

SEM Intraday Trading

IWEA proposals

IWEA welcomes the opportunity to contribute to the development of proposals on intra-day trading. Intraday trading has been highlighted as a means for ensuring efficient use of wind generation and reducing costs for end customers. IWEA considers that all options for intraday trading must be examined to ensure they result in an end-benefit for customers.

As requested at the Intraday Trading Working Group meeting on 11 May, please find below IWEA's high-level proposals for short, medium and long-term solutions to facilitate interconnector trading.

IWEA considers that within-day trading should be integrated into the SEM. However, given the time limitations on developing a price-effecting solution, IWEA does not consider that it is feasible to develop an optimal solution by October 2010. Therefore, IWEA suggests that consideration should be given to a short-term solution that only affects the dispatch schedule. This will need to be worked through and issues such as implications for coal fired plant and the non discrimination between interconnector users and other generators will need to be worked through. The medium term solution and long term solution proposed will ideally take account of these issues and more time will be needed to consider the most effective option for longer term solutions.

In the longer-term, IWEA considers that intra-day trade should be a function of the market and the trading day should be comprised of trading periods, some of which are within-day.

Option 1: Short-term solution

IWEA suggests that the short-term solution should be a useful solution, rather than one that just ticks the boxes for EU compliance. IWEA suggests that consideration should be given to the short-term, available interconnector capacity should be auctioned to reduce constraint costs and should not affect SMP.

The interconnector agent(s) can schedule hourly implicit auctions of available interconnector capacity. All interconnector users can offer in to displace the marginal plant on the system. In order for the offers to be accepted, they must be more economic than the marginal plant, taking into account the cost of constraining down the marginal plant. In this way, the auctions will ensure reduced constraint costs in the SEM.

Gate closure for the hourly auctions should be H-3 hours, with the results published in H-2 hours, such that gas-fired generation has the opportunity to manage their gas positions.

Annual capacity should be sold on a UIOSI basis. All offers must include a separate capacity component, which should be paid to the capacity holder. The price for sale of unused capacity should be based on the interconnector capacity payment for the periods used. That way no capacity holder has their asset expropriated, but neither can the capacity be hoarded.

Option 2: Medium-term solution

In the medium term, IWEA suggests that the trading day is split into two segments, one with gate closure on D-1 and the 2nd with gate closure on D. With this option, all market participants would be treated equally and interconnector capacity would be utilised more efficiently while meeting EU requirements for within-day capacity allocation.

| Trading Period | Gate Closure |
|----------------|--------------|
| 6am to 5pm | 10 am D-1 |
| 5pm to 6am | 2pm on D |

This solution would be compliant with all definitions of intra-day trade, would give sufficient time for conventional generators to manage their gas positions and would effectively reduce peak prices. This would also allow the market engine to take advantage of more accurate wind forecasts, reducing constraint costs.

IWEA does not consider that this option would result in a significant change to the SEM design as the same rules will be in effect – what is changing is the timing. The optimisation time horizon could be amended, if necessary to should ensure that the market schedule is technically feasible.

Option 3: Long-term solution

Given that the EU has determined that regional markets must be developed, the long-term solution should look to facilitate regional market development by aligning the SEM with BETTA. SEM could effectively trade with BETTA by aligning our trading periods with the BETTA Electricity Forward Agreement (EFA) trading periods that are 4 hours in duration.

Similar to the medium-term option above, IWEA does not consider that this will be a significant change to the SEM design – the principles of the SEM remain.

As with the short-term solution, IWEA recognise that 4-hour trading blocks may result in increased cycling of conventional plant. However, this outcome is already expected with the increased levels of renewables in the SEM. By dividing the trading day into trading blocks we can ensure the most efficient dispatch of wind generation and ensure technically feasible solutions for all plant by including an appropriate optimisation time horizon in the MSP software.