co-optimize their reserve and energy market running when the DS3 contract is called. The co-optimisation could operate as follows:</p> <ul style="list-style-type: none"> • Actions required for reserve reasons should be limited insofar as possible to 4 hours before real-time; • DS3 contracted units whose contracts are called on ahead of balancing market gate closure, whether or not that unit already has a DAM position, should as the SEM Committee (SEMC) suggests, co-optimize their reserves contract and bid into the market to ensure they are market scheduled. The unit should be permitted to continue trading in IDM and any IDM trades that override/ cancel the reserves called under the DS3 contract should be “substitutive”. <p>2. System actions required for local constraint reasons: As I-SEM, like SEM, is expected to be a heavily constrained system certain units will continue to be in a position of local market dominance. Until necessary local area network improvements are made, the unavoidable necessity to</p>
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⁹ Subject to further consultation, BGE is open to interim arrangements that could provide for earlier TSO actions if required on I-SEM go-live but with a sunset clause as such arrangements should not endure due to a system that is constrained to the detriment of competitive market outcomes and efficient end-consumer prices

¹⁰ This reference does not include DS3 contracts

	<p>constrain those within an import constrained zone undermines cost efficiencies. Scenarios will remain whereby only one particular unit can be utilised to resolve the constraint in question, a unit with local market power. The treatment of such units should not pollute the balancing market price or increase Dispatch Balancing Costs (DBCs), and should not impact IDM liquidity. Transparency in bids is also crucial for predictable market outcomes, stable pricing and investor certainty reasons. BGE submits that units with long-term local market power potential should be therefore treated as follows:</p> <ul style="list-style-type: none"> • No actions to be taken before balancing market gate closure, except for unit-commitment actions determined based on bid and offer prices to ensure: a market-driven approach to balancing; transparency in TSO actions; a level of comfort to the TSOs in terms of operational security. • The unit can continue to trade IDM but must (unlike DS3 contracted units) bid into the market on a competitive basis to ensure a level playing field and to mitigate potential market power exertion; any IDM transactions substitute the TSO commitment action. • To control for local market power exertion, the bids of affected units must be regulated.¹¹ The regulation of the bids should contribute to enhanced IDM liquidity, minimisation of DBC costs and minimal intervention on a unit’s IDM bidding flexibility. • Failure of the unit to obtain a substitutive IDM trade should trigger application of the regulated bid methodology whereby the unit is effectively Pay As Bid to minimise effects on balancing prices and DBCs. • Where the regulated bid methodology is triggered, payment of such bids/ offers should be made through DBCs when the unit is considered pivotal,¹² which will help identify where system development must be targeted and help quantify the costs of units in a position of long-term local market power. <p>In addition to the above, and to provide comfort to the TSOs on market participant behaviours one of BGE’s preferred design proposals is that Physical Notifications should exactly match all DAM and IDM trades and should be updated to the TSO as and when ex ante trades occur (elaborated on in more detail in section 2.5, answer 3 below).</p> <p>Furthermore, BGE supports the SEMC’s proposal for a TSO report but believes that this report should cover all energy and non-energy actions. The report should be published in conjunction with BGE’s defined principles document as outlined above. The report should:</p> <ul style="list-style-type: none"> • Explain all energy and non-energy actions taken by the TSOs including reasons and timings thereof; • Replicate the level of data contained in the BETTA Balancing Mechanism Reporting System (BMRS), which includes near real time
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¹¹ Significant consideration to the appropriate approach to controlling for local market power must be given by the RAs during the market power workstream. It will be necessary to identify the relevant long-term market power scenarios and affected units in parallel with determining appropriate bid regulation methodologies

¹² ‘Pivotal’ definition to be determined through consultation on suitable market power mitigation arrangements

	<p>and historic national and zonal data on issues including bid-offers, transparency and REMIT related data;¹³</p> <ul style="list-style-type: none"> • Be published as close to real time as possible akin to the BETTA BMRS. <p>As noted by the SEMC, such a report:</p> <ul style="list-style-type: none"> • will heighten transparency in TSO actions but should also serve to highlight actions that in hindsight should have been left to the market or not taken at all; • should incentivise the TSOs to be certain before interfering in the commercials of the market; • should aid predictability of market outcomes, all of which should in turn drive liquidity in response to real-time data, ultimately benefitting customers in terms of stable prices, and; • should also serve to highlight the issue of local market power units, network inadequacies and the costs thereof. <p>Identification of local long-term network inadequacies through such a report will enable the TSOs to plan development of the network to relieve these constraints in as short a time as possible, and consequently minimise early TSO actions. I-SEM must endeavour to ensure that all units regardless of location are able to compete on a level playing field which will maximise competition and ultimate benefits for the consumer through competitive pricing and an inevitable reduction in DBCs.</p> <p>In line with BGE’s desire to limit early TSO actions to commitment actions, the TSOs and SEMC must recognise that placing trust in market participants’: i) desires to minimise imbalance price exposure: ii) desires to lock in retail positions with sufficient certainty well in advance; iii) DS3 product contracts, has the best potential to result in the most competitive and economically efficient and transparent pricing outcomes, to the consumer’s benefit.</p> <p>Furthermore, BGE believes that in addition to DS3, DBCs and grid upgrades, in order to minimise early system actions vigorous performance incentives for transmission outages to encourage delivery of maintenance and return from outage in a timely manner should be strictly enforced.</p> <p>Finally, BGE supports frequent TSO publication throughout the day of information on aggregate demand forecasts and aggregate market positions that inform market participants as to the length of the system without impinging on commercial sensitivity. Information on scheduled demand should also be publishable. This should help minimise early actions. BGE however requests a) whether interconnector flows are expected to be deducted off demand as they are in SEM? and, b) examples of the noted ‘rare’ occasions when actions pre-DAM are required considering a trading day of 23:00-23:00?</p>
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2.4 EX-ANTE MARKETS (SECTION 3)

BGE’s views on IDM operation are again heavily influenced by the need to fulfill the principles of liquidity and transparency for a well-functioning competitive market. IDM liquidity in I-SEM is critical

¹³ See www.bmreports.com

if market participants are to be facilitated in achieving balanced positions by balancing market gate closure to avoid exposure to high imbalance costs. Transparent, robust price setting arrangements in IDM are conducive to liquidity and to mitigating consumer exposure to volatile pricing.

