

ElectroRoute Holdings Limited
First Floor
Marconi House
Digges Lane
Dublin 2

20th January 2017

Dear SEM Committee,

RE: Energy Trading Arrangements Trading & Settlement Code Consultation (SEM-16-075)

ElectroRoute, majority owned by Mitsubishi Corporation, is an innovative energy trading and trading services company established in 2011. Since then, our mission has been to bring pioneering spirit and precision analysis to liberalised energy markets across Europe. ElectroRoute is an active market participant in both operational and proprietary power trading activities across Europe. Underpinned by 24/7 access to electricity markets in 9 countries and over 40,000 hours of continuous trading across electricity, gas and green certificates, ElectroRoute is widely recognised as a leader in energy trading. ElectroRoute provides a range of bespoke client services and is the leading provider of direct route to market solutions to independent generators in the Irish market with over 600 MW of assets under management including thermal and renewable plant.

ElectroRoute welcomes the opportunity to respond to the SEM Committee Consultation on the new I-SEM Trading & Settlement Code. Furthermore, ElectroRoute would like to take this opportunity to commend the market design Project Team and their considerable efforts in taking the I-SEM high level design and developing the detailed legal rules which we comment on today.

ElectroRoute are enthusiastic about the advent of the I-SEM, which we view as a more efficient, open and economically-driven market which should promote flexibility and optimise cross-border flows, reducing curtailment of renewables.

Having actively participated in the Rules Working Group which developed this new Trading & Settlement Code, ElectroRoute would like to take this opportunity to comment on high-level principles which we feel must be adhered to in the finalisation of this Trading & Settlement Code and also in the design of the remaining codes and rules which will make up the new I-SEM.

Pure Imbalance Price

The imbalance price should be calculated in such a way that clearly reflects fundamental signals and system energy imbalances. In order to do this, it is imperative that no junk

volatility or parasitic charges such as uplift components or socialised costs are smeared into the imbalance price.

ElectroRoute recognises that the current rules attempt to achieve this through removal of uplift and an imbalance settlement mechanism which isolates the imbalance charge calculation and subsequently layers in charges on individual participants thereafter.

ElectroRoute believes that it is important that this methodology is continually considered throughout the remaining I-SEM design process and upheld throughout ongoing operation of the market post go-live.

Prevent Market Asymmetry

As stated by the SEMC in the I-SEM High Level Design (SEM-14-085a), one of the key drivers of the new market is *“establishment of a level playing field in which competition can flourish”*. It is imperative that market rules are designed in a way that does not create market signals which bias the market towards certain participants and distort competition – otherwise known as market asymmetry.

One example of how market asymmetry can be brought about is through application of charges on participants. As previously discussed, no charges should be allocated or “smeared” into the imbalance price calculation. Furthermore, charges must be applied consistently across the charging base, as to not give certain market participants uncompetitive advantage over others.

One prime example of this was in The Supplier Charging Base Consultation (SEM-16-060), in which the SEMC suggested an option which would apply Supplier Charges only on a supplier’s non-negative net demand. As acknowledged by the SEMC, such a mechanism *“may place small suppliers at a disadvantage to their larger competitors and agree that this may represent discrimination between suppliers”* by reducing supplier charges levied on large incumbents with existing deminimis generation portfolios compared to new supplier entrants with no deminimis generation volumes. This is an example of how a simple calculation mechanism could have had significant negative real world impacts on competition in the supply market by creating considerable barriers to new supply entrants, ultimately at the expense of end consumers.

ElectroRoute welcomes the SEMC’s aforementioned acknowledgement that this would have been a distortive design mechanism and encourages the SEMC and Project Team to ensure similar asymmetric calculations are not applied elsewhere in the design of market rules.

Market asymmetry can also be created through the manner in which price affecting information is released to the market place. EU regulation No 1227/2011 on Wholesale Energy Market Integrity and Transparency defines inside information as information of a precise nature which has not been made public which relates, directly or indirectly to one or

more wholesale energy products and which, if it were made public, would be likely to affect the prices of wholesale energy products¹. Clearly a significant amount of the information associated with the formation of the imbalance price, such as Bid-Offer acceptances, would fall into this category of information were it not to be made available to participants in a timely, transparent and non-discriminatory manner.

It is not clear from the draft Trading & Settlement Code what approach the System Operator will take to publishing Bid-Offer Acceptances. Delaying until after each Imbalance Pricing Period to publish Bid-Offer Acceptances, as proposed in Table 7, Appendix E, would lead to information asymmetry and give an uncompetitive advantage to the unit to which the Bid-Offer Acceptance relates compared to the rest of the market.

It is important that all Balancing Market information is published in real time to all market participants, in order to ensure all participants are trading based on the same information. Any actions, whether before or after gate closure, which the System Operator takes through Bid-Offer Acceptances must be published to the entire market within 1-2 seconds of being sent to the unit, as is currently the case within the GB market, otherwise the relevant unit which has received instructions which could be deemed insider information.

ElectroRoute also proposes that published Bid-Offer Acceptances should also provide early indication as to whether they are related to system constraints and likely to be flagged and tagged out as a consequence. Considering the long list of constraints on the Irish system and the direct impact they have on Imbalance pricing, it is important that market participants are given indication of the reasoning for Bid-Offer Acceptances where possible. An “indicative flagging” process would fit this purpose.

Absence of Aggregation

While more pertinent to the design of the SEMOpX, ElectroRoute would like to again highlight the failure to implement the SEMC’s I-SEM High Level Design Decision for there to be *“Unit-based participation for generation in general, with (gross portfolio) aggregation arrangements for DSU, demand and (some) variable renewable generation”* (SEM-14-085a).

Entering trades for each individual unit in a portfolio creates unmanageable and unnecessary operational intensity for market participants.

ElectroRoute encourages the SEMC to ensure the Project Team implements aggregation in the design of SEMOpX, where operational intensity associated with real-time trading and participation costs will be significant.

¹ Regulation (EU) No 1227/2011 of the European Parliament and of the Council of 25 October 2011 on wholesale energy market integrity and transparency

Assetless Units

ElectroRoute commends the accurate reflection of assetless units as a sub-class of generator which can only have pure energy imbalances and no physical-related requirements or charges. Assetless units will play an important role in optimising Interconnector flows and promote liquidity in the SEMOpx market, and it is therefore correct that they are not treated differently from an imbalance perspective to other units.