

Wholesale Electricity Market Changes

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Agenda

- Drivers of Electricity Costs
- How demand side can participate



Electricity & Gas Price Drivers

Networks

- Regulated by CER
 - ~30% of cost in electricity, ~40% in gas

Wholesale

- Competitive wholesale SEM: ~50% of cost
- International gas price is a big cost driver
 - 30% in electricity, 50% in gas

Retail

- Competitive pricing: ~12% of cost
- CER oversees consumer protection

Levies

- Government PSO Levy: ~8% of electricity cost
- Covers renewable, peat and certain gas plants



What Affects Wholesale Prices?

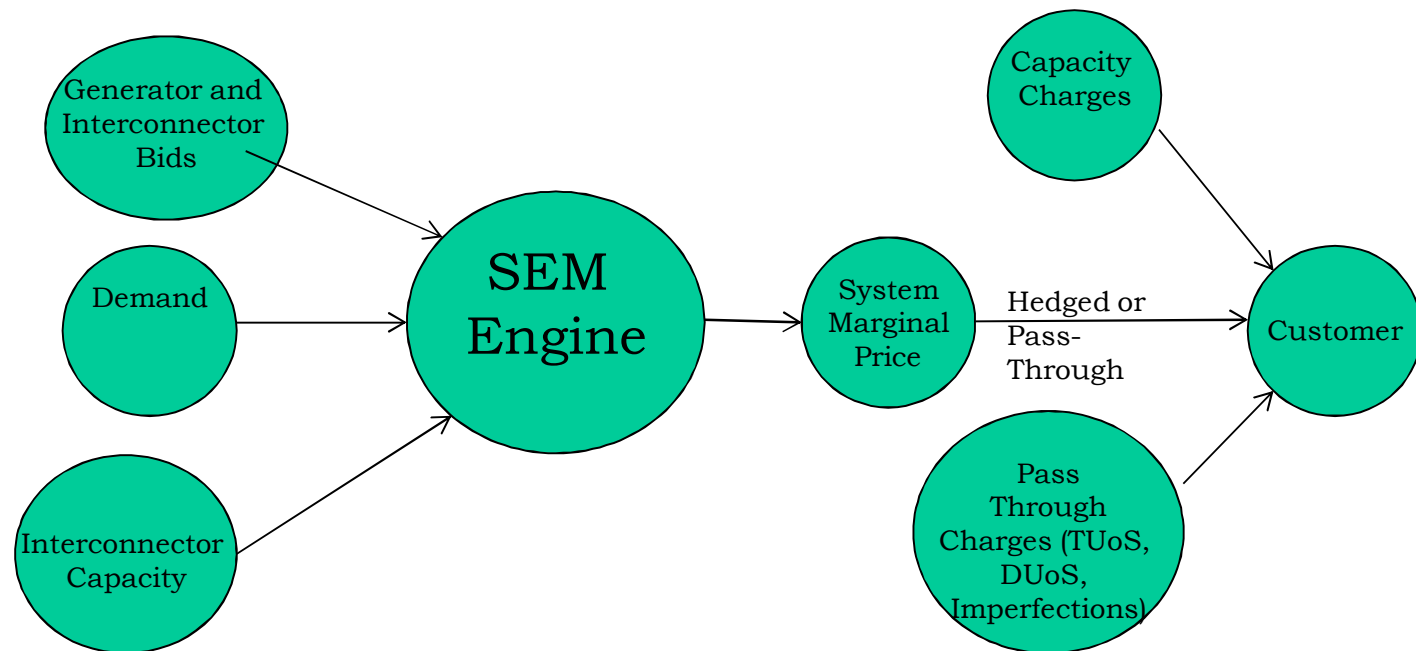
- Market Fundamentals: level of demand, fuel prices

