



EAI Response to ACER Consultation on Forward Risk-Hedging
Products and Harmonisation of Long-Term Capacity
Allocation Rules

EAI Response

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The Electricity Association of Ireland is the trade association for the electricity industry on the island of Ireland, including generation, supply and distribution system operators. It is the local member of Eurelectric, the sector association representing the electricity industry at European level.

EAI aims to contribute to the development of a sustainable and competitive electricity market on the island of Ireland. We believe this will be achieved through cost-effective pricing and a stable investment environment.

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1 INTRODUCTION

EAI welcomes the opportunity to respond to the ACER Consultation on Forward Risk-Hedging Products and Harmonisation of Long-term Capacity Allocation Rules (“the Consultation”). The unique characteristics of the all-island Single Electricity Market (“SEM”) are explicitly recognised by the derogation in the CACM Network Code (Article 96) and give rise to particular concerns with the implementation of the Target Model for the forwards timeframe.

In light of these unique market characteristics, EAI supports retention of the option to use PTRs with UIOSI if required, and urges further consideration of the -harmonisation of auction timings and product types. This paper provides an overview of these key concerns together with additional comments relating to the content of the Consultation.

2 Physical Transmission Rights with Use-it-or-sell-it provisions (“PTRs”) and Financial Transmission Rights (“FTRs”)

The SEM is a pool market which currently has limited access to cross-border capacity with Great Britain (“GB”) through one 500MW HVDC sub-sea interconnector. A second 500MW HVDC sub-sea interconnector is due to commence commercial operations in the near future. The interconnectors are important risk-mitigation tools to many participants’ commercial operations and provide competitive choice in the SEM. In a pool market, the physical nature of the capacity is important as participants cannot guarantee the delivery of generation on a given day.

The market design is currently undergoing a review with the aim of facilitating greater cross border trade and complying with the Target Model. Whilst this review is ongoing it is critical that a level of optionality is retained within the detailed design of the forwards market. With that in mind, the EAI welcomes the fact that the provision of PTRs is retained as an option within the content of the Consultation.

3 Delimitation of Bidding Zones

Where bidding zones are delimited/ split into smaller zones, sufficient notice (e.g. related to the maximum timeframe with respect to the purchase of long-term capacity) must be given to market participants in order for them to re-adjust their commercial hedging positions. For reasons of market liquidity and investor confidence, zones should only be delimited where absolutely necessary and in consideration of investments already made in the market. Interconnector specific products may be necessary to allow for fair adjustment.

Moreover, delimitation is clearly a consequence of insufficient transmission/interconnector capacity that can only be resolved by building or extending infrastructure. TSO incentives to invest in interconnector development should be at the forefront of Target Model progression if price convergence across the whole of Europe is capable of being substantially achieved.

4 Interconnector Capacity Auction Timings and Products

In relation to adopting harmonised rules for capacity allocation, EAI considers that harmonisation will be particularly difficult in the areas of auction timings and auction products.

4.1 Auction Timings

EAI believes that further consideration should be given to the treatment of DC interconnectors feeding a single bidding zone, such as the homogenous treatment of said interconnectors in the auction process or staggered auctions to enhance liquidity in the forwards market and enhance risk-hedging opportunities, ultimately reducing end consumer prices. In SEM there are two interconnectors of 500MW each that can be used for cross-border trading. Market participants may benefit from the opportunity to participate in auctions on both interconnectors at different times. This is due to the fact that, as limited capacity is available for explicit auctions, if a participant is unsuccessful in capacity auctions on one interconnector, they can participate in the auction on another interconnector. Depending on design, simultaneous auctions may inhibit participation in the cross border trade of electricity. This is unlike other European locations with access to substantial interconnection. EAI suggests therefore that the proposal to harmonise auction timings without exception should be given further consideration

4.2 Auction Products

In terms of auction products; while multi-year products assist risk mitigation strategies, any auction beyond three years ahead for PTRs may be considered to hamper competition, acting as a barrier to entry for new participants over the coming years. Also, optimal capacity allocation may differ on the import and the export. Options for requiring explicit access to annual, seasonal, and monthly products for example should also be retained.

Compliance with the Congestion Management Guidelines (CMG) which facilitates cross border trade through intra-day trading (IDT) and the associated UIOLI or UIOSI rules, combined with super-positioning, should ensure that interconnector flows are economically scheduled by the market in the day-ahead and intra-day timeframe regardless of whether interconnector capacity is held back for short term products.

Levels of intermittent generation and interconnection strongly dictate the type of products a market may require. The SEM has recently undertaken a review of capacity splitting on its interconnectors. This work could be used as a guide for product splitting and improvements could then be introduced where required and as appropriate. The timing and product splitting aspects of rules could be set out in annex form to the coordinated body of rules, for simplicity.

5 Nomination and Allocation Bodies

For the moment, local nomination processes are considered sufficient for system operation purposes. Furthermore, local TSOs can operate the allocation process efficiently given market size and interconnection levels, while coordination with neighbouring TSOs could be considered on a gradual basis with regional and single platforms in the long term.

6 Risks

The firmness of PTRs (and FTRs) is crucial, not only from a risk minimisation perspective, but also for reasons of investor confidence and market liquidity. In certain instances, TSOs may allocate more net capacity than physically available. In such cases, the firmness risk should lie with the TSO and where curtailment occurs through no fault of the market participant, adequate compensation must be made with participants being kept commercially whole. This would also act as an incentive to TSOs to avoid such discrepancies and enhance interconnection capacities. This important issue requires EU-wide consultation.

7 Two Year Derogation (until 2016)

While it is understood that the Forwards Target Model will become part of the CACM Network Code, EAI seeks clarification that the 2 year Article 96 CACM Network Code derogation applies to the Forwards timeframe also.

8 Conclusion

To conclude, EAI welcomes the inclusion of PTR's with UIOSI as an option for risk-hedging in the forward target model creates the flexibility for markets like SEM to best facilitate the forwards Target Model.

EAI believes that the harmonisation of capacity auction timings and products across Europe should be given further consideration. Local generation types (e.g. intermittent) largely dictate product needs and existing product splitting should be considered from a time and cost efficiency perspective also. Indeed it may be more efficient to permit country specific schedules to be appended to the common coordinated body of rules, for simplicity, rather than embody peculiarities in the main document.

Transmission Rights should be firm and no financial risk should lie with holders of PTRs or FTRs (who should be held whole) when TSOs allocate more capacity than is available.

Finally, EAI would also welcome confirmation that the CACM NC derogation of a two year extension also applies to the forwards timeframe implementation.

Once again EAI would like to thank you for this opportunity to respond to the Consultation.

