

Integrated Single Electricity Market (I-SEM)

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

GNI Consultation Response

5 June 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	Gas Networks Ireland
CONTACT DETAILS	Denis O’Sullivan, Head of Commercial, Denis.OSullivan@gasnetworks.ie
MAIN INTEREST IN CONSULTATION	Interactions between gas and electricity markets and systems.

2.2 GENERAL COMMENTS

Gas Networks Ireland (GNI) welcomes the opportunity to respond to the SEM Committee’s consultation on the Energy Trading Arrangements, SEM-15-026 (“the ETA consultation”). GNI was incorporated on the 13th of January 2015 as a fully owned subsidiary of Ervia (formally known as Bord Gáis Éireann (BGE)). GNI owns, operates, builds and maintains the gas network in Ireland and ensures the safe and reliable delivery of gas to its customers. GNI is working to continually advance the utilisation of the gas network for the benefit of Ireland. It is a progressive, trusted and responsible gas infrastructure company with a strong customer focus and commercial ethos that contributes to Ireland’s social and economic progress. As a gas infrastructure company, GNI is responding to this ETA consultation in the form of general comments only, rather than answering specific questions throughout the consultation.

The gas network is an integral part of the national electricity system as it provides fuel to the gas-fired power generation plants which provide a significant proportion of the electricity generated in Ireland (c. 45% in 2014). Gas-fired power generation plants are also essential for providing flexibility to the electricity grid, allowing for the intermittency of renewable electricity to be matched. Ireland has ambitious targets to increase the level of electricity produced from renewable sources up to 40% by 2020. GNI supports the development of renewable energy and its contribution to the electricity market.

As more renewable electricity is brought onto the grid, greater levels of flexibility will be required to match its inherent intermittency. GNI believe that the existing gas network and power generators have the ability to provide this flexibility and we suggest that utilisation of this infrastructure should be maximised to ensure best value for Irish electricity customers.

GNI recognises that the traditional electricity and gas businesses are evolving. Developments in a range of areas such as Power to Gas, smart meters and integrated energy systems will link electricity and gas markets in new ways. There is an opportunity for the gas network to provide even greater support to renewable electricity production than it does at present through the development of Power to Gas plants. Power to Gas can provide stability to the electricity system by converting excess renewable electricity to renewable gas. Power to Gas technology is already being trialled in Europe. The design of the I-SEM needs to provide for the evolution of energy markets to allow for such innovation.

Coordination of ISEM Design and Gas Network Code Developments: Certainty of revenue and dispatch are critical issues for all forms of generation, but in particular for gas fired generation. Gas fired generators must make parallel decisions to procure capacity and fuel in the gas market while trading in the electricity market. At a high level, GNI asks the SEMC to be cognisant of the development of the gas network codes, to ensure timing of products are aligned across gas and electricity markets, or that any misalignment can be commercially managed by market participants. The gas trading day is 5.00am to 5.00am under the Capacity Allocation Mechanism (CAM) network code and the electricity trading day will be 11.00pm to 11.00pm which may necessitate management of an electricity trading day across two gas trading days. Therefore consideration is needed around the timing of intraday auctions and the subsequent procurement of gas capacity and commodity.

Long-Term Contracts: The SEM Committee has increasingly discussed market-based long-term contracts in recent years. In an increasingly variable system with dispatch driven by the increase in renewable energy investment, long-term contracts can provide important revenue certainty to generation that sees infra-marginal rents reduced. For gas-fired generation, such contracts could underpin gas capacity procurement strategies and therefore GNI supports the provision of long term contracts as a means of offering more certainty to generators.

Certainty of Revenue Recovery: The recovery of start-up costs for generators should be predictable and reliable in the balancing market. The ETA consultation discusses the pros and cons of different treatment of start-up costs. Some of these treatments could lead to the potential for under-recovery of start-up costs, adding risk and uncertainty for generators. GNI believes that the current principle of full cost recovery where a generator/DSU is called in a mandatory central dispatch market should remain. This guiding principle should inform the design of the recovery of start-up costs.

The Single Electricity Market has operated well with guaranteed recovery of declared short-run marginal costs for generators. The added consideration of gas capacity in these short-run costs has been an item of discussion within the SEM Bidding Code of Practice. In the past, generators have had the opportunity of recovering their avoidable gas capacity costs through market prices or the capacity payment, this is important so as not to disadvantage gas generation relative to other forms of fossil fuel plant. Certainty for gas-fired generation, both physical and commercial, is therefore paramount for the successful operation of I-SEM, and the continued contribution of gas-fired generation to security of supply and the future integration of renewables. A market design with such certainty would consequentially benefit all forms of generation.

In summary, predictability and certainty of revenues and dispatch is important for gas-fired generation. Gas has a unique role to play in the Irish energy system delivering efficiency and flexibility. We encourage continued end-to-end coordination of the all-island energy system within the SEM Committees and the National Regulatory Authorities, so that opportunities are identified and innovation in the use of the existing gas network and the existing electricity system can be fully realised and ensure that use of existing, flexible infrastructure is maximised.

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

Question	Answer
1. What are the impacts of early action by the TSOs on the Intraday Market?	
2. What measures can be taken to minimise early actions by the TSOs?	

2.4 EX-ANTE MARKETS (SECTION 3)

Question	Answer
1. Which of the three options put forward for interim IDM arrangements is most appropriate?	
2. Should intraday auctions be implemented in I-SEM? Are there any advantages to those auctions not described in this paper?	

2.5 PHYSICAL NOTIFICATIONS (SECTION 4)

Question	Answer
1. What are your views on the timing of PN submissions to the TSO	
2. What are your views on the removal of the requirement on wind generation and non-dispatchable demand to submit PNs	
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.	
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.	

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>2. How should fixed costs be represented within bids and offers?</p> <ul style="list-style-type: none"> • Explicit start up contracts • Block bids • Explicit start-up (and no load) costs 	
<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>4. Should open or closed instructions be used to move participants away from their PN?</p>	

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

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>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> <ul style="list-style-type: none"> • 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 • Implement a methodology which sees the unit lock in the premium above or below the imbalance price through the bid-offer acceptance 	
<p>3. Which of the three options put forward for dealing</p>	

<p>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 quantity of any offer or bid acceptances • 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 	
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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>2. Are there any market power issues that need to be specifically addressed in relation to System Services?</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. 	

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>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>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>4. What are your views on the price based method – unconstrained unit from actual dispatch?</p>	
<p>5. What are your views on the sharpness of the marginal imbalance price? Do any concerns relate to the transition</p>	

between SEM and I-SEM or are there other broader concerns?	
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2.10 IMBALANCE SETTLEMENT (SECTION 9)

Question	Answer
1. What are your views on the issues set out in the imbalance settlement section?	
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?	
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.	

2.11 OTHER ISSUES (SECTION 10)

Question	Answer
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	
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.	
3. Metering – What are your views on the proposal for metering put forward in the Consultation Paper.	
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 technical characteristics need to be accommodated in the technical offer data.	
5. Units Under Test –	

<p>What are your views on the two options put forward for units under test in I-SEM.</p>	
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