- Market Rules:
forwards/spot/bids/capacity/energy

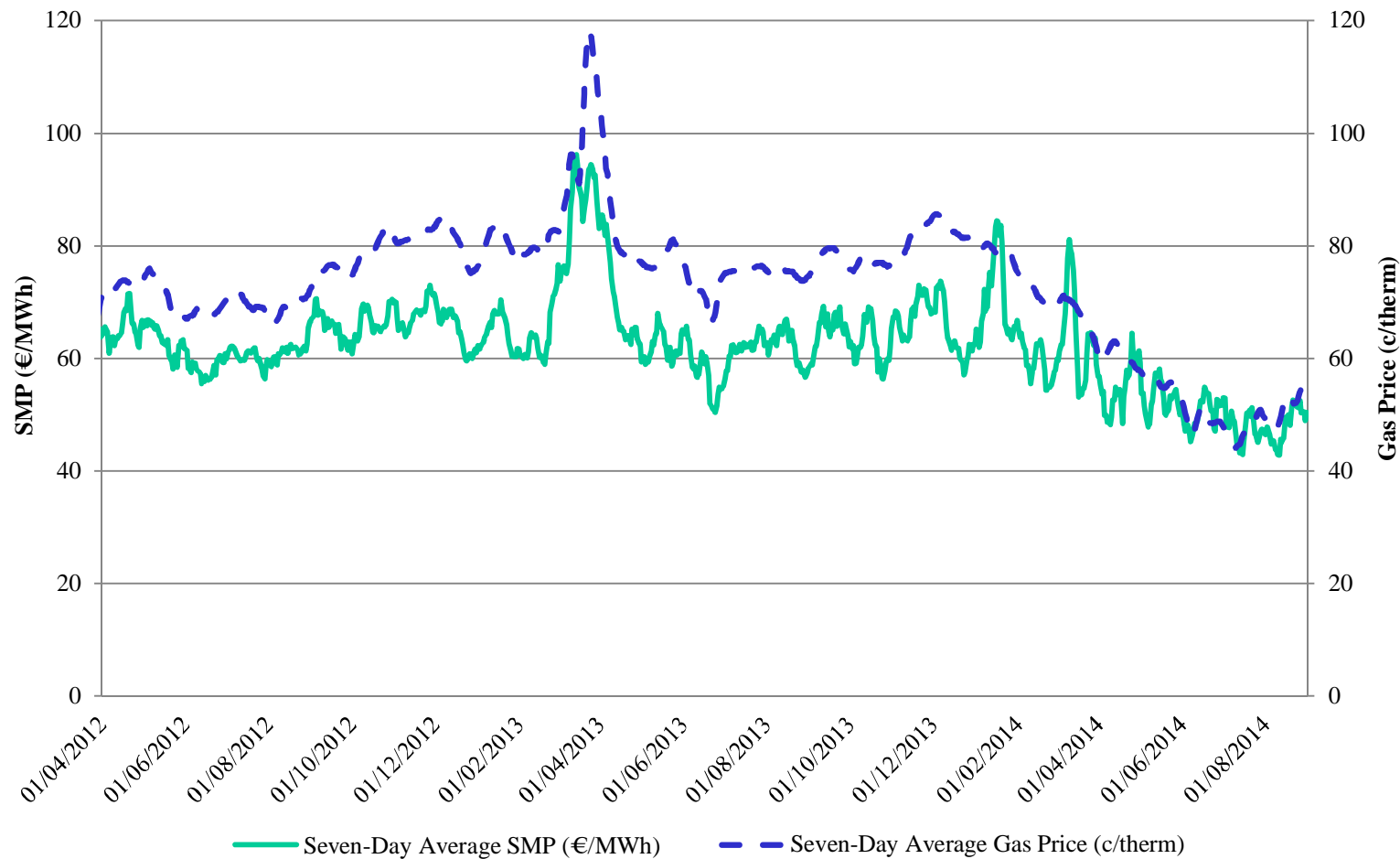
- Market Characteristics: Extent of renewables, plant characteristics, ownership

The Current Market: SEM

- Prices calculated 4 days after event
- Explicit capacity mechanism, based on administratively calculated value of capacity