Question	Answer
<p>1. Which of the three options put forward for interim IDM arrangements is most appropriate?</p>	<p>Access to cross-border trading on an ID basis is considered necessary to enable pan-EU trading competition on as level a playing field as possible despite limited interconnection. Until the pan-EU solution to continuous IDM trading is in place, limiting market participants to on-island IDM trading only, with no access to cross-border trades on an interim basis limits liquidity growth, is less transparent and is more susceptible to market power exertion than IDM auctions with access to cross-border liquidity would be.</p> <p>In the above context, and in recognition of low interconnection levels between I-SEM and the rest of Europe, BGE believes that the interim IDM arrangements should incorporate a combination of:</p> <p>(a) regional intraday auctions between GB and I-SEM, which:</p> <ul style="list-style-type: none"> • would pool liquidity and could ultimately form the basis for enduring intraday auctions, contributing to reducing its cost. • should ideally be aligned with BETTA EFA¹⁴ 4-hour blocks. The first IDM auction should occur as soon as possible after DAM results are published; and be held every 4 hours after the first auction. • should enable IDM trades for products covering exposures to the end of the trading day in question so as not to distort the DAM. I.e. the IDM trades relate only to the trading day within which the IDM auction occurs (e.g. IDM auction at 2pm and every 4 hours thereafter on a Monday would cover trades until 11pm that night when the Tuesday trading day commences). • should provide for the ability for cleared trades to automatically adjust PNs, and; <p>(b) a continuous IDM trading platform akin to the existing Tullett Prebon financial over-the-counter (OTC) trading platform, which would instead provide for physical IDM trading. BGE believes that the existing OTC platform would not require significant adaptation for use as an IDM physical trade platform but it is subject to the desire of the platform owner to expand into such trading. Factors for consideration in rolling out such a platform would need to include the ability for the automatically matched trades to automatically adjust PNs on acceptance of an IDM bid / offer. This interim platform approach is considered potentially less expensive than incurring the cost of a new IDM platform, the costs of which consumers would ultimately pay, which platform would eventually become obsolete on introduction of the pan-EU solution.</p>
<p>2. Should intraday</p>	<p>To ensure liquidity, transparency and minimisation of exposure to</p>

¹⁴ Electricity Forward Agreement (EFA)

<p>auctions be implemented in I-SEM? Are there any advantages to those auctions not described in this paper?</p>	<p>imbalance risk as outlined above, BGE urges the SEMC to consider the introduction of IDM auctions on an enduring basis in I-SEM. These auctions would be based on the interim auctions outlined in answer 1 above (minimising the costs thereof) and run in parallel with the EU solution to continuous IDM trading.</p>
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2.5 PHYSICAL NOTIFICATIONS (SECTION 4)

BGE has taken the view that Physical Notifications (PNs) and Final Physical Notifications (FPNs) are two distinct market design characteristics with different roles to fulfil, and should be treated as such. A discrete view as to the role each fulfills is considered necessary to achieve an optimum balance between:

- a. facilitating market participants in trading commercial positions to as close to real time as possible, as against
- b. the need to minimize early TSO actions, while providing the TSOs with sufficient transparent information to enable them to manage the system securely by understanding how balanced the market is and what early commitment-only decisions or balancing market actions after gate closure may be needed.

Taking a discrete view as to the role of PNs and FPNs is, in BGE's view, conducive to maximizing liquidity and transparency in market behaviors and outcomes as discussed in the answers below. At a high level, BGE's views on PNs and FPNs (the rationale for which is outlined further below), are:

- PNs should represent the traded/ contracted commercial position of each unit and therefore should be exactly linked to ex ante trades but need not be entirely physically feasible;
- FPNs should represent the expected physical commitment of a unit, they need not exactly match ex ante trades but may be updated throughout a day through indicative FPNs. They should be physically feasible at gate closure.

Question	Answer
<p>1. What are your views on the timing of PN submissions to the TSO</p>	<p>On the basis of the need to maximise market participant trading opportunities and provide the TSO with sufficient information to inform commitment-only and post gate closure balancing actions, BGE's view on the timing of PN and FPN submissions is:</p> <p>1. PNs:</p> <ul style="list-style-type: none"> • Submit PNs with bid-offers and availability profiles on closure of the DAM. Where ex ante trades do not result in a physically feasible PN (i.e. ex ante trades are below minimum generation), information will flow to the TSO through an indicative FPN reflecting the intended generation of the unit at that time; • Update PNs as and when further ex-ante (IDM) trades occur – automated updates of such changes should be facilitated. Notwithstanding BGE's position on minimising TSO early actions, PNs matching ex ante trades are considered necessary to inform TSOs in terms of the commercial position of participants and the cost of possible commitment actions and post gate closure balancing actions required; • Penalties should not apply to the physical feasibility of PNs so as not to inhibit liquidity, as discussed further below. <p>2. FPNs:</p> <ul style="list-style-type: none"> • FPNs should be submitted at balancing market gate closure (1 hour before real time), with indicative FPNs provided throughout the day from the opening of the BM until its gate closure; • FPNs should cover the balancing market settlement period 60-90 minutes ahead given that the initial settlement period is

	<p>proposed to be 30 minutes;</p> <ul style="list-style-type: none"> • FPNs should be physically feasible as this provides the TSO with the most reliable information on which to take informed balancing actions after gate closure. <p>A discrete approach to PNs and FPNs is taken, as discussed at the start of this section, to balance commercial trading opportunities with TSO system operation obligations. To the extent that FPNs and PNs may not exactly match, BGE submits that the combination of the information imbalance charge (outlined in section 4.6 of the Consultation) and the imbalance settlement charge are commercial incentives for FPNs to closely relate to ex ante trades.</p>
<p>2. What are your views on the removal of the requirement on wind generation and non-dispatchable demand to submit PNs</p>	<p>As the Balancing Network Code requires that balancing responsibility should fall on all market participants regardless of unit type, and to ensure TSOs have early commitment need information, and that market participants have timely commercial trading information, BGE submits that all dispatchable demand, generation, priority dispatch and wind units should be required to submit PNs in the same way as all other units as described in answer 1 under this section 2.5 above.</p> <p>Given the level of wind levels expected to come on to the system over the next 5 years, it would not be prudent to exclude wind generators capable of responding to dispatch instructions from providing PN information to the TSOs. It should mitigate TSO concerns on system balancing exposure and should result in more economically efficient pricing outcomes for consumers.</p> <p>Non-dispatchable demand, should not be required to submit PNs given the lack of usefulness of such information for the TSOs.</p>
<p>3. What are your views on how PNs from participants should be linked to their ex-ante trades and what are your opinions on which of the three options outlined in this chapter is optimal for I-SEM.</p>	<p>BGE has outlined its view and rationale for the discrete treatment of PNs and FPNs at the start of this section 2.5 and in answer 1 above. This proposed discrete treatment combined with the imbalance settlement rules, should incentivise alignment between PNs and FPNs by gate closure. In summary, BGE’s views on the optimal option(s) for linking PNs and FPNs to ex ante trades are:</p> <ul style="list-style-type: none"> • PNs should exactly reflect ex ante trades from DAM and then as and when they are executed, in order to provide market participants with sufficient insight to market length and trading opportunities as well as provide the TSOs with appropriate transparent information to inform early commitment and/ or potential post gate closure balancing actions. This should in turn maximise IDM liquidity and minimise early TSO actions. PNs reflective of ex ante trades will also provide the TSOs with the best information on which to base balancing market decisions as otherwise bid-offer acceptances could be made against incorrect market positions at inaccurate prices; • FPNs should only match aggregated ex ante trades to the extent that they are physically feasible and a tolerance for

