

Interconnector Trading

From 1 April 2007

A Proposals Paper by the
Office for the Regulation of Electricity and Gas (Ofreg)
November 2006

1 Introduction

- 1.1 Northern Ireland (NI) has two primary electricity interconnectors, one connecting it with the Republic of Ireland (RoI) ('North-South Interconnector') and one connecting it with Scotland (the 'Moyle Interconnector'). Each year auctions are held to allocate capacity across both interconnectors.
- 1.2 The Moyle Interconnector currently has net transfer capacities of 400MW import and 80MW export. To date, the predominant trading direction has been import. 125MW of the import capacity is contracted to NIE's Power Procurement Business until 31st October 2007. The remaining 275MW import capacity and 80MW export capacity is auctioned via annual and monthly auctions to appropriately licensed and authorised market participants. As current capacity agreements resulting from earlier interconnector auctions will expire by the end of March 2007, there will be 275MW Moyle import capacity and 80MW export capacity available to market participants for the trading period beginning April 2007. An additional 125MW import capacity will be available from 1 November 2007 as the PPB contract is due to expire at the end of October 2007.
- 1.3 The North-South Interconnector currently has a net transfer capacity of 330MW in a North-South direction. The predominant trading has been North-South for the past few years and no South-North capacity has been purchased via auction. As all capacity sold at the last auction expires on 31 March 2007, the amount of North-South capacity available for the period starting 1 April 2007 will be 330MW. It should be noted that reductions in capacity, especially at night-time, may be necessary from time-to-time for legitimate operational reasons, particularly in the summer maintenance period. The capacity available on the North-South Interconnector at Night-Time¹ varies throughout the year as follows:

¹ Night Time is defined as follows

From 01/04/07 to 30/09/07:	01:00 to 07:00
From 01/10/07 to 31/10/07:	23:00 to 07:00

	Night Time	Day Time
April	360	330
May	310	330
June	310	330
July	310	330
August	310	330
September	310	330
October	400	330

- 1.4 Therefore during April and October there will be additional capacity for sale at night-time on the North-South Interconnector. It is proposed that this extra night-time capacity is auctioned on a monthly basis.
- 1.5 In respect of the Moyle Interconnector, the allocation procedure set out herein constitutes the “relevant access arrangements” established by Moyle Interconnector Limited (“Moyle”) and approved by Ofreg in accordance with Condition 17 of the Moyle Transmission Licence.
- 1.6 In accordance with previous years, SONI will manage the auction on behalf of Moyle Interconnector Limited and Ofreg. SONI is ideally placed to undertake this role as it is both the system operator and market operator of the Northern Ireland market and the operator of the Moyle Interconnector.
- 1.7 Ofreg does not set a fixed level of maximum capacity which any bidder may acquire but has a notional 40% cap figure, which triggers an analysis of the impact on the market environment of the auction outcomes in relation to proportions held by each bidder. This does not mean that Ofreg will prevent any one participant holding above 40%. When looking at the percentage of capacity held by each participant Ofreg takes the total capacity held into account. Ofreg did not need to place caps on capacity sold at the auctions last year.

2 Market Issues

All-Island Market

- 2.1 There is a commitment to the development of an all-island wholesale market (the Single Electricity Market (SEM) www.allislandproject.org) by November 2007. It is intended that the all-island market arrangements will result in an efficient generation dispatch and provide greater visibility of transmission constraints. This will signal the need to plan transmission investment on an island wide basis. A new, larger market should be more attractive and stable for investors, hence creating a more competitive

environment. Therefore there will be equal treatment of power from NI power stations in the all-island market. In addition, the way in which the North-South Interconnector is defined and operated will change in an all-island environment. It will no longer be treated as an interconnector on an all-island basis but be treated as a transmission line. Whereas currently suppliers buy capacity on the interconnector and then transfer generation across, once the SEM goes live, generators wishing to transfer energy across the interconnector will now simply have to offer generation and the system will be dispatched accordingly.

BETTA

- 2.2 BETTA has made the GB electricity market more accessible and offers increased flexibility in electricity trading. This has affected the demand for Moyle capacity, and particularly the ability to trade short term and avail of Moyle export capacity.
- 2.3 In order to facilitate trading under BETTA the necessary arrangements have been incorporated into the Interim Settlement Code. BETTA will continue to operate as it did in 2006-07.

