

Moyle Interconnector Trading From 1 October 2010

A Consultation Paper by
Moyle Interconnector Limited
March 2010

1. Introduction

Moyle's current relevant access arrangements¹, which were approved by the Utility Regulator in May 2009, encompass a description of the arrangements and the Moyle Interconnector Capacity Framework Agreement (MICFA) and were primarily written to cover the period 01 October 2009 to 30 September 2010.

Condition 17 of Moyle's licence requires it to periodically review its relevant access arrangements in consultation with authorised electricity operators liable to be materially affected thereby and any relevant co-operator.

Moyle is hereby consulting on its proposed changes to the arrangements approved in May 2009 which would apply for Interconnector capacity available from 01 October 2010.

Moyle welcomes responses from interested parties by 9th April 2010. Following consideration of responses to the consultation Moyle will propose revised relevant access arrangements to the Utility Regulator for approval along with a synopsis of consultation responses and considerations. Following approval the relevant access arrangements will be posted on the Moyle and SONI websites.

2. General review of the arrangements

- 2.1. The main principles enshrined in the arrangements are considered to be fit for purpose and working satisfactorily to maximise the use of the Interconnector and be non-discriminatory between the same category of users.
- 2.2. Appendix 1 provides a summary of the conditions of access within the existing arrangements where no changes are proposed.

3. Drivers for Change

- 3.1. A review of the minimum amount of capacity to be offered is required as some longer term capacity from 1 October 2010 has already been allocated.
- 3.2. A review of the product types to be offered

¹ http://www.mutual-energy.com/Media/Press_Archive/Moyle_Access_Arrangements_October_2008_approved_by_NIAUR.php

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3.3. General review of auction timing and reserve price is also required.

3.4. Users' views are also sought in relation to the expected introduction of a computerised auction system and the impact of the East-West interconnector on the Moyle auction process.

