



ElectroRoute

*Trading & Innovating
in Energy Markets*

Contents

1. Quick Recap
2. Fundamental Issue and Design Space
3. Features of Remaining Mods

Roles in the Market

- ▶ RA's design price signals/mechanics
- ▶ Trader's/participant's trade to price signals
- ▶ ElectroRoute has no desire to cause netting on ICs or indeed receive make-whole payments
- ▶ We simply:
 - Wish to trade to the price signals in each market
 - Expect to pay prices no higher than we said we are willing to pay

Cost Recovery – A Key Principle

- ▶ 3 key mechanisms apply the cost recovery principle in SEM
- ▶ Total Consumer Cost = € 765M p.a.

Mechanism	Approx Annual Cost 2014	Cash Flow Recovery Method
Uplift	€ 595M	Recovered from Demand Within Market Price (SMP)
Constraints	€ 166 M	Recovered from Demand outside Market Price through imperfections
Make Whole Payments	€ 3.6 M	Recovered from Demand outside Market Price through imperfections

- ▶ While MWP's are less than 1/2 of 1% of the cost recovery cash flows, it is none the less important they are correctly designed

Quick Recap – Same Message

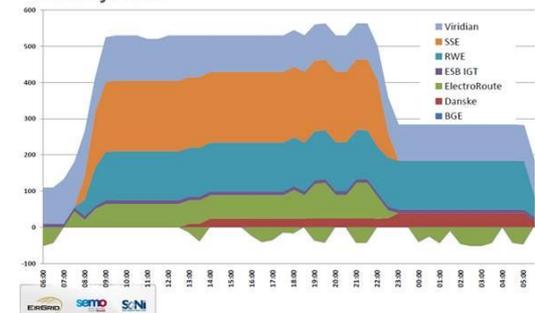
- ▶ ElectroRoute RA Bilateral
 - 28th August 2013

- ▶ ElectroRoute Mod Presentation
 - 4th December 2014

- ▶ SEMO Mod Presentation
 - 12th January 2015

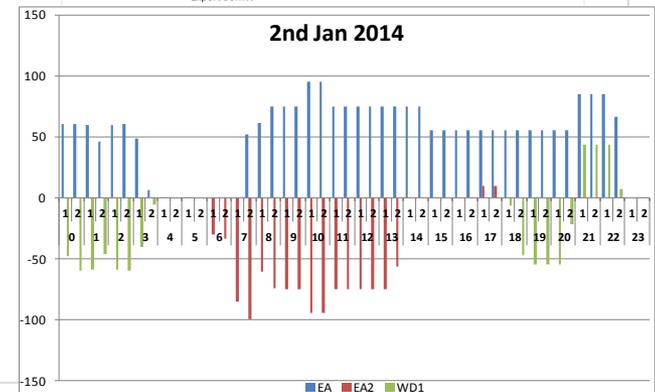
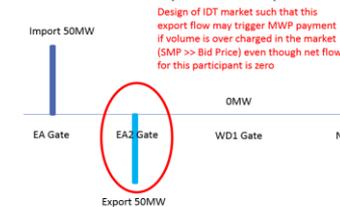
Incremental Customer MIUNs

30th May 2013



Netted Volume Issue

- ▶ Key motivation for ElectroRoute raising issues with RAs 15 months ago and assume the key motivation for RA's mods currently. See Example Half Hour Period:



■ EA ■ EA2 ■ WD1

What do we agree on – Some Simple Facts

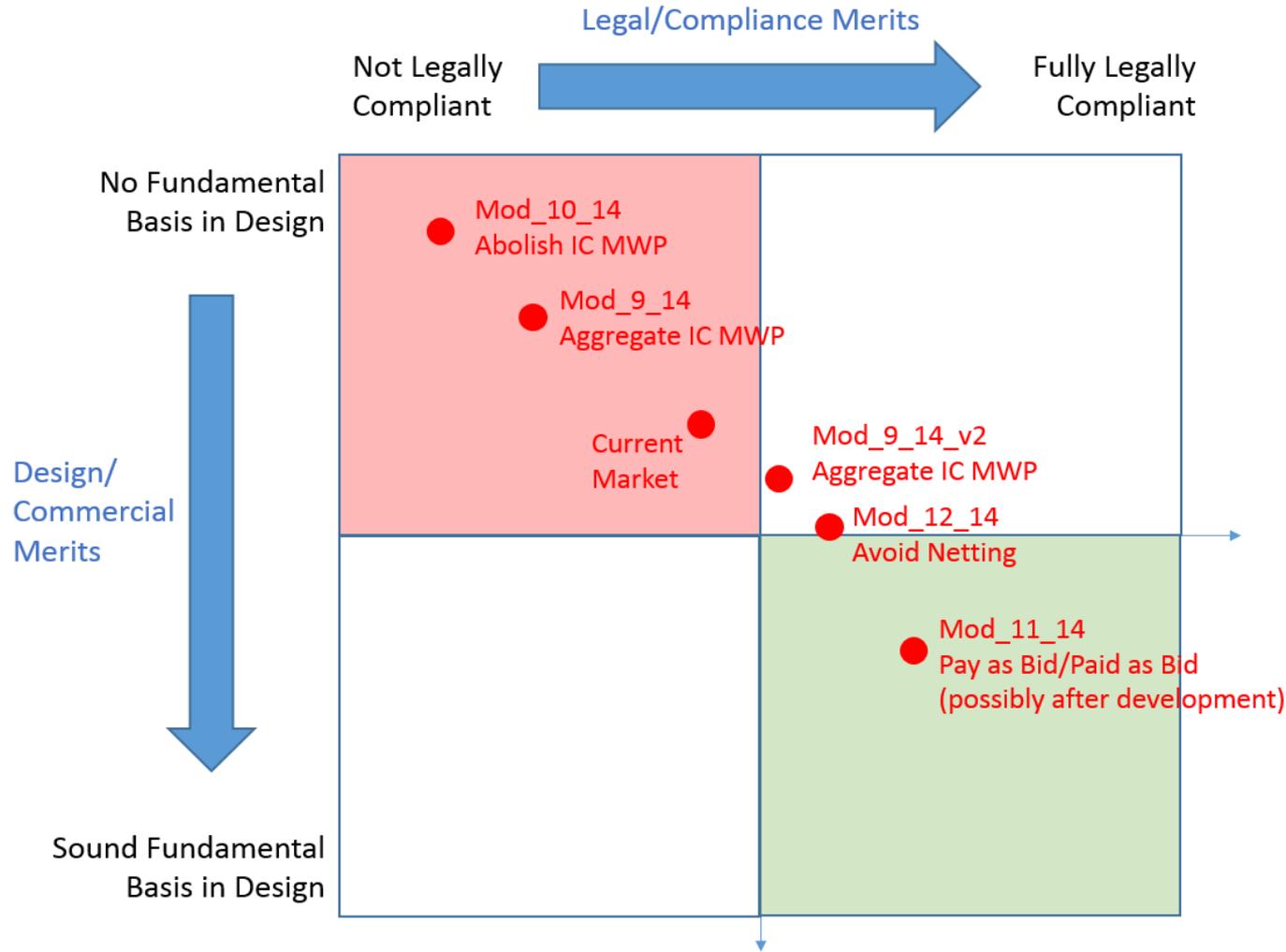
We think that it is indisputable or universally agreed that:

1. The interconnectors are flowing in the wrong direction at least 30% of the time (Import Bias)
 - Compounding curtailment and reducing generators running in SEM
 - Already critical situation with respect to EU directives
2. There are 2 different prices signals / basis to trade cross border
 - a) Self-dispatch, LPMC – (existing precedent in import direction)
 - b) Central Dispatch, SRMC – (core philosophy of SEM)
3. Disjointed price signals sometimes leads to netted flows in either direction
4. Intra-day adjustments aside, no one believes netted flows should place a cost on the MVP mechanism

This Process

- ▶ Surprisingly the substantial issue (i.e. “how do you want cross border trade to work ?”) has not been addressed by the RA’s in this process.
- ▶ It is a complex high level design issue more suited to a consultation or working group
 - More radical mods like pay/paid as bid Mod were unlikely to progress directly from this forum
- ▶ Failing to address this issue now may or may not have implications for how successful cross border trading is deemed to be operating in future

The Design Space and Mods



Remaining Mods

- ▶ Mod_12_14 and Mod_9_14v2 remain as options on the table
- ▶ If the fundamental problem of “how do we want cross border trade to work?” is not going to be addressed this time then the 2 remaining mods do represent improvements to some sub-problems in the design
- ▶ Both set out to do slightly different things and we believe both achieve what they set out to do
 - Mod_9_14v2 sets to try and correct an IMR calculation
 - Mod_12_14 sets out to reduce netting explicitly
- ▶ Believe one of these solutions should be decided upon today

Remaining Mods

	Mod_09_14 v2 Amendment to MWPs for IC Units with SP for Import bids	Mod_12_14 Remove periods of simultaneous import and export flows
Design Merits	<p>Seeks to treat IC Participant as 1 not 3 units</p> <p>Corrects the MWP calculation by substituting import bids prices with SP.</p> <p>Reduces netted volumes</p> <p>Step has reasonable internal logic but still doesn't address all design issues/problems</p>	<p>Effectively asks the trader to decide between the LRMC (import) or SRMC (export) price signal on a half hour by half hours basis.</p> <p>Removes MWP payments for any period of netted flows</p> <p>Slightly undermines IDT, but believe this is a secondary issue.</p> <p>Explicitly addresses the netting issue head on</p>
Legal Merits	<p>Excesses of MWP calculation errors have been limited and may reduce the level of cross border trade distortion.</p>	<p>Doesn't place any restriction on trade in either direction</p> <p>No apparent legal issues</p>

▶ ElectroRoute has a preference for Mod_12_14