



***Response to Integrated Single Electricity Market (I-SEM)
Consultation on Roles and Responsibilities***

SEM-15-016

**On behalf of
AES Kilroot Power Ltd and AES Ballylumford Ltd**

17th April 2015

I-SEM Roles and Responsibilities

Introduction

AES welcomes the publication of the Integrated Single Electricity Market Roles and Responsibilities consultation document (SEM-15-016) and the opportunity to provide comments on the issues raised. AES would like to submit the following response to the Regulatory Authorities to their consultation paper.

AES is a global energy company with assets in the all island market consisting of coal and gas fired conventional and CCGT plant with additional distillate fired peaking gas turbine plant. AES is a non-vertically integrated independent generator which owns and operates Kilroot and Ballylumford power stations in Northern Ireland with a combination of merchant and contracted base load, mid merit and peaking plant. The responses to this consultation are therefore conditioned by the nature of our current position and portfolio of assets operating in the SEM.

Key Messages.

This response is submitted with reference to the level of detail that is currently available on the requirements contained in the Capacity Allocation and Congestion Management (CACM) European Network Code.

This consultation paper addresses the designation of a Nominated Electricity Market Operator (NEMO) for the I-SEM, the performance of the function to couple the I-SEM DAM/IDM with other European markets and also seeks views on who will be responsible for market operation and settlement in the other I-SEM timeframes (Balancing and Imbalance Settlement).

The NEMO (Nominated Electricity Market Operator) will operate the Day Ahead/Intraday Markets of ISEM and be responsible for interfacing with the Market Coupling Operator (MCO) who will run the pan European algorithm (EUPHEMIA). Article 6 of CACM sets out the criteria for NEMO designation and the RAs are bound to accept any applicant who meets these criteria.

AES is satisfied that the NEMO designation process as described meets the obligations of the CACM Network Code and with the statements:

- The RAs have said that no legal monopoly exists in ROI/NI i.e. Article 4 and 6 apply(n/a Art. 5 designation process in event of pre-existing monopoly)
- The RAs stress that the NEMO will represent I-SEM stakeholders at an EU level i.e. designation to a non-domestic NEMO implies a loss of influence

AES would emphasises the importance of I-SEM representatives retaining influence at EU level and has concerns that outsourcing of the function of coupling the I-SEM to the European Market Operator (MCO) whilst potentially a cheaper option, entails a loss of influence if an external Operator is chosen as the NEMO. Selecting a method which retains the best possible influence for I-SEM could be part of the assessment criteria.

In the consultation paper, the RAs are 'minded to' delegate responsibility to the TSO to operate the Balancing Market and CRM delivery/auction. This is allowable within the code and is normal practice in most EU countries where Balancing markets are run by the TSOs and Imbalance settlement run by subsidiaries of the TSO or recognised 3rd parties. As the TSOs play a central

role in these functions AES is open minded on whether imbalance settlement should be performed by the TSO or market operator.

AES appreciates the benefits to market participants that could be achieved by the RAs trying to strike a balance between achieving synergies (in terms of scale, scope and costs) and mitigating the potential for conflicts of interest which could arise between TSO and the Market Operator (MO).

AES believes the potential TSO/ICO (Interconnector Owner/Operator) conflict of interest is an inherent aspect of the NEMO appointment and cannot be addressed separately in the NEMO appointment and TSO certification processes.

AES requests sufficient business separation between the TSO and NEMO (if SEMO is designated) such that the market has confidence that any conflict of interest issues have been addressed

Questions Raised in the Consultation

1. Do you agree that the TSOs should carry out the role of delivery body for the capacity mechanism?
 - The RAs are responsible for the design and implementation of the capacity mechanism through the operation of an auction and settlement. RAs are minded to appoint the TSOs as the delivery body for the CRM in the I-SEM due to their licenced position to operate a safe and secure power system.
 - AES agrees that the TSO is uniquely placed at the centre of the system to undertake analysis and inform RAs on capacity adequacy, system services requirements and a detailed understanding of the technical capabilities of all technologies on the island particularly in balancing the system.
 - The TSO will have to be significantly involved in the process in determining the capacity adequacy required based on security standards and in alignment with the European Harmonised Allocation Rules (HAR). The carry out similar processes in determining generation adequacy for their 10 year GAR reports but the methodology would need to be transparent.
 - AES is has concerns that TSO is currently not equipped to host a CRM auction or administer the settlement of a CRM RO process and could incur considerable costs to establish these structures and processes - the function of a central counter party (CCP). An existing power exchange with an existing auction platform and CCP would probably be able to carry out the function and potentially at lower set up costs. A comparison of costs and benefits of either method should be conducted.
2. Are there **synergies and economies of scope** from having a single entity perform the I-SEM market operator roles, i.e. day ahead and intra-day, imbalance settlement and capacity settlement? If so, how would these lower costs to consumers?
 - AES agrees that the potential of one entity carrying out the Market Operator role in the DAM and IDM should lead to operational and administrative cost savings and economies of scope as mentioned i.e. with one market operator carrying out all clearing and settlement functions across all market places comes the benefits of single registration, single reduced credit and collateral requirements and the potential for combined invoicing, reducing costs for market participants.
 - Other potential synergies exist around the reduction of costs for procurement of a single market participation IT systems reducing fixed and transaction costs.

