

BORD NA MÓNA RESPONSE TO

I-SEM Market Power Mitigation

Discussion Paper

SEM-15-031

June 2015

Introduction

Bord na Móna (BnM) very much welcomes the opportunity to respond to the SEM Committee's Discussion Paper on Market Power Mitigation in the I-SEM (SEM-15-031). In addition, BnM believes that the structure of this particular work-stream which incorporates a 'discussion' phase is both appropriate and in keeping with the complexity of Market Power mitigation in what will be a radically new structure for participants. In this regard, we believe there may also be merit in publishing a proposed decision between the public consultation and the final decision.

General Comments

As noted above, BnM appreciates the publication of this Discussion Paper and the efforts of the RAs in listing topics and issues which may or may not need further investigation. This 'food for thought' has been very useful in developing BnM's thinking on Market Power and regulatory interventions/market structures which will be necessary to prevent abuses arising. However, and being cognisant of BnM participation in the SEM to date¹, it is felt that formally responding to the questions posed in the Discussion Paper may be premature at this juncture. Instead, Bord na Móna would like to avail of this occasion to make a number of high level points. Please note 1) what follows is not an exhaustive list of BnM's concerns over market power and 2) BnM fully intends to continue our policy of comprehensive engagement during the formal consultation process.

- While section 1.2.1 includes a definition of Market Power as the ability to profitably sustain prices above competitive levels or restrict output/quality below competitive levels; a more general definition could read as the ability of a company to raise and maintain prices above the levels that would pertain in a normal competitive market. This would appear to beg the following questions:
 - 1) What defines the market? – i.e. limited to participants physically located on the island of Ireland, or all those who trade in the I-SEM
 - 2) Returning to the definition in the Discussion Paper – what constitutes 'sustained' prices (above normal competitive levels)?
- In Section 2.1.3, increasing Demand Side Participation (DSP) is suggested as a possible dampener in limiting impacts of market power – while this may ultimately come to pass, there is however likely to be only a gradual ramping up of DSP over the coming years. While not suggesting that the Discussion

¹ Bord na Móna only participates in the generation side of the SEM and has a portfolio that does not contain plants which are typically 'marginal' in the dispatch/market schedule.

Paper sees DSP as a panacea, BnM believes that, initially (Q4 2017), DSP is unlikely to provide significant 'check' against market power in the I-SEM.

- In Section 2.3, Bord na Móna was somewhat perturbed to not see any mention of Intra-Day (ID) 'auctions' expressly included in Table 1. As included in BnM's recent submission on the ETA (SEM-15-038), BnM '*is of the opinion that intra-day auctions should, not only form the basis of interim IDM arrangements but also survive as part of the enduring solution for the IDM in the I-SEM, as facilitated for under the Network Codes and as currently implemented in the Spanish market.*'. Bord na Móna is of the fundamental belief that where liquidity is concentrated there is a commensurate reduction in opportunities for the exercise of market power.
- While Section 2.3.4 of the Discussion Papers gets to the nub of the market power considerations in the I-SEM, the very fact that there is still considerable detail to be decided before the final design is known underlies why it is difficult for BnM to respond directly to the questions in the Discussion Paper. A case in point is the formal structure(s) of I-SEM *Offers/Bids*, item 5 in this section of the Paper, and how these will interact with a revised/revamped BCoP or more a targeted bid mitigation strategy?

In transitioning from the SEM to the I-SEM, the importance of ex-ante markets comes to the fore. In this regard there is still uncertainty as to which market (if any) will provide a 'reference price' for REFiT contracts (and PSO reconciliation) – as potentially this timeframe may have different market power considerations compared to others.

Likewise, the operation of the Balancing Market and the construction of the Imbalance Price will also need to be considered through the lens of market power mitigation, in a manner consistent with other market timeframes.

Similarly, the interaction of ROs, AS/DS3 revenues and Energy payments is not yet defined. As such being definitive on market power mitigation measures is fundamentally difficult as the 'market' which encompasses these revenue streams is unclear. Again the question as to how the I-SEM market is defined for market power mitigation, as discussed above, will need careful consideration.
- In Section 3.1, reference is made, *inter alia*, to Direct Contracts. While not formally calling for a straight forward continuation of the existing SEM DC regime, BnM sees merit in arrangements which 'guide' liquidity into the forwards timeframe.
- Figure 5 shows the strong relationship between SMP and NBP, however and by way of comment, in the future such a correlation may not hold for reasons that are not necessarily related to the exercise of market power but rather influenced by changing characteristics of the generation fleets in the (I-)SEM

and BETTA (i.e. increase wind penetration and the impact of IED respectively).

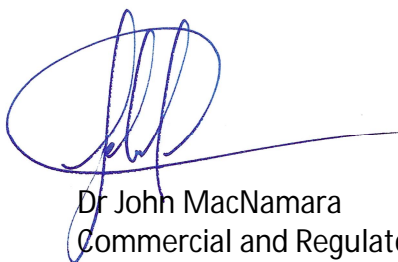
- Section 3.3.2, Item 2, posits as to whether there should be targeted bidding caps/floors. While this point has not been fleshed out and the possible methodology discussed, BnM would *ab initio* be wary of such interventions – primarily as there are existing PCAPs/PFLOORS in EUPHEMIA, as well as concerned about how such measures could be equitably imposed on participants with no physical presence in the I-SEM.

Conclusion

As mentioned above, Bord na Móna very much appreciates the work of the SEMC and RAs in preparing and outlining, for early discussion, issues that could ameliorate the impact from the exercising of market power.

While we have not formally responded to the questions posed in the paper, the paper has been very helpful in stimulating discourse and debate within this organisation, and the points detailed in this submission are simply BnM's initial non-exhaustive thoughts on some of the points raised. Finally, we look forward to further engaging in this work-stream in the coming months and as always are available to discuss any of the matters detailed in this submission.

For and on behalf of
Bord na Móna PowerGen



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