



Integrated Single Electricity Market (I-SEM)

**Consultation on Measures to promote liquidity in the
I-SEM forward market**

SEM-16-030

A Submission by EirGrid Interconnector Limited

July 2016

INTRODUCTION

EirGrid Interconnector Limited (EIL) welcomes the publication of the Consultation Paper on Measures to promote liquidity in the I-SEM forward market and the opportunity to respond to these proposals.

The East West Interconnector is a high-voltage direct current (HVDC) interconnector which links the electricity transmission grids of Ireland and Great Britain. The East West Interconnector is a fully regulated interconnector which is owned by EirGrid Interconnector Limited (EIL), a wholly owned subsidiary of EirGrid Plc and is operated in accordance with the Interconnector Operator licences issued by CER and Ofgem. SONI Ltd acts as Interconnector Administrator¹ for both of the interconnectors that connect the island of Ireland and GB.

Our approach to operating the East West Interconnector is underpinned by the following points:

1. We operate the East West Interconnector to maximise benefit to SEM consumers through trade and provision of capacity and other services. EWIC is an enabler of market competition and lowers the overall cost of the supply of electricity.
2. The operation of the East West Interconnector is fully regulated and is fully compliant with European and national regulatory requirements in relation to open access.
3. Under the regulatory model in place revenue from the East West Interconnector does not impact on or affect EirGrid's profitability. EirGrid's profits are not affected by revenue from the East West Interconnector.

¹ The "Interconnector Administrator" is a defined role under the Single Electricity Market Trading and Settlement Code. It is part of the SONI license to Participate in the Transmission of Electricity to provide this and the "Interconnector Error Administrator" services as such expressions are defined in the GB Balancing and Settlement Code for the Moyle interconnector. SONI Ltd also provides these services to the East West Interconnector.

The East West Interconnector (EWIC) has been in commercial operation since December 2012 and allows the trading of electricity between the island of Ireland and British wholesale electricity market.

EWIC offers cross border access to all market participants, increasing competitiveness and providing commercial opportunities with a diverse product portfolio to facilitate market participants' efficient management of their energy portfolio on a short and long term basis.

Current Arrangements

EIL currently promotes liquidity through its explicit auctions allowing market participants to purchase the right to utilise physical capacity on the interconnector. To provide fair and open access to all participants, EIL hold these auctions throughout the year at predetermined dates which are published on the EirGrid Group website (<http://www.eirgridgroup.com/customer-and-industry/interconnection/>).

The Auction Management Platform (AMP) used by EIL which facilitates trading across the interconnector and currently acts as an interface between the SEM and BETTA market. This provides hedging opportunities for existing portfolio positions in the SEM and the BETTA market with flexibility to adapt to changing market conditions as capacity is available in both directions. The AMP offers full transparency as it follows the clearly defined Access Rules and Charging Methodology.

EWIC has significantly increased the competitiveness of the SEM with the addition of 500 MW of imported capacity increasing liquidity and reducing the market power of participants, putting downward pressure on market prices.

In 2015 transactions across the EWIC and Moyle interconnectors accounted for 11% (11.21TWh) of direct hedges provided in the SEM as market participants are able to use trades across the interconnector by entering into forward contracts in the GB market coupled with a transmission right to access the SEM to hedge their price exposure in the SEM.

Transition to I-SEM

Under I-SEM EWIC will have a key role to play in enabling traders to hedge using FTRs gaining liquidity from the GB market. The paper identifies a potential of 6.34TWh for both EWIC and Moyle dependent upon transfer capacity and losses.

There will be a more direct influence from prices in the GB market because the EUPHEMIA algorithm will seek to optimise flows between the markets through market coupling with prices expected to converge more than they do at present.

EIL supports any move which promotes the offering and trading of hedging contracts. EIL will follow the new Harmonised Access Rules, which are approved by CER and Ofgem and the wider requirements of the FCA network code?

RESPONSES TO THE QUESTIONS POSED IN THE CONSULTATION PAPER

Responses to the questions from the consultation are provided below.