Market Opening

- 2.4 The Northern Ireland non-domestic electricity market became fully open to competition in mid 2005. In addition the EU Directive (Directive 2003/54/EC) instructs that the electricity market be fully open, including domestic customers, by July 2007. However, because the all-island market will not be implemented until November 2007, it is expected, subject to EU approval, that full market opening will not take place until November. This is because of the increased costs involved in delivering two projects on different dates.
- 2.5 As the SEM, and possibly the market opening, projects are being implemented in November 2007, it is proposed that capacity on the Moyle Interconnector and the North-South Interconnector be offered for seven months only, from 1 April 2007 until 31 October 2007. After this the North-South Interconnector will cease to be treated as an interconnector on an all-island basis.
- 2.6 Arrangements for the Moyle Interconnector Auction post-SEM are dependent upon the alignment of tariff years between Ireland and Northern Ireland. Tariff alignment is currently being discussed between CER and Ofgem and proposals on how the Moyle auction will operate will be laid out in the post-SEM Interconnector Proposals Paper which will be published in June.

3 Moyle and North-South Interconnector Capacity

- 3.1 The Moyle Interconnector capacity will be the same as last year. There will be a total of 400MW winter capacity, 400MW summer-day capacity and 300MW summer-night import capacity available (April-October inclusive). Of this, 125MW are contracted to NIE PPB as described above.
- 3.2 Both SONI and Eirgrid reserve the right to reduce the ATC as may be necessary for exceptional operational circumstances.

4 Moyle Interconnector Allocation

- 4.1 Allocation will be on the same basis as the 2006/07 auction. Bidders will submit bids on the basis of the winter ATC (i.e. bids for 275MW) of capacity. The Moyle Interconnector Trading System (MITS) as developed by SONI will then calculate the energy nomination and capacity adjustments necessary to allow the summer night step-down in capacity from 400MW to 300MW. Details will be provided in the auction bid papers, but in simple terms, over summer nights, capacity will be reduced in steps from 23.00hrs to midnight, and increased from 8.00hrs to 09.00hrs in a similar manner, as illustrated below. Summer Night Capacity, commencing 01/04/07 to 31/10/07

Time	ATC
09.00–23.00	400
23.00-23.30	360
23.30-24.00	320
24.00-08.00	300
08.00-08.30	320
08.30-09.00	360

5 Auction Methodology and Products

- 5.1 A multi-stage auction process will be employed and the available capacity will be divided over two separate auctions, to be held a few days apart. Any unsold capacity in the first auction will become available again by the same product type in the second iteration. Any capacity remaining unsold will then be available for monthly auctions throughout the year. All capacity holdings will expire on 31 October 2007 for the North-South Interconnector, and possibly for the Moyle Interconnector, subject to this consultation.
- 5.2 The auction will have the pay-as-bid, sealed envelope format, as in

previous years. In addition, Ofreg reserves the right to, at any time during the process, declare the auction void if it determines that the process appears to have been gamed, or that the outcome would lead to a non-competitive situation in the Northern Ireland or Republic of Ireland wholesale markets. In the event of such occurrence another suitable allocation method would be devised and enacted at a later date.

- 5.3 In 2006-07, 50MW of both North-South Export and Moyle Import capacity was retained to be auctioned on a monthly basis on the reserve price pro-rata. Ofreg's proposal is that 50MW of both Moyle Import and North-South Export capacity is retained for monthly auctions. A final decision will be taken on this dependent on the responses from this consultation.
- 5.4 If 50MW of capacity continues to be retained for monthly auction, the following table provides a simple illustration of the capacity that will be available for sale at each iteration.

Product	Iteration 1	Iteration 2
One Year Moyle Import ²	115	110
One year Moyle Export	80	
1 Year North-South Export ³	140	140

It is important to note that all capacity must be sold in 5MW blocks.

- 5.5 Should any available capacity for any product remain unsold it will be made available in the second round by the same product type.
- 5.6 Bids received by SONI for North-South capacity and as agents of Moyle Interconnector Limited will be binding and if accepted represent an obligation to pay for the acquired capacity under these auctions. Capacity blocks with the relevant specified annual profile outlined above will be offered, and bids will be invited for those blocks. Successful bidders will pay the bid price as marked on their bid forms submitted against each capacity block. Bid prices are exclusive of VAT.
- 5.7 Any entity, which is a signatory to the relevant licences and industry codes, for example the Interim Settlement Code, Supply Competition Code, Grid Code and the Moyle Interconnector Capacity Framework Agreement will be eligible to bid (refer to the following link on SONI's

² The total amount available for both iterations is 275MW – 50MW = 225MW retained capacity

³ The total amount of capacity available is 330MW - 50MW = 280MW retained capacity

website: www.soni.ltd.uk). Entities, which are part of the same holding company, will be treated as separate entities with respect to the submission of bids.

