



Gaelectric Holdings Plc.

Response Paper to:

SEMC Consultation on Forwards and Liquidity

Gaelectric Holdings Plc. Response

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Public

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1 INTRODUCTION & BACKGROUND

Gaelectric Holdings Plc (“Gaelectric”) is an independent wind, energy storage, solar and biomass developer operating within the Republic of Ireland, Northern Ireland, United Kingdom and North America. In addition to our renewable portfolio, Gaelectric are developing Project CAES NI, which has an agreed connection offer in place with SONI and pending approval of planning permission. Project CAES NI will provide 330MW generating capacity with 250MW synchronous demand. Further to our development of Project CAES, Gaelectric and Tesla have announced the purchase and planned deployment of Tesla Energy’s first battery power utility-scale project in Ireland², and we expect to develop a megawatt scale demonstration project in 2016.

We welcome this opportunity to respond to the SEM Committee Consultation Forwards and Liquidity in the I-SEM. The forwards market will be of utmost importance to participants managing their price exposure to the Day-Ahead markets. This risk is particularly acute for large suppliers attempting to manage their cash flows. The increasing penetration of intermittent renewables coupled with the must run status they enjoy has created an asymmetry in the supplier demand for hedging products and generator supply. Should a new and dynamic I-SEM not be supported by a robust forwards market, suppliers face a significant risk which may ultimately increase costs to the consumer. Therefore Gaelectric agree that it is prudent to undertake regulatory intervention in the forwards market to facilitate participants to manage their day-ahead exposure. Notwithstanding this position, our feedback and suggestions on the consultation document are contained below.

2 COMMENTS

2.1 General

Profiling

Gaelectric believe that mandated forward volumes should be profiled across the year. Generally there will be a greater demand for forward contracts during the winter when demand is greater. Therefore we believe that a greater number of MWh’s should be made available for those periods.

REFIT

Gaelectric request clarity on the treatment of dispatchable REFIT projects under any of the options proposed. As they have already entered into a contract for difference for their generation, Gaelectric believe that any dispatchable REFIT generators should not be mandated to make available MWh volumes in the forward timeframe.

2.2 Design Preference – Option 5

Having considered the various proposals detailed in the consultation our preference is for a design similar to option 5 with a combination of the Market Maker Obligation (MMO) and the Forward Contract Sell Obligation (FCSO). Regulating these through a maximum bid/ask spread and minimum reservation price should ensure liquidity and tradability for participants. Should this design be adopted, there are a number of features that we advocate.

FCSO

Gaelectric agree that an FCSO intervention should be introduced in the I-SEM. Auctions are an effective method of pooling liquidity which will be of importance in I-SEM forwards trading, particularly initially. The obligation as set out for option 5 would mandate generators with a forecasted Ex-Ante Market Scheduled Quantity (EA MSQ) in excess of 533 GWh to trade in the FCSO. This increased liquidity should ultimately result in more robust the price formation. We request greater clarification from the SEM Committee on the requirements placed on generators to participate in the FCSO. Below we have detailed our concerns at obliging certain dispatchable generators to participate, particularly energy storage.

Gaelectric support the restructuring of the 12/4/1 breakdown of Baseload/Mid Merit/Peaking products to the proposed FCSO breakdown of 2/1/1. Given the uncertainty in price formation for the I-SEM day-ahead market, participants should be offered greater opportunity to manage their exposure during specific periods of the day. This should be facilitated without forcing participants to increase their entire exposure in other periods through a baseload product. Gaelectric have consistently raised this point in all our engagements with regulators that increased volumes of finer granularity products should be encouraged.

As proposed, the FCSO would mandate participants that exceed an EA MSQ MWh Volume to sell forward. Gaelectric believe there should be some form of recourse for participants upon whom an obligation is placed but unforeseen circumstances cause them to trade less MWh's than forecasted. This would result in uncovered exposure to the difference between the DA and Strike price. This is a risk that should not be faced by generators. Gaelectric request clarity that under the FCSO, generators are also free to buyback forward MW contracts.

Auction Format

Gaelectric request clarity on the auction format for the FCSO as soon as possible. In particular, how these auctions would be run on an "as cleared" basis with generator operating as price takers. Should generators operate as price takers, they would have no control over the strike price of the contract into which they enter. This is not an acceptable method of running the auction and generators must have some element of control over the setting of the strike price. We also request clarity on how Directed Contracts would be included in this structure. Should Directed Contract obligations remain on ESB but be subject to competitive procurement, how would this differ from the FCSO? Should these volumes not be included in ESB's FCSO volume to be auctioned. This would avoid potential price discrepancies and the additional complexity that may bring.

