

Technical Workshop on Market Integration Dundalk, 3rd October 2011

This note summarises the main points that emerged at the Technical Workshop on Market Integration in Dundalk on 3rd October 2011. It should be noted that these were discussion points only and do not necessarily represent a concrete set of issues for further discussion. Neither do they necessarily represent the views of the RAs or of market participants.

Session #1 – Essential features of the SEM/Revolution vs. Evolution

1. Workshop participants thought that the attractive/essential elements of the SEM included:
 - Capacity payments – which have provided stability of revenues
 - Market power mitigation strategy - bidding controls, market monitoring
 - Transparency - a clear reference price in SMP
 - Liquidity - lack of liquidity in a bilateral contracts market would risk driving the sector towards vertical integration
2. It was not clear that the additional interconnector capacity (East West from 2012) would do enough to mitigate market power, especially during cable outages, with the result that a mitigation strategy might still be required in a bilateral contracts market. But the lack of transparency and simple bids would make market monitoring more difficult.
3. With limited resources available, it would not be worth spending money on transitional (2014) measures unless a clear benefit could be demonstrated. There was a good case for doing nothing for 2014 and concentrating on 2016. Evolution would just delay the inevitable.
4. One possible solution might be to keep the SEM as it is and to carve out a distinct and separate cross border market, from which firm interconnector flow volumes would subsequently be fed back into the SEM as negative (positive) demand in the case of imports (exports).
5. Choosing between an evolving SEM and a completely new market design is difficult. The best way forward would be to come up with a range of high level market designs and a set of criteria, wider than pure compliance with the target models, against which to judge them.
6. Criteria would need to include the efficiency of a day ahead (forward) price against that of the *ex post* price; and the effect of high wind penetration on the balancing market and hence on overall sector costs.
7. Investors and customer expectations need to be borne in mind in making the choice between evolution and revolution.

8. Challenging renewables targets and increasing amounts of wind on the system would require the SEM to evolve, irrespective of the need for market integration with Europe. Related to this, issues around renewables support mechanisms and negative pricing need to be considered also.
9. Changing the SEM would mean a paradigm shift in system operation. It would also have significant implications for the ancillary services market.
10. A point was made that the Iberian market may not be the most appropriate model for the SEM to follow.

Session #2 - Day Ahead Time Frame

1. There was a variety of views among workshop participants on whether participation in the day ahead market should be mandatory or voluntary.
2. Some thought it should be voluntary, given the variance in the size of market players; and that mandatory participation would prevent generators from entering into long term physical positions with suppliers. Others were concerned that voluntary participation would likely be associated with low liquidity, which would be a problem for price discovery; and that a voluntary arrangement could create a two tier market, where generators would choose not to participate in a day ahead market with simple bids, preferring to cash out their imbalances in the spot market, thereby leaving only suppliers in the day ahead market.
3. The question of voluntary vs. mandatory participation was really about who would take the risk of deviations between the day ahead price and the ex post price and who was best able to control those risks. If generators were required to manage that risk, they should be given control through self-scheduling.
4. Similarly, if participation in the day ahead market were mandatory for generators, then generators should be allowed to self-commit.
5. Exposure to differences between day ahead and dispatched quantities should be covered by the market, not by the participant. Transactions made in the day ahead timeframe should be made firm in the *ex post* run of the market schedule.
6. Changing the SEM trading day to 23:00 to 23:00 GMT to align with that in the rest of Europe would result in a misalignment with the gas market 06:00 to 06:00 GMT. This created two problems:
 - it would push the peak hours towards the end of the trading day, which may make things worse from a system operation perspective.
 - a single bid in the day ahead market would have to accommodate two days of the gas market, though it was acknowledged that this was more of an issue for the MMU than for generators, since the MMU might have difficulties assessing whether bids were BCOP compliant.

It was recognised however that the BETTA market in GB currently operates with a trading day that differs from the gas market trading day.

7. However, others thought that changes to the trading day, to gate closures and the timeframe of bids were relatively minor issues overall, though it was acknowledged that tighter gate closure times could be a problem for the SOs.
8. By moving away from the half hour bid format, capacity payments would be less sensitive to the verified availability of generators. For example, an availability of just half an hour could lead to a zero capacity payment in that hour.
9. Simple bids required for market coupling would push the SEM towards a self-committed market.
10. Some participants were concerned about the reliability of the day ahead price in the face of variability in generator availability, wind etc. It was well known that small variations in demand can have a significant effect on SMP in the SEM. So what confidence would participants have in the day ahead price?
11. Two alternatives for the day ahead market were discussed: one would be to keep the SEM in its existing form and to create “buffer” by transposing the SEM’s complex bids into an EU-compatible format. The alternative was to allow generators and suppliers direct access to European power exchanges, which some workshop participants would be the better option.

Session #3: Intraday Timeframe

1. There was some uncertainty about how the day ahead and intraday trading arrangements would fit together; and how implicit continuous trading would actually work. For example, were prices determined on a pay-as-bid basis or pay-as-cleared? What would be best for customers?
2. There was also uncertainty as to whether continuous trading would be compatible with SEM, even though it was suggested that the Spain-Portugal market was proposing to retain intraday auctions.
3. It was recognised that the existing SEM intraday trading modification was not an implicit auction in the sense that the term was being used in the Framework Guidelines.
4. The treatment of losses on DC interconnectors was a recurrent worry among participants. If they were not accommodated within the price coupling algorithms, inefficient flows would take place.
5. There was concern about the short gate closures required under the intraday model. Would the SOs be able to cope with large swings on the interconnectors so close to real time?
6. It would be important for the demand side to participate in the intraday timeframe. Would requiring generators to bid encourage the demand side to participate?

7. All participants agreed that continuous trading intraday with one hour gate closures was incompatible with central dispatch. A four hour gate closure in the transitional arrangements might be feasible. But one hour was too close to real time.
8. It was hard to see how discrete auctions (which suit the SEM) could be compatible with the target model.
9. Some participants thought that the lack of price discovery in the intraday arrangements would give an incentive to market participants to game, by holding off trading until the intraday period.
10. Intraday trading was important for Ireland, and not just because of the amount of wind that would be on the system.
11. Continuous trading combined with SEM would increase constraint costs. The SEM would not survive the strain.
12. Firmness of cross border transmission capacity would need to be looked at.
13. If GB was to be split into zones (as is possible in the target model), this would have implications for the SEM if the Moyle and East West interconnectors connected to different zones in GB (as seems likely). Would the SEM also have to split?
14. Priority dispatch in a bilateral contracts market would be an issue. It was not clear how it would be handled.
15. Some participants expressed the view that it was difficult to see how central dispatch could be retained when the full implementation of the target model is implemented.