



Integrated Single Electricity Market (I-SEM)

I-SEM Market Power Mitigation Consultation Paper

Consultation Response from

BORD NA MÓNA 

The logo for Bord na Móna, consisting of a yellow sun-like symbol above a green wavy line, with a red diamond shape at the bottom right.

SEM-15-094

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Introduction

Bord na Móna (BnM) welcomes the opportunity to respond to the SEM Committee's Consultation on I-SEM Market Power Mitigation (SEM-15-094). BnM note the importance of the Market Power workstream and also its complexity giving the restructuring of the market and forthcoming policy developments. BnM commend the RA's in their comprehensive evaluation of potential opportunities for exerting market power and the enduring aim of providing competitive outcomes for customers in I-SEM. BnM response to the consultation questions are outlined below.

Market Power Policy

Do you agree with the policy developments and trends identified in the paper as potential impacting on an I-SEM market power mitigation strategy?

BnM agrees that the key policy areas identified, such as increased renewables, demand side participation, interconnection and REMIT regulation will have potential impact on market power. BnM recognise that the dynamics of how these policy elements impact the physical markets are likely to create potential for opportunities for Market Power. It is accepted that the requirement for a market power mitigation strategy will be persistent into I-SEM, albeit in a different form than today.

Are there other factors identified here which you consider relevant?

BnM believe market design and market power mitigation strategy must be developed in the light of European Policy, in particular the EU 2030 Framework for Climate and Energy. This will include EU wide targets and policy objectives for the period between 2020-2030, with the aim of achieving a more competitive, secure and sustainable energy system, impacting the market through encouragement of new investment and low carbon technologies in order to meet long term greenhouse gas reductions.

Relevant Markets and Geography

Do you agree with the proposed appropriate markets/trading periods for assessing market power in I-SEMs's energy and financial markets?

The RA's have comprehensively assessed the multiple products and trading periods in I-SEM with respect to examination of market power in the I-SEM energy and financial markets, notwithstanding, there will be challenges with these different temporal markets, addressing these will be key when developing an overall mitigation strategy.

Do you agree with the proposed geographical scope of the proposed markets/ trading periods?

BnM notes the geographical definitions used by the RA's in the consultation paper and appreciates how market power could be exercised owing to local constraints close to real time trading. As for the DA market, the EUPHEMIA algorithm, which is pan-European and takes explicit account of bids from interconnected jurisdictions, introduces a different dynamic than that is currently present in the SEM. Given that the EUPHEMIA trialling is ongoing, being definitive on the impact of non-island of Ireland physical participants on market outturns is difficult, and it is suggested that the monitoring of potential market power strategies extend to interconnected jurisdictions.

I-SEM Design, Interactions and implications.

Do you agree with the proposed definition of competitive behaviour and pricing in I-SEM

Yes, we would broadly agree that the proposed competitive behaviour and pricing in I-SEM centred on SRMC and relevant opportunity costs is reflective of a competitive market. It should be noted that SRMC in the strictest sense of the word would not be wholly appropriate as it is overly simplistic, it may be necessary for participants to recover other costs such as start-up and no-load costs raising their offers above SRMC. In the case of supported renewable generator there is also the opportunity cost, which would equate to the loss of revenue associated with un-remunerated support payments, as it is only earned on metered generation.

Do you think that the suggested examples in which market power can be exercised in I-SEM captures the relevant issues?

Yes, the suggested examples in which market power can be exercised in I-SEM, including the combination of market power strategies, is illustrative of the salient issues.

Do you agree that the potential for market power abuse in I-SEM appears to be weaker in the forward financial market compared to the physical markets?

Yes it would appear that the potential for market abuse would be weaker in the forwards financial markets, in comparison to the physical markets, given that the forwards market is purely financial, and buyers have the option of taking the risk in the spot market. Also noted is the presence of EU financial regulation such as EMIR and MiFiD which will assist in detecting and preventing anti-competitive actions in the forwards market.

Do you agree with the implications for market power arising from interactions between the physical markets, CRM, FTRs and DS3 System Services as shown above?

Given that the rules sets around CRM, FTR's and DS3 have not yet been finalised, it is possible that interactions between the physical markets and the CRM, FTR's and DS3 markets would create opportunities for exercising market power. While it is noted that there may be incentives, for instance to manipulate the market reference price in the case of the RO's or DAM market price in the case of the FTR's, it remains to be seen whether there will be the ability provided that market power is managed in the physical markets. It remains to be seen if market power mitigation measures would be warranted at this point.

However, in the case of DS3 system services, especially in the case where there is low participation in the auctions to procure these products, there is a more likely potential for these markets to be concentrated.

Relevant I-SEM Metrics

Do you agree that these are the appropriate metrics to identify market power ex-ante and ex-post in I-SEM?

