



**Response to SEM-15-061**  
**I-SEM Financial Transmission Rights Consultation Paper**

Cenergise welcomes the opportunity to respond to the consultation paper in relation to Financial Transmission Rights. Cenergise has extensive experience in the SEM and BETTA electricity markets and trades on both the Moyle and East-West interconnectors. We also offer consultancy and training services to the electricity and carbon sectors.

As an assetless trader, FTR Options are the preferred approach for cross border trading. Cenergise is of the view that the FTRs should be sold separately per interconnector and should be discounted to include interconnector losses. Ramping constraints should not be borne by the FTR holders. Cenergise believes that product offering should be extended to include peak and off-peak products and should align with GB and I-SEM products.

The Joint Allocation Office platform is the preferred platform prior to the development of the Single Allocation Platform. The platform should accommodate FTR Options and a suite of products for both Euro and Sterling settlement.

Below are the answers to the specific questions posed in the consultation paper:

**1. Which offers the greater benefit to the I-SEM/GB market: FTR Options or FTR Obligations?**

Cenergise's preference, as an assetless trader, is to implement FTR Options for the following reasons:

***a. FTR Options will require less credit cover than FTR Obligations***

As highlighted in the Stakeholder Forum on the 14/09/2015, FTR Obligations will require credit cover for the full duration of the product unlike FTR Options. Currently EWIC only requires one month collateral for long term capacity. This is because if a participant goes into default, the capacity can be re-sold in a monthly auction. The same will apply for FTR Options. However with FTR Obligations, FTR holders will have to provide 12 months of collateral for annual capacity. This is to protect the interconnector owners if the FTR holder goes into default and owes money based on adverse price spreads. Therefore while the cost of FTR Options may be more expensive than FTR Obligations, FTR Obligations will require credit cover for the full duration of the product unlike FTR Options.

In addition, with FTR Obligations, the holder has potential liabilities that are uncapped. This potential exposure will have to be calculated and sufficient credit cover will be required. A methodology is needed to calculate this potential

exposure, which may be complex and difficult to implement in the auction platform. If a worst case scenario is taken to calculate the potential exposure, credit cover requirements may be excessive. Unless there is a central clearing house for GB power, I-SEM power and interconnector capacity, the collateral requirements for FTR Obligations could be a barrier to entry for smaller players.

***b. FTR Options will provide better secondary trading opportunities***

FTR Options will provide better opportunities for secondary trading than FTR Obligations. For example a participant may not be able to re-sell an FTR Obligation, if there are adverse price spreads. However it may be possible to sell this product as an FTR Option.

***c. FTR Options are less complex to implement and are already catered for in the Harmonised Allocation Rules***

FTR Options are included in the current early implementation Harmonised Allocation Rules, but FTR Obligations have not yet been incorporated.

FTR Obligations will also require more complex settlement systems as payments will be bi-directional.

**2. What arrangements would be preferred: one FTR between the I-SEM and GB or one FTR per interconnector?**

Cenergise's preference is for one FTR per interconnector. This is because each interconnector carries different outage/curtailment risk, different losses and operates in a different currency zone. Selling FTRs separately gives participants greater flexibility and will also result in more auctions. This staggering of auctions gives participants more opportunities to trade.

3. **Should any of the following be discounted from the FTR product payouts?**
- **Interconnector transmission losses?**
  - **Ramping constraints**
  - **Curtailment risks**

Cenergise is of the view the FTR product should:

**a) *Include a discount for interconnector transmission losses***

Unless the transmission losses are included as part of the FTR product, the interconnector owners may be exposed if auction prices do not cover the cost of these losses. FTR holders can factor these losses into their bidding strategies and purchase additional capacity to cover the losses. Participants are familiar with this process as it is currently in place in the SEM. In addition there are different losses on each interconnector and thus the value of the capacity is different. Therefore Cenergise proposes including a discount for interconnector losses.

**b) *Not include a discount for ramping constraints***

Cenergise does not propose including a discount for ramping constraints as part of the FTR product. FTR holders have no way of hedging ramping constraints and have no control over them. Therefore Cenergise does not propose including a discount for ramping constraints.

**c) *Follow the EC FCA Guideline in relation to curtailment***

Cenergise proposes following the EC FCA guidelines which provides that curtailment of cross-zonal capacity shall be subject to firmness provisions which set out the compensation payable to FTR holders.

4. **What are the important issues to be considered in deciding on the development of the auction platform?**

The main factors to consider when deciding on the development of the auction platform include:

- Can it be delivered in early 2017 and accommodate FTR Options?
- Can the auction accommodate a suite of products? It is suggested that more FTR products are offered with the go-live of I-SEM. For example peak and off-peak products or night and day products. It is suggested that the product offerings align with the product offerings in the day ahead and forward markets in GB and I-SEM.



- The platform must be capable of handling dual currency
- An additional item to consider is whether there will be one central clearing house for both interconnectors and if this can be integrated with the I-SEM clearing house.

**5. What is the preferred approach in relation to the establishment of the I-SEM FTR auction platform?**

The Joint Allocation Office platform is Cenergise's preferred approach for the I-SEM FTR auction platform. This is the least cost solution and is at the most advanced stage of development. Given the JAO is now accepting HVDC members, this should be the preferred platform. The platform should accommodate FTR Options and a suite of products for both Euro and Sterling settlement.