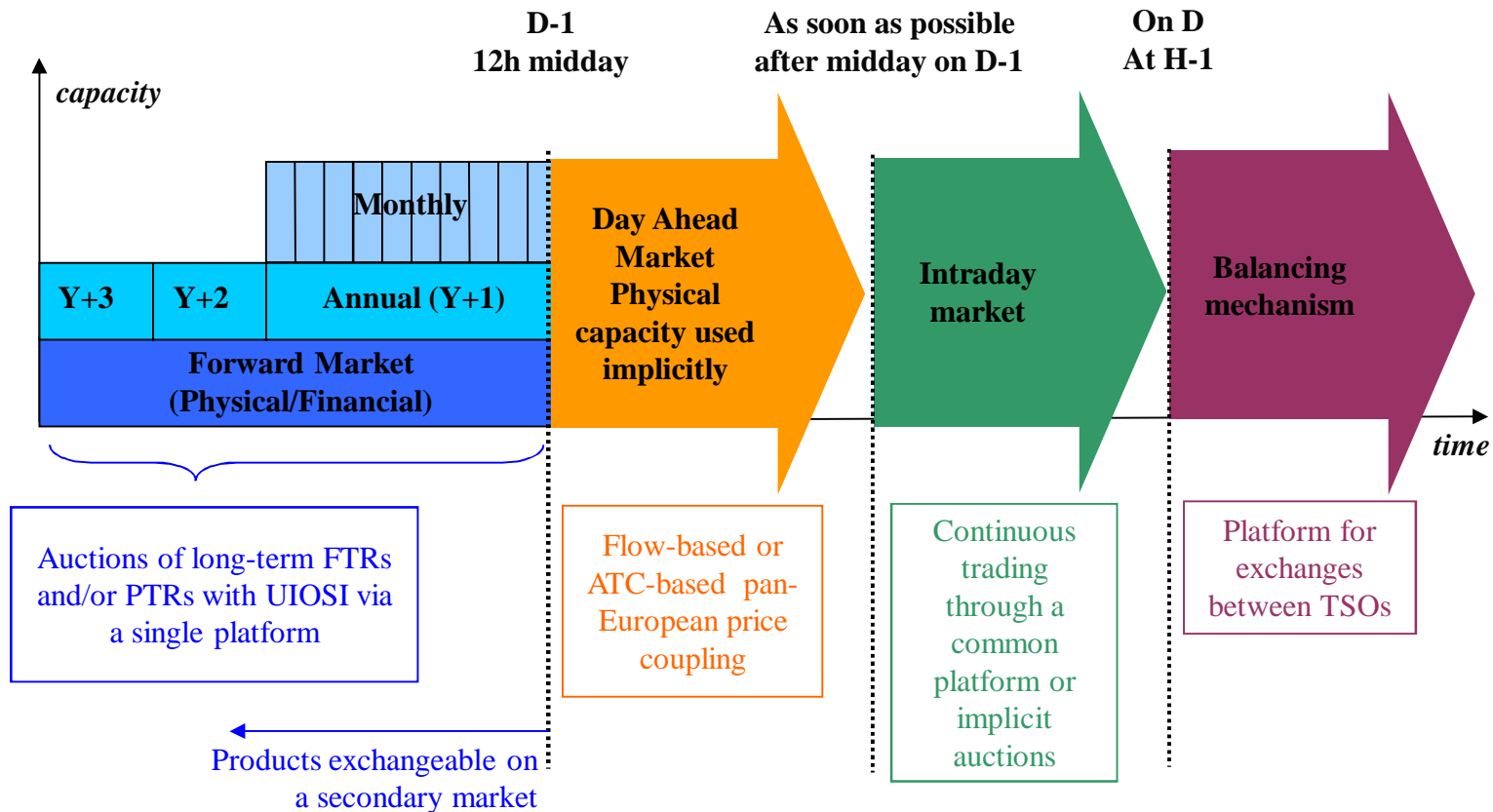
Electricity Price vs. Gas Price



EU Context

- Member States (UK and Ireland) have made a firm commitment to complete internal market
 - Third Energy Package
 - Establishment of ACER and ENTSOE as delivery bodies
- Single market is being developed through ACER Framework Guidelines and ENTSOE Network Codes
 - European Commission take these through comitology process as binding Regulations
- EC Review of State Aid Guidelines
 - Updated Guidelines which look specifically at generation adequacy measures published in 2014.

