

Implementing Target Model in SEM

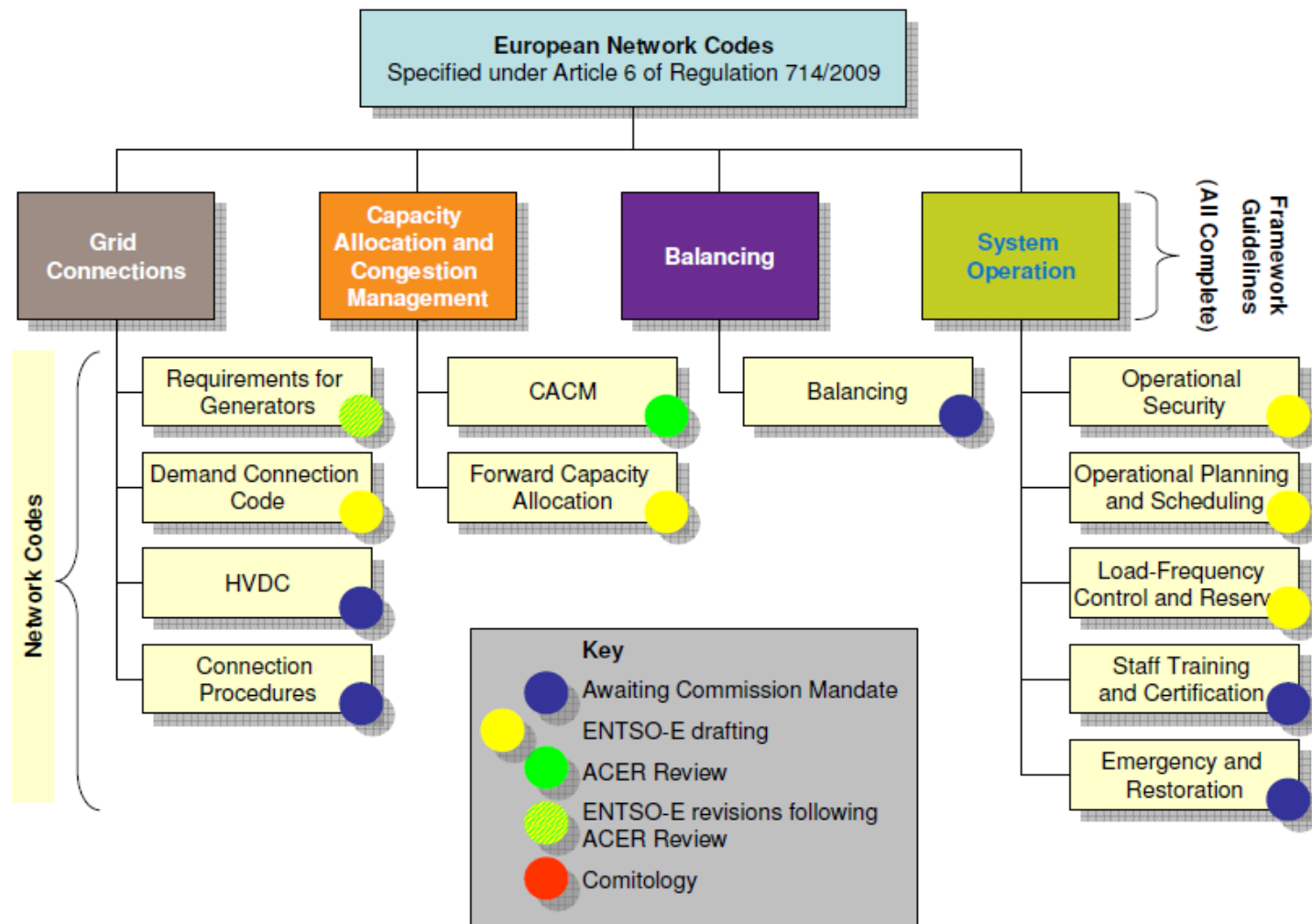
Next Steps

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- ▶ **SEM Market Integration Project 2011–2013**
- ▶ **SEM Committee Decision on *Implementing European Target Model in SEM* (SEM 13/009)**
- ▶ **Next Steps in Market Integration 2013–2016**

