

IWEA feedback on the Forwards and Liquidity Discussion Paper

01 April 2015

IWEA welcomes the opportunity to provide initial feedback on the SEM Committee Discussion Paper on Forwards and Liquidity. The feedback provided in this document is initial feedback, and we will respond in a more comprehensive manner during the formal consultation. It should be noted that there is significant interaction between this workstream and some of the other workstreams which are also ongoing and care needs to be taken to ensure that the decisions being made work together and that a holistic view of the development is taken.

IWEA requests that the I-SEM Project Plan and Quarterly Update reflect all the different workstreams appropriately outlining when feedback will be required from industry. This is something we raised at the recent stakeholder forum in Dundalk. This will facilitate better stakeholder engagement as the resources can be better planned for engagement on this important project.

It is important that there is regulatory certainty in the I-SEM which will enable the development of liquid markets. It is important to acknowledge that there will also be a transition period required, in particular in the forwards timeframe where there will be a lack of historical information to enable accurate forecasting of prices.

Objectives

IWEA supports the objectives outlined in the discussion paper. In particular it is important to ensure that spot markets are liquid and that market participants are able to reliably buy or sell products to meet their requirements in a timely way and at a cost-effective price.

The policies developed under this workstream should be consistent with the other elements of I-SEM, notably any policy measures adopted to mitigate market power and the CRM reliability options.

There needs to be consistency with the development of the reference price for CfDs for the UK CfD program, i.e., need for liquid/transparent forward market price as a reference for these CfDs.

The interaction with the DS3 auctions also needs to be considered.

Spot market Liquidity

The importance of physical volumes being traded in markets closer to real time is essential for wind energy, as it is in these timeframes that better wind forecasts are available. In particular it is

important that there is liquidity in the intra-day timeframe so that wind generators have the ability to trade out any energy imbalance based on updated weather forecasts.

The regular publication of wind and demand forecasts within day may help to create liquidity in the intra-day market. Further consideration needs to be given to the frequency and timings of this information.

Intra-day auctions may also help to condense liquidity in this timeframe and should be given further consideration.

It is essential that actions taken in the Balancing Market (which will be open in parallel with the Intra Day Market) do not reduce the liquidity of the Intra Day Market.

The role that asset-less traders could play in terms of increasing liquidity in the IDM should be investigated and facilitated where practical.

Any market maker obligations need to be considered in line with the workstream on market power. Consideration should also be given to market maker obligations in intra-day timeframe to improve liquidity.

Forwards Trading

Forward Financial Trading should allow for intermediary and aggregator arrangements as allows in the High Level Design. It is important that these features are available in all timeframes.

Clarity is required as to how financial trades in the Forwards timeframes will interact with the Reliability Option and the CfD in Northern Ireland. There is the potential for two or more CfDs to be set against the same reference price.

A cost benefit analysis is required to determine the most appropriate trading arrangements in the Forwards timeframes. Investigation into the different options available, the cost of systems implementation, the cost of participant implementation and the transaction costs needs to be carried out.

Any trading arrangements need to be compatible with requirements under the European Network Codes and be able to move to a harmonised auction platform. The RAs should be involved in this workstream at a European level to ensure that the requirements are suitable for the I-SEM market, taking into account the size and the level of interconnection.

Cross Border Financial Instruments

The discussion paper notes the need for further discussions and agreement with neighbouring markets in relation to Financial Transmission Rights (FTRs) for cross border trades in the Forwards timeframe. IWEA is concerned that there is not clarity in relation to any agreement on this, and this is something that needs to be prioritised to ensure this will be a feature of the market. If there are any concerns around the ability to implement FTRs this needs to be known as early as possible so that the appropriate changes can be made.

It is not clear how cross border trade of renewable certificates will be facilitated with FTRs. This issue needs to be addressed and workarounds developed.

Firmness of FTRs is an important issue for generators. It is important that the parties that can control and mitigate the risk of interconnector availability should carry the risk associated with this. Firmness of FTRs will incentivise the Interconnector Owners to keep the infrastructure fully available and restriction free, which is important for maximising efficient renewable exports.