

**Power NI Energy Limited  
Power Procurement Business (PPB)**

**SEM**

**Market Power and Liquidity**

**Discussion Paper  
SEM-20-045**

**Response by Power NI Energy (PPB)**

28 August 2020.



## **Introduction**

PPB welcomes the opportunity to respond to the SEM Committee (SEMC) discussion paper that sets out the SEMC's intended approach to addressing the decisions within SEM-17-015).

## **Summary Comments**

PPB agrees with the intent not to intervene further at this time and is not aware of any barriers to forward energy transactions. We therefore support the intent to let the forwards market continue to develop organically.

PPB agrees with the SEMC intention not to review or change the ring-fencing arrangements required for ESB as we consider that any change would have an adverse impact on the SEM wholesale market and upon liquidity in the forward markets.

As PPB has not sold Directed Contracts (DCs) since 2009 and is not a buyer of such contracts, PPB is not able to provide informed comment on the allocation process for such DCs.

## **Specific Questions**

### ***Market Power***

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

The basis of this question isn't clear. There are a number of generator and retail participants in the market and the wholesale market is contestable. However, as we have highlighted in previous consultation responses in relation to capacity contracts and market exit, there are obligations in relation to market exit for generators that conflict with the signals provided in the capacity market whereby a generator receives an exit signal through not receiving a contract yet there are barriers to actioning this signal by the requirement to provide notice of closure.

***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.***

PPB agrees with the SEMC intention not to review or change the ring-fencing arrangements required for ESB.

PPB agrees that any change that would facilitate any degree of vertical integration of the ESB generation and retail businesses would have an adverse impact on the SEM wholesale market and upon liquidity in the forward markets.

Further, given the relative market shares of the ESB businesses in both the wholesale and retail markets, there is nothing to indicate there is likely to be any scope for change in the short/medium term.

- 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 potential market power.**

On the basis that Market Power remains a feature of the SEM then PPB sees no need for any policy change at this 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?).**

PPB's market share is such that it will not have to offer Directed Contracts (DCs) to the market. We are not therefore in a suitably informed position to comment on allocation process for DCs.

- v. Assuming the SEM Committee's continuation with Directed Contracts, do you agree that the Market Concentration Model (as described in SEM-17-06413) 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?**

Given that this methodology has been used for many years, we do not see any need for change to the methodology

- 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.).**

Not applicable to PPB.

## **Forwards 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?***

PPB agrees with the intent not to intervene further at this time and to let the forwards market continue to develop organically. We would also note that PPB has offered CfD volumes that we have been unable to sell and hence it appears that on occasion the concerns regarding a shortage of product is not a perpetual issue.

### ***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?***

Market participants are best placed to determine how best to manage their risks and what products are required to support suppliers' retail offerings. Hence the innovation should be driven by end customer requirements.

Hedging is a risk management tool that must assist with risk management and that must provide benefits for both counter-parties to the hedge. The scope for renewable supported hedges will likely depend on the renewable technologies involved and whether the hedge actually helps the renewable generator manage and mitigate risk or whether it increases risk for the renewable generator. This will likely also be different for standalone renewable generators versus portfolio generators with different technologies and perhaps conventional generation in their portfolio. Therefore the risks and exposures that different participants are seeking to manage will be specific to their operations and activities in the markets.

### ***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?***

PPB does not see any need or circumstance that would require intervention by the SEMC other than to address market power. The forwards market should be left for participants to drive the evolution and innovation therein and we consider that intervention by the SEMC, other than to address market power, would hinder rather than assist the development of the forwards market.