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03/06/2015

RE: Consultation on the Energy Trading Arrangements Detailed Design (SEM-15-026)

Dear Kenny, Kevin,

ElectroRoute welcomes the opportunity to provide feedback to the joint Regulatory Authorities (RAs) following the ETA consultation process. ElectroRoute has endeavoured to stay involved throughout the process and the Rules Liaison Working Group.

Over the last number of years, ElectroRoute has invested heavily in establishing a proprietary trading platform which features:

- 24x7 trading operation;
- A pan European footprint with daily trading activities across Ireland, Great Britain, Netherlands, France, Germany, Italy, Spain, and Portugal;
- Active trading in Day Ahead, Intra Day and Balancing Markets in jurisdictions which have already adopted the EU Target Model.

When this platform is combined with our extensive market knowledge and track record of trading in the SEM, we feel that ElectroRoute is well positioned to offer input to the RAs on the successful design of the ETA markets for the I-SEM. This consultation response focuses on design principles that will achieve the goal of competitive, transparent ETA markets with clear price signals directly related to market conditions. A summary of our key concerns is outlined below:

- The ETA consultation paper largely pertains to the Balancing Market, where much of the design remains open to consultation. ElectroRoute believes that designing the balancing market in such a way that limits excessive TSO intervention and allows the market to solve for the optimal economic solution will provide the greatest benefit to participants and the end consumers.
- ElectroRoute believes that the method chosen to calculate the single imbalance price will be essential for the successful operation of the I-SEM. Expectations of the imbalance price will

impact ex-ante market dynamics and even the forwards market by extension. The imbalance price should be directly related to market conditions to provide clear signals and certainty to participants. The calculation of the Imbalance Price should therefore be directly related to actions taken by the TSO in the Balancing Market. Prices should be intuitive and should avoid using overly academic solvers which can generate “junk” volatility in prices and introduce a disconnect between prices and market conditions.

- ElectroRoute would like RAs to explicitly clarify the position of assetless participants in the I-SEM and how the market rules are being developed will apply to such participants. There has yet to be any acknowledgement of assetless participants, who play a crucial role in nearly every European market to have adopted the EU Target Model to date, such as encouraging liquidity and price discovery. We believe they are a multitude of benefits for this aspect of trading for markets and that this category of activity should be explicitly dealt with in the design.
- It has been indicated that there will be no draft decision paper but rather a final decision published after this consultation. Given the number of key design decisions to be made and the level of complex interactions between the decisions, ElectroRoute believe it would be beneficial for both stakeholders and the RAs for a draft decision paper to be published for consultation prior to a final decision.

1. Balancing Market

1.1. System Operation (early actions)

ElectroRoute accepts that the TSO will be required to take early non-energy actions to resolve constraints, reserve requirements, etc. Appropriate rules and processes should be imposed on the TSO so that these actions are given serious consideration and only performed where completely necessary for system security.

In the GB market there is a National Grid Balancing Principles that outline National Grid’s approach to behaviour to contracting in the markets. ElectroRoute believes a similar document would be useful in Ireland.

1.2. Imbalance Price

The formation of the single imbalance price is one of the most crucial design decisions outstanding for the ETA consultation. The imbalance price will anchor the price dynamic for all stages of the I-SEM. Expectations of the imbalance price will strongly influence IDM pricing and the DA prices. It will, as a result, even affect contracting in the futures market; in particular the ratio of peak to off peak products. It is therefore important that the I-SEM imbalance prices are intuitively and transparently calculated, economically driven and are directly related to market conditions. This will deliver robust market prices and liquidity at all ex-ante market stages.

ElectroRoute believes that implementing an isolated chaotic algorithm like the current Uplift mechanism would be significant design error. Currently the uplift mechanism introduces “junk”

volatility in market prices causing undue uncertainty for participants and is seen as one of the reasons for poor forwards liquidity in the SEM and the distortion of cross border trade.

ElectroRoute therefore believes that the RAs should consider the other options which involve setting the imbalance price through direct categorisation of actions taken by the TSO, which will directly link imbalance prices to market conditions. Whichever mechanism is selected that important that the imbalance prices should be intuitive, and predictable for the given state of the physical system. In this way participants can use the imbalance prices or the forecast of imbalance prices to drive the required market behaviours. ElectroRoute is of the opinion that this important area needs further design consideration and that modelling and sense checking of the different price formation options should be undertaken for a range of market scenarios.

1.3. Imbalance Settlement

ElectroRoute believes that imbalance prices should be published promptly after settlement period closure to enable participants to trade effectively in the BM.