EIL, as the owner of EWIC, is not permitted to hedge, nor does it have any need to do so. However by providing physical access to the GB market, EIL facilitates traders seeking to hedge in the GB market and thereby is provider of liquidity to all participants in the SEM. Following the introduction of the I-SEM, these markets will become part of the wider European market and EWIC will play a key role in enabling access to that wider market.

Interconnector imports and exports are outside the scope of many of these proposals as interconnector owners and traders would not be subject to a forward contract obligation. This is important as the volumes and direction of flows on Moyle and EWIC will be dictated by the market coupling process of the Day Ahead and intraday Markets.

1. Does the Consultation Paper correctly set out the nature of the problem to be solved? Is it correct that the lack of liquidity characteristic of the SEM will not be satisfactorily rectified through incentives inherent in the I-SEM design?

Taking into account the issues identified as being potential causes for a lack of liquidity, EIL recognises that the I-SEM design may not incentivise all potential liquidity and as such the new market may require additional non-market drivers to achieve desired levels.

The I-SEM design is expected to enhance liquidity by including the offering of cross-zonal risk hedging tools in the form of Financial Transmission Rights (FTRs) which will use a clear reference price, the DAM clearing price. FTRs will maximise the availability of physical interconnection capacity for the DAM and provide cost certainty for trading across bidding zones thereby enabling market participants to eliminate or reduce the cost uncertainties resulting from trading across interconnectors. The potential contribution has been recognised in the consultation paper.

EIL has a concern over the use of a 5% loss factor in the consultation relating to EWIC's potential towards offering liquidity via the interconnector. At this point in time the use of loss factors in I-SEM, and the values which could be used, has yet to be finalised. As such EIL believe it is somewhat premature and incorrect to use specific values, and the value used should align with that applied in the reference market.

The paper suggests a possibility of the Joint Allocation Office (JAO) offering a central collateral provider role for CfDs. The role of JAO being similar to the current Auction Management Platform, and limited to cross-border trading, therefore any internal role in local markets is outside the scope of its activities. JAO is a joint service company of twenty Transmission System Operators from seventeen countries. It performs the yearly, monthly and daily auctions of transmission rights on 27 borders in Europe and acts as a fall-back for the European Market Coupling.

2. Does the scope of the Consultation Paper set out the full range of potential liquidity promotion measures that should be considered for implementation? If other regulatory interventions are considered appropriate please set out the nature, rationale and parameters of such intervention.

EIL believes the paper sets out a wide range of potential measures, however should other valid measures be identified (such as within this consultation process) then these should be considered. EIL does not itself propose any additional measures for consideration.

3. Respondents are asked to provide their views on the rationale, parameters and potential effectiveness of each of the regulatory interventions described and explained in the Consultation Paper.

EIL notes the recognition that interconnector imports and exports must be excluded from forward contract obligations as volumes and directions of flows are driven by the market coupling process of the DAM.

EIL does not have a view on the regulatory interventions other than to note that by offering access to the GB market and under I-SEM the European market it enables additional liquidity to be available to all participants, both incumbent and new entrants thereby potentially reducing potential market power. The capacity provided by EWIC, and hence access to GB liquidity, is available through open and transparent processes. There is a requirement of lodging of credit cover to participate in the auctions and this is a separate requirement from other market activities.

4. What are the important issues to be considered in each of the options? In what way might the options be made more effective? Please set out your views on the rationale for, and value of the parameters employed to determine, the quantity of the obligation in each option.

EIL has no involvement other than as a facilitator of liquidity

5. What is the preferred option and why do you consider it preferable?

As the options exclude cross-border hedging EIL has no particular preference for any of the options.

6. What parameters of the regulatory intervention option should be determined by the Regulatory Authorities and which should be left to market participants to determine?

EIL has no particular view other than to note that review of experience both at home and overseas would suggest some form of regulatory intervention may be necessary to encourage participation in creating greater liquidity. We note that some of the proposals may require the co-operation of other regulatory and market bodies beyond I-SEM.