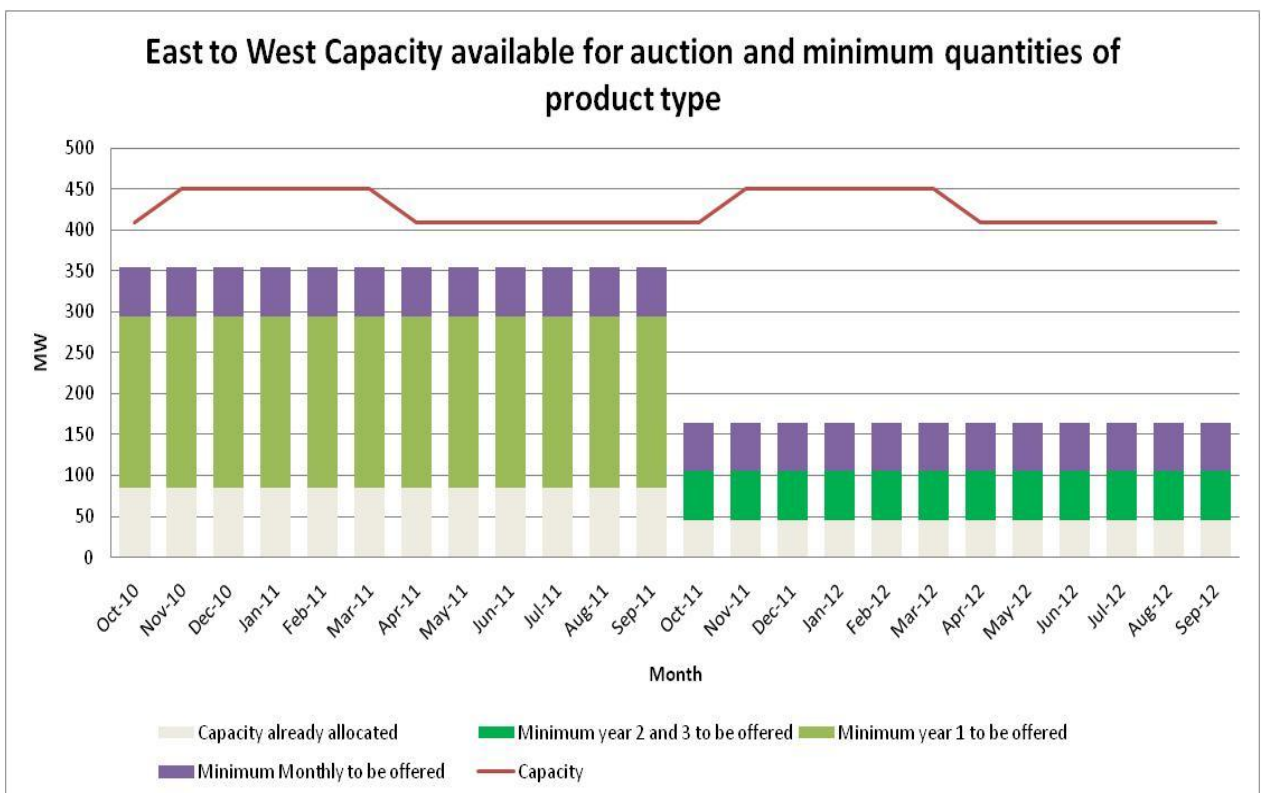
4. Access arrangements modifications

4.1. Quantity of capacity to be offered

85MW of East to West capacity has already been allocated Oct-10 to Sep-11. Beyond Sep-11 45MW has already been allocated to Sep-12. The entire West to East capacity is available for allocation from Oct-10.

Our continuing objective in the current access arrangements is to align the Moyle tariff year with the SEM tariff year (i.e. October – September).

It is proposed to increase the minimum quantities to be offered with the largest change being that the minimum annual East to West capacity offered in year 1 would be increased by 50MW to 210MW². The chart below illustrates the currently available capacity and capacity to be offered.



² East to West capacity offered in the year commencing October-09 was reduced to 160MW to deal with a capacity “pinch point” in October-09.

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Capacity Product	Minimum East to West Capacity to be auctioned Oct 10- Sep 11	Minimum West to East Capacity to be auctioned Oct 10- Sep 11
	MW	MW
Year 2 and 3	60	0
Year 1	210	30
Monthly	60	10

Product Types

Users at times may require a product with an alternative duration to the currently monthly or annual products, for example a 6 month, 3 month or seasonal product.

The access arrangements were amended for the year commencing Oct-09 to allow Moyle the ability to offer such products at its discretion. Moyle proposes offering a small amount of such products in the capacity year commencing Oct-10, the proposed arrangements for which are set out below.

There is still an intention to offer products with duration less than 1 month. This will be introduced along with a computerised auction system as envisaged in the current access arrangements and approved by the Regulator. An update on the current status of this project is included below.

4.2. Timing of auctions

Again this year it is considered most appropriate to hold the Moyle longer term auctions at or about the same time as the directed contracts and the non-directed contracts are offered to market participants. These products are expected to be offered from April to July 2010. Additionally a third longer term auction approximately one month ahead of the contract period would again seem to be appropriate. An indicative timetable is given later in this paper.

4.3. Reserve price

The maximum reserve price will be indexed based on the Feb 10 RP02 inflation figure versus the Feb 09 RP02 figure of 211.4. Whilst the former has not been published at the time of writing, the Jan 10 RP02 figure is 217.9 which would indicate that the maximum reserve price should be in the region of £2140-2150/MW/month.

As usual Moyle may set a lower reserve price for any auction or type of product subject to the maximum reserve price cap.

Moyle may also quote the reserve price for a particular product/ auction in different units (e.g. £/MWh). In this circumstance the minimum acceptable bid price calculated on a per megawatt of capacity per month basis will not exceed the maximum reserve price.