Market Maker Obligation

Gaelectric support the addition of a market maker obligation to the forwards market. Facilitating the continuous trade of forward contracts allows participants greater flexibility to manage their exposure. Allowing open access to this platform beyond the designated market makers will allow this platform to act as a secondary market and should serve to increase liquidity. As the market matures, increased liquidity and price formation should develop on the continuous MMO platform. Similarly, this should result in price convergence between the FCSO and continuous trading as traders capitalise on price

discrepancies across markets. Notwithstanding our support for the introduction of this platform, we harbour similar concerns to the FCSO regarding the mandatory participation of energy storage.

During periods of volatility, MMO's bid/ask spread would naturally increase as utilities would move to protect themselves and prevent over-exposure to volatile markets. While this is understandable, clarity around the definition of volatile and under what circumstances the bid/ask spread may be relaxed is an issue on which we seek clarity. This feeds into the broader bid/ask spread calculation methodology, another issue on which we invite the regulators to clarify in the decision paper.

Central Counterparty

Currently participants seeking to participate in the NDC auctions on the Tullet Prebon platform are required to organise GTMA's and other arrangements with potential counterparties. Establishing these arrangements can be an onerous and resource intensive process, particularly for smaller new entrants. Establishing a central counterparty should streamline this process and relieve some of this burden.

EPEX will be managing the I-SEM day-ahead and intra-day markets with ECC acting the clearinghouse. The JAO will also act as the platform on which FTR's will be auctioned. For this reason Gaelectric support the trading FCSO & MMO contracts on either the JAO or an ECC cleared derivative platform. This should reduce the administrative burden on participants to on-board with different institutions to participate in the forwards market. Furthermore, any potential financial benefits of dealing with the same institutions across markets may be facilitated should FCSO/MMO contracts be sold on a platform used/cleared by another I-SEM market.

2.3 Treatment of Storage

Gaelectric acknowledge product type and granularity are not necessarily included in the scope of this document. However, given this opportunity we wish to raise the following points regarding the inclusion of storage in the obligation to make product types available in the forward market.

Other than option 1, all of these proposed options would mandate generators to participate in the forwards timeframe should their forecasted generation exceed the threshold EA MSQ MWh's as set by the regulators. Gaelectric request clarity on which products and technologies would these obligations be placed.

We believe that a storage unit should not be mandated to provide forwards contracts should their forecast EA MSQ exceed the MWh threshold. Storage units are physically unable to generate during all periods and therefore should not be mandated to provide a baseload product. Difficulties may also arise in the provision of mid-merit and peaking products depending on the size of the storage plant and their max on-time at min gen. Furthermore, should a storage unit receive a DS3 contract, they will be dispatched by the TSO which will affect how they must participate in the day-ahead market. For the reasons mentioned above, storage units are not able to participate in the day-ahead market in the same way as thermal generators. Consequently, storage assets should not left exposed through being mandated to participate in the forwards timeframe in the same way as thermal generators.

Difficulties of this nature are not unique to storage, Hydro generators and Interconnectors are dispatchable but can be exposed. These difficulties are acknowledged by their exclusion from the calculations of forecasted EA MSQ's, dispatchable generation in Sections 3.3, 7 & 9.4. We therefore request the exclusion of storage, in excess of the MWh threshold, from the obligation to participate in the forwards market.

2.4 Implementation & Transitory Arrangements

Gaelectric request clarification on the potential transitory arrangements touched on in the consultation document. We struggle to see why any transitory arrangements should be significantly different from the enduring arrangement. While we accept that DA market prices in I-SEM will be uncertain, this uncertainty will be an challenge regardless of the auction/trading platform. For this reason we believe any transitory arrangements would be most suitably applied in the form of relaxing reserve pricing restrictions on FCSO sellers or bid ask spreads on MMO's. Any relaxation should be strictly transitory. For this reason we request clarification on what is meant by the "*I-SEM DAM maturity Date*", specifically how long would this take in the view of the regulator? Every effort should be made to ensure that auction and trading platforms used for any transitory measures should be the same as will be used for the ensuring arrangement

3 CONCLUSION

Gaelectric would like to take this opportunity to thank the regulators or engaging with industry on these issues. The forwards market will be of utmost importance to the effective functioning of the I-SEM. Should there be questions on any of the points raised above, please do not hesitate to contact us.