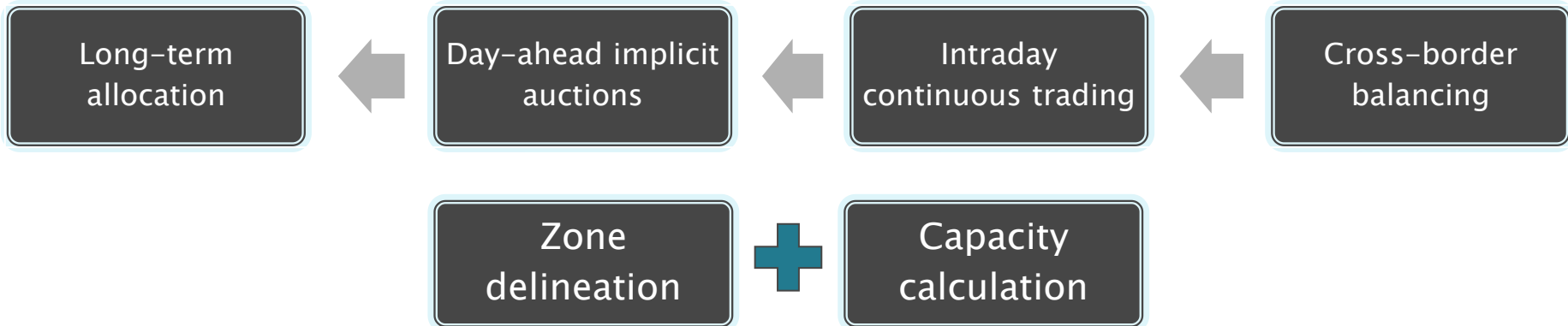
- ▶ Independent economic studies (ESRI, CEPA, Poyry) have shown SEM is a success and has:
 - Delivered prices reflective of long run marginal cost of electricity
 - Attracted new investment
 - Facilitated renewables
 - Promoted competition and mitigated market power (national and local)
- ▶ Differences between SEM and GB market designs means that cross border flows have been low or uneconomic
- ▶ European Target Model in principle aims to harmonise market rules at the borders, this is easier for similar decentralised markets
- ▶ SEM must change high level design to join the European market and deliver integration benefits for consumers

Status of European Network Codes as at 9 November 2012

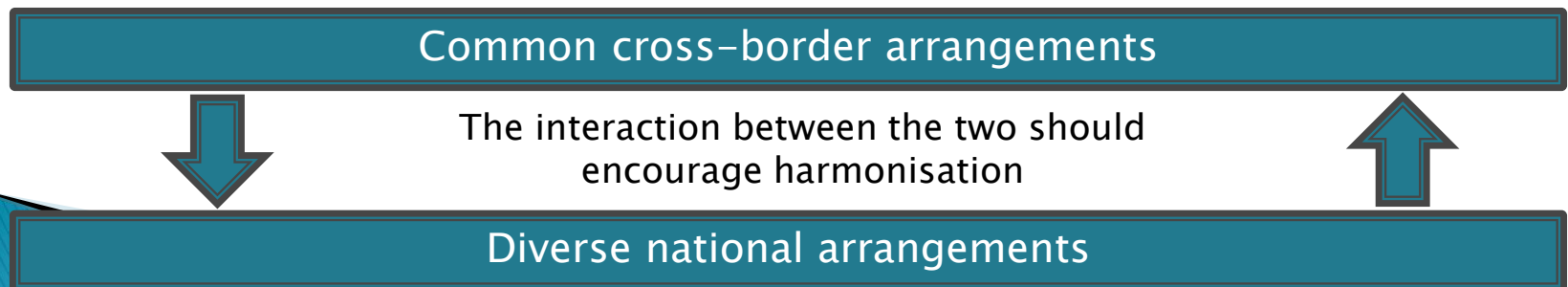


European Target Model

Set out in the ACER Capacity Allocation and Congestion Management Framework Guideline:



How it works...



- ▶ EU Member States committed to delivering internal market in energy by 2014
- ▶ Differences between SEM and the Target Model:
 - No firm day ahead prices, complex bidding structure
 - No continuous intra day market, long gate closure
- ▶ Challenge of present SEM design meeting Target Model acknowledged by all stakeholders in Ireland, GB and Europe.
- ▶ In recognition of this, ACER agreed to provide a two year derogation for the island of Ireland
- ▶ Phase 1 of Market Integration Project, August 2011
 - **Consultation on implementing the European Target Model** published January 2011
 - Objective of project **phase 1** was to investigate how SEM rules could evolve or whether a more radical approach required?

Market Integration Project

- ▶ Consultation Process was regulatory led project involving TSOs, Market Operator and market participants
- ▶ Consultation Paper January 2012 setting out options for TM implementation
- ▶ Evolutionary and revolutionary options considered
- ▶ Inclusive process comprising regular briefings to DCENR and DETI, FUI colleagues, European Commission, bilateral meetings with industry, series of workshops
- ▶ TSO and consultant work on centralised nature of SEM dispatch
- ▶ SEM Committee issued Proposed Decision for comment November 2012
- ▶ Final Decision published February 2013

▶ ***Recommendations agreed with Departments:***

1. ***High Level Principles*** for the Market

- a. Security of Supply, Stability, Efficiency, Practicality/Cost, Equity, Competition, Environmental, Adaptive
- b. New Principle – The Internal Electricity Market

2. ***Governance and Project Arrangements***

- a. DCENR – DETI JSG Sub Committee on TM implementation
- b. UK Ireland Steering Committee
- c. Regulatory Authority Project Office
- d. Stakeholder Forum on Implementing the Target Model in SEM
- e. Joint Regulatory Arrangements with Ofgem
- f. Stakeholder Forum on the European Internal Market

▶ ***SEM Committee Decisions:***

1. European Target Model will be implemented in the SEM by 2016 in a **coherent and stable** manner

a. **The Five Pillars of the Target Model:**

- Capacity calculation and **zones** delimitation including review of bidding zones
- Cross border **forward** hedging and harmonisation of allocation rules
- **Day Ahead** market coupling
- **Intra-day** continuous trading
- Cross border **balancing**

- b. **SEM Design Stability to 2016:** We commit to maintaining the current structure of SEM until 2016
- c. **Impact Assessment:** Redesigned SEM shall be subject to an impact statement in line with best practice and a CBA where appropriate that takes account of impacts on key energy policies

2. Evolution and Revolution

- The ‘evolutionary options’ described in the consultation paper should not be pursued further
- The SEM RAs will work jointly with Ofgem and other NRAs/ACER on efficiently implementing the Target Model in SEM and BETTA

3. Central Dispatch. Working assumption that:

- SEM high level design will continue to be based on transparent **centralised trading arrangements**, least-cost dispatch of total system load and **centralised unit commitment**
- Options for **self commitment** may be permitted within this high level design
- There will continue to be **market power mitigation** measures in the SEM for as long as market power is considered to be an issue

4. Promotion of Renewable Energy Sources

- ▶ Changes to the SEM High Level Design should be in line with statutory duties promote, where appropriate, the use of energy from renewable energy source, as set out in legislation

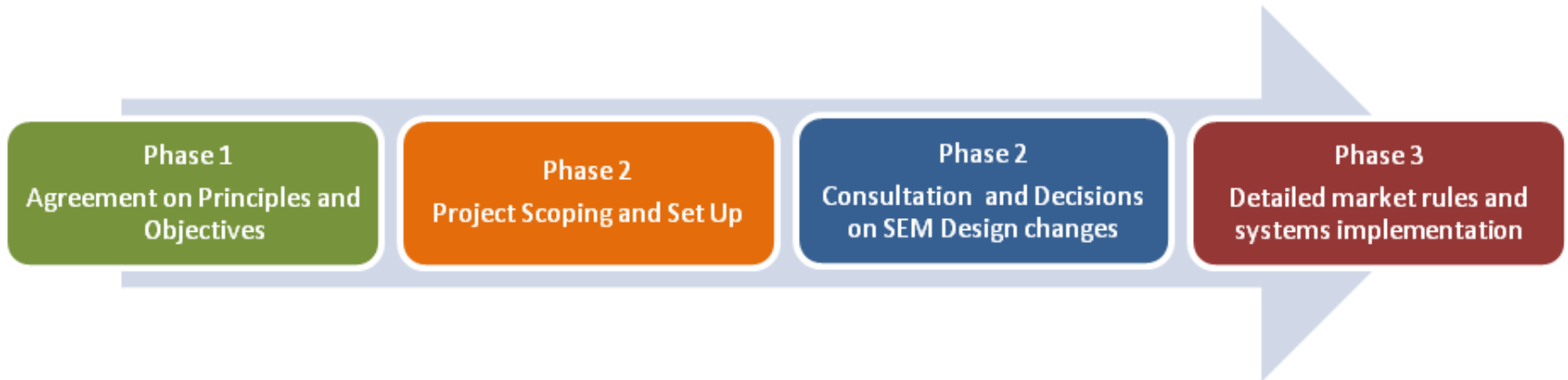
5. Capacity Mechanisms

- ▶ total remuneration from energy payments, capacity payments and ancillary services is sufficient to ensure security of supply
- ▶ Any capacity payment mechanism must not provide double payments to generators
- ▶ The capacity payments mechanism will need to avoid distortions in the internal market and comply with relevant EU rules

