

Airtricity Response to AIP/SEM/122/06

Risk Management in the All-Island Single Electricity Market

Introduction

Airtricity welcomes the opportunity to comment on this paper. The Commission has proposed three possible options:

1. Do nothing
2. An imposed sector solution
3. Procurement by the Regulatory Authorities of a third party platform.

It is worth noting at this stage that none of these options will necessarily improve transparency or liquidity. In order for this to occur, an obligation needs to be placed on ESB PG and NIE PPB to offer contracts and an obligation to offer these at 'attractive' market prices. It is only once these obligations are in place that a fledgling traded market may prosper. Airtricity agrees with the Commission that an efficient and well-functioning contracts market is imperative for competition. Irrespective of which option is preferable, a standardised contract is required similar to a GTMA (Grid Trade Master Agreement) which will facilitate trading under standard terms and conditions.

Option 1: Do Nothing

The advantage of the 'do nothing' approach is that there are no 'upfront' costs on the market and that there is no issue with time from an implementation point of view. However, Airtricity agrees with the Commission that the 'do nothing' approach will not provide an efficient liquid transparent contracts market and hence is not a suitable option.

Option 2: An Imposed Sector Solution

This option explores the regulatory authority directing ESB PG and NIE PPB to set up a proprietary trading screen. ESB PG and NIE PPB would be able to offer contracts. The assumption here seems to be that the incumbents would only be able to sell contracts. Airtricity believes that they should also bid for contracts. In addition, it appears that other generators and suppliers would only be able to transact the prices posted on screen rather than make a counter bid/offer to try and tighten the market. This is obviously imperative for creating a transparent market as otherwise the screen could end up with a wide bid/offer spread. In addition, this proposed solution gives ESB PG and NIE PPB market information on other participants contracted position as all transactions will involve it as a counterparty.

Airtricity recognises the difficulties that the Commission highlights with this option such as the potential cost and the onus of being regulated by the financial services regulator. In addition this option affords too much control to the dominant generators.

Option 3: Procurement of a third party platform

Airtricity prefers option 3. Purchasing a trading platform where all generators, suppliers and potential new market entrants such as financial institutions can post bids and offers. This is the solution that is most likely to provide liquidity and transparency. As stated earlier, there would need to be an obligation on the dominant generators to make markets. An ideal solution would be the procurement of an exchange as this would lessen the counterparty credit risk. As recognised by the Commission there are other benefits such as anonymity, exemption from financial services regulation and transparency. However, all this needs to be against the background of the cost of procuring such a system.

Conclusion

Airtricity supports Option 3 as the most likely candidate to provide an efficient contracts market. An exchange solution is desirable. However this needs to be priced competitively. In addition Airtricity believes there should be an obligation on the dominant generators to 'make markets' to foster liquidity.