	<p>minimal real time deviations may be necessary.¹⁵ The physical feasibility of FPNs should take priority over matching ex ante trades in order to provide the TSOs with the most reliable insight as to a plant’s intended generation.</p> <p>The application of the information imbalance charge on FPNs as well as the imbalance settlement charge as against ex ante trades should encourage gradual reflection of the physical feasibility of PNs towards BM gate closure, reinforcing the confidence the TSOs can have in the combined effect of requiring PNs to reflect ex ante trades and in requiring submission of indicative FPNs.</p>
<p>4. What are your views on the potential for the inclusion of an information imbalance charge? In addition, comment is sought as to whether this issue is best addressed under the generator performance incentives.</p>	<p>BGE supports the adoption of an information imbalance charge subject to it being levied only on the FPN as at BM gate closure. The reasons for this are that:</p> <ul style="list-style-type: none"> • As BGE proposes that PNs should exactly match ex ante trades to provide the best information to the market and TSOs, applying a penalty to step-changes in such PNs would run contrary to the liquidity, transparency and competition benefits of this proposal as outlined in answers 1 and 3 above; • When early TSO actions should be limited to commitment only, the usefulness of applying this penalty to PN deviations is moot; • The TSO is considered to have sufficient information to hand between PNs that must reflect ex-ante trades, indicative and gate closure FPNs, unit availability information, instruction profiles and imbalance price exposure, without subjecting market participants to an additional charge for deviating from PNs. <p>This newly introduced charge, together with the new exposure to imbalance price risk are together considered sufficient incentive for market participants with physical assets to generate/ consume what they are instructed (or expected based on FPNs) to do. In light of the potential exposure under these two new charges, BGE believes that uninstructed imbalances should no longer persist. The two new charges of themselves will provide sufficient incentive for cautious operations and risk mitigation trading approaches. These two new charges are also believed to cancel the need for GPIs in I-SEM and BGE calls for an overhaul of GPIs for I-SEM. Otherwise trading in the market may become prohibitively risky with overlapping penalty exposures, which undermine the benefits of liquidity and competition that ultimately benefit the end consumer.</p> <p>Finally, BGE notes that the Consultation defines the charge as FPN +/- incs, decs vs. metered output. It is submitted that, for the purposes of dissuading trades in the opposite direction, it will be necessary to have</p>

¹⁵ A tolerance threshold may be necessary between FPNs and aggregated ex ante trades where parties are seen to use the submission of FPNs for the purpose of self-commitment and to arbitrage within a portfolio to affect imbalance prices. The threshold should be lenient enough to account for times where a unit trips or an outage change occurs and it will be preferable from the TSO’s perspective that the FPN reflect plant capabilities at the time of balancing gate closure.

	<p>two alternative equations for the charge depending on whether a unit a) trades in the direction of the TSO in IDM where the charge should be levied as (Metered – (FPN including incs/decs)); or b) trades in the opposite direction to the TSO in IDM where the charge should be levied simply as (Metered – FPN). This is discussed further in section 2.7, answer 3 below.</p>
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Additional BGE comments on PNs:

- Granularity of PNs:

BGE believes that PNs should not be longer than the balancing trading period to which they apply. As the TSOs will continue to be in receipt of instruction profiles and availability information from relevant units, this information together with PNs with granularity no longer than balancing market trading periods should provide the TSOs with the information required to efficiently and robustly operate the system. The more granular the PN information sought is, the more complex and costly data management for TSOs and market participants will become. BGE would welcome clarity as to the role more complex granularity in PNs are expected to play in TSOs' balancing market decisions before a decision on appropriate granularity is made, considering the expected utilisation of instruction profiling and availability information.

- Trading results and PN updates:

For cost saving and efficiency reasons, market mechanisms should be capable of automatically informing the TSO of PN updates when updates are required pursuant to DAM and IDM trades.

- Publication of PNs:

While TSOs should have unit PN data, for commercial sensitivity reasons market-wide (as opposed to individual) aggregate PNs should be regularly published throughout the day. This should help IDM liquidity as it will provide market participants with a clear view of market length and thus trading requirements and opportunities in the IDM.

