

***Response to the SEM Committee's Market
Power and Liquidity Discussion Paper***

SEM-20-045

Response from



28 August 2020

Introduction

Bord na Móna (BnM) welcome the opportunity to respond to the SEMC’s “Market Power and Liquidity Discussion Paper (SEM-20-045)”. Please find outlined below our initial feedback – noting that these responses should be viewed in the same spirit as the ‘discussion paper’ and as such, comments put forward should be considered as conceptual rather than a firm Bord na Móna position at this moment in time.

BnM operates several assets: Edenderry Power Plant, a peat/biomass generating unit; Cushaling peaking plant; Bellacorick, Mountlucas, Bruckana and Sliabh Bawn wind farms; and the Drehid landfill gas facility. BnM appreciate the need for increased liquidity in the forwards market, and fundamentally see the benefits of hedging prices against the DAM for our conventional units.

BnM thoughts on the structure and any possible regulatory intervention of the Forward markets in the I-SEM remains coloured by the unique position of our largest asset: Edenderry Power Limited (EPL). EPL operates with both ‘Hybrid Plant Status’ as well as a REFIT backed PPA contract for its renewable outturn. These characteristics distinguish EPL from other dispatchable units on the system, and given that EPLs fuel costs (both conventional and renewable) are positive costs to EPL, the unit’s business case and viability also differs significantly from WtE plants - even those that may have attained hybrid status and have a REFIT PPA.

Having worked to establish FEMAs with several counterparties, and progressing discussions with several other potential counterparties, BnM are participants on both Marex Spectron and Tullett Prebon trading platforms.

BnM considers that ISEM is still a relatively new market as a whole. Having only ‘settled’ following a period of volatility from ‘Go Live’ in October 2018, the market has experienced further volatility during 2020 due to volatile commodity prices – primarily driven by the global covid-19 pandemic, US-China trade tensions, OPEC+ oil production discussions and reduced demand. As a result of the volatile pricing, and the potential for future volatility due to ongoing covid-19 uncertainty, BnM welcome the SEM Committee’s intention that there will no further review considered at this time across Decision’s 1 – 3 as per Table 1 below.

Regarding Decision 4, we are of the opinion that no change should be made at this time, but that a review should be scheduled before the end of 2021 by which point it is assumed ISEM will be sufficiently settled. Additionally, the more recent improvements seen in the Forwards Market (particularly daily trading availability on Trayport from both Marex Spectron and Tullett Prebon) will also have had sufficient time to reach some level of maturity.

Please refer to our responses in the section below for further detail.

Decision 1: Regulatory Intervention in the Forwards Market	No further review considered at this time
Decision 2: Harmonisation of Master Agreements	No further review considered at this time
Decision 3: Review of ESB’s Ring-Fencing Arrangements	No further review considered at this time
Decision 4: Review of Directed Contracts Allocation Process	Review of Directed Contract Allocation Process to take place

Table 1. SEMC proposed scope of work for market power and liquidity

Call for Evidence: Market Power

(i) *Is the electricity market sufficiently contestable that market participants are free to enter and exit the market?*

BnM agrees that the market is sufficiently contestable to allow market participants to freely enter and exit the market dependent on their own hedging strategies.

The market has made efforts to remove or diminish barriers via the establishment of two trading platforms on Trayport (Marex Spectron and Tullett Prebon) allowing for continuous daily trading, and with a designated Market Maker operating on the Marex Spectron platform. We also note that the Market Maker has acted as a route to market to some participants by sleeving power.

Additionally, the template Master Agreement documentation that has been introduced allows for more efficient dialogue between two prospective counterparties. However, it should be noted that BnM find there is typically still some negotiation of clauses required, particularly in relation to collateral within the Credit Support Annex – this can be a time-consuming process when entering the market and attempting to engage with several counterparties.

(ii) *Do you agree with the SEM Committee's intended approach of not further reviewing ESB's current ring-fencing arrangements at this time, and outline rationale for agreeing with the SEM Committee's intended approach? If not, please outline the basis for why ring-fencing arrangements should be reviewed and either partially / entirely removed?*

BnM agrees with this approach while the market is still subject to volatile pricing and commodity price uncertainty as noted in our introduction above.

(iii) *Should the SEM Committee continue to use Directed Contracts as a mechanism for mitigating the potential use of market power in the SEM? If not, please provide rationale for not applying Directed Contract obligations, and detailed alternative options for mitigating market power.*

BnM is of the opinion that Directed Contracts should continue to be used in their current format for the time being.

