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RE: Financial Transmission Rights Consultation Paper (SEM-15-061)

Dear James, Joe,

ElectroRoute welcomes the opportunity to provide feedback to the joint Regulatory Authorities on the design of Financial Transmission Rights for the I-SEM.

Over the last number of years, ElectroRoute has invested heavily in establishing a proprietary trading platform which features:

- 24x7 trading operation;
- A pan European footprint with daily trading activities across Ireland, Great Britain, Netherlands, France, Germany, Italy, Spain, and Portugal;
- Active trading on spot and derivatives markets in jurisdictions which have already adopted the EU Target Model.

Combining this platform with our extensive market knowledge and track record as the one of the most active participants in GB-IE interconnector trading in recent years, we feel that ElectroRoute is well positioned to offer input to the RAs on the design of Financial Transmission Rights (FTR) for the I-SEM.

Some detailed comments are detailed below but in summary ElectroRoute believes that the key goal of the cross border hedging market design should be to ensure the market is accessible, liquid and competitive. This goal can be achieved by ensuring that there is joined up thinking in the design of the FTR market in relation to the other I-SEM markets, particularly the Forwards market.

ElectroRoute does not believe that the additional benefits of FTRs, when compared against physical transmission right based instruments, have been acknowledged in the consultation thus far. ElectroRoute believe every effort should be made to leverage the benefits of FTRs as a financial product and in particular the ability of all market participants, not just Interconnector Owners, to write or sell FTR products must be accommodated within the FTR market design. The fact that any market participant should be willing to buy or sell an FTR based upon their view of the Day Ahead price spread will be one of the major benefits of an FTR based marketplace and has not been

mentioned in the consultation process thus far. Where possible the physical attributes of the underlying cross border flows to which FTR products are linked, which are not within the control of market participants buying or selling FTRs, should be dealt with outside of the FTR market. This will lead to more simple, accessible financial products and a more liquid FTR market in the I-SEM.

Finally, the levels of collateralisation required to participate in the FTR market will be a defining factor in the success of the market. ElectroRoute encourages the Regulators to ensure that the market design enables participants to net collateral positions across the various I-SEM marketplaces, if these opportunities occur.

ElectroRoute would again like to thank the Regulators for the opportunity to respond to this consultation, and looks forward to continuing our involvement in all I-SEM design work streams.

Yours Sincerely,



Aidan Cummins

ElectroRoute Client Services

1. Collateral Requirements

The handling of collateral requirements will have an equal, if not greater impact on the successful operation of the FTR market than any product design decision. The current SEM CfD market suffers from an onerous bilateral collateralisation process which has resulted in an illiquid and dysfunctional market. A single exchange platform with a centralised clearing house will focus liquidity into a single market place and enable market participants to easily access it in a “single sign-up” process.

This methodology should not just be applied to the FTR market alone, or the associated Forwards Market alone, but rather applied to the wider I-SEM market place in a joined up way where possible. It is crucial to take advantage of synergies between markets where possible by minimising the number of market platforms and collateral counterparties that participants must interact with.

Examples of such methodology is widely available in our neighbouring markets, the best of which is role played by European Commodity Clearing AG (“ECC”), which offers centralised clearing functions for the EPEX Spot, EEX and ICE markets amongst others. Participants who sign up to the ECC benefit from efficient standardised clearing facilities and netting of collateral positions.

Considering the vast number of different market places that will be operating simultaneously in the I-SEM, including the Balancing Market, Intraday Market, Day Ahead Market, Reliability Option Auctions, DS3 Auctions, Forwards Market and the FTR Market, it quite likely that synergies and netting opportunities will be possible, particularly between the markets which utilise financial instruments. ElectroRoute encourages the Regulatory Authorities to ensure that the market design and systems procured make it possible to take advantage of these synergies should the present themselves in the new market.

2. Physical vs Financial Products

The key benefits of a financial instrument lies in its simplicity and accessibility. A pure Financial Transmission Right enables two parties to take a view on the spread between two markets and strike a contract based on their evaluation of the risk of the underlying markets. Any party is free to sell or buy one of these FTRs provided they can find a counterparty willing to match their evaluation. The I-SEM FTR market must at its most basic level facilitate this simple transaction

ElectroRoute acknowledge that there are requirements within the Forward Capacity Allocation Guidelines that are non-negotiable and must be implemented but that does not mean we have to shoehorn the existing PTR products into an FTR world. Where possible the burden of pricing physical attributes of the underlying interconnector assets (such as ramping constraints, interconnector outages etc.) which are not within the control of market participants should not be borne by market participants.

3. Product Design

There are clearly advantages and disadvantages to both available FTR product types, as well outlined in the consultation paper. ElectroRoute disagrees with the Regulators assertion that assetless traders will not be willing to trade FTR Obligations. There is nothing preventing assetless traders from taking a view on market prices and contracting based on their view, either securing Forward contracts in both markets to complement the FTR or by remaining unhedged and taking a

speculative position on the markets. Such activities merely involve quantifying risk and then taking positions in the market, which assetless traders do on a daily basis.

One thing that is clear at this point is that Options will cost significantly more than Obligations. While it is true that Obligations will require collateral to be posted due to the downside risk of negative spreads, this may balance out when compared against the requirement to post collateral to cover the significantly more expensive Options.

ElectroRoute feels it is difficult to favour one or the other at this point in time due to several factors which remain unclear at this point in time. It is particularly difficult to speculate on which product to use without knowing what array of products, outside of a standard baseload type product, will be available in either the FTR market or the I-SEM Forwards market. ElectroRoute would therefore request the Regulators to outline what products will be available as early as possible in the design process.

The Regulators have indicated that there will be longer term FTRs such as Annual and Monthly, however it is not clear what level of granularity will be offered in the short term products. It is important to note that power flow on the interconnector will not follow baseload profiles, but will likely be volatile and bi-directional, considering the increasing levels of wind on the Irish system and the trends that see the Irish and GB prices becoming much closer.

Furthermore, it is important that the design of the FTR products is not done in isolation. The FTR market will be inextricably linked to both the Irish and GB Forwards market, and it is therefore crucial that the products designed across all markets are compatible.

ElectroRoute are of the view that the Regulators should not limit the array of products available to trade at the outset of the I-SEM. Granular products available in the GB forwards market which allow contracting of shape, such as peak/off-peak products, should be made available in the I-SEM. ElectroRoute believe it is better to include more products from the outset, and let the market decide which products to utilise, rather than choosing to limit products from the outset.