2.6 FORM OF OFFERS, BIDS AND ACCEPTANCES (SECTION 5)

Question	Answer
<p>1. Which of the proposed formats should be used for bids and offers for deviating from PNs?</p> <ul style="list-style-type: none"> • Simple MWh • Relative MWh • Absolute MWh 	<p>BGE believes that the Absolute MW format should be used for bids and offers deviating from PNs as, of the three proposed options, it best:</p> <ul style="list-style-type: none"> • Maximises transparency in the costs of market participant bids and TSO actions taken on foot thereof, which in turn should minimise price volatility and allow for predictability of market outcomes which is in the consumer’s interest. Transparency is one of the key attributes of SEM that BGE urges continuity of in I-SEM. • Helps mitigate local market power whereby the costs of deviation from PNs for varying ranges are pre-submitted and monitoring of subsequent bid, offer changes in response to TSO constraint driven actions should be easier. • Provides the TSO with the widest level of foresight regardless of future changes in market participant PNs, facilitating determination of the most economically efficient cost outcomes. • Reduces administration and simplifies market participant processes whereby acceptance of a bid-offer or additional trades may not necessarily require submission of an updated cost structure for moving away from PNs. This cost structure format together with the BGE proposal that PNs exactly match ex ante trades provides the TSOs with the best information to manage operational security. • Contributes to facilitating a smooth transition from SEM to I-SEM given its resemblance to the Commercial Offer Data format in SEM today. <p>BGE seeks confirmation however that the intention is when a TSO is making a bid-offer acceptance, it will not only take into account PNs but also any previous bid-offer acceptances that may have been made by the TSO? Making acceptance decisions based against PNs only would be impractical where the TSO has also already taken a prior non-energy commitment or DS3 reserve action.</p> <p>Finally, BGE agrees that the disadvantages of the Simple MWh format outweigh its perceived advantage of simplicity. Simple MWh has an inherent risk of not enabling the full recovery of costs. Relative MW is not considered as transparent in terms of enabling pre-determination of the effect of potential TSO actions on balancing market prices. Relative MW is also less simple as prices will have to be re-declared on foot of changes in PNs as compared to Absolute MW which does not require such a level of ongoing updates.</p>
<p>2. How should fixed costs be represented within bids and offers?</p> <ul style="list-style-type: none"> • Explicit start up contracts 	<p>As noted by the SEMC there may be some, albeit limited, circumstances where units are required in the market for non-energy reasons when their PNs are at zero. BGE submits however that there will also be an increasing need for start cost recovery in I-SEM given the increasing levels of renewable generation expected which will lead to more thermal plant starts.</p>

<ul style="list-style-type: none"> • Block bids • Explicit start-up (and no load) costs 	<p>A solution must be adopted that balances:</p> <ul style="list-style-type: none"> • the achievement of renewables targets; • minimisation of early TSO actions; • transparency in bids and offers to inform market participant trading opportunities and TSO unit-commitment information needs, and; • avoidance of volatile pricing to ensure stable pricing for end consumers. <p>As outlined in section 2.3 above, BGE is generally not in favour of contracts outside the market as these are not transparent or conducive to liquidity and may ultimately reinforce the position of units in local import constrained zones.</p> <p>As discussed in section 2.9, answer 3 below, BGE’s preference for imbalance pricing is for an unconstrained stack taking account of plant characteristics and an optimisation time horizon. In a market where exponential wind growth is expected in the short-medium term, there will be a high possibility of regularly volatile prices driven largely by high start costs. On this basis, BGE opines that start and no-load costs should be implicit in the imbalance price but that it is critical that some measure of control is factored into imbalance price setting that avoids volatile prices that will ultimately negatively impact the consumer.</p> <p>This approach would in BGE’s view help smooth the transition to I-SEM in terms of stable pricing, facilitating predictable market outcomes, mitigating the volatility of wind impacts on investor certainty¹⁶ as well as mitigating the effect of local market power exertion on prices.</p>
<p>3. Should it be possible to rebid offer and bid prices following an acceptance? Three options are proposed:</p> <ul style="list-style-type: none"> • Fixing prices of accepted bids and offers • Undo prices • Freezing all prices 	<p>In line with BGE’s proposal to limit early TSO actions to commitment-only and to maximise liquidity in enabling market participants to trade as close to real-time as possible, BGE believes that only the prices of accepted bids and offers should be fixed but that all remaining offers/bids for that unit can be adjusted as the market participant sees fit, until they too are accepted (if at all).</p> <p>This approach, in BGE’s view:</p> <ul style="list-style-type: none"> • maximises market participants’ opportunities to commercially trade positions as envisaged by the Target Model and Network Codes; • contributes to IDM liquidity; • is transparent and enables predictable and stable market outcomes in the consumer’s interest; • does not impinge on the ability to trade in the IDM, thus enhancing IDM liquidity; • together with the adoption of the Absolute MW bid format

¹⁶ Given the impact in terms of volatility of prices that could occur for e.g. in instances where a unit is called on urgently to back up wind/ for local constraint/ for other non-energy reasons

	<p>approach, negates the need for the submission of ‘undo’ prices which should in turn incentivise the TSOs to make well-informed decisions on early non-energy commitment actions.</p> <p>With regard to the alternatives, the option for Freezing all prices at the time of a first acceptance is inequitable and significantly impacts liquidity. The option for requiring the submission of undo prices is considered unnecessary, complex and burdensome and would likely reduce transparency in TSO actions.</p> <p>Furthermore, BGE believes that the concerns raised by the SEMC as to the effect of allowing market participants to rebid offers and bids in a way that effectively precludes the possibility of reversing an acceptance by the TSO, would to a large extent, be mitigated by:</p> <ul style="list-style-type: none"> • maximising market participants’ trading opportunities and limiting TSO actions to unit-commitment until balancing gate closure as it is unlikely that market participants would have rational commercial reasons for deviating greatly from TSOs’ desired running for their unit in such a short period of time; • more robust market monitoring that will necessarily be required in a dynamic market like I-SEM. Where market participants radically alter bids in response to TSO actions, this should be easily decipherable. Absolute MW formats will be a key enabler in facilitating MMU monitoring of unjustifiable (and thus unpredictable) changing of bids that could drive price volatility; • the fact that in ordinary circumstances (i.e. no market power), it would be reasonable to expect that there would be sufficient other bids and offers available that the TSO could choose to use; • where local market power is evident, a regulated bid methodology akin to that discussed in section 2.3 above could apply when a substitutive IDM transaction is not obtained. <p>The concerns around rebidding appear to be directly related to the potential exertion of market power. BGE urges the SEMC to give this issue priority consideration in the very near term. The interests of stable pricing for consumers as well as the need for predictable generation/ demand side use and market outcomes and rational participation in the market should drive local market power regulatory measure considerations.</p>
<p>4. Should open or closed instructions be used to move participants away from their PN?</p>	<p>BGE believes that the option of closed instructions should be used for moving market participants away from PN levels. This will enable certainty of transactions and informed commercial trading decisions. Closed instructions also:</p> <ul style="list-style-type: none"> • allow for firm commitments to cost items, such as gas and gas capacity, to be taken; • assist determination of running profiles; • assist appropriate scheduling of tests and general asset management.

BGE also agrees with the noted ongoing assumption in this paper that any TSO- market participant actions should not affect PNs; however as discussed in section 2.6, answer 1 when the TSO is making any bid-offer acceptance decisions, it should take into account the volume of bid-offer acceptances already made for the unit in question to avoid economically inefficient outcomes. Confirmation of this intention is requested.

