

Summary of the EEX & EPEX SPOT Panel Discussion

Integration of UK & Irish Power
Markets – the Impact of the Clean
Energy Package and Brexit



7 September 2017 – London

On 7 September 2017, EEX, The European Energy Exchange (EEX), and the European Power Exchange (EPEX SPOT) for the fifth time invited leading energy policy experts from the market including regulators, TSOs and academia to debate current questions of energy policy. The discussion focused on three core topics:

1

Integrated Single Electricity Market Project

2

The Clean Energy Package

3

Potential Impact of Brexit on UK and Ireland power markets



Panelists

Jean-François Conil-Lacoste – CEO, EPEX SPOT

Mark Copley – Associate Partner, OFGEM

Rodney Doyle – Director of Market Operations, EIRGRID and General Manager, Single Electricity Market Operator (SEMO)

Antony Froggatt – Senior Research Fellow, Energy, Environment and Resources, Chatham House

Moderator: Henry Edwardes-Evans – Associate Editorial Director, S&P Global Platts Power in Europe

Moderator **Henry Edwardes-Evans** opened by setting the scene around power market integration between the UK and Ireland and the Clean Energy Package, both viewed within the context of Brexit.

› **Henry Edwardes-Evans: Will the UK stay in the Internal Energy Market after Brexit, and what are the alternatives? Could it be an alternative to apply WTO rules for power trade, making power trading tariff-free? Will it be possible to proceed towards a model for integration between the UK and the Republic of Ireland (ROI) which has a credible prospect of succeeding?**

Antony Froggatt: We compiled a report about Brexit, and looking at the position in the context of that, we can see that we are currently in phase 1 of the negotiations. Regarding Ireland, in August the UK Government published its own paper, and it prioritises energy. And, there is support on all sides for continuation of the current integrated position. The legal framework is the key, both between the UK and ROI and between the UK and EU. One feature we know almost with certainty is that the framework cannot come under the European Court of Justice (ECJ), as this has been ruled out by the UK. So, we must have a new system to underpin I-SEM. We all want trade to continue, but can we have market coupling and flexible transmission systems which will allow us to do that?

› **Henry Edwardes-Evans: What is the status of dialogue relating to interconnectors, and how is the discussion going to progress?**

Mark Copley: The House of Lords Energy Security Committee reported that there is consensus across much of the UK industry to support integration. And, there is work being done on capacity markets and support arrangements for the benefit of UK citizens. There is also consensus that cross-border trade has helped UK end-users, including bringing down balancing costs and TSO costs. So, I would say that the Integrated Single Electricity Market (I-SEM) remains

the goal. But, levels of efficiency are not perfect, price signals are not perfect. Regarding the Clean Energy Package (CEP), I would say that there is quite a lot of prescription, which may inhibit innovation. On OFGEM's side regarding Brexit, we are working to ensure that trade continues to flow. We are advising the UK Government so that it understands the "specifics" and the finer points. And, we are moving on. Now we must ask: Which parts of the framework in the UK-EU relationship work? And, which parts will not work and therefore will have to be reformed?

Rodney Doyle: In the Republic of Ireland we currently operate a pool market. Moving forward, I-SEM is our objective. But, we have some issues. There is a discrepancy regarding gate closures. Our gate closure is several hours ahead, so trade is not efficient in this respect. People can see this delay, and they see it as a risk. It's not attractive to new entrants. We want to comply with network codes and we want to try to achieve market coupling by May 2018. Regarding the gate closures, we had around a 6-8 hours difference, so we want to change that, and we want to put in an interim intra-day market. From our point of view, it's "all systems go" on this.

Jean-François Conil-Lacoste: EPEX SPOT has been at the forefront of the market coupling process in the CWE region, SWE region and more. And we are able to deliver a solution to ROI of this type. There are costs of course in building interconnectors and from my commercial perspective, the concept of cost recovery is important here. It may cost 160 million euros to build an interconnector, so there are costs to the process of UK-ROI market coupling. Regarding Brexit, we have no control, of course, but I do think sometimes that there is a tendency to discuss small and intricate issues but pay less attention to the more important issues. We need clarity. The lack of clarity and resulting uncertainty is damaging. And, we must bear in mind that while all this discussion is going on, the power market is changing. The traditional model of generation, distribution and retail is evolving. With electric vehicles, concepts of power storage and demand response change the flow of power and the flow of information. We need to prepare for this. For example, it could be that we must move generation closer to end-users. But, we have to focus on the bigger picture.