BnM agrees that the metrics suggested to identify the scope of market power are sufficient to identify market power in each of the markets (ex-ante and ex-post). Noting their international application, objective metrics such as market share, HHI, RSI and PSI should definitely have a role in the ex-ante identification of market concentration.

The paper also outlines ex-post conduct and performance metrics which will be monitored by the MMU. BnM notes the continued role for the MMU in I-SEM and recognises the importance of clearly quantifying these metrics, so there is no ambiguity in what is expected of market participants.

Modelling Market Power

Do you agree with the conclusions for I-SEM market power that have been drawn from the modelling results?

BnM acknowledges the comprehensive approach to the modelling adapted by the RA's, but as with any modelling exercise, the outputs are essentially snapshots of future possible outcomes.

The diverging trends between HHI and RSI, predicted by the modelling are reflective of the changing nature of the market arising from increased wind, higher demand response, interconnection and increased demand. Given how the results suggest an overall reduction in structural market power (less concentration by 2024), but a greater potential for pivotal actions at certain times (high demand and low wind), it is unclear as to the sensitivity of the observed trends to the metrics and assumptions underpinning the model. In terms I-SEM market power mitigation strategies, is it anticipated that there will be ex-post evaluation of market outturns in order to validate the models predictions? And where discrepancies arise, will the mitigation strategies will modified accordingly?

While the RA's primary concern is around market power mitigation in the balancing market, which is understandable, BnM would also like to highlight the concern regarding the impact of market power and liquidity in the IDM. Intraday trading will be very important for wind participation, in assisting with managing wind's market position.

SEM Market Power Measures

Do you agree with the SEM Committee’s view on the effectiveness of each of the SEM market power mitigation measures? Are there any particular aspects of the SEM market power mitigation strategy that you think should be applied differently, especially in relation to I-SEM?

BnM would agree that SEM market power mitigation measures have worked well. The MMU in conjunction with BCoP has been effective in SEM, although a highly prescriptive approach such as this wouldn’t be suitable for all I-SEM market timeframes, consideration should be given to a rules based approach for the BM.

DCs have also served their purpose, both in terms of price formation and increasing liquidity in the forwards time frame, while the current format would not be appropriate going forward to I-SEM, an adapted construct would be welcomed.

SEM Mitigation strategy and Measures

Do you agree with the five key principles for assessing market power mitigation policies as outlined in this section 8.3? If you think there should be alternative, please state the reasoning.

In general BnM see merit in the principles outlined. The matrix nature of the principles allows for an objective approach to conducting evaluations.

Forward Contracting Obligation:

What should be the measure and threshold that results in a market participant being included or excluded in the FCO, i.e. what is its applicability? What should be the volume and product definition of forward contracting required from a market participant who falls under the FCO? How should the price be set for the volume contracted under the FCO? What type of access should buyers have to FCO volumes?

BnM welcome the introduction of FCO’s. In the past the price setting arrangements for the SEM DCs appears to have worked quite well, having been set administratively by the RA’s. However, competitive approaches to price setting such as a combining the price setting responsibilities of the RA’s and participants themselves (i.e. setting reserve prices) may also have merit. BnM would be of the opinion that access for buyers should be allocated on the basis of a market led approach, rather than being set administratively.

BM mitigation: Which of the balancing market mitigation options do you consider most appropriate, i.e MMU-triggered intervention, automated intervention via a PST or via the flagging and tagging approach or prescriptive bidding controls? Where feasible please relate the preferred approach the five key principles for this work stream of effective, targeted, flexible, practical and transparent.

BnM would see benefit in the ex-post MMU intervention in addition to a degree of prescriptive bidding controls as an effective option for this market. Such an approach has the benefit of providing regulatory certainty to participants while also providing flexibility to the MMU. However given that

the flagging and tagging will be used in the BM to identify non-energy actions, it may be expedient to incorporate this approach to manage market power abuse.

Which ex-ante bidding/offer market power mitigation options for the DA and ID markets do you favour – bidding principles and ex-post assessment, or ex-post assessment only? Where feasible please relate the preferred approach to the five key principles for this workstream of effective, targeted, flexible, practical and transparent. If ex-ante bidding principles were to be adopted, how flexible should they be and how would this be facilitated/enshrined in their wording?

Option 2, bidding principles and ex-post enforcement appears to strike the balance between protection and allowing competitive price formation.

Under what structural conditions or in combination with other market power mitigation measures should vertical ring-fences of the incumbents be relaxed? Under what circumstances and criteria (or metrics) the application of ring-fencing to other market participants should be considered?

Vertical Ring Fencing has worked well in the past and may have a role in the future, however, it is unclear what additional protection ring fencing will provide, given that there will be unit based participation in I-SEM and no portfolio bidding (in general) for market participants.

In summary BnM very much welcomes the opportunity to respond to the SEM committee's paper on I-SEM market power mitigation. If you have any queries or require clarification on any point, please do not hesitate to contact me.

For and on behalf of Bord na Móna



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