



Integrated Single Electricity Market (I-SEM)

Forwards and Liquidity Discussion Paper

High Level Assessment of Responses

SEM-15-028

29 April 2015

BACKGROUND

The Regulatory Authorities welcome the many responses received on the Forwards and Liquidity Discussion Paper. Market participants broadly welcomed the initiative of the Discussion Paper and the opportunity to feed into the RAs considerations of the approach that should be taken to this area of the I-SEM detailed design. This note sets out our response to the Discussion Paper submissions in advance of publication of a formal Consultation Paper.

HIGH LEVEL ASSESSMENT OF THE RESPONSES

A number of proposals were made by respondents on how the forward and liquidity workstream might be taken forward. This included, among others, the need to take action immediately; particular forms that industry engagement should take; prioritising the work and thus limiting the scope of the workstream, and whether to take forward the market power workstream before that of liquidity. The RAs will consider the proposals made and take them into account in determining the next steps.

Despite the variety of responses and range of views on the topics considered within scope there appeared to be a broad consensus on the range of the topics to be included and the issues that need to be considered.

A diversity of views were presented on the cause of low liquidity in the forward timeframe, although there was common recognition of the problem. The range of different views and the varied weighting attached to the factors advanced as explanation will be considered for the consultation and will usefully inform the Consultation Paper.

There was a broad recognition of the benefits to be derived from exchanged based trading and the pooling or centralisation of credit arrangements and lowering of other costs. A number of suggestions were made on how to gain the benefits of an exchange and clearing house and further work will be undertaken by the RAs in order to clarify proposals to be published for consultation.

Respondents in general provided useful views on the role of market makers in promoting liquidity in the forward timeframe and there were also a number of responses on the topic of directed contracts. Some participants presented views on the interaction between exchange trading, market makers and forward contracts which will assist in considering proposals for consultation.

There was a degree of commonality in views on the level of liquidity in the spot markets including identification of common concerns. These included the actions of

the TSOs in the intra-day market and the interaction of CfDs with Reliability Options. These issues have obvious overlap with other parts of the I-SEM detailed design workstreams including the energy trading arrangements and CRM workstreams. These issues and a number of suggestions for promotion of liquidity in the spot markets will be considered before further consultation.

In respect of cross-border financial transmission rights the majority of respondents did not express a preference for either FTR Options or Obligations and the future consultation paper will set out in more detail the various options that exist. There was also no unanimity on provisions for firmness of financial transmission rights and this will also be an area that will be given further detail in consultation.

A feature of the responses was the extent to which concerns about liquidity overlap with questions of market power. Some of these issues may therefore also be addressed in the market power workstream.

The purpose of the Discussion Paper was to sense check the approach of the Regulatory Authorities to the questions of within zone and cross border liquidity and to assist in developing stakeholder engagement in the formal consultation and decision process. The next steps in this process are set out below.

NEXT STEPS

Cross border Financial Transmission Rights

- Consultants to support the RAs will be appointed in May and a separate Consultation Paper and Decision Paper on FTRs will be published with a decision deadline of September 2015.
- Implementation of FTRs on the I-SEM-GB border will involve ensuring consistency of the decision with the development of harmonised allocation rules on a Europe-wide basis. It will also involve engagement with interconnector owners, TSOs and others to ensure that the development of a single allocation platform will cater for the most efficient implementation of the financial transmission instrument chosen.

Within Zone Forward Liquidity

- The process and timetable for the development of within zone liquidity policy will follow that of cross border transmission rights and will also include a formal consultation and decision paper. Both workstreams will involve engagement with stakeholders through workshops and other direct engagement. It is the intention of the RAs that this engagement is scheduled to avoid unnecessary simultaneous demands on stakeholders.