- Whilst Synergies should be provided by the provision of the settlement of all markets by one single entity this presents potential for conflict of interest, especially in the imbalance settlement process depending on the TSO's choice of balancing actions to meet incentives for reduced balancing costs and based on information from a market operator within the same entity.
 - Synergies could also be provided possibly by the use of a clearing house that is legally separated from the TSO to provide market settlement functions across all time frames, DAM, IDM, Imbalances and CRM, to provide economies of scope and scale but ensuring sufficient transparency.
3. Do you think there are conflicts of interest arising from the same entity performing the market operator and TSO roles in the I-SEM? If so how would these increase costs to consumers and what mitigation measure could be put in place to deal with these?
- As there is currently no legal separation between SEMO the market operator, Eirgrid the TSO and Eirgrid Interconnector Limited (EIL - EWIC owners). AES has concerns regarding the multiple roles that could be undertaken by the Eirgrid group in the I-SEM and potential for conflict of interests particularly in relation to its roles as market operator, transmission system operator, interconnector owner and procurer of system services. AES views that to remove the perception of potential conflict of interests, and increase transparency, these organisational sections and functions should be at least legally ring fenced if not completely separated.
 - Specifically protection measures for commercially sensitive data should be introduced to ensure that the ability of the TSO to use information that it has access to through association with the market operator and role as an interconnector owner and interconnector TSO is transparent and available to all market participants.
 - AES has concerns that the proposed arrangements could present the opportunity for the market operator to operate the market to exercise discretion in such a way as to favour or advantage the TSO or Interconnector Owner TSO to the disadvantage of other market participants and for the combined entity to exert influence over decisions made by others, e.g. the RAs in the design process in favour of the TSOs
 - AES believes these concerns could be addressed by separation of competitive businesses from TSO functions
 - AES would also point out that this is not just a question of increasing costs for consumers but of market transparency and the potential for disadvantage to other market participants due to shared knowledge within the Eirgrid group and the ability to take action based on that knowledge which may not be available to other market participants.
 - The process to assess any potential conflicts of interests and incentive to act on conflicts of interest is subjective and based on current knowledge of a developing market structure and then putting in place suitable mitigation measures, may prove more challenging than simply removing the potential for the conflict of interest.
4. Do you have any views on the RAs interpretation of the NEMO designation criteria?
- AES is satisfied that the process for the designation of a NEMO to perform the day-ahead and/or the intraday coupling is as per that set out in the CACM Network code with a timescale for designation of 4 months after entry into force of the network code.
 - The criteria for qualification are defined in Article 6 of the code, apply to all NEMOs and the RAs have already determined that neither NI or the ROI has a national legal monopoly for day

ahead or intraday trading services ruling out the application of article 5 of the code, therefore the criteria in article 6 apply.

- AES agrees with the interpretation that the code allows for a NEMO in one member state to offer day ahead and intraday trading services in another member state and therefore that NEMO designation can apply to I-SEM as a whole.
 - The Adequate Business Separation criteria in article 6 between the NEMO functions and other market participants such as TSOs and Interconnector owners presents a requirement for transparency on how this will be achieved to remove the potential for conflicts of interest in the I-SEM.
5. Do you have any views on the RAs proposed NEMO designation process?
- AES has no objection to the process to imbed the new market roles and responsibilities for market operators and TSOs through changes to licences, and also more generally to reflect the changes in generator and supplier licences.
 - Depending on the outcome of the NEMO designation process a single or multiple set of market rules and contractual arrangements may be required
 - Cost recovery for the setup of the new I-SEM market operator(s) functions has not been dealt with in the consultation paper and further information is required on this aspect specifically for impacts on market participants.