

IWEA response to the consultation on I-SEM Roles and Responsibilities

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IWEA welcomes the opportunity to respond to the SEM Committee consultation on I-SEM Roles and Responsibilities. It is essential that there is clear definition of the roles and responsibilities of the different parties in I-SEM and that these roles are allocated in the appropriate manner. In areas where there is any potential conflict of interest regulatory oversight will have a critical role to play.

It is also important to recognise the size of the I-SEM market when compared to other markets, and to recognise where efficiencies can be made through a reduced number of entities required to carry out the different market functions or through existing entities providing services. Therefore it is important to look at areas where efficiencies can be made, noting that this may have additional requirements of increased regulatory oversight or other mitigating measures, for example business separation, to ensure any potential conflicts of interest are appropriately managed.

Balancing Market Operator Role

IWEA agrees that the operation of the balancing market in the I-SEM is a core TSO function as it is their responsibility to maintain secure operation of the electricity system. However there are concerns that, as owners of the East West Interconnector (EWIC) there may be a perceived conflict of interest between the provision of balancing services for non-energy actions and the efficient flow of the interconnector. It is essential that there is strong regulatory oversight of this area and clear and transparent definition of the role of the interconnector in the provision of balancing services.

Settlement of Imbalances Role

The proposals in the consultation paper outline that for the I-SEM the options for performing the function of imbalance settlement are:

1. TSOs fulfil this role and their licenses are updated to provide for this; or
2. The holders of the current market operator licences are assigned this role and their licences are updated to provide for this or the TSOs request that this role be delegated to a market operator.

On initial assessment it seems reasonable that SEMO or the market operator should fulfil this role.

Capacity Mechanism Delivery Role

IWEA supports the proposal that the TSO be the delivery body for the capacity mechanism. The TSO is best placed to set the capacity requirement and to test providers to ensure they are able to demonstrate their capacity, therefore it would seem appropriate that they also manage to the preparation, pre-qualification and operation of the auctions and results. It would also be worth assessing whether business separation between the TSO and the Capacity Delivery Body is required.

Capacity Mechanism Settlement Role

IWEA supports the proposal that capacity settlement is carried out by the entity responsible for imbalance settlement.

Forward Contracting Roles

The consultation outlines that any decisions on the allocation of responsibilities for Financial Transmission Rights fall under the Forwards and Liquidity workstream. IWEA will continue to engage with the RAs on this workstream.

Synergies

IWEA supports the proposal to examine the synergies of one entity carrying out several of the roles required such that transaction costs to market participants are minimised and to balance this with concerns around perceived conflicts of interests that could arise along with mitigation measures to minimise such conflicts. It also needs to be recognised that another NEMO (other than SEMO) could carry out the market operator role and there is no guarantee that a single entity would carry out the different roles.

Conflicts of interest

Market Operator and TSO roles

While there may be potential conflicts of interest (COI) arising from the same entity acting as TSO and Market Operator, IWEA is of the view that these situations already exist to a certain extent in the current SEM and is confident that they can be appropriately dealt with. The designation process for the NEMO requires adequate business separation under the CACM Network Code. As the level of COI may increase in the I-SEM the benefits of further separation should be investigated, for example ring-fencing, information separation and increased regulatory oversight.

The consultation paper outlines some examples of conflicts of interest that could potentially arise. It is important that due consideration is given to ensure that no party has undue influence on the development and implementation of the market rules which may result in less efficient market outcomes. For example, the market design includes continuous intra-day trading up to one hour ahead of real time. Gate closure close to real time is essential for wind generation to ensure that the most up to date wind forecasts can be used, and it this should not be lost in the detailed design. It is also important to ensure that any incentives that may be in place in relation to minimisation of

dispatch balancing costs do not impact liquidity in the intra-day market and remove signals for the development of flexible plant.

This area will require further consultation to ensure the appropriate measures are in place to mitigate any potential conflicts of interest and IWEA looks forward to engaging further on this.

TSO and EWIC Ownership

As outlined above, there are concerns that the TSOs, as owners of EWIC, may have a conflict of interest between the provision of balancing services for non-energy actions and the efficient flow of the interconnector, or in relation to their role as DS3 System Services Procurement body. It is important that there is appropriate regulatory oversight of these activities. The consultation paper outlines that this is being dealt with as part of the TSO certification process, however we believe it should also be considered as part of this workstream.

NEMO Designation

In general the RAs interpretation of the NEMO designation criteria seem to be appropriate, however some further clarity is required on how the designation process will work. In particular the Cost Effective Criterion (6.1 (c)) is not clear in relation to whether cost recovery for the NEMO will be guaranteed. The question also arises as to whether the NEMO would be a member of the PCR if the market coupling function is outsourced, and whether it might be more beneficial to be a member of this.

Changes to licencing and codes to implement I-SEM

IWEA acknowledges that significant changes may be required to licencing and codes to implement SEM. It is essential that these changes are carried out in a timely manner and that there is transparency and appropriate consultation on the changes to be made.

Once again IWEA welcomes the opportunity to respond to this consultation and looks forward to continued engagement in the market design process.