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RE: Capacity Remuneration Mechanism Detailed Design Consultation Paper (SEM-15-044)

Dear Thomas, Brian,

ElectroRoute welcomes the opportunity to provide feedback to the joint Regulatory Authorities (RAs) on the Capacity Remuneration Mechanism for the I-SEM.

Over the last number of years, ElectroRoute has invested heavily in establishing a proprietary trading platform which features:

- 24x7 trading operation;
- A pan European footprint with daily trading activities across Ireland, Great Britain, Netherlands, France, Germany, Italy, Spain, and Portugal;
- Active trading on spot and derivatives markets in jurisdictions which have already adopted the EU Target Model.

Combining this platform with our extensive market knowledge and track record of trading in the SEM, we feel that ElectroRoute is well positioned to offer input to the RAs on of the I-SEM.

ElectroRoute believes that many market participants, particularly small independents, will not have the capability nor the appetite to assume the significant risks associated with holding reliability option liabilities. ElectroRoute therefore believes that provisions should be made in the design of the CRM rules which allow for third party agents to partake in the CRM auction on participants' behalf. This would enable such participants to access the revenue they deserve for the provision of their capacity in the market, while avoiding the aforementioned severe option liabilities.

ElectroRoute notes a theme in the consultation paper of the TSO's desire to be heavily involved in the CRM. This is most obviously highlighted through proposal that the TSO should rule on the degree to which parties may participate in the CRM auction (de-rating). ElectroRoute believes that since successful auction participants will be assuming considerable liabilities by holding reliability options,

they, solely, should be allowed to decide on what volume of options they wish to sell, thus controlling their own liabilities in the market.

1. Eligibility

1.1. De-rating Responsibility

ElectroRoute does not believe it is appropriate for the TSO to calculate and impose de-rating factors on Capacity Remuneration Mechanism participants. Successful participants in the CRM auction will be awarded reliability options which places a call option liability on that party to make difference payments when the options are called. Considering that the liability for these payments will fall solely on the option holder, ElectroRoute believes that the holder should be the one who assesses the extent to which they participate in the CRM, i.e. what volume of reliability option MW to sell, if any at all. Participants selling options backed by physical assets are best placed to make de-rating assessments as they will have the best understanding of their asset's underlying technical capability, maintenance schedules and their own commercial appetite to assume option liabilities.

1.2. CRM Participation Process

ElectroRoute believes that certain renewables and supported generation should be free to choose whether they wish participate explicitly in the CRM or not. Most market participants will wish to continue to receive remuneration for the capacity they provide to the Irish system (as occurs today), however the commercial risk of assuming long term option liabilities will likely be beyond the commercial capability and appetite of many entities, such as small independent generators. With this in mind, ElectroRoute believes there may be appetite among smaller independents for 3rd party agents or aggregators who can represent participant(s) in the CRM auction and that the CRM rules should be designed to accommodate such parties.

ElectroRoute suggests a pre-auction processing process which at a high level could look like:

- 1) In advance of an CRM auction, the TSO publishes a central view of the system capacity requirement that must be served
- 2) Each market participant must declare how it wishes to participate in the CRM:
 - a) **Opt out** (only an option for certain renewables and supported generation). Once the TSO has a complete list of opted out capacity, they analyse, de-rate and net this capacity off the total capacity requirement.
 - b) **Direct Participant.** Participants assess their own technical capability and risk appetite and submit a bid that reflects these internal factors into the CRM auction.
 - c) **Allocate Capacity to Offtaker.**

As discussed above, some independent market participants will likely not be in a position to hold option liabilities and therefore could nominate their capacity to an agent or aggregator who could enter the auction as reliability option counterparty on their behalf. As the nominated representative in the CRM, the agent or aggregator could pass the reliability option fee on to the participant, less a premium to cover the risk and administrative cost associated with the role of reliability option counterparty.

2. Product Design

2.1. Market Reference Price

ElectroRoute believes that the Day Ahead Market (DAM) represents the best market to which the reliability option prices can be referenced. The DAM will be the most liquid market in the I-SEM and will likely be the reference for many other mechanisms, such as the Forwards market. One of the key goals of the I-SEM HLD is to integrate the Irish market with the wider European price coupled regions. The DAM is central to this goal, enabling shared order books and efficient interconnector flows via the EUPHEMIA price solving algorithm, which will result in benefits such as downward price pressure and reduced wind curtailment. It is therefore imperative that market liquidity is focused into the DAM. Referencing the CRM to the DAM will achieve this goal.

ElectroRoute does not believe that the Balancing Market (BM) is suitable for referencing a mechanism as integral to successful I-SEM operation as the CRM. Imbalance price formation in the BM will likely be complex, with further complexity in the market due to TSO energy and non-energy actions and the parallel running of the Intraday Market. It is also likely that the BM will often be very thin in terms of volumes and this, coupled with potentially anomalous pricing mechanics, could result in unusual and spurious volatility. To allow such volatility to trigger market wide call options from every market participant would be a poor design decision.

ElectroRoute does not believe it is necessary to reference the CRM to the BM in order to capture all stress scenarios. By effectively incentivising participants to bid into the DAM and achieve a physical day-ahead position, these participants should then be available and dispatched come delivery.

Furthermore, in an effectively designed market expectations of many types of stress scenarios in the BM (such as wind forecast error) will resonate through to ex-ante markets and participants will adjust their bidding strategies appropriately based on these signals.

ElectroRoute accepts that it could be possible for the DAM to miss signals related to certain unforeseen forced outages, however ElectroRoute believes that supply deficits in these scenarios would likely be addressed via the DS3 mechanism by the holder of a system Services contract such as ramping reserve, and not the CRM. ElectroRoute believes that the RAs must have outline a clear definitions of what services and capability qualify for which mechanism.

2.2. RO Strike Price

ElectroRoute believes that it is important that the RA's consider all types of marginal capacity sources when estimating the benchmark capacity capable of providing coverage for 8 hours per year. This includes not only peaking plant but also on site generation and demand response. For simplicity the strike price should be a fixed price and certainly not indexed. The RO must dovetail with the futures market to avoid the double hedging problem. In this regard having a fixed strike price and DAM reference price appear essential for an orderly market.

To conclude, ElectroRoute would like to express our support of the RAs' three part consultation and decision approach to the CRM design as it will allow stakeholders to offer input and guidance on the emerging thinking the RAs' decisions. ElectroRoute questions why such an approach is not being taken in the design of the I-SEM energy trading arrangements, arguably the most important aspect of the I-SEM design. ElectroRoute would like to see the RAs follow the approach they are taking in the CRM workstream by publishing a "Proposed Decision" paper for the ETA detailed design.

Yours Sincerely,



Aidan Cummins

ElectroRoute Client Services