

## **IWEA response to I-SEM Consultation on Financial Transmission Rights**

**19 October 2015**

IWEA welcomes the opportunity to respond to the consultation paper on Financial Transmission Rights in I-SEM. It is important that there is regulatory certainty in the I-SEM which will enable the development of liquid markets. It is important to acknowledge that there will also be a transition period required, in particular in the forwards timeframe where there will be a lack of historical information to enable accurate forecasting of prices.

IWEA is concerned that there is not clarity in relation to any agreement with neighbouring markets in relation to Financial Transmission Rights (FTRs) for cross border trades in the Forwards timeframe, and this is something that needs to be prioritised to ensure this will be a feature of the market. If there are any concerns around the ability to implement FTRs this needs to be known as early as possible so that the appropriate changes can be made.

It is not clear how cross border trade of renewable certificates will be facilitated with FTRs. This issue needs to be addressed and workarounds developed.

The interaction with the DS3 auctions also needs to be considered. Clarification is also required around EMIR/REMIT reporting of FTRs and whether this can be done centrally.

The IWEA response to the questions outlined in the consultation paper are as follows:

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

IWEA sees merit in both FTR options and FTR obligations. Consideration should be given to having both in place simultaneously, which has been seen to work in other markets.

### **2. What arrangements would be preferred: one FTR between the I-SEM and GB or one FTR per interconnector?**

The IWEA preference for a single product per border as this maintains simplicity of the product and wider market integration while also promoting market liquidity and competition. This is also more straightforward for market participants who would only have to compete in one auction. The FTR per Border is currently successfully in place on the Spanish-Portuguese border, which is also a coupled market with high levels of intermittent generation.

### **3. Should any of the following be discounted from the FTR product payouts?**

- a. Interconnector transmission losses;**

**b. Ramping constrains;**

**c. Curtailment risks**

IWEA believes that the FTR product should be a simple financial product as this will be the easiest way to ensure wider market integration. Interconnector limitations such as losses and ramping should not place additional risk on market participants by being reflected in the FTR product design. These features are better managed by the Interconnector Owners who have sight of the restrictions and limitations and should be reflected in the ATC of the Interconnector. It is important to ensure that the product design is kept simple to ensure as much compatibility as possible with other markets.

Firmness of FTRs is an important issue for generators. It is important that the parties that can control and mitigate the risk of interconnector availability should carry the risk associated with this. Firmness of FTRs will incentivise the Interconnector Owners to keep the infrastructure fully available and restriction free, which is important for maximising efficient renewable exports.

IWEA has concerns in relation to the introduction of the “capacity shortage” category that has been included in the draft HAR for the SEM-GB specific border. This category is very open and runs the risk of devaluing the FTR product as a hedging tool.

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

**5. What is the preferred approach in relation to the establishment of the ISEM FTR auction platform?**

IWEA believes that a regional allocation platform should be used rather than a local SEM platform. The Joint Allocation Office appears to be the most appropriate solution as this is likely to have the lowest implementation costs as well as being the most likely enduring solution with no associated stranded assets. However it should be noted that a system will need to be in place for market go-live and all stakeholders should push to ensure this proceeds in a timely manner. With the first auction expected to take place in the first half of 2016, it seems likely that this will be in place on time for I-SEM go-live.

Any trading arrangements need to be compatible with requirements under the European Network Codes and be able to move to a harmonised auction platform. The RAs should be involved in this workstream at a European level to ensure that the requirements are suitable for the I-SEM market, taking into account the size and the level of interconnection.