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Commission for Energy Regulation
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Joe Craig
Northern Ireland Utility Regulator
Queens House
14 Queen Street
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Date: 18th June 2015

RE: Response to I-SEM Market Power Mitigation Discussion Paper

Dear Sirs,

Brookfield Renewable welcome the opportunity to comment on the discussion paper on the approach to Market Power Mitigation in I-SEM. In a small, concentrated market with relatively low levels of interconnection it is prudent and necessary for the regulators to be vigilant for market power to ensure that there are no barriers to entry for further investment and that consumers benefit from fair competition in the market delivering cost-reflective prices.

Objectives of the Market Power Work Stream

This paper discusses the approach to defining, developing and implementing a market power mitigation approach for the I-SEM's energy and financial wholesale trading windows only. However, we agree strongly with the stated objective that consistency is needed with other elements of the electricity cost chain, specifically the I-SEM Capacity Mechanism and the DS3 Program to introduce additional System Services. Auctions will be used across the energy value to set the price of DS3 System Services, the price of the Reliability Option and within the energy market itself and it must be ensured that a fair competition takes place within each auction and cross-subsidisation does not distort competition.

Market Power Concerns for Wind Generators

In our view the principle market power concerns for wind generators under I-SEM are liquidity and price transparency. The introduction of I-SEM will mean significant changes to how wind generators participate in the market and the greatest change is undoubtedly the introduction of balance responsibility. As has been raised in a number of consultation responses, the introduction of balance responsibility presents substantial challenges for wind generators which could result in unacceptable additional costs if inadequate transitional measures are not introduced as part of the I-SEM design, including market power measures.

Specifically, wind generators require a liquid intraday market to trade out any balance exposures. Market power measures can help to ensure liquidity in this marketplace. Consideration should be given to market maker obligations that have been used in other markets in Europe. The inclusion of Intraday auctions could also help in this regard, by focusing liquidity and providing more transparent price formation than matched bids.

With the introduction of balance responsibility comes an exposure to imbalance prices when wind generators are unsuccessful or unable to trade to balance in the intraday market. The method of setting imbalance prices has not yet been decided and will have a real impact on the incentives for balance responsibility and liquidity in the Intraday market. However, regardless of the imbalance pricing method chosen we believe that it is essential that there are clear transparent rules for market participant bidding in the balancing market. Consideration should be given to how the Bidding Code of Practice could be adapted to ensure that participants in the

balancing market bid in a cost reflective manner. A BCOP-style arrangement could also be used to ensure cost-reflective bidding in Intraday auctions if they are introduced.

Review of SEM Market Power Measures

We believe that the market power mechanisms introduced in the SEM have broadly worked successfully to promote market entry, investment and transparent, cost-reflective prices. The Bidding Code of Practice (BCOP) ensures that all generators bid their Short Run Marginal Costs into the SEM Pool market and this has provided a very transparent price setting process. Under I-SEM market arrangements it may not be possible to retain the BCOP as it is but we believe that consideration should be given to introducing bidding rules or guidelines in the Balancing market.

Directed Contracts in the forwards timeframe have successfully introduced some liquidity and price certainty in the SEM that is necessary to promote competition in the retail markets. A similar approach is likely to be required under I-SEM to ensure adequate liquidity of forward products.

The Market Monitoring Unit (MMU) currently monitors bidding in the SEM across three gate closures, ensuring that BCOP rules are adhered to by all market participants. In the I-SEM there will be greater opportunities to trade across the market timeframes. Consideration should be given to the capabilities required by the MMU to effectively monitor activity in the I-SEM particularly given that bidding is unlikely to be as transparent as the current SEM.

In our view, vertical ring-fencing has also worked well in the current SEM to promote a level playing field for participants competing for a position in the merit order. Until it is clearly established that concentration and market power issues have abated vertical ring-fencing should continue.

It is recognised that the all-island electricity network is highly constrained and that this is likely to remain the case for the foreseeable future. Consideration is needed for local market power issues where a local network constraint is in place. For long term constraints out of market contracts may be an efficient cost and market power measure.

In summary, Brookfield believe that the current approach to market power in the SEM has been broadly successful and some of the market power measures will remain appropriate for I-SEM. With the introduction of balance responsibility key market power issues for wind generators in I-SEM concern liquidity and cost-reflective prices in the Intraday and Balancing market timeframes. Brookfield look forward to contributing to the Market power work-stream when the market power issues can be addressed with greater clarity following further progress on the design of the Energy Trading Arrangements.

Regards,

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