



Integrated Single Electricity Market (I-SEM)

**Measures to Promote Liquidity in the I-SEM Forward
Market
Consultation Paper
SEM-16-030**

A Submission by EirGrid and SONI

29th July 2016

Contents

| | | |
|---|--|---|
| 1 | Introduction | 2 |
| 2 | Comments On the Consultation Paper | 3 |
| 3 | Conclusion | 5 |

1 INTRODUCTION

EirGrid is the licenced Transmission System Operator (TSO) and Market Operator (MO) for Ireland. EirGrid has been certified as an independent TSO by the European Commission. The System Operator Northern Ireland (SONI) is the licensed TSO and MO in Northern Ireland. SONI has been certified as an independent TSO by the European Commission.

EirGrid, as licenced MO for Ireland, and SONI, as licenced MO for Northern Ireland, act as the Single Electricity Market Operator (SEMO) operating the Single Electricity Market on the island of Ireland through a contractual joint venture.

EirGrid Interconnector Limited (EIL) is the licenced operator of the East West Interconnector (EWIC). SONI acts as Interconnector Administrator for both of the interconnectors (EWIC and Moyle) that connect the island of Ireland and GB.

EirGrid and SONI, both as TSOs and MOs, 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.

This response is on behalf of SONI and EirGrid in their roles as TSO, MO and designated NEMOs responsible for the day-ahead, intraday, balancing and capacity markets. Our view as owner of the East West Interconnector is set out in a separate response.

2 COMMENTS ON THE CONSULTATION PAPER

The timeframes being considered here have a relatively light bearing on our roles within the operation of the I-SEM, given that the paper only focuses on liquidity in the forward timeframe. However there are a few aspects of the proposals considered by the SEM Committee that are relevant to our activities and we would like to make some observations.

Integration of Central Services Across Market Timeframes

The paper suggests that liquidity could be facilitated by integrating credit cover across various market timeframes. While we recognise the benefits from aggregating credit cover, we are not sure how this mechanism could be implemented in practice due to restrictions within our licences and also wider competition law. This could potentially create cross-subsidies between EirGrid and SONI's licenced activities and also those that may be subject to future competition. Therefore, at this stage we do not consider this to be a viable option.

This is further complicated by the fact that we currently have no role within the forward contracting space. Should this be something the SEM Committee decide to explore further, we suggest a specific work item is added to the licencing and governance work-stream to assess the both practicalities of and barriers to such an arrangement.

Forward Trading Services Provided By NEMO.

The paper suggests that the NEMO could provide forward trading services. The NEMO role is restricted to cross-border tasks that are defined in CACM, and only cover the day-ahead and intra-day timeframes. The TSOs and MO are not aware of any mechanism that would currently permit the extension of NEMO services beyond those specified in CACM, and given the complex issues that we already need to resolve in this space, do not see merit in increasing the challenges by exploring this option further.

In the same context, the JAO services are provided on a pan-European basis and their scope is limited to cross border arrangements for long term transmission rights. Local arrangements, including contracts for differences, are outside their remit. Therefore this is not a viable option.

Scope of AoLR Activities

We note that it is suggested that the AoLR might trade in the forwards market on behalf of generators availing of these services. EirGrid and SONI can confirm that we could not undertake this role in our respective jurisdictions, as engaging in such an activity would be in conflict with our obligations and respective certification under IME3¹ as an independent TSO. This is irrespective of where within the EirGrid group (corporate or licenced entity) the actions are undertaken. For this reason, the AoLR role that has been consulted upon to date

¹ Directive 2009/72/EC

has been limited to the automatic application of a set of RA approved rules within the day-ahead and intra-day markets only.

Consistent with this, any forward trading should therefore only be considered in the context of commercial aggregators, and the AoLR, where that AoLR is or is part of a corporate entity that encompasses a TSO, must be explicitly excluded from any obligation in this regard.

Obligations Placed on Interconnector Owners

While we welcome confirmation that interconnector owners will not be included within these measures, we would like to highlight that the reasons for this also include the restrictions on interconnector owners as a result of the IME3 certification requirements. Interconnector owners are considered 'TSOs' under IME3 and must be certified. As such interconnector owners are not permitted to engage in supply or generation activities nor can the interconnector owner be part of a corporate entity that engages in such activities.

Interaction with the Capacity Market

The capacity market is also designed to incentivise the forward provision of sufficient electricity capacity. It will be important that the forward contracting architecture supports the signals provided through the capacity market, and we would therefore be interested in SEM committee's view on the interactions between the forward contracting obligations and the obligations placed on participants in the capacity market.

Go-Live Date

While we agree that early implementation of the forward trading is a worthwhile objective, we are unsure about how this can be delivered in a meaningful way before reliable data around the reference price are available. We would suggest that the go-live date is aligned with market trials, to ensure that efficient outcomes are achieved.

Liquidity Across Other Market Timeframes

We welcome this paper and the proactive approach that the SEM Committee is taking to this important issue. We recognise that measures taken to encourage financial trade will promote liquidity in the reference market; however a liquid intra-day market will also be necessary to ensure that the final physical notifications provided by generators underpin a balanced system. We look forward to working with the RAs, both in our role as TSO and also as a designated NEMO, to help develop this further.

3 CONCLUSION

We welcome the proposals set out for the promotion of liquidity in the forwards timeframe, and have made some observations on some details within them. However, liquidity across all timeframes, including the day-ahead, intraday and balancing timeframes will be important for the efficient and effective operation of the I-SEM.

EirGrid and SONI would like to reaffirm our commitment to working with both the industry and the Regulatory Authorities to assist in the development of effective and appropriate I-SEM arrangements and to support the delivery of the new market arrangements by Q4 2017.