2. DA Market

It is clear from the consultation document that the RAs are of the view that the Day-Ahead (DA) market design is already established through the implementation of the EUPHEMIA algorithm used by the Price Coupling of Regions group (PCR). There is, however, precedent for the algorithm being modified to accommodate new markets as they join the PCR (for example the implementation of the zonal and PUN prices for Italy).

The I-SEM HLD states that the schedules produced by the DA auction should reflect a feasible system dispatch as much as possible. This will not be the case if the DA algorithm has no sight of the SNSP constraint, as excessively high levels of wind dispatched in the market will be curtailed by the TSO in the balancing market to comply with the SNSP constraint. The result of retroactive resolution of the will be increased costs to the end consumer.

ElectroRoute therefore believe that the RAs should cooperate with the appropriate parties at an Irish and European level to adapt the new I-SEM DA auction to address the issue of unconstrained DA schedules resulting in wind curtailment due to the SNSP constraint.

This new market design offers a great opportunity to solve the serious market inefficiencies that result from market schedules with no sight of SNSP constraints. These issues will only be exacerbated as the installed wind capacity on the Irish system increases.

3. IDM Market & Interim Arrangements

ElectroRoute believes that it is important that the interim Intraday Market (IDM) arrangements implemented at I-SEM go-live are consistent with the Target Model IDM design which is currently under development and will be rolled out across Europe in the future. This will be the most efficient, cost-effective approach and will allow seamless transition to the coupled EU IDM when it is implemented in the future. Considering that the GB market already runs both a continuous IDM and

several Intraday auctions, it would appear that the most obvious solution would be for the I-SEM IDM to replicate this format exactly, as the Irish market will be required to couple with the GB market and the GB Intraday model design represents the aforementioned IDM target model that the I-SEM will be required to implement in the future.

In line with this point, ElectroRoute believes that the introduction of the GB market operator, APX, to the Irish market would be helpful for accelerating the implementation of the I-SEM. The introduction of APX would have many benefits:

- APX run an excellent market product which was refined over many years with customer needs in mind.
- APX already run the price coupled DA auction with which the I-SEM must couple.
- APX already run an IDM auction with which the I-SEM could couple.
- APX run the continuous IDM market with which the I-SEM order book should integrate
- APX have excellent settlement and collateralisation processes which would be welcome in Ireland.

4. Physical Notifications

4.1. Physical Notification Linking Option

ElectroRoute supports Option 3: PNs Reflecting Best Estimates of Generation. Delinking PNs from ex-ante positions will benefit all market participants by allowing them the flexibility to take a view on the final physical state of the system and to trade in the market efficiently towards reflecting that state. This will result in greater price convergence and stability between market stages, encouraging more certainty in the I-SEM as a whole.

4.2. Wind Generator PNs

The purpose of Physical Notifications is to provide the TSO with the best possible information on generator dispatch. As discussed in the consultation paper, the TSOs make forecasts of aggregate wind generation output. These forecasts are likely to be more accurate than the sum of individual participants' forecasts for their site, as would be expressed through PNs. ElectroRoute therefore believes that wind generators should have the option to opt out of submitting PNs and by extension, should not be subject to the associated Information Imbalance charges. The option to submit PNs should, however, remain open to wind generators, some of whom may wish to enter the balancing, as future technology developments may enable greater levels of dispatch control for new wind participants.

4.3. PN Rules for Assetless Traders

At this stage of the design process, ElectroRoute believes it is necessary for the RAs to specifically confirm that they will allow explicit non-asset backed trading in the I-SEM in the form it exists in almost all other European markets. The rationale for allowing non-asset participant accounts is clear:

- It will increase market liquidity and price discovery
- It enables all parties to take a view on the final physical state of the system and to trade the market efficiently towards reflecting that state.
- It will help converge prices between different market stages
- It will help reduce the burden on wind generators to trade their wind volumes into the market as other trading parties seeking to forecast the final wind output will effectively carry out this role via price convergence.
- Portfolio wind participants can effectively aggregate and trade the net position (or deviations from DA positions) out of a single assetless account for convenience
- This practice will happen anyway from asset based accounts where participants will take ex-ante traded positions which are different than that of its intended FPN

ElectroRoute looks forward to continuing to engage with the Regulatory Authorities as the I-SEM design progresses and would particularly welcome further public and/or RLG consultation regarding the pivotal Energy Trading Arrangements workstream.

Kind Regards,



Aidan Cummins

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