› **Henry Edwardes-Evans: Are you optimistic about completing integration?**

Jean-François Conil-Lacoste: I am optimistic by nature. We have to regard integration as “work-in-progress”. It is really made up of several components including clean energy, market design and flexibility. If we are pursuing “Market Design 2.0”, we have to keep these things in mind, but also that we have inefficiencies to tackle along the way. For example, ACER is comparatively weak, and I am concerned that we do not have true competition. We need this, and when we look around the power market, there are still monopolies. And I repeat that cost recovery has to be kept at the front of our decisions. [Cost recovery refers to the reimbursement of services provided by power exchanges that not only have a high value for the general public, but are mandatory by law. Efficient cost recovery must be in place so power exchanges can remain competitive.] And, we need to innovate and enhance the systems, like development of Euphemia, the algorithm that calculates power prices across Europe’s coupled markets. But only, as I recommend, if there is genuine competition. We cannot afford free riders.

› **Henry Edwardes-Evans: Is there any contingency planning taking place in the event that the UK is forced out of the single European market?**

Rodney Doyle: In pursuit of I-SEM, a single market committee was created among ROI power market participants. The general consensus was that the “all-Ireland” power market is the preferred model. But, from a political point of view there is a possibility that a wall will be built. I think it is likely that there will be an interim solution between May 2019 and some subsequent date after that. From my point of view, I-SEM makes sense for ROI and the UK, and we will apply ourselves to it every day. But, nobody can really predict the precise outcome due to Brexit. I think we will see the next design quite late in this process, that is to say what the interim solution will look like.

We have to regard integration as “work-in-progress”

Jean-François Conil-Lacoste

› **Henry Edwardes-Evans: Trade through the Moyle interconnector is sometimes regarded as not efficient. Why is this?**

Rodney Doyle: Around four years ago, the process was that there was a single auction 12-14 hours before delivery. The East-West and Moyle interconnectors seek to equalise the rules so that power flows efficiently. The ROI gate closure was some hours before the UK and France. So, the way it worked was that you took a position, get the capacity on Moyle, and then deliver, all the time hoping that you don’t have an exposure which is not hedged. The East-West Interconnector brought in some new players, but with the gate closure gap, it’s not very attractive to new entrants. We need to try to equalise products and use the UK and ROI markets to hedge. This may help to resolve the anomaly and historic situation where prices in ROI and Northern Ireland have been higher than the European average.

The “all-Ireland” power market is the preferred model

Rodney Doyle

Do we accept EU rules in order to stay coupled? It's a political decision

Antony Froggatt

> **Henry Edwardes-Evans: What are the implications if the UK comes out of the single European market?**

Mark Copley: Ireland is not market-coupled. And, before the existence of Prisma, we traded gas. Before the European network codes, we traded power. Bearing all of this in mind, I am confident that we will find contingencies which will preserve some of the beneficial structures which we created. There are already benefits which we don't need to throw away.

Antony Froggatt: Yes, absolutely. Power trade will continue, that is clear. There is investment in interconnector capacity needed, and new capacity is at planning stage. The UK will import around 80TWh of power by the mid-2020s, so this capacity is needed. But, we also have Brexit to consider. So, is there a need for a special case treatment for the UK? Well, we have been told that we cannot "cherry-pick". But, do we accept EU rules in order to stay coupled? It's a political decision.

> **Henry Edwardes-Evans: What is the status of interconnector development on Ireland's side?**

Rodney Doyle: The North-South interconnector is designed to improve the security of the system, reduce constraints and add to the prospects for price convergence. It has planning approval. There was an objection, but the approval was upheld. It is possible that it may go to a higher court for hearings. From my point of view it is a positive project, but I fully agree it should be rolled out properly and correctly. The Celtic Interconnector has approval from both Governments. At the time, Enda Kenny and François Hollande attended the



planning approval ceremony. It has EC "project of common interest" status, and this was bestowed on the project long before Brexit. But, it will only go ahead on a business case which works, regardless of the outcome of Brexit.