6 Reserve Prices

- 6.1 In previous years, there has been a reserve price set for capacity on both interconnectors. The Moyle Interconnector reserve price last year was £1901.49/MW/Month for all products, while the reserve price on the North-South Interconnector was £420 for all products.
- 6.2 Maintaining last year's reserve price uplifted by the RPI figure for October 2006 would result in a Moyle reserve price of £1971/MW/Month for all products and a North-South reserve price of £435/MW/Month for all products.
- 6.3 However, paragraph 2.9 of the draft Commission of European Communities Decision to amend the Annex to Regulation (EC) No1228/2003 on conditions for access to the network for cross-border exchanges in electricity states that "other in the case of new interconnectors which benefit from an exemption under Article 7 of the regulation, establishing reserve prices in capacity allocation methods shall not be allowed".
- 6.4 It is therefore Ofreg's proposal that reserve prices are not imposed on either interconnector. This should not have a significant effect on the North-South Interconnector as its capacity is always fully subscribed and the price of capacity at auction is normally above the reserve price. However, since the Moyle Interconnector is not always fully subscribed, the removal of reserve prices could possibly result in reduced revenues for Moyle as the price paid for capacity may fall below the current reserve price. Any losses made on the Moyle Interconnector as a result of this may have to be recovered from all NI consumers via the Use of System (UoS) charge.

7 Auction Dates

- 7.1 Some suppliers have expressed a wish to move the North-South auction forward to the start of December 2006. Ofreg is content with this proposal for the North-South auction, and for the Moyle auction to continue to be held in January 2007. Views are sought on the practicality of such a move.
- 7.2 The proposed auction dates are therefore as shown below:

N-S (first iteration)	11 December
N-S (second iteration)	14 December
Moyle (first iteration)	5 January
Moyle (second iteration)	12 January

- 7.3 Bids must be received by the auction dates and times, as specified in the bid papers to be issued by SONI and on behalf of Moyle. Bids will be opened on the morning of the due date by SONI in the presence of an Ofgem representative, shall be ranked by bid value, and bidders will be informed that day of their accepted bids and associated allocations. SONI and Ofgem will also publish, after each iteration, the average successful bid price for each product. Once the auction process is complete Ofgem/SONI will publish the capacity obtained by each bidder by name and product type.
- 7.4 Bid papers will be made available in advance of the first iteration in order to allow sufficient time for bidders to familiarise themselves with the auction process. Separate Invitation to Bid documents will be issued for the North-South and Moyle auctions.
- 7.5 Bidders are asked to note that the deadline for receipt of auction bids will now be 10:00am on the specified date. This is to allow time for administration and queries prior to publication of results. Bids received after this time will not be accepted.

8 Moyle Interconnector Ltd. Requirements

- 8.1 Moyle will contract with successful bidders for Moyle capacity on the basis of its standard Moyle Interconnector Capacity Framework Agreement which can be downloaded from the SONI website, www.soni.ltd.uk. The Framework Agreement will be required to be executed prior to the auction. For the long-term capacity sold at auction, SONI will issue successful bidders with Capacity Confirmations under the Framework Agreement when the auction is complete. Further Capacity Confirmations would be issued later in respect of any short-term capacity subsequently contracted for.
- 8.2 The Moyle Interconnector Capacity Framework Agreement states that bidders who do not have an Approved Credit Rating must provide security cover to equal the capacity holder's liability for 3 months capacity charges. This amount of cover is standard practice for debt financed companies such as Moyle and Ofgem does not consider it unreasonable. Therefore the security provisions of the Moyle Interconnector Capacity Framework Agreement will continue to apply for the 2007 auction.

9 Short-term Trading on Moyle

- 9.1 Capacity holders can currently take advantage of secondary trading under the arrangements provided for in the market rules and standard capacity agreements. However given the importance of capacity trading in a secondary market for liquidity and competitiveness, further auctions for shorter-term trading are to be developed at a later date. As stated above, these will be required under EU regulations and may be appropriate under SEM trading arrangements.
- 9.2 The arrangements already in place for part of both Moyle and North-South capacity to be sold in monthly auctions will further accommodate shorter term trading.

10 Summary

- 10.1 Comments are requested on the following proposals:
- (1.4) Extra Night-time capacity to be traded on a monthly basis;
 - (5.3) 50MW of capacity on each interconnector is carried over for monthly auctions;
 - (6.4) No reserve price to be set on either interconnector;
 - (7.2) The proposed auction dates.

11 Additional Information

- 11.1 Any technical or operational queries in relation to the auction should be addressed to SONI:

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12 Responses

12.1 Responses to this proposals paper should be sent to:

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The closing date for responses is 5pm on 4 December 2006.