

AIRTRICITY COMMENTS ON THE INTRA-DAY TRADING PROCESS TO DATE

In our view, the process to develop an Intra-Day Market in SEM has involved a series of missed opportunities, shifting expectations and badly chosen design methods, which have all compounded to the situation where detailed design was completed in April, while Market Participants are going through the motions of a Working Group Phase II Detailed Design process. In order to highlight what is wrong with the current stage of the process, we examine what has been wrong with the overall process, where earlier missteps have simply rolled-up into further complications.

1. Development of the Initial Modifications Proposal

Issues

1. Developed in the 'Dark', involving no collaboration with Market Participants
2. Took up 12 months, valuable time that could have had more productive use
3. Contravened the Modifications Proposal requirement outlined in T&SC 2.190 that 'Each Modification Proposal shall include draft text of the relevant provision of the Code as amended by the Modification Proposal'
4. Created a significant hurdle for the subsequent deliberative processes by wrongly defining the cornerstone element of the Proposal – 'Intra-Day'
5. Persistently refused to undertake clarification of the definition of 'Intra-Day' following Market Participants' repeated views that the given definition was wrong
6. Shifted ground from the initial stated objective of improving trade across the interconnector to become a mechanism to address the open infringement procedure from the EU

Impacts

The process to develop an Intra-Day Market in SEM started with disconnected activity by the RAs, with the period between April 2009 and March 2010 wasted in an independent and largely invisible research process, involving no joint collaboration with Market Participants bar a few chances to complete questionnaires. This culminated in a Modification Proposal that failed entirely to address both the intent of Regulation 714/2009 on Cross Border Exchanges in Electricity for *intra-day congestion management mechanisms to maximise opportunities for trade and provide for cross-border balancing* (Article 1.9) and the stipulation that '*intra day allocation of available transmission capacity for day D shall take place on days D-1 and D...*' (Article 4.3).

The full 12 months squandered by this non-collaborative effort, inevitably led to great resistance from market participants, whose commercial interests are greatly impacted by the proposed changes. This mishandling of ensuring the accurate definition of the term 'Intra-day' essentially caused the wheel to come off the deliberative process on the Intra-Day Modification Proposal, starting with Modifications Committee Meeting 27, where it was initially introduced, and continuing through the first three Working Groups meetings, with the issue being resolved only following a further letter from the EU.

Having descended into a strongly contentious matter, the eventual resolution of the definition of the term 'Intra-Day' by that letter from Europe led to an imperceptible but significant shift in focus from the process being about improving trade across the interconnector to just being 'truly' compliant with EU legislation.

2. The Working Group Phase I High-Level Design Process

Issues

1. Derailed from the start, and for a significant number of Working Group sessions, by the intransigence on the appropriate definition of 'Intra-Day'
2. Focussed on 'minimal change' SEM and missing impact of re-dispatch of interconnectors on generator participants
3. Failed to comprehensively explore the multifarious issues outlined by the SEM Committee such as 'compatibility of the Project Co-ordination Group (PCG) target model for continuous intra-day trading with the SEM design' and 'Interactions with dispatch in general and wind dispatch in particular'
4. Subsequently failed to examine assumptions underlying the workings of the SEM in order to espouse a wholesome design of SEM incorporating an Intra-Day Market
5. Design was conducted from a top-down approach, evaluating alternative design elements, ignoring both the rolling interactions that occur in systems, as well as the objective of maximising cross-border trade
6. Working assumptions, such as timing of Trading Windows, became default design specifications
7. Established an aggressive, hardline date for submitting a proposal to the SEM Committee, a situation that caused a strong drag on debates

Impacts

By the time agreement was reached on simply the applicable definition of 'Intra-day', a full 18 months without meaningful activity had elapsed. Given initial tight deadlines anticipated for such a change, this delay simply exacerbated the pressures to just get a 'workable' arrangement. This resulted in Working Group sessions that did not examine fundamental assumptions about how the SEM was organised, but simply threw up competing, alternative options. Essentially design according to a buffet dining model: "I'll have some of that, please. And some of that. And some of the other".

For example, regarding the length of the WD1 Window Optimisation Time Horizon, two options were presented by SEMO – an 18-hour option and a 30-hour one. While we tried to press the argument as to why that was necessary and why EA data could not be used as start conditions while modifying the MSP software to model notice and loading constraints, we could get no answer. The underlying assumption appeared to be the 'sanctity' of the Trading Day.

However the Trading Day could be spliced together from a rolling running of the MSP software, an approach that was considered feasible for the defunct MAE and an approach that would have addressed the SEM Committee's desire to see consideration of 'compatibility of the Project Co-

ordination Group (PCG) target model for continuous intra-day trading with the SEM design', as well as 'interactions with dispatch in general and wind dispatch in particular'. A very obvious benefit of such an approach would have been achievement of better coupling with BETTA.

These issues would have benefited from deliberate and deep debates as they represent far too complex subjects to be comprehensively dealt with from within the midst of a busy, continuous-rolling agenda, without review and feedback processes. Unfortunately the interactions around this, and other matters were not properly explored. The result is a highly inflexible design, achieved by amalgamating 'bullet points' from various options presented.

The complete gloss over of substantial matters, which we argued had workable options within the existing SEM design and to which the TSOs offered some late recommendations, resulted in a high-level design principles specification which does little to achieve the trade maximisation intent of European legislation and has simply become a hugely expensive exercise just to comply with the obligation to have capacity reallocation on days D-1 and D.

3. The Working Group Phase II Detailed Design Process

Issues

1. Again a non-collaborative working arrangement, conducted 'away' from Market Participants, with finalised design decision communicated in informational 'Working' Groups
2. SEMO considers the detailed design of the Intra-Day Market as an internal, SEMO project concerning systems implementation, ignoring the significant change to the market's commercial framework, as well as opportunities to optimise market implementation costs instead of exporting costs to Market Participants
3. Market Participants (a very distinct group from 'industry stakeholders' alluded to on SEMO's webpage on Intra-Day Trading Phase II) input is seen as only being a contribution 'to deliver a final version of the Modifications Proposal'.

Impact

In the current Phase II of the Working Group process, it has become clear that SEMO views the working up of the detailed design for implementing the Intra-Day design as an internal organisational project, with no need to interact with Market Participants, other than for communication purposes. We strongly differ.

Interpreting the high-level design into detailed business requirements is an important step that has material financial implications for Market Participants interactions with the Central Market Systems. The key word is 'interpretation', as in our view multiple alternatives exist to achieve implementation of those design principles contained in the high-level design document. Completion of detailed design in April without participant input to selection of appropriate implementation options means that serious participant impacts are only emerging through the communications sessions, misleadingly labelled as 'Working' Groups.

Our preference would have been for a more lock-in-step collaborative joint working between SEMO and Market Participants, perhaps through a compact Steering Group. However given the advanced stage of development our belated recommendations are that Participants should be provided with the mapping document showing transposition of the high-level design into the detailed business design. They should also be provided with the detailed business requirements and functional design specifications for signoff as meeting requirements.