Jean-François Conil-Lacoste: If we look back at the underlying market position, we can see that currently, the UK imports 9% of its power. That figure goes up to 35% if we look at Antony's report if new interconnectors are built. So, in such a scenario, any minor inefficiencies would become magnified into major ones. And, I say again that the power market is changing. The nature of the value chain is changing. The current system of caps and floors should be aligned because it creates bias.

> **Henry Edwardes-Evans: Or maybe they should be removed?**

Jean-François Conil-Lacoste: Well, we have them for technical reasons, so perhaps not fully removed. The relationship between intra-day markets and balancing markets are important. We are moving to real-time trading; 5-minute contracts may emerge. A "too important" balancing market may inhibit innovation. This is a risk. Regarding XBID, the hope is that the technology makes sure that we have one price across different platforms. We will pool the liquidity. This is the first such target project in the world. Ideally, we would like that new products are developed jointly. But, how do we do this? How do we share new product ideas with competitors? How do we share innovations? Then, there is the idea of improvement of the shared order book. We want to plug the local platforms into the capacity management model, which was created by Deutsche Börse (DB) for the TSOs. And, the concept of equal treatment has to be considered as a desired outcome. Finally, we want to simplify governance and simplify costs. We are trying to conclude this by Q1 or Q2, 2018.

Network codes did not depend on the single market.

Mark Copley

- > **Question from Floor:** How do we progress to 15-minute balancing? There has been a target of achieving European network code harmonisation within 2 years. Is Brexit in the way of that?

Mark Copley: Well, the network codes did not depend on the single market. We did a cost-benefit analysis of network code harmonisation, and we found a net cost of £850million. This was for various processes such as changing meters. And, when devising the CEP, this issue of whether it was worth doing has resurfaced. The original analysis did not support it, but I think we will look at it again now because of the CEP.

- > **Question from Floor:** Is there any “role model” for the UK-EU relationship? Norway? Switzerland? And, what is OFGEM’s experience of the process of Brexit negotiations?

Antony Froggatt: Norway is part of the EEA, but from what I have seen, there is resistance to the EEA option. The regional sector-by-sector approach is maybe not helpful. In the case of Switzerland, the question of immigration suspended the energy discussion. Regarding the CEP, there is a mood to complete this for political reasons. If we assume the EC completes the CEP before Brexit, then I think we will see the CEP applied in the UK. Elements such as the 2030 renewables target and other elements are hard to predict. But, I think the way that this will work is that UK will be bound by regulations, but not by directives. It is unclear, because, as an example, the UK blocked the energy efficiency elements. So, where we have discrepancies or changes in targets, what does this imply?

Mark Copley: Regarding OFGEM’s experiences of Brexit negotiations, I have not witnessed any “stepping-back” from the process to engage the UK in the dialogue. OFGEM is still in discussion and negotiation with ACER. So, the UK has an influence and a “say” in the process. There have been no doors slammed in our faces!

- > **Henry Edwardes-Evans: What about the special position of Northern Ireland?**

Rodney Doyle: I would say that the fact that Ireland will stay in the EU is the key factor here. The all-Ireland approach to this must stay in place, and we will continue this approach. This is not a “head-in-the-sand” attitude, the truth is we cannot do anything else but carry on along the path on which we presently find ourselves. With regard to the evolving political relationship between Northern Ireland and Ireland, there may be differences which will come out, I think we have to accept that possibility.

- > **Question from Floor:** The I-SEM was already delayed. Are you confident that the target date will be achieved? Given the need for testing phases and so on all the way up to March 2019, are you concerned that there may be more delays?

Rodney Doyle: Yes, I am certainly conscious of the risk that there may be more delays. But, we have to appreciate that we will have new control rooms, a new exchange as well as all of the practical implications and changes which these new features will entail. Managing this is not a small task. Naturally, we find ourselves asking the question of when we stitch all of the features together, will it work the way we hoped? But, I think that getting to a trial stage will “flush people out”. So, we are working on it, we are committed to it, at this stage we can guarantee that.



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