

BORD NA MÓNA RESPONSE TO

Financial Transmission Rights

Consultation Paper

SEM-15-061

October 2015

Introduction

Bord na Móna (BnM) welcomes the opportunity to respond to the SEM Committee's Consultation on Financial Transmission Rights in the I-SEM (SEM-15-061). At the outset it must be pointed out that BnM experience and position in the market to date has been such that the organisation has had a limited appetite to trade forward in either the temporal or spatial sense. In this regard, Bord na Móna's focus is on ensuring that the design and implementation of the proposed products encourage liquidity in to the forwards timeframe, avoids excess complexity, minimises transactional costs, leads to transparent price discovery as well as ensuring a level playing pitch for all participants who wish to trade.

Question 1: Which offers the greater benefit to the I-SEM/GB market: FTR Options or FTR Obligations?

Leaving aside the pros & cons of 'options versus obligation' which are concisely detailed in the consultation paper; perhaps the most pertinent question that needs to be asked relates to the direction of travel of other cross-border European allocation platforms. It is noted in the consultation paper that *'[L]ike the option for the FUIN platform the JAO platform is expected to cater for FTR Options only as part of early implementation of the HAR but will be required to cater for Obligations in order to fulfil the requirements of the SAP under the FCA'* does this therefore imply that if market participants and the SEMC saw merit in exclusively adapting 'FTR obligations' a local allocation platform would have to be designed and implemented?

In keeping with Bord na Móna focus, detailed above, it is suggested that whatever enduring solution is progressed that it is fundamentally underpinned by flexibility and does not lock in I-SEM participants into a regime which disadvantages them (perhaps not today, but at some time in the future) relative to participants in other jurisdictions.

Question 2: What arrangement would be preferred: one FTR between the I-SEM and GB or one FTR per Interconnector?

In the absence of any quantitative cost benefit analysis detailed in the consultation, and referring to above principles of concentrating liquidity, avoiding complexity, minimising transaction costs and ensuring equitable treatment for participants, it is suggested, that on balance, a single FTR between the I-SEM and GB would lead to more efficient outcomes.

Question 3: Should any of the following be discounted from the FTR product payouts?

- Interconnector transmission losses;
- Ramping constrains;
- Curtailment risks

Again noting what are believed to be sound principles for FTRs outlined above, the default position of Bord na Móna which flows these principles, is that there should be no discounting for transmission losses, ramping constrains or curtailment risks. In terms of reducing complexity, a single FTR with no discounting is the simplest arrangement that can be designed and given that no physical products are associated with the rights *per se*; this structure increases the attractiveness (with the subsequent boon for liquidity) of the products as a pure hedging tool.

Question 4: What are the important issues to be considered in deciding on the development of an auction platform?

While it would be trite to again suggest that the I-SEM's own trilemma (Energy, Capacity and Ancillary Services) is trying to hit a 'moving European target', the lack of clarity around the timing, structure and suitability (JAO oriented towards HVAC rather than HVAC) of the enduring FCA is worrisome.

In the absence of such clarity, it is very difficult for a market participant (and particular a market participant with limited cross-border/forward trading opportunities to date) to make definitive pronouncements on how the auction platform should be developed, other than to mention again that the focus should be on encouraging liquidity, avoiding excess complexity, minimising transactional costs and providing a level play pitch for all stakeholders.

Question 5: What is the preferred approach in relation to the establishment of the I-SEM FTR auction platform?

The response to question 4 above is also applicable here. In addition, it is noted that §6.1 of the consultation paper indicates that the RA's '*will work alongside Interconnector owners and TSOs to establish the most efficient alternative*', is it intend or necessary (and perhaps the answer is a drafting oversight) to also engage with RAs, Policy Makers, and TSOs in GB, France and the Netherlands?

Conclusion

As mentioned above, Bord na Móna very much appreciates the work of the SEMC and RAs in developing products and structures which will lead to efficient forward and cross border trading of power. Bord na Móna, at first instance believes that a single FTR with no discounting for losses represents the simplest, least complex and most accessible structure. Bord na Móna understands that progress towards an enduring European solution for FCA is not perfectly aligned with the I-SEM's own timelines and appreciates that the RAs and SEMC may have to make judgement calls on the next steps in implementing FTRs. In making such decisions, Bord na Móna would respectfully suggest than flexibility be maintained (facilitate a structure that could

provide both ‘options and obligations’) as well as using objective cost/benefit analysis, from the view point of both the IC owners and users when constructing the enduring solution.

Finally, we look forward to further engaging in this work-stream in the coming months and as always we are available to discuss any of the matters detailed in this submission.

For and on behalf of
Bord na Móra PowerGen



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