4.4. Quarterly and half-yearly capacity auctions

Moyle is keen to meet the needs of its users and feels that one way of doing this is to offer a greater variety of products of differing durations. Discussions with users have suggested that there may be interest in products of quarterly and half-yearly durations so Moyle proposes that a small volume of capacity will be offered for these terms in the year commencing Oct-10.

Moyle proposes the following administrative schedule for these auctions, including dates for the initial capacity offered. Moyle would be interested to know if users feel that the timing or any other aspect of this process could be improved.

Auction	Capacity period	Auction date	ITB issued	Import capacity offered (MW)	Export capacity offered (MW)
Half yearly auction 1	01/10/10 to 31/03/11	4 weeks before capacity start date	2 weeks before auction date	15	10
Quarterly auction 1	01/10/10 To 31/12/10	2 weeks before capacity start date	2 weeks before auction date	10	5

For the avoidance of doubt, half-yearly auctions will be held every 6 months (twice per year) with quarterly auctions being held every three months (4 times per year).

4.5. Indicative annual capacity auction programme and volumes

The programme is designed to allow market participants taking part in the directed contracts and the non directed contracts process an alternative by offering Moyle capacity during those processes. It also allows all participants an ability to acquire capacity close to the start of the tariff year to align with customer contracts.

Auction	Date	Import Capacity offered MW			Export Capacity offered MW
		year 1	year 2	year 3	12 month
Long term iteration 1	19/05/10	70	20	20	20
Long term iteration 2	18/06/10	70	20	20	20
Long term iteration 3	27/08/10	70	20	20	20

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Half-yearly	D-4 weeks	15	10
Quarterly	D-2 weeks	10	5
Monthly	25 th M-1 approx	130 winter/ 90 summer	20

Dates and volumes are indicative only and may change within the NIAUR approved limits depending on demand for particular products and/or GB-SEM expected arbitrage. Unsold products in a particular category will be reoffered at the next level of granularity at future auctions.

5. Computerised auction platform

As stated previously, Moyle is committed to introducing a computerised auction platform that will allow it to offer products of increased granularity and streamline the auction process for interconnector users. This will include incorporating much of the information contained in the current standard invitation to bid into the MICFA to reduce the volume of information to be digested by users prior to each auction.

This process has been slower than was initially anticipated as we are mindful of the need for any auction platform to be consistent and compatible with the respective auction platforms of the IFA, BritNed and the East-West interconnectors in particular.

To this end Moyle intends to work with SONI and Eirgrid in the procurement of an auction platform which could be used for both Moyle and the East-West interconnectors. While this process will be fully consulted on as it proceeds, Moyle is keen to get an early understanding of which product types are of interest to interconnector users and of any other issues that they feel will require attention in developing the auction platform. Moyle's intention in the first instance is to move all existing scheduled auctions onto the computerised auction system and to introduce auctions for weekly capacity.

6. East-West interconnector

Commissioning of the East-West interconnector will have a significant impact on the electricity market in Ireland and specifically, on the demand for and sale of Moyle Interconnector capacity. In jointly developing an auction platform Moyle and Eirgrid are minded to take a coordinated approach to the sale of Interconnector capacity and are conscious that this will raise complex issues to be dealt with before East-West go-live in Q3 2012.

Our initial thoughts are around whether users would prefer Moyle and East-West capacity to be sold separately and independently or whether users would prefer a joint auction where they simply bid for "Interconnector Capacity between SEM and BETTA" with the system operator determining over which

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interconnector power actually flows. Issues to be considered in determining a preferred approach will include:

- How to deal with different VAT rates in the two jurisdictions
- How to deal with different currencies used by each interconnector
- How to deal with different losses across the two interconnectors
- How would flows be efficiently allocated to the respective interconnectors?
- How to ensure correct BMU nomination in the Betta market

We are conscious that this is not an exhaustive list and it is likely that further issues will arise.

Users will be fully consulted in the future but we feel that there is value at this stage in gauging users' initial views on how they would like to see capacity being sold in the post East-West era.

