



**Integrated Single Electricity Market (I-SEM)**

**Financial Transmission Rights Consultation Paper  
SEM-15-061**

**A Submission by EirGrid plc.**

**19 October 2015**

<b>Contents</b>
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Introduction.....	3
General Observations .....	4
Responses to the Questions Posed in the Consultation Paper.....	7

## INTRODUCTION

EirGrid Group welcomes the publication of the Financial Transmission Rights Consultation Paper and the opportunity to respond to these proposals.

EirGrid holds licences as independent electricity Transmission System Operator (TSO) and Market Operator (MO) in the wholesale trading system in Ireland, and is the owner of the System Operator Northern Ireland (SONI Ltd), the licensed TSO and MO in Northern Ireland. The Single Electricity Market Operator (SEMO) is a joint venture between SONI and EirGrid, through which they operate the Single Electricity Market on the island of Ireland. EirGrid also owns and operates the East West Interconnector.

Both EirGrid, and its subsidiary SONI, have been certified by the European Commission as independent TSOs. Although EirGrid owns the East West Interconnector, this response is limited to reflecting the views of SONI and EirGrid in their roles of TSO, MO and Interconnector Administrator.

SONI is required under its licence to provide a number of services to Moyle Interconnector Limited and also provides these to EirGrid Interconnector Limited. It is registered as the Interconnector Administrator in both the SEM and BETTA markets, and as the Interconnector Error Administrator in BETTA, in respect of the Moyle and East West interconnectors. As Interconnector Administrator it is responsible for managing capacity auctions and facilitating energy trades between the SEM and BETTA markets. As Interconnector Error Administrator it is responsible for the settlement of energy imbalances in the BETTA market. In addition, SONI is responsible for the operation of the Moyle interconnector and is the Externally Interconnected System Operator in GB and is the Meter Data Provider in SEM. Similarly EirGrid is responsible for the operation of the East West interconnector and is the Externally Interconnected System Operator in GB. These responsibilities are expected to continue following the transition to I-SEM.

EirGrid and SONI, both as TSOs and MOs, have roles defined within the draft EU regulations that the I-SEM is required to comply with. We are committed to delivering high quality services to all customers, including generators, suppliers and consumers across the high voltage electricity system and via the efficient operation of the wholesale power market. EirGrid and SONI therefore have a keen interest in ensuring that the market design is workable, will facilitate security of supply and compliance with the duties mandated to us and will provide the optimum outcome for customers.

## GENERAL OBSERVATIONS

EirGrid fully agrees with the objectives of the Forward and Liquidity workstream set out in the consultation document and acknowledges that any of the options under consideration will need to be compliant with the Forward Capacity Allocation Guideline, once it is finalised and enters into force.

### **1. Process to introduce Design of Long Term Products**

The SEM Committee has already made its decision in the High Level Design to adopt Financial Transmission Rights rather than Physical Transmission Rights with Use-it-or-sell-it. The purpose of this consultation is to get industry views on whether I-SEM should implement FTR Options or Obligations. The latest draft of the Forward Capacity Allocation Guideline (30/09/15) from the European Commission requires TSOs to develop a proposal for the design of long-term transmission rights to be issued, including a schedule for implementation. TSOs are required to publicly consult on this proposal in advance of approval by the relevant National Regulatory Authorities (NRAs). The SEM Committee decision to adopt FTRs and current consultation on the type of FTR product to be offered in I-SEM is pre-empting the requirements set out in the draft Forward Capacity Allocation Guideline. It is likely the Forward Capacity Allocation Guideline will enter into force in Q2 2016 with TSOs required to develop a proposal on the design of long term transmission rights by Q4 2016, which is in advance of I-SEM go-live. As TSOs, we will be legally required by the Forward Capacity Allocation Guideline to consult with relevant market participants on these transmission rights in the summer of 2016, even though the majority of the work will already have been undertaken by the SEM Committee in 2015. We therefore assume that the decision paper that follows this consultation will form the basis of subsequent approvals by the relevant NRAs.

