

Moyle Interconnector Trading From October 2011

(Post auction platform implementation)

A Consultation Paper by Moyle Interconnector Limited
April 2011

1. Introduction

Moyle's current relevant access arrangements¹, which were approved by the Utility Regulator in May 2010, encompass a description of the arrangements and the Moyle Interconnector Capacity Framework Agreement (MICFA) and were primarily written to cover the period 01 October 2010 to 30 September 2011.

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 (in conjunction with EirGrid and SONI) is in the process of developing a computerised Auction Management Platform (AMP). This platform will replace the current paper-based auction procedure for allocating capacity on Moyle and will result in significant changes to the access arrangements and MICFA.

Moyle is hereby consulting on the proposed changes to its previous arrangements which would apply from when the AMP goes live – this is currently expected to be October 2011.

As with previous years, Moyle intends to hold auctions for annual capacity between May and August 2011. Auctions held before introduction of the AMP will use the existing pay-as-bid, sealed envelope format as in previous years.

Moyle welcomes responses from interested parties by 29th April 2011. Following consideration of responses to the consultation Moyle will propose revised relevant access arrangements for regulatory approval along with a synopsis of consultation responses and considerations. Following approval the relevant access arrangements will be posted on the Moyle website.

¹ http://www.mutual-energy.com/The_Moyle_Interconnector/Access_Arrangements.php

² UIOLI is the process whereby un-nominated capacity is resold with revenue generated being retained by the interconnector owner. UIOSI is the process whereby un-nominated capacity is resold and revenue generated is paid to the original holder of the capacity.

³ Capacity allocations on Moyle can be viewed here:

2. General review of the arrangements

- 2.1.** The principle of allocating capacity using explicit auctions is 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. Moyle will continue to use explicit auctions to allocate its capacity within the same timeframes as previously (Annual, Seasonