

**IWEA response to the Consultation on Measures to Promote Liquidity in the Forwards Market  
(SEM-16-030)**

**29 July 2016**

IWEA welcomes the opportunity to respond to the consultation paper on Measure to Promote Liquidity in the Forwards Market. This workstream was originally entitled “Forwards and Liquidity”, however now the focus appears to be on “Liquidity in the Forwards Market”. IWEA questions where the issue of liquidity in other market timeframes is being covered and note that liquidity in the different market timeframes is essential to ensure that the market operates efficiently and to promote activity in the market.

In I-SEM there will be a significant increase in the number of market timeframes. Given the size of the market and the number of participants it is difficult to say at this time whether there will be a sufficient level of liquidity in each of the timeframes, and measures that promote liquidity are important. We must be careful to ensure that any measures to promote liquidity in the Forwards timeframe do not remove liquidity from the Intra Day market in particular. As we move to a market with increasing levels of renewables on the system, it is essential to ensure that there is sufficient liquidity in the intra-day market to allow updates to trades based on updated forecasts, and we believe additional focus is required on this area.

The consultation paper notes that the use of the Day Ahead Market (DAM) as the reference price for the Forwards Market will result in increased liquidity in the DAM. It was also noted that the Intra Day Market or the Balancing Market could also be used. IWEA urges the RAs to ensure that, whichever market timeframe is selected as the reference market, liquidity in the Intra-Day Market is not reduced as a result of the decisions which are being made at this stage. In order to incentivise wind to participate in the ex-ante timeframes it is essential to ensure that the tools will be in place for wind to be able to manage any forecast error. The consultation paper recognises the increasing level of renewable generation in the market and it is important to ensure that the market is designed to support renewable generation and to make the best use of this resource, rather than trying to fit

renewable generation into a traditional market structure that has been designed with fully dispatchable conventional generation in mind.

IWEA notes that high credit cover requirements are perceived as a trading barrier for all parties (small and large) in participating in all segments of the I-SEM, including not only the financial forward market but also the FTR market and the physical day ahead and intraday markets. IWEA welcomes the proposals in relation to having central service providers to help address this barrier. We would also welcome integration of central services through the different market timeframes and products which could offer more favourable service access conditions and lower total transaction costs. It should be noted that the transaction costs, and how they are applied to participants, will impact the level of participation in ex-ante markets in particular, and hence the levels of liquidity. Measures to reduce these costs and overheads (including the provision of collateral reserve accounts) will increase the amount of liquidity in the ex-ante markets, rather than these markets favouring the larger market participants.