

Title: Market power and liquidity in the Single Electricity Market

Date: July 2010 - Ongoing

Client: Commission for Energy Regulation (CER) and Northern Ireland Authority for Utility Regulation (NIAUR)

Country/Region: UK

CEPA is currently providing advice to NIAUR and CER on market power and liquidity in the Single Electricity Market (SEM). The project started with a SEM Market Power and Liquidity State of the Nation Review, prepared by the Regulatory Authorities and published in August 2010. This project has involved identifying: the sources of market power in the SEM today together with the methodologies to assess their potential effects; the degree and quality of liquidity in the SEM and how liquidity might be dependent on the degree of market power; and the likely changes to market power and/or liquidity in the SEM over the next 10 years resulting from (i) expected entry and exit, and (ii) further interconnection.

We were also asked to consider the effects in the SEM of power mitigation strategies and/or provision of liquidity, resulting from:

- ring-fencing conditions;
- the economic purchasing order on NIE and ESB;
- directed contracts; and
- the SEM bidding code of practice (marginal cost pricing).

The review is also taking place against a background of an ESB has proposal to remove the ring-fencing between its generation and supply businesses. This would give ESB the ability to integrate, both horizontally and vertically. The project also assesses a proposed undertaking by ESB to provide a degree of liquidity in the market if it was to integrate.

CEPA is providing an outline of potential changes to the market power mitigation strategy and market design to enhance competition in the SEM. This includes considering both changes to existing behavioural and structural measures, and potential new ones. We have also prepared higher level options to facilitate the development of contract liquidity and options to enhance liquidity.

Links:

- CER
- NIAUR