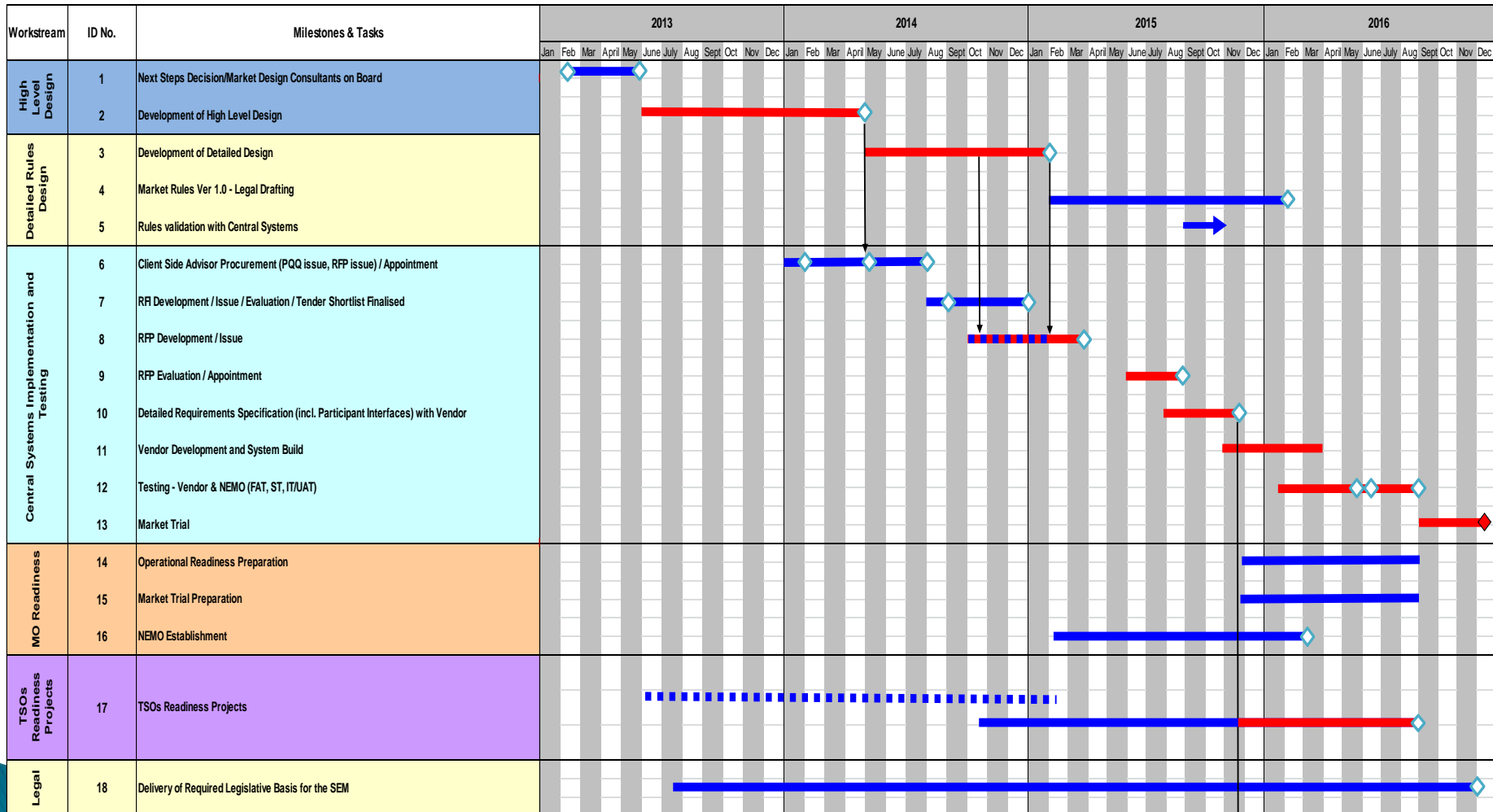
- ▶ 19 responses received to Proposed Decision incorporated into final decision
- ▶ Key issues raised
 - Engagement with stakeholders
 - Resourced project and expert consultants
 - CBA at appropriate intervals during the project
 - Minded to decision on centralised dispatch at this juncture?
 - Support for CPM, need for market power

Response to Stakeholder Views

- ▶ Acknowledged need for stakeholder engagement which must be balanced by representing consumer interests
- ▶ Market participants represent their own commercial interests whereas SEM Committee role is to act as custodian of the interests of consumers
- ▶ Our views is that the current GB market design not appropriate for island of Ireland at this juncture
- ▶ Centralised market and dispatch is crucial for integration of renewables, fostering competition and supply security
- ▶ Stable regulatory framework is key for potential investors. Important to give some clarity on market model at this point
- ▶ Monetary cost benefit analysis just one element of decision making. Qualitative measures equal status
- ▶ Project resources and project office are key



High Level Milestones



▶ **Key Project Timings 2013**

- 7 February: SEM Committee Decision
- 8 February: Departments approve recommendations
- Project office set up and procurement
- May: Consultants on board
- **Q3 2013:** High Level Design Consultation
- **Q2 2014:** High Level Design Decision

- procure expert consultancy support in the areas of market design and project management and resource a project office.
- with our consultants, draft and publish a Project Initiation Document (PID) for the next phase of the project.
- Establish governance arrangements
- Engage with stakeholders through workshops on European network codes
- engage with Ofgem and submit to ACER our ‘Roadmap to 2016’
- continue to input into ACER to monitor internal electricity market developments and their effects on the project.