

SEM INTRA DAY TRADING WORKING GROUP

RESPONSE TO THE SECOND MODIFICATIONS COMMITTEE QUESTIONNAIRE

As per the actions recorded at the Working Group, participants are now being requested to consider this documentation and respond to the Secretariat with potential options for intra-day trading. Synergen has the following comments in relation to the series of questions posed by the Secretariat.

1. Timing and number of Gate Closures; a 'simple' option, an intermediate option and a more radical option.

In principle, any arrangements should be designed to meet not only the minimum level of short-term compliance, but also:

- **Take forward the SEM Code objectives** – notably (a) “to facilitate efficient, economic and co-ordinated administration and development of the SEM in a financially secure manner” (section 1.3.1) and (b) “to ensure no undue discrimination between persons who are parties to the Code” (section 1.3.6).
- **Meet reasonably foreseeable future requirements.** In this regard any changes should be able to accommodate likely EU developments – as identified by the RAs in section 3.3 of SEM-09-096, where it was noted that, – whilst not finalised, future arrangements could involve a target model with “implicit price coupling including harmonised gate closure times by 2015”.

There has been some discussion at the Working Group of the need to show a positive outcome to a cost benefit analysis (CBA) for any changes above and beyond what is required for compliance purposes. As noted above, Synergen believes that compliance should be against reasonable expectations of future requirements, and thus any CBA, should it be undertaken, should explicitly identify any incremental costs and benefits. Changes to the SEM have not to date been necessarily underpinned by ex-ante cost benefit assessments. The form and assessment criteria adopted for any CBA of incremental benefits should thus be consistent with approaches to other significant market changes, such as the purpose of the Unconstrained Schedule, the treatment of TLAFs, the TUOS charging regime changes, and any changes to the CPM.

Thus, in terms of due process, Synergen would expect that if there is an explicit CBA, both the approach, scope of cost and benefits assessed, and assumptions, should be consulted on and agreed.

Finally, Synergen suggests that a long-term solution should be agreed with implementation timescales determined. If this cannot be delivered within a compliance timescale (understood to be 2012) then any short-term solution should be within the framework of the long-term arrangements. Any short-term solution should not create any barrier to longer-term arrangements. If a short term (stand alone) solution were to be adopted, then it should be explicit that it does not place a hurdle in the way of a long term solution through changes to systems and processes that are then inconsistent with a long term efficient market outcome – which would amongst other characteristics include shorter, and more frequent, gate closures.

Long Term

Synergen would propose that we move towards “close to real time” gate closures with rebidding of prices up to gate closure, for generators, interconnected parties and demand side participants. There may be practical limitations to how “real time” the market may become if it retains a 30h scheduling / unit commitment approach. This long-term solution may thus only arise when there is a high level of market coupling and the formative 2015 Target Arrangements (SEM 09-96 section 3.3) are being addressed. It could be argued that if there is a real push for a common framework across Europe with the building blocks outlined, then this solution is more medium term than long term, as the development of such arrangements by 2015 would need to be under active consideration in the near term.

Short / Medium Term

Synergen continues to believe that if it is possible to include intra-day trading for a subset of participants, it must be practical to extend that to other parties (notably generators and demand side participants). In fact, any class-based distinctions may introduce added cost and complexity, both in the short, and long terms. Such a view may be queried on the basis of data handling / processing requirements across all parties but our initial view on this is that (i) the BCOP would only allow for re-bids if underlying costs change (and thus we assume for many parties such changes would be relatively minor), and (ii) the system would only be handling incremental changes of bids, and thus the processing requirements would be lower.

In terms of balancing complexity, risk and efficiency, Synergen suggests the following:

- maintain the thirty hour optimisation window within the MSP systems;
- six auctions per day¹ i.e. bidding for each four hour trading interval; and
- gate closure four hours before each trading interval.

We note that there are differences in run-times between the MSP and the constrained run and clearly advice from the TSOs on the minimum constrained run times will need to be an important consideration in determining the exact ex-ante window. We consider that SU times / ramp rates etc would continue to be modelled as now.

2. Whether all Generator Units should be able to re-bid in successive Ex Ante runs, or only Interconnector Units.

Synergen would consider that any intra-day trading opportunities made available to interconnector users only and not generators and demand side participants would be discriminatory. In principle, the approach should thus be to maintain common gate closure periods across all parties. This would be best achieved by first determining the appropriate timing and number of gate closures, and then, second, determining how the particular characteristics of interconnector trading and the interface with the GB market should be achieved.

¹ It may be beneficial to align these four hour intervals with EFA blocks – although there may be implementation issues associated with EFA blocks operating across calendar days.

We note that the T&SC objective is to avoid undue discrimination – and that trading arrangements for different classes of generator already differ. However, Synergen would consider that allowing intra-day trading solely for interconnectors creates an unreasonable level of discrimination between SEM participants and those in the BETTA market. Synergen strongly opposes any moves to put in place “interconnector only” arrangements and thus considers that if changes need to be made to the SEM trading arrangements to ensure EU compliance for cross border trades, then the market arrangements should be amended for all trading parties. Synergen does not consider that his change would amount to a fundamental change in the SEM design – the key SEM building blocks of an unconstrained schedule, ex-post pricing, centralised control, CPM mechanism etc would remain – merely the timing and frequency of ex-ante bids would change. This would primarily be a change to systems and processes – and where it was a shift in the underlying economics this would be wholly aligned to the principle objectives of the T&SC.