



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	Moyle Interconnector Ltd
CONTACT DETAILS	Email: paul.mcguckin@mutual-energy.com Tel: 02890 437 589
MAIN INTEREST IN CONSULTATION	Interconnector owner perspective – ensuring market design facilitates efficient use and pricing of interconnector capacity

2.2 GENERAL COMMENTS

Moyle Interconnector Ltd (“Moyle”) welcomes the publication of, and the opportunity to respond to, the consultation on the I-SEM Energy Trading Arrangements detailed design.

Moyle does not trade energy itself due to restrictions contained in its transmission licence so, while this is an extensive paper covering a myriad of important complex issues, most of these will only have an indirect impact on our interconnector business. This response therefore seeks to address the key issue with a direct impact on our business rather than energy trading arrangements which we are less well placed to comment on. The key questions for Moyle are those around intraday capacity auctions. As you would expect we strongly favour a solution which incorporates pricing of interconnector capacity and expand on this view below.

We would also seek clarification on the treatment of interconnectors with respect to balancing. Interconnectors are potentially a source of significant imbalance due to, for example, unplanned outages in the form of trips. It is currently unclear how such imbalance is to be dealt with in I-SEM. Interconnector licence holders in SEM are prohibited from trading energy as a matter of course which severely restricts their ability to manage the cost of any imbalance they may be exposed to in I-SEM. This inability to manage imbalance exposure is likely to result in increased costs to end consumers so it would seem undesirable for interconnector licence holders to be treated in a similar manner to generation for balancing/imbalance. It may be the case that the party fulfilling the role of ‘Shipping Agent’ would have the ability and/or obligation to manage imbalance costs but we would welcome regulatory engagement on this issue to increase understanding and develop a suitable approach to it.

2.4 EX-ANTE MARKETS (SECTION 3)

Question	Answer
<p>1. Which of the three options put forward for interim IDM arrangements is most appropriate?</p>	<p>The first option (IDM within I-SEM zone only) is at odds with the ethos of the target model and seems to be non-compliant with CACM. While CACM does refer to transitional intraday arrangements these do not envisage a situation where intraday cross-zonal capacity is not made available to the market. The description of this option refers to all capacity being allocated to the market through the DAM however the DAM will only allocate capacity in one flow direction for each point in time (assuming congestion) so capacity in the opposite direction will be unallocated. If there is no congestion capacity may be available in both directions after the DAM. Such capacity may become valuable in the IDM but could not be accessed by market participants under this option. This option is therefore clearly inappropriate.</p> <p>A comparison between the latter two options is difficult due to the shortage of information provided. Given the discussion on intraday auctions that follows in the consultation paper we infer that the proposed regional coupling arrangements (the 2nd option) would ignore pricing of capacity. The complexity of continuous pricing of capacity has delayed the XBID project so we assume it is unlikely to be solved as part of an interim I-SEM solution. We would not support any solution that ignores the target model/CACM requirement for pricing of intraday capacity so would not support this option. As noted by Ofgem in Dec 2014 in their summary of work undertaken to identify and discuss options to price intraday cross-zonal capacity <i>“There is significant academic literature on the importance of well-functioning and liquid intraday markets, and <u>the importance of pricing intraday cross-zonal capacity to facilitate optimal trading arrangements across all timeframes</u>”</i>.² Pricing of capacity is important to reveal scarcity, as an investment signal, and contributes to efficient capacity allocation through fair and non-discriminatory competition between market participants.</p> <p>The third option is the most appropriate of those presented. As well as delivering the benefits of auctions noted in the consultation paper, it seems to be the only option that is envisaged by CACM so is compliant and has potential to be enduring in the form of <i>‘complementary regional auctions’</i> rather than only being an interim measure.</p>
<p>2. Should intraday</p>	<p>Yes, as per the above, intraday auctions should be implemented in I-SEM.</p>

² <https://www.ofgem.gov.uk/ofgem-publications/91651/summaryofexpertreportsandstakeholderworkshoponintradaycross-zonalcapacitypricing.pdf>

<p>auctions be implemented in I-SEM? Are there any advantages to those auctions not described in this paper?</p>	<p>As noted in the consultation paper auctions will help focus liquidity and deliver more efficient allocation of cross border capacity. The alternative to this is to allocate capacity on a first come first served basis which would be sub-optimal. In the latter case capacity could be allocated to a trade with little value since it would not have to be paid for. With capacity auctions, pricing signals mean scarce capacity will be allocated to the most valuable trades, (as the relevant trader will be most willing to pay for it) delivering the most societal benefit.</p> <p>Intraday capacity auctions/pricing also provides signals for the efficient operation of, and investment in, current and future interconnection. While intraday trading is currently of relatively low materiality, this will increase with increasing intermittent generation, particularly wind, and the requirement to be balance responsible in I-SEM. These factors, as well as the increased granularity of intraday trading, will lead to significantly more trade in the intraday timeframe. As an extremely flexible resource, intraday interconnector capacity is therefore likely to increase in value and it is important that this value can be correctly identified and captured to fund both current and future interconnection to the benefit of consumers.</p> <p>Another advantage of intraday auctions is consistency across market timeframes. Capacity is priced in other market timeframes so having one timeframe where it is available for free could distort market participant behaviour.</p>
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