2.7 INTERACTIONS BETWEEN THE BALANCING MARKET AND INTRADAY MARKET (SECTION 6)

Before answering the questions below, BGE wishes to make the following points:

- It is noted that the TSOs' scheduling tool will consider the system's technical characteristics; the PNs, and; the inc offer and dec bids. BGE seeks confirmation that it is the TSOs' intention to dispatch participants away from their PN based on the PN information plus/ minus any earlier non-energy TSO actions that may have been taken? This is considered necessary for economically efficient outcomes.
- BGE supports the assumption that TSO inc, dec actions should not alter PNs.
- The SEMC's concern over a repeated cycle of arbitrage occurring until Balancing GCT if market participants can trade contrary or in line with TSO actions are considered alleviated by BGE's position that early TSO actions should be limited to unit-commitment and the increased role the MMU is anticipated to play in I-SEM.
- Market participants should not be commercially advantaged in the IDM or BM by virtue of an early commitment action from the TSO, particularly given the problem of local import constrained areas and units local therein.
- We do not agree with the assumption that PNs must be physically feasible at all times. As outlined in detail in section 2.5, answers 1 and 3, PNs should exactly match ex ante trades but only the FPN itself must be physically feasible with indicative FPNs being provided from BM gate opening to BM gate closure. This approach in BGE's view best maximises market participants' ability to trade until as close to real time as possible while simultaneously providing the TSOs with sufficient up to date information to meet its obligations.

Question	Answer
<p>1. Which of the options put forward should apply to participation in the IDM in the event that the TSOs take a balancing action pre-gate closure:</p> <ul style="list-style-type: none"> • Freeze PNs • Additive PN Changes • Substitutive PN Changes 	<p>To maximise IDM liquidity and avoid sustaining the positions of units in a position of long term market power, BGE believes that the adoption of substitutive PN changes are necessary to apply to trades taken in the IDM subsequent to a TSO action on that unit.</p> <p>Regarding the Additive option, as noted by the SEMC the ability of market participants to use TSO actions to influence bid-offer prices in IDM creates an uneven playing field for IDM bidding. A non-interventionist, competitive price outcome determined by market forces is preferable and can be best delivered by the substitutive approach. The SEMC is urged not to adopt a method (in the Additive approach) that would effectively incentivise market participants to run contrary to the TSOs' desired running for the unit, where the arbitrage indicates this to be the case (discussed further in answer 3 below). It is also envisaged that the Additive approach would make monitoring of appropriate cost-efficient decisions difficult and that significant TSO-market participant communications would be necessary which would increase data complexity and costs.</p> <p>The substitutive approach presents less of an arbitrage opportunity than the Additive approach and should not negatively impact on IDM liquidity (provided early TSO actions are limited, so that there is not a significant number of units withholding from the IDM on the basis that the IDM price does not offer a more favourable alternative).</p>

	<p>Furthermore, BGE’s proposal as outlined in section 2.3, answer 2 above, whereby in times of long term local market power situations, a regulated bid methodology would apply would in BGE’s view work best with the substitutive approach.</p> <p>Finally, BGE agrees with the SEMC’s view that there is no merit in the “freeze PNs” proposal for the reasons outlined in the Consultation.</p>
<p>2. If the substitutive PN Changes option is taken, there are two further options for swapping out or netting IDM trades against bid-offer acceptances:</p> <p>a. If the participant wishes to trade in the IDM and substitute the bid-offer acceptance they will need to achieve a more advantageous price in the IDM than the bid-offer acceptance price</p> <p>b. Implement a methodology which sees the unit lock in the premium above or below the imbalance price through the bid-offer acceptance</p>	<p>BGE’s views on the two sub options for swapping out IDM trades under the substitutive approach are as follows:</p> <p>a. any proposal that seeks to dictate a market participant’s commercial decisions must be avoided. BGE does not support this option where a more advantageous price in IDM must be achieved. Anything that presupposes strategies or intervenes in commercial decisions should not be permitted or endorsed.</p> <p>b. Without an example as to how the second sub option might apply, BGE reserves its final view on this sub-option. If it is the case however that this option would have the effect of incentivising participants to trade and enhance IDM liquidity, even where the IDM price is lower than the potential BM price, BGE would support such a proposal to the extent that it reduced DBCs providing instead for the recovery of the difference/ loss (due to the decision to trade IDM) through BM settlement.</p> <p>Clarification of whether this is the anticipated effect of the second sub-option would however be welcomed.</p>
<p>3. Which of the three options put forward for dealing with “Trading in the Opposite Direction” should be implemented:</p> <ul style="list-style-type: none"> • No specific consideration of this would be reflected in the market design • Implementing a rule that would prohibit PN changes that increase the 	<p>BGE’s position that TSO early actions should be limited to commitment-only would to a large extent mitigate the concerns around Trading in the Opposite Direction, as the less time a market participant has to react to, or use the knowledge gained on foot of, a TSO action to exploit bid-offer prices, the lower the risk that such price exploitation will materialise.</p> <p>In limited circumstances where early commitment actions are deemed necessary, it is BGE’s view that outside of local import constrained zones, normal competition should prevail and the TSOs should have multiple choices of bids and offers without being tied to a certain unit. Where this choice is not available however, the issue is a local market power one and the scenario may arise where a unit has an incentive to trade in the opposite direction. BGE envisages another scenario arising also whereby a trader with a desire to force their plant onto the system (which could be viewed as a form of self-dispatch) would trade in the opposite direction, which is not helpful in</p>