### **2. Process to introduce Auction Platform**

The responsibility for implementation of the auction platform currently rests with the SONI and EirGrid Interconnector Limited (EIL) licensees and milestones regarding implementation have been clearly defined in the Forward Capacity Allocation Guideline as being within the TSO's remit. Therefore, the purpose of including these questions in the consultation is not clear to us.

Regardless of the merits of including questions 4 and 5 in the consultation, EirGrid welcomes any feedback received to these questions and where appropriate will take relevant comments into account when considering auction platforms. However, it is important to note that EirGrid and SONI are bound by EU procurement law, which may restrict the extent to which any comments received may be taken into account.

The potential solution for implementation of the Forward Capacity Allocation Guideline compliant auctions, covered under auction platforms in the consultation, is an evolving area. We are currently engaging with the other interconnectors in the FUIN<sup>1</sup> Region by carrying out a joint feasibility of the Joint Allocation Office (JAO)<sup>2</sup> approach. As described later in our response to the specific consultation questions, the Single Allocation Platform envisaged in the Forward Capacity Allocation Guideline would be our preferred implementation approach. The FTR consultation states that *“The JAO platform is seen by European stakeholders such as ENTSO-E, ACER and European Commission as a project leading to the SAP”*. To clarify, ACER and the European Commission would like to see JAO become an early implementation project for the Single Allocation Platform but no formal decision has been taken and as it stands JAO is simply a regional merger between two existing allocation offices (CASC and CAO). If the JAO platform was designated as the early implementation project for the Single Allocation Platform then it would be the clear choice assuming an FTR Options decision, but this is not the case and the decision on the Single Allocation Platform may not be taken until well after the Forward Capacity Allocation Guideline comes into force. Part of the feasibility assessment includes the ability for JAO to meet the I-SEM timelines, whether the JAO approach complies with EU procurement law, and the identification of the full scope of solution requirements, which are wider than those currently provided by JAO.

### **3. Consistency with other aspects of I-SEM Design**

The FTR consultation was developed in parallel to other I-SEM workstreams and the outputs of this consultation need to be consistent with those already determined by the SEM Committee in the ETA Decision. The FTR consultation notes the ability of TSOs to *“countertrade (in the*

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<sup>1</sup> FUIN refers to a region comprising France, UK, Ireland, and the Netherlands with HVDC subsea interconnectors.

<sup>2</sup> JAO is a joint service company of 20 TSOs from 17 countries with responsibility for the yearly, monthly and daily auctions of PTR and FTR Options on 27 borders in Europe.

*intraday market or through specific contracts with generators and/or suppliers)*". Our understanding from the ETA decision is that TSO intervention in the ex-ante markets may not be directly facilitated. We expect to be able to use the Balancing Mechanism to effect redispatching (as per the CACM Regulation 1222/2015 requirements) while the use of out-of-market contracts is subject to further consideration within the I-SEM Market Power workstream. Our current understanding is that we will not have the ability to effect countertrading (as per the CACM Regulation 1222/2015 requirements), albeit this reference to countertrading is different to System Operator (SO) countertrading as currently applies in SEM.

Regarding the comments about physical firmness after the Day-Ahead Firmness Deadline – the benefit of FTRs in the new arrangements is that the data used to calculate the price spread and congestion income is locked-in from the Day-Ahead Firmness Deadline (not less than ½ hour ahead of Day-Ahead gate closure – refer to CACM Regulation Art. 69) so those results are fixed at that point – thus the only market impact of an unplanned interconnector outage after the Day-Ahead Firmness Deadline would be a reduction in the Cross Zonal Capacity available to the Intraday market.

At the end of section 3.4, the consultation raises some considerations regarding time of day products. These will be considered in the future as part of the design of long-term transmission rights consultation required in the Forward Capacity Allocation Guideline but the implementation of those is to feed into the Single Allocation Platform. For the I-SEM implementation we suggest that the required products be included in the decision from this consultation.

