



***Response to Integrated Single Electricity Market (I-SEM)  
Discussion Paper  
I-SEM Market Power Mitigation***

***SEM-15-031***

**On behalf of  
AES Kilroot Power Ltd and AES Ballylumford Ltd**

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# I-SEM Market Power Mitigation

## Introduction

AES welcomes the publication of the discussion document on the I-SEM Market Power Mitigation arrangements (SEM-15-031) and the opportunity to provide comments on the issues raised. AES would like to submit the following response to the Regulatory Authorities to their consultation.

AES is a global energy company with assets in the all island market consisting of coal and gas fired conventional and CCGT plant with additional distillate fired peaking gas turbine plant. AES is a non-vertically integrated independent generator which owns and operates Kilroot and Ballylumford power stations in Northern Ireland with a combination of merchant and contracted base load, mid merit and peaking plant. The responses to this consultation are therefore conditioned by the nature of our current position and portfolio of assets operating in the SEM.

## Discussion Paper Question Responses

### **Section 2.2**

Q1 Are the market power concepts and examples provided appropriate and sufficient for I-SEM?

- The paper defines market power as the ability and incentive to impact competition consistently by raising or reducing prices, by weakening competitors, raising entry barriers or slowing innovation. To some degree normal activities can also impact on competitors and so the methodology for assessment of this aspect would need to account for normal market movements.
- AES agrees that actions taken in one market time frame can impact on other timeframes
- Bidding behaviour will be an important aspect of the new market design with portfolio and vertically integrated participants potentially able to affect prices due to financial, physical withholding or price suppression. Unitised bidding as required by the I-SEM HLD should provide some transparency on these aspects although the non-mandatory nature of the DAM reduces this.
- The emphasis in the new market design should be to mitigate market power by creating a larger market and must be careful not to stifle flexible bidding behaviour through excessive regulation.
- AES agrees that the potential for the exercise of market power in the financial forward markets is less than in the physical markets due to lower entry barriers, potentially more participants and with the option not to trade.

Q2 Are the potential constraints on market power referred to in this section appropriate for I-SEM?

- In the forward market timeframe sufficient levels of competition in the market will ensure competitive constraints providing buyer switching is easy and the arrangements afford easy entry and exit for participants.
- With the physical day ahead market trade allocated exclusively through the euphemia platform the ability to sustainably impact prices should be reduced and there should be less need for a BCoP type arrangement.

### **Section 2.3**

Q3 Given the emerging I-SEM design, including closer integration to European electricity markets and a number of energy trading timeframes, what is the appropriate geographic market(s) and/or trading period(s) definition for the measurement of market power and determination of a mitigation strategy in I-SEM?

- With regard to the recent consultation on the I-SEM Energy Trading Arrangements AES views the most appropriate market zone would be a DAM/IDM/BM- I-SEM/GB zone progressing to a FIUN region and eventually pan European market.
- This arrangement at the day ahead, intraday and BM stages would afford potentially increased trading opportunities and reduce the capability and incentive to exert market power.
- To align with neighbouring markets and EU time frames, hourly trading periods are required in the DAM and IDM and the energy trading arrangements consultation paper recommended the adoption of a 30 minute imbalance settlement period for the balancing market, at least to begin with, but having the possibility to increase the granularity at a later stage.

Q4 Are the various (other) market design issues referred to in this section and their potential impacts on market power captured appropriately and fully?

- AES agrees that the monitoring of market power in the DAM and IDM with the provision of European platforms for trading presents significant challenges for identifying and challenging potential market power abuse.
- AES would like to understand how the RAs intend to approach this problem given the trading platform will be operated by the European power exchanges.
- Incentivising participants to trade in the forward time frame will impact on the requirement for Directed Contracts. With the relative size of one market participant AES is of the view that some level of DCs will be required initially at least to encourage forward liquidity.
- AES is of the view that a form of arrangement is required to deal with the local market power issue derived from transmission constraints. The arrangement should be documented, overarching and transparent such as in the form of the GB Transmission Constraint Licence condition.

### **Section 2.4**

Q5 What is the appropriate approach to measuring market power when developing a mitigation strategy for I-SEM?

- AES is of the view that the discussion paper captures the significant dynamics to monitor market power such as market share and price setting capability for the different products, energy, capacity, services etc. and for specific locations.
- Whilst relative market share may give the ability to exert market power this does not assess the incentive to exert that market power. The ability of any participant to predictably and sustainably set the market price should be mitigated as much as possible, however the process for identification of occurrences would be challenging.

Q6 Should the measure be determined at a snapshot in time or based on historical or potential future trends in market share (or both or all three)?

- Particular circumstances present the ability to exert different forms of market power as those circumstances occur. Effective market monitoring will help to remove the incentive to exert that market power though it is not clear how potential future trends would provide evidence of the ability or incentive to exert market power.

### Section 3.2

Q7 How effective have the SEM market power mitigation strategy and measures been?

- Existing market power mitigation measures in SEM appear to have been effective with the SRMC Bidding Code of Practice ensuring all generators bid in a similar manner. DCs have ensured some liquidity in the forward market and ensured against high spot market prices.
- Vertical ring fencing in theory also prohibits cross subsidies within vertically integrated companies and ensures that generators cannot favour their own supply businesses although the ability to trade with all participants has been challenging due to significant terms and conditions requirements from some participants.
- The SMP comparison with gas price would indicate no significant market power exertion issues to date in SEM.

Q8 To what extent is the strategy and measures applicable to I-SEM?

- With DAM bidding being carried out on the Euphemia platform and IDM on a regional then pan European single shared order book it is difficult to see the requirement of a bidding code of practice.
- The I-SEM HLD has stated that all generators shall provide unit based bidding removing the ability to maximise a portfolio position to potentially disadvantage other generators and raise or reduce the system price.

Q9 Are there other market power mitigation measures worth considering in the context of I-SEM? (See Appendix 2 for a review of a number of other European markets).

- The current Euphemia trials may limit the options available to participants to structure acceptable bid formats and however bidding through Euphemia could result in less transparency on the bidding behaviour of all participants.

Q10 What are the barriers to entry for non-asset backed traders in the SEM financial forwards market?

- The volume of participation in the forward market from vertically integrated companies has restricted the liquidity in the forward market along with limited interconnection.
- The credit and collateral requirements of individual participants have also created barriers to liquidity.

### **Section 3.3**

Q11 Are the principles of market power mitigation outlined in this section appropriate?

- The principles described in the paper cover the broad range of aspects associated with market power mitigation in the various market time frames. The design of the trading platforms and the energy trading rules may determine the behaviour of participants and reduce the need for extensive market power mitigation measures.
- The measures may be permanent or transitory based on certain short term system circumstances and should be able to target behaviour, be time dependant and address particular circumstances.
- Whatever measures are applied they should not be complicated, easily understood by participants with achievable compliance.

Q12 How should theses or other principles be applied in I-SEM?

- Not all participants have the ability and incentive to exert market power therefore by nature the approach has to be targeted at those participants with that ability and incentive in the given circumstances.
- AES is of the view that any market power mitigation measures imposed should be published and maintained transparently for all participants to view.
- As mentioned in the paper it is important to keep sight of the developments in other work streams, of the I-SEM project such as Forwards and Liquidity, CRM and DS3 System Services and their potential interactions to ensure that market power mitigation measures in one aspect do not create market design issues in other areas.