<p>quantity of any offer or bid acceptances</p> <ul style="list-style-type: none"> • Permit PN changes in either direction but, in the settlement of the offer or bid acceptances, to limit the quantity on which the premium is payable, such that a change in PN cannot increase this quantity 	<p>terms of efficient exit signals. Both of these scenarios could lead to volatile, unpredictable market outcomes which may be heavily influenced by a market participant’s subjective market/ traded position.</p> <p>From the algebra however, it appears that to be sure that trading in the opposite direction is the most economical choice for a unit, that unit will have to have some certainty around the imbalance price. There appears to be considerable risk around deciding on trading in the opposite direction based on a forecast of imbalance prices. This risk may not however be sufficient to dissuade such trading, particularly for portfolio players in a position of market power that may simultaneously find themselves with an opportunity to trade in the opposite direction while also being relatively certain about the imbalance price (as they may be the key determinant in setting that price).</p> <p>Where incentives to trade in the opposite direction do arise, the solution must not be overly complex such that the lack of transparent application would dissuade trading and impinge liquidity. Furthermore it is thought prudent to provide for a solution to this issue at the outset rather than wait for experience in I-SEM (as mooted in the discussion around Option 3). Ignoring the potential impacts until I-SEM is operating could be too late and poses significant risks to smaller market participants who could be heavily exposed to volatile, unpredictable prices which would undermine investor certainty and the market design itself.</p> <p>In the absence of significant analysis and insight into decisions on certain elements of this Consultation (discussed further at the start of section 2.10 below), it is difficult to formulate a view on the appropriate measures to address the issue of trading in the opposite direction. BGE therefore seeks confirmation from the SEMC that significant modelling to assess the potential outcomes of the opportunity to trade in the opposite direction by various market participants has or will be undertaken, and the results thereof published, before a final decision is made on this issue.</p> <p>BGE reserves its final view on this issue until further in-depth modelling and discussions with the RAs are undertaken.</p> <p>Lastly, BGE believes that the information imbalance charge as discussed in section 2.5, answer 4 above may have a role to play in dissuading trading in the opposite direction. To be most effective, it is opined that 2 separate information imbalance charges should apply depending on whether a unit a) trades in the direction of the TSO in IDM where the charge should be levied as (Metered – (FPN including incs/decs)); and b) trades in the opposite direction to the TSO in IDM where the charge should be levied simply as (Metered – FPN).</p>
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2.8 TREATMENT OF SYSTEM SERVICES (SECTION 7)

Question	Answer
<p>1. What are your views on the proposal whereby a unit that is deployed for reserves should be constrained to the minimum extent possible in the IDM</p>	<p>BGE agrees with the need to ensure that a unit that is deployed for reserves should be constrained to the minimum extent possible in the IDM. This is in line with BGE’s overarching position that TSO early actions should be limited to unit-commitment until balancing GCT, as elaborated on in section 2.3 above.</p> <p>If this principle is not followed, there is a significant risk of a perverse incentive for the TSOs to take early system actions to reduce their DBCs, but to the detriment of more economically efficient market outcomes.</p> <p>BGE urges the SEMC to consider the balance needed between achieving a liberalised energy market wherein market participants can compete on a level playing field with EU counterparts, as against the TSOs’ statutory obligations. As explained several times above, BGE does not see how the TSO objectives would be undermined provided some limited early unit-commitment only actions are permitted. Conversely, BGE believes that this principle provides a balance between incentivising the right type of fast acting response while also recognising the current constraints of the Irish system. If this is not the case, BGE would welcome explicit examples of where BGE’s overarching principle of allowing early commitment only actions would still lead to a breach of TSO obligations, based on historical SEM system experience.</p> <p>BGE has expanded on its view of the treatment of plants with DS3 contracts and for local reserve reasons, in section 2.3, answer 2 above. In essence, the defined principles document for TSO actions should look at DS3 product driven reasons and local constraint reasons for the actions, separately. However, when either are called on, any subsequent IDM actions should be substitutive. Where local market power is evident, a regulated bid methodology (to be consulted upon as part of the market power workstream) should be triggered to minimise the impact on imbalance prices and DBCs, and enable competitive and stable price outcomes for consumers.</p>
<p>2. Are there any market power issues that need to be specifically addressed in relation to System Services?</p>	<p>Yes. Plants located in import constrained zones are well placed to exploit their position and influence market prices such that volatile and unpredictable market outcomes result. BGE has suggested a regulated bid methodology to apply as described above and in section 2.3, answer 2. The regulated bid methodology should be consulted upon as part of the market power workstream.</p> <p>BGE urges the SEMC to commit the TSOs to identify pockets of long term local market power with a view to rolling out and implementing a plan to address these constraints in the very near term. This should be a priority area for the TSOs in network enhancement and would ultimately help level the playing field in SEM and I-SEM and progress</p>

	<p>further towards the aim of the IEM and Target Model; addressing many of the local market power concerns outlined above (e.g. in relation to plants trading in the opposite direction); and would ultimately lead to more economically efficient prices for consumers.</p>
<p>3. Which of the two approaches should be utilised where the TSOs have to schedule a plant before the opening of the Balancing Market:</p> <ul style="list-style-type: none"> • A system services framework would be used to contract with those generators that need to be scheduled prior to the BM opening. • The TSOs would use incremental offers and decremental bids from previous trading day to call a plant pre-BM. 	<p>The TSO should not be permitted to take any early balancing action before the balancing market even opens (i.e. before Euphemia results are even published).</p> <p>Given the late start to the trading day, which at 23:00 is well before traditional peak demand periods, and given the limited number of plants on the system with start times longer than 12 hours, BGE sees little rationale for allowing this to occur without a major negative impact on IDM liquidity.</p> <p>If there are rare occasions where system needs necessitate a non energy action, then procurement of that reserve should be based on the defined principles for early TSO actions document as described in section 2.3 above.</p>

2.9 IMBALANCE PRICING (SECTION 8)

Question	Answer
<p>1. What are your views on the Tagging and Flagging Approach. A “cause” based method for identifying energy and non-energy actions with the imbalance price being set only on energy actions.</p>	<p>This cause based approach is considered arbitrary and subjective. Its experience in BETTA shows that long-standing difficulties have not yet been resolved. It is not considered transparent and could lead to very few plant being used to set the price, which in itself raises market power concerns given our heavily constrained system</p> <p>BGE’s preference is for an unconstrained stack with plant dynamics and an optimisation horizon.</p>
<p>2. What are your views on the Simple Stack? With this approach there would be a simple stack of the available bids and offers and the price would be set based on the net imbalance volume.</p>	<p>The ignoring of plant characteristics and reserve creation bid-offer acceptances render this option unusable in BGE’s view given the range of plant constraints in I-SEM and our heavily constrained system. It is unlikely to deliver the most economically efficient outcome.</p> <p>While it (and BGE prefers that it) does not require arbitrary demarcation between energy and non-energy action, this advantage as well as a number of others also exist in BGE’s preference for an unconstrained stack with plant dynamics and an optimisation horizon.</p>
<p>3. What are your views on the unconstrained stack with plant dynamics included. These are two additions that this option would have over the simple stack:</p> <ul style="list-style-type: none"> • Plant Dynamics • An optimisation time horizon 	<p>In the interests of transparency and the principle of providing a balancing price that rewards and incentivises flexible generation – and accordingly reduces the need for early TSO actions - BGE’s preferred option is that as outlined in section 8.6.2 of the Consultation – the unconstrained stack with plant dynamics and an optimisation time horizon included.</p> <p>As the bid-offer acceptance decisions are going to be based off a plant’s PN which are likely to be indicative of how physically feasible the level of the intended FPN will be, BGE believes that the price setting calculation is going to be influenced by a plant’s TOD in any regard.</p> <p>This option is considered the most transparent and predictable in terms of pricing, and the adoption of an optimisation horizon should help facilitate a smooth transition from SEM to I-SEM. The ideal optimisation period should be considered in further industry workshops/ consultation before a final decision is made.</p> <p>However, with a view to mitigating potential consumer exposure to volatile and spikey imbalance prices, BGE believes that further consideration is needed as to how start costs are accounted for in this stack. That is, further consideration must be given as to how to achieve a balance between rewarding flexibility and providing balancing signals while simultaneously not driving unmanageable</p>