This is based on our opinion that ISEM is still a relatively new market as a whole - with the expected market price volatility following launch, as well as market modifications that have been implemented. More recently, there has been increased market uncertainty due to the Covid-19 global pandemic and the subsequent impact on global markets. The ISEM Forwards Market has also seen some recent changes in the form of the establishment of two trading platforms on Trayport allowing for continuous daily trading, and with a designated Market Maker operating on the Marex Spectron platform. These changes, whilst considered as improvements, have been introduced within the past 12 months and have not yet had the opportunity to reach a level of maturity in order to ascertain their full impact on the ISEM Forwards Market.

BnM propose a review of Directed Contracts should take place by the end of 2021 if the market has 'settled' again, or within 18-24 months time.

- (iv) Assuming the SEM Committee's continuation with Directed Contracts, would you be in favour of the Directed Contracts price being determined by a competitive auction? If yes, how should the auction be designed (i.e. what should auctions be trying to achieve / avoid in the proposed design for Directed Contracts)? If not, please provide detailed alternative options (e.g. should the Ras amend the DC pricing formulae?).***

As noted above, BnM are of the opinion that the Directed Contracts should remain in place and administered as they currently are, with a further review in the future following a period of market stability. We note that 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.

- (v) Assuming the SEM Committee's continuation with Directed Contracts, do you agree that the Market Concentration Model (as described in SEM-17-064) is an appropriate mechanism for determining Directed Contracts volumes? If not, what amendments / alternative approaches should be taken by the Ras to determining DC volumes?***

BnM agrees that this model is appropriate for determining Directed Contracts volumes.

- (vi) Are there any specific reasons for which a market participant has not taken up their allocated Directed Contracts eligibility for a given period? (e.g. The DC price did not reflect your expectations / already had a hedging strategy for the period in question, have access to alternative hedging products, etc.).***

BnM are of the opinion that under-utilisation is driven by the fact that many supplier units do not have a retail portfolio associated with them (e.g. self-suppliers, auto producers) and hence do not have a need to hedge their positions. We also note that due to the frequency with which the DC prices are calculated that the DC price is not always reflective of market price expectations in a market with price fluctuations due to continuous trading availability.

Call for Evidence: Forward Contracting & Liquidity

- (vii) In the event of no regulatory interventions regarding forward contracting in SEM, how do market participants envisage the forwards market for SEM evolving in the short, medium and long term?***

As more participants complete FEMA documentation with each other, and join one or both of the trading platforms, BnM envisage that the forwards market will gain some further liquidity. However, the market remains relatively small while the only interconnection is through the current two UK interconnectors. With conventional power likely to decrease and be replaced by supported renewables generators it is unlikely the relative size of the market will increase to allow a significant step-up in liquidity in the short to medium term.

(viii) What actions could be taken by market participants to create greater forward contracting opportunities? Is there scope for natural growth or innovation in the forwards market, and if so, how can this be progressed? Can renewable supported generators offer hedges

As noted in our response above, the current relatively small size of the market is likely to allow for limited natural growth in the short to medium term. Should the market become bigger in the future (through further interconnection), then there may opportunity to be more innovative, e.g. it may be possible to consider a 'clearing house' arrangement to avoid the large burden of collateral when engaging with many counterparties – currently though it would be cost-prohibitive to expect ISEM Forwards Market participants to subscribe to at least one trading platform and a clearing house. BnM consider that under current arrangements it is unlikely that RES supported generation will provide any hedges as the support price is already a hedging instrument.

(ix) On what public interest grounds should the SEM Committee decide to intervene in the forwards market in the future? In the event that the SEM Committee decide to intervene in the future, what impacts should be considered prior to intervening in the market?

BnM would be against further intervention - this being something that the Market should drive. However, in a case where there was substantial evidence of market power being abused then intervention may be required. In the event of any proposed intervention there would need to be an impact assessment on electricity consumers, generators, suppliers and future investors prior to any action being considered.

Conclusions

In conclusion, Bord na Móna would support SEMC's proposal that there will no further review considered at this time across Decision's 1 – 3. However, BnM do not agree that the current allocation process for Directed Contracts should be altered at this point in time, but instead a full review and consultation should take place before the end of 2021.

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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