Finally, we note that the consultation paper does not mention any approval required from Ofgem as part of this process. The Forwards and Liquidity Discussion Paper (SEM-15-010) noted that the I-SEM HLD proposal to use FTRs was subject to agreement with Ofgem. We think it would be beneficial to note any Ofgem approval or further required steps as part of the Decision Paper to give clarity to the market on the future arrangements.

We have considered the questions posed in the discussion paper, and have included responses to those that are relevant to the EirGrid and SONI TSO and MO Licensees, and in particular the SONI TSO licence requirement in relation to the Moyle Interconnector and EirGrid as the certified TSO for the East West Interconnector in relation to Capacity Allocation and Congestion Management Regulation 1222/2015 and future Forward Capacity Allocation Guideline.

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

EirGrid and SONI can implement either product, based on the outcome of the I-SEM consultation, leaving it up to the market to determine what type of product best meets its needs, as is appropriate.

All TSOs across Europe have prepared a draft set of Harmonised Allocation Rules (HAR) for PTRs and FTR Options as part of the work on early implementation to meet the expected requirements of the Forward Capacity Allocation Guideline. There are no rules in place for FTR Obligations and indeed no plan currently in place in ENTSO-E to start drafting rules for FTR Obligations for inclusion in the HAR. The allocation rules would need to be approved before the specifications for the allocation platform can be developed. JAO will be introducing PTR and FTR Options products from Q1 2016, based on the draft HAR currently subject to NRA approval. JAO has also confirmed that it is only focused on PTRs and FTR Options products as these are the products its members will be using.

If FTR Obligations is the preferred product for the I-SEM, then a low-risk implementation strategy would be to take a stepwise approach to the introduction of FTRs by first introducing FTR Options, in order to provide for closer regional integration with neighbouring markets that will have PTRs with UIOSI or FTR Options in place when I-SEM goes live. From an EirGrid and SONI perspective, our focus is on the practical issues that exist in terms of ease of implementation in terms of meeting the I-SEM timelines and the durability of the solution.

While EirGrid and SONI have a reasonable degree of certainty that we can introduce FTR Options within the timelines set out for I-SEM, no such certainty exists for FTR Obligations as no rules for FTR Obligations exist and no existing platform offers FTR Obligations. If the decision is to implement FTR Options for the I-SEM/BETTA border we will be able to use existing European allocation rules and platforms and possibly join JAO, subject to a feasibility analysis that we are currently carrying out within the FUIN region. If the decision were to be FTR Obligations then work would be needed to start to draft detailed local allocation rules for the I-SEM and subsequently start on developing a local allocation platform solution. Given the Forward Capacity Allocation Guideline is likely to enter into force in Q2 2016; there is a risk that any local allocation rules and platform may end up being stranded not long after being introduced, as the requirements from the current European Commission draft of the Forward Capacity Allocation Guideline stipulates that the HAR rules will be in place by end 2016 and Single Allocation Platform by summer 2018, meaning any local solution would be redundant beyond this point.

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

EirGrid and SONI have no opinion on this question.

**3. Should any of the following be discounted from the FTR product payouts?**

- **Interconnector transmission losses;**
- **Ramping constrains;**
- **Curtailement risks**

EirGrid and SONI agree with the position stated earlier in the consultation that the final decision will need to be aligned with the Forward Capacity Allocation Guideline provisions and be fully compliant with these provisions. The Forward Capacity Allocation Guideline is still in draft format with the European Commission with adoption in comitology expected in later October 2015 at the earliest.

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

*and*

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

EirGrid and SONI are working to ensure that an appropriate solution is implemented within the I-SEM and FCA timescales and we welcome additional industry feedback in relation to that process. The enduring Single Allocation Platform envisaged in the Forward Capacity Allocation Guideline would be our preferred implementation approach if it was available within the I-SEM timeline; however this will not be possible. While it is likely that JAO will become the Single Allocation Platform going forward, no decision has formally been taken. That said, it would make sense to take measures to join JAO if this is feasible, meets the I-SEM timelines and is consistent with our wider obligations under EU procurement law.