	<p>risks for participants, particularly as we transition to a new regime that has vastly different commercial and operational considerations that that of our current regime .</p>
<p>4. What are your views on the price based method – unconstrained unit from actual dispatch?</p>	<p>The option above is preferred. This proposed option for a ‘price based method – unconstrained unit from actual dispatch’ is described in the Consultation as a “black box”. Any proposal that is referred to as a potential “black box” is not considered suitable for I-SEM particularly in light of the challenges faced in understanding exactly how Euphemia will accept or reject market participant bids as well as determine schedules and prices for bidding zones. Euphemia is the only level of pricing complexity in terms of transparency and understanding of potential market and price outcomes that I-SEM market participants should have to deal with.</p> <p>In terms of the current lack of transparency in the dispatch process in SEM, BGE considers that the publication of the real time balancing market reports in I-SEM (as proposed in section 2.3 above) should usefully improve transparency in TSO actions in I-SEM and we urge the SEMC to ensure that this is the case.</p>
<p>5. What are your views on the sharpness of the marginal imbalance price? Do any concerns relate to the transition between SEM and I-SEM or are there other broader concerns?</p>	<p>BGE is in favour of a smooth transition from SEM to I-SEM in the interests of investor certainty and consumer price stability.</p> <p>BGE believes that this is partially achieved by the determination of a marginal price under an unconstrained stack with TOD as discussed above, as this will enable efficient outcomes and is replicable in a manner similar to the current SEM. However we are concerned that how start costs are treated within this stack could give rise to sharp and unpredictable imbalance prices given the size of the Irish market and the generation stack. On that basis we urge the RAs to hold further topic specific RLGs to consider how start costs can be best reflected within the unconstrained stack to achieve the appropriate balance between price signals and market risk.</p>

2.10 IMBALANCE SETTLEMENT (SECTION 9)

BGE is encouraged by the RAs' announcement at the Dundalk workshop on this Consultation on the 13th May that further RLGs are expected to be held over the summer focusing in particular on imbalance pricing and settlement. As the SEMC is planning on going straight to a decision without a proposed decision, BGE cannot overemphasise how critical these RLGs will be.

As imbalance settlement is at the heart of the commercial realities of I-SEM, BGE considers that final decisions thereon cannot be made without robust detailed modelling of the impacts of proposals on consumer prices and market outcomes. The ability to undertake reasonable modelling is limited without some level of insight into planned decisions around other elements of the market design that will have an influence on how market participants will behave in the market. These design decisions of relevance include for example decisions on the matching of PNs/ FPNs to ex ante positions and the physical feasibility thereof; the MW format approach to informing about costs of deviating from PNs (Absolute MW being BGE's preference); and the decision on treatment of parties with an incentive to trade in the opposite direction.

BGE agrees in principle that parties should not be incentivized to deviate from their traded, notified physical position or physical position and that the imbalance settlement arrangements should facilitate this. However, given the limited time and in the absence of quantitative data to support its analysis at this time, BGE cannot be confident that this is fully achieved in the algebra provided within the consultation. Again, BGE therefore urges the RAs to hold a focused RLG meeting to discuss these equations (with worked examples) at the earliest possible juncture.

BGE provides a high level view of its initial position on these issues below, but in the context of the above concerns reserves the right to finalise its view on optimal imbalance settlement algebra and the appropriate treatment of parties trading in the opposite direction to TSO actions until further RLGs are held on the issue. BGE encourages the RAs to hold industry RLGs as soon as possible to bottom out on these issues.

Question	Answer
<p>1. What are your views on the issues set out in the imbalance settlement section?</p>	<ul style="list-style-type: none"> • The principle of Firm Access Quantity (FAQ) whereby market participants can trade their firm and non-firm volumes but receive constraint payments only for firm volumes, should endure in I-SEM. This will avoid negative impacts on investor certainty and liquidity which would materialise if network problems inhibited trading opportunities . • Wind (including curtailment and priority dispatch): In light of renewable targets wind is expected to become the most significant player in the market over the coming years. The I-SEM should not be designed without requiring wind to be a reasonable and prudent participant in the market. On this basis, BGE is therefore of the view that: <ul style="list-style-type: none"> ○ wind participation in the market should have the effect of reducing the PSO, reducing volatility, supporting liquidity and robust market prices; ○ all wind participating in the market should submit PNs and FPNs in the same manner as all other generation; ○ By submitting FPNs, wind should be entitled to

	<p>compensation for constraints and curtailment; This view on wind does not, in BGE’s opinion undermine priority dispatch for wind. Priority dispatch does not however mean that wind should not have any trading responsibility in the market; it may however have priority in dispatch situations over thermal generation.</p> <p>Finally, BGE submits that to maximise liquidity and transparency to result in competitive, predictable market and price outcomes in the consumer interest, the TSOs must frequently and throughout the day, publish wind availability, forecasts, constraints and curtailment information.</p> <ul style="list-style-type: none"> • Uninstructed imbalances: these should not apply as there will be sufficient dissuasion to go against TSO desired running by virtue of information imbalance charges and imbalance settlement prices as discussed in section 2.5, answer 4 above. • Interaction BM and IDM: Please see BGE’s detailed comments hereon in section 2.7 above and BGE’s suggestion that further RLGs to discuss imbalance settlement as outlined at the start of this section.
<p>2. What are your views on the refined proposal whereby the payment rule applies only to incremental offer acceptance volumes above the PN and to decremental bid acceptance volumes below the PN?</p>	<p>Settlement of multiple acceptances:</p> <p>As discussed in section 2.7, answer 3 above and in the introduction to this section, BGE believes that significantly more consideration is required to be given to imbalance settlement proposals and their potential impacts on market participant behaviours and stability of end consumer prices.</p> <p>BGE urges the SEMC to hold more RLGs at the earliest possible opportunity to resolve the outstanding issues as highlighted at the beginning of this section 2.10, before a decision on the appropriate imbalance settlement algebra is adopted.</p>
<p>3. What are your views on the possible consequences of ex-ante trades based on trading periods of different duration to the Imbalance Settlement Period (ISP) and what are your views on the options put forward in the paper.</p>	<p>BGE believes that option 3 (calculate imbalances on an hourly basis with an average of the 2 or 4 imbalance settlement period prices over the hour) would best facilitate market participants in determining exposures and in the monitoring of balances across the market that inform market trading opportunities as well as TSO requirements for early commitment actions and potential post balancing gate closure actions. This option in turn contributes to predictable market outcomes and stability in consumer pricing.</p> <p>Options 1 and 2 introduce the risk of higher DBCs which will ultimately pass on to consumers. The simple averaging approach of option 3 is transparent, simple and conducive to a smooth transition from SEM to I-SEM.</p> <p>As discussed in section 2.5, answer 4 above, there should be no cash out price for uninstructed imbalances (as suggested by the SEMC in</p>

