



Integrated Single Electricity Market (I-SEM)

I-SEM Market Power Mitigation

Summary of Responses to Discussion Paper

SEM-15-046

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TABLE OF CONTENTS

1	INTRODUCTION	3
2	RESPONSES RECEIVED	3
3	SUMMARY OF KEY MESSAGES	4
4	NEXT STEPS	4

1. INTRODUCTION

- 1.1 On 8th May 2015 the Commission for Energy Regulation and Utility Regulator, collectively known as the Regulatory Authorities or RAs, published an I-SEM Market Power Mitigation Discussion Paper (SEM-15-031)¹. The purpose of this Discussion Paper was to introduce the I-SEM market power mitigation workstream, to outline its expected scope and considerations, and to illicit views from stakeholders regarding the topics raised.
- 1.2 Comments to the Discussion Paper were requested by 19th June 2015, though some responses were received and accepted by the RAs later than this date given the relatively informal nature of the Discussion Paper.
- 1.3 This paper from the RAs summarises the responses received to the Discussion Paper, for information purposes, and outlines the next steps in the I-SEM market power mitigation workstream. The comments received to the Discussion paper are also published with this paper where they were indicated as non-confidential.

2. RESPONSES RECEIVED

- 2.1 There were eighteen responses received to the Discussion Paper, from the following parties:
 - AES
 - Aughinish Alumina
 - Bord Gáis Energy
 - Bord Na Móna
 - Brookfield Renewable
 - EirGrid
 - ElectroRoute Energy Trading
 - Energia
 - ESB
 - Grange Backup Power
 - Invis Energy
 - Irish Wind Energy Association
 - Lumcloon Energy
 - Power NI
 - Power NI Energy Power Procurement Business
 - PrePay Power
 - SIGA Hydro
 - SSE
- 2.2 Where these responses were not indicated as confidential, they are published with this paper on the RAs' AIP website.

¹ Please see <http://www.allislandproject.org/GetAttachment.aspx?id=2f80cf84-d7b2-47fc-884f-3c9544fc3431>

3. SUMMARY OF KEY MESSAGES

- 3.1 While there was some diversity in the responses received to the Discussion Paper, as can be seen in responses published (where not confidential), the following points were the broad themes which emerged from respondents.
- 3.2 There was a general view that the current market power mitigation strategy in SEM has been successful in mitigating market power in spot trading, though there are concerns, especially for suppliers, with the forward financial market and its relatively low liquidity.
- 3.3 Many respondents were of the view that market power at an aggregate level will continue to be a concern in I-SEM and is an important issue for the RAs to address. This is related to limited interconnection to Europe and the concentrated nature of the market, particularly with regards to ESB's high market share. Market power in the balancing market was believed to be a particular issue, especially with the potential exercise of local market power by generators due to the significant number of local transmission system constraints on the island.
- 3.4 Moreover, it was pointed out that the multiple energy trading periods in I-SEM and the temporal opportunities this may afford for the exercise of market power needs to be well understood and considered by the RAs.
- 3.5 There were suggestions around examining the market power interactions between the I-SEM energy/financial markets and other areas such as Financial Transmission Rights (FTRs), the Capacity Remuneration Mechanism (CRM) and "DS3" programme for system services.
- 3.6 A significant number of respondents referred to the need for market power rules not to distort the competitive dynamic of I-SEM, and in this context some referred for the need for market rules to be targeted at dominant players/ESB rather than at all participants.
- 3.7 There was a view that the market power mitigation strategy in SEM can and should be adapted by the RAs for the physical I-SEM spot markets, especially in relation to the balancing market and associated bidding rules, the continuation of a form of Market Monitoring Unit (MMU) and the application of some form of Directed Contracts (DCs).
- 3.8 Other measures which respondents mentioned that could assist in the mitigation of I-SEM market power included applying "REMIT" as a tool and having contracts in place for local market power issues. For the forwards market, proposals included introducing a clearing house and/or requiring ESB to be a market maker, in order to help increase liquidity and address practical concerns such as collateral requirements.

4. NEXT STEPS

- 4.1 Taking account of the comments received to the Discussion Paper, the RAs are currently working on developing a Consultation Paper on suggested market power mitigation measures in the I-SEM energy and financial markets. The proposals in the Consultation Paper will have the following objectives:
 - Develop an appropriate regulatory strategy and measures to mitigate the incentive and ability of any market participant to exercise market power in the I-SEM physical and financial wholesale energy markets;

- Enable efficient and transparent price formation in I-SEM’s physical and financial markets;
 - Promote competition in I-SEM’s physical and financial markets, including appropriate generation entry/exit;
 - Allow for the development of liquid physical short-term and forward financial trading in I-SEM, with the latter to be progressed as part of policy developed in the I-SEM “forwards and liquidity” workstream;
 - Be consistent with other I-SEM policy decisions, including I-SEM’s Energy Trading Arrangements, Capacity Remuneration Mechanism workstream, Financial Transmission Rights and policies to promote forward and spot market liquidity. This includes market power mitigation measures designed separately as part of these policy measures, for example in relation to the Capacity Remuneration Mechanism and Financial Transmission Rights; and,
 - Be consistent with other segments in the electricity cost chain, specifically the all-island “DS3” programme for system services and retail electricity markets in ROI and NI, including any market power mitigation measures that are developed in these areas.
- 4.2 The Consultation Paper will specifically cover the following issues with respect to the energy and financial trading markets in I-SEM:
- Appropriate market power metrics for assessing market power;
 - Definition of relevant geographic market(s) and trading period(s) for assessing market power;
 - A review of the applicability of the current market power mitigation measures to I-SEM;
 - Modelling of expected level of market power in I-SEM; and,
 - Proposed market power mitigation measures in I-SEM.
- 4.3 The RAs plan to publish the Consultation Paper in late September 2015, with a view to receiving public comments over a 6-week period. A public workshop on the Consultation Paper will be held by the RAs in October, prior to the close of comment deadline, with the date to be published with the consultation. At this workshop the RAs will explain the Consultation Paper and obtain feedback from interested parties.
- 4.4 The RAs will then work to develop a Decision Paper on I-SEM market power mitigation policy, for publication in late February 2016, with a view to implementation workstreams commencing thereafter, facilitating I-SEM go-live in Quarter 4 2017.