7. Consultation questions

Moyle is keen to receive any views on this consultation and in particular it is keen to understand:

Do the indicative auction dates and volumes proposed meet the needs of potential bidders in the capacity auctions?

If you believe improvements could be made to the indicative timetable or volumes please provide alternatives and reasons.

Would you wish to see capacity offered for durations of greater than 1 month that are not covered by these access arrangements? If so, please specify.

When the computerised auction system is implemented Moyle initially intends to offer unsold capacity for auction on a weekly basis. Please indicate if there are any alternative product durations that would be attractive to users at this stage. How far ahead of the capacity period should such products be offered?

Do you have any other issues with sale of Moyle capacity that you feel the auction system should address?

How would you wish to see interconnector capacity sold when the East-West interconnector comes into operation?

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8. Responses

Queries relating to this consultation or responses to this consultation should be sent preferably in electronic form to:

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Moyle Interconnector Limited
First Floor The Arena Building
85 Ormeau Road
Belfast BT7 1SH
e-mail: paul.mcguckin@mutual-energy.com

Responses to the consultation should be received by 9th April 2010. Moyle will publish all responses received on its website www.mutual-energy.com unless you request otherwise in your response.

Appendix 1

Summary of the conditions of access within the existing relevant access arrangements where no changes are proposed

- Capacity will be allocated via explicit auctions administered by SONI on behalf of Moyle and overseen by the Utility Regulator
- The auctions will be sealed envelope, pay-as-bid and bids will be binding (until implementation of computerised auction system)
- Bids will be ranked in order of the firm value to Moyle in £/MW/month units. Capacity will be allocated to those that provide the highest firm value first. In the event of a tie a bid that offers the highest non firm value to Moyle will be allocated capacity first (based on the variable charge for non-firm capacity). If this is not applicable capacity will be allocated pro-rata basis.
- Winning bidders and their capacity allocations will be published following each auction as well as the average of the winning bid prices for the auction
- Bids must be received by 10:00 am on the day of the auction
- Capacity will be contracted on the basis of the MICFA
- 3 months credit cover or an approved credit rating is required
- Secondary trading of capacity is permitted
- Available Transfer Capacity (ATC) for imports to SEM of 450MW in winter (Nov-Mar) and 410MW in summer (Apr-Oct) and 80MW for exports to Scotland, all quoted at Auchencrosh meters
- The ATC will be affected only by the availability of Moyle or the GB system
- No fixed level of maximum capacity which any bidder may acquire but a review will be triggered if one party acquires more than 40% of the annual capacity at auction and a limit on that party's capacity may be imposed by the Utility Regulator.
- Capacity will be offered in Units or blocks of 5MW capacity with a flat 5MW profile throughout the capacity period (ramping will obviously still apply for changes to nominations- this process is administered via the Market Operator)
- 1 year, 2 year, 3 year and monthly capacity products will be offered. The access arrangements will define minimum quantities of each type of capacity which must be offered
- Annual and multi-year capacity products will be auctioned together via at least two auction iterations
- An Invitation to Bid document will be issued in advance of each auction in reasonable time but there is no need to register to bid in an auction (bidder must however be eligible to bid – be a signatory to the MICFA - for bids to be accepted)
- Where Moyle exercises its discretion, within the boundaries set by the Utility Regulator, in relation to the access arrangements (e.g. timing of an auction or quantity of capacity offered) it must have regard to maximising the use of the Interconnector and maximising receipts from the capacity auctions
- Capacity not sold at auction will be made available at the next auction covering that period or at Moyle's discretion a further auction may be held
- Standard or non-standard capacity products will continue to be offered as appropriate

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- A maximum reserve price will be approved by the Utility Regulator and Moyle can use its discretion to reduce the reserve price directly for the standard capacity product or indirectly by offering a non-standard capacity product in order to stimulate demand
- The auction timing boundaries as described in the relevant access arrangements will continue to apply