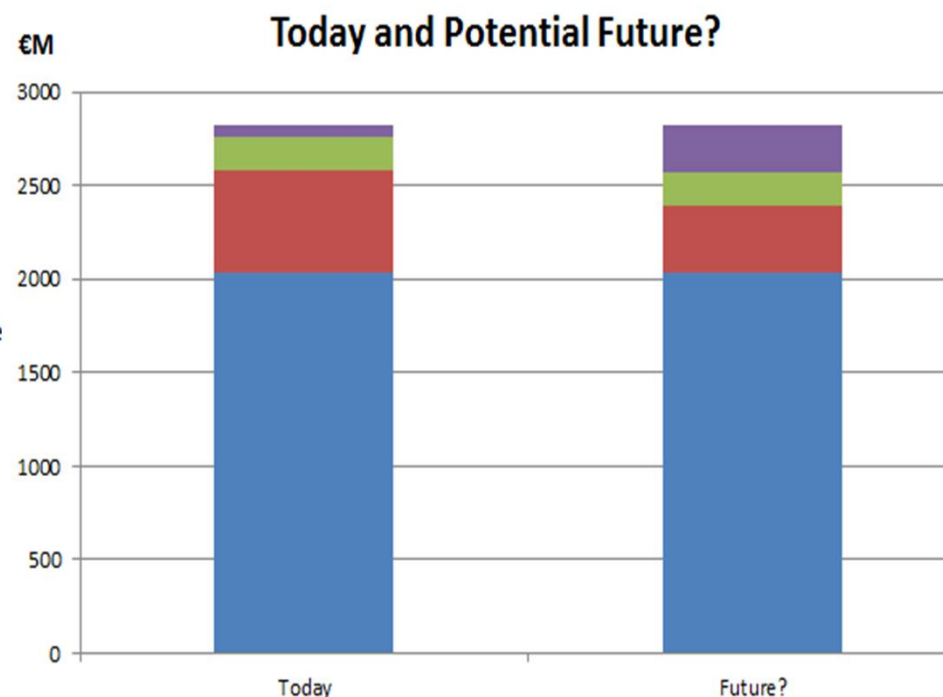
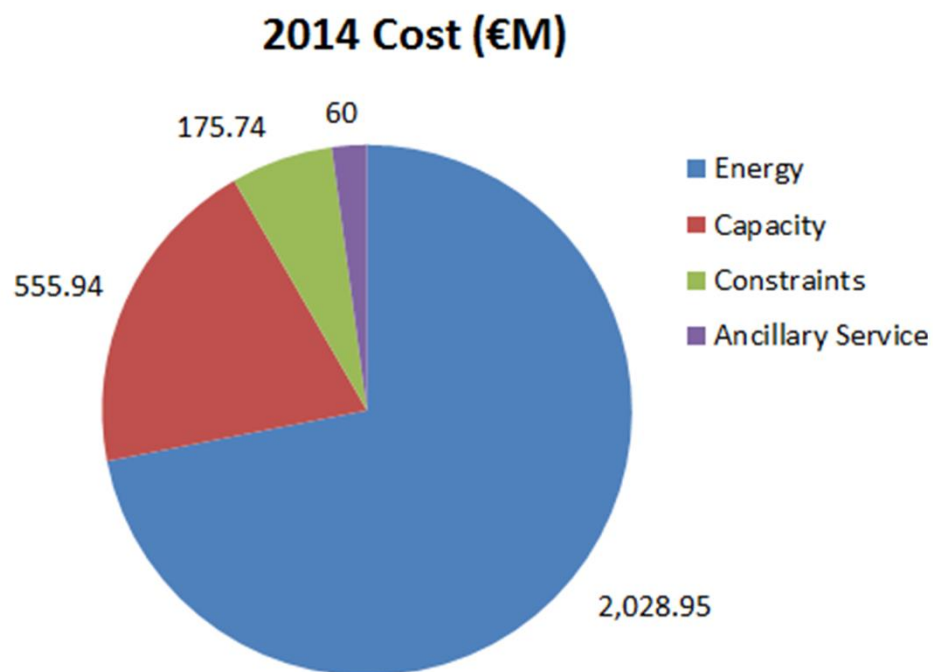
Key Differences from SEM: Multiple Trading Opportunities



CRM Design - Reliability Options

- Market based approach to setting price for capacity.
- Capacity payments only made to those suppliers of capacity who are successful in the auction
- Demand response can participate to sell reliability options
- Reliability option:
 - Call option that pays holder a fixed annual payment
 - In exchange for the annual option fee, generator commits to sell its output at the strike price when called/diaptchable load agrees to reduce demand,

Cost Breakdown



Indicative split of Revenues

Impacts/Opportunity for larger users

- Firm day ahead (and intra day) markets should reduce risks to pool pass through customers
- Should allow greater participation opportunities for more predictable demand
- Continuance of capacity mechanism coordinates investment and mitigates against boom and bust
- Move from current capacity mechanism to auction based scheme that is more sensitive to margin should reduce consumer bills
- Demand response able to participate in capacity auction, subject to certain conditions

I-SEM Forthcoming Developments

- Energy Trading Markets Consultation - April '15
- Market Power Discussion - April '15
- Forwards & Liquidity Consultation - June '15
- CRM Consultation - June '15
- Public Workshops
 - CRM: May (TBC)
 - Market Power: May
- Plus, RAs have open door policy for meeting stakeholders

Discussion