	this section). Given our new exposure to information imbalance charges and imbalance settlement costs, uninstructed imbalances should no longer persist in I-SEM.
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2.11 OTHER ISSUES (SECTION 10)

Question	Answer
<p>1. Global Aggregation – what are your views on the current policy and the three alternative options put forward in the paper for dealing with global aggregation</p>	<p>As the transition from SEM to I-SEM reflects an opportunity for more pan-EU dynamic trading, BGE believes market participants’ opportunities in this regard must be maximised wherever possible. This implies facilitating options whereby suppliers can trade ex ante and minimise imbalance cost exposure. A change to how global aggregation is currently calculated is one of the areas that will enable full utilisation of the benefits a dynamic market brings with it. On this basis, BGE is in favour of allocating the volume of the residual error to suppliers (option 2). Not only will it maximise dynamic trading but it should also contribute to DAM liquidity as suppliers will seek to avoid the imbalance price. It should also minimise TSO actions given that demand forecast errors should be reduced as a result of informed supplier ex ante trading. This should drive efficiencies in demand forecasting and supplier competition.</p>
<p>2. Local Market Power – What are your views on whether there are any specific issues in relation to local market power which need to be considered at this stage.</p>	<p>BGE’s views on local market power issues have been outlined in detail above in section 2.3. BGE believes that local market power can affect spot prices regardless of the imbalance pricing approach and urges the SEMC to consider our views on the issue as emphasised in answer 2 to section 2.3. The potential for a regulated bid methodology for import constrained located plant must be a priority in the market power workstream.</p> <p>Finally, of the options put forward, BGE believes that long term market power must be tackled in the first instance. Affected units must be identified and network upgrades required must be identified and a plan to resolve them rolled out and implemented. Under no circumstances should opaque contracts outside the market be considered to deal with local market power.</p>
<p>3. Metering – What are your views on the proposal for metering put forward in the Consultation Paper.</p>	<p>BGE agrees that the 4 Meter Data Providers should deal with metering in a manner similar to SEM whereby it will be coordinated by the RAs and any market facing issues will be subject to consultation.</p>
<p>4. Instruction Profiling – What are your views on the instruction profiling section. In particular, is it feasible to more accurately model the precise loading of units and whether more</p>	<p>As discussed in section 2.5, answer 4 above, BGE believes that the introduction of the two new charges of a) information imbalance charge (FPN vs metered output (adjusted where relevant by incs, decs); and b) imbalance settlement charge (ex ante trades, adjusted by inc, dec volumes in real time (effectively DQ) vs metered output) should be sufficient to dissuade generators’ measured output from deviating from DQ.</p> <p>To consider that uninstructed imbalance charges might also apply is in BGE’s view unintuitive and might engender risk-averse attitudes to what should be a more dynamically traded market. This would likely</p>

<p>technical characteristics need to be accommodated in the technical offer data.</p>	<p>have knock on impacts on liquidity in all timeframes from forwards to balancing if generators are susceptible to multiple overlapping charges that may prove prohibitively risky.</p> <p>Furthermore, BGE agrees with the proposal to accommodate more technical characteristics in technical offer data. Unit state profiles should increase to 9 from the current 3 states, which should help alleviate imbalance exposure that would exist were the step-changes in current state profiles to remain. The new profiles suggested are: Cold 1, 2, 3: Warm 1, 2, 3: Hot 1, 2, 3.</p> <p>Lastly, BGE believes that between availability information and instruction profiling information, the TSOs will have sufficient information to assist in making informed bid-offer acceptance decisions. The need for highly granular PNs is thus considered questionable.</p>
<p>5. Units Under Test – What are your views on the two options put forward for units under test in I-SEM.</p>	<p>BGE believes that the current testing charges in SEM are unsuitable and prohibitively high, and submits that testing charges should be removed in I-SEM, particularly in light of the newly introduced a) information imbalance charge; and b) imbalance settlement charge.</p> <p>The common theme in this response of limiting early TSO balancing actions and maximising opportunities for market participants to trade to mitigate their balance responsibility exposure, should also apply also in cases of units being under test. A new approach to treatment of units under test is required, to align with the new more dynamic opportunities for trading (and new risks of trading) that will exist in I-SEM.</p> <p>The commercial risk of a unit under test being exposed to imbalance prices should rightly be left in the hands of the unit. It should be the unit's responsibility and prerogative to hedge this risk as it sees fit. The exposure not only to imbalance prices but also information imbalance charges should alleviate the TSOs' concern over plants operating as required. Allowing for this new treatment for units under test should also, to the TSOs' benefit, drive better plant technical efficiencies and should, to the market and consumer benefit, also enhance DAM and IDM liquidity. Otherwise exposure to potentially overlapping and prohibitively expensive penalties could ultimately undermine liquidity.</p> <p>Regarding capacity payments for units under test, units should have the right to these payments for their traded generation. Imbalance settlement price exposure as well as the reliability option one-way-CFD cost exposure, represent penalties that should also drive enhanced unit efficiencies and liquidity. Basing payments on traded positions is however deemed necessary to counterbalance the ongoing exposure to penalties in I-SEM. Capacity payments based on traded positions will also minimise the risk to the TSO of requisite early balancing actions as it will act as an additional incentive (on top of the risk of penalties) to ensure matching of TSO instructions and will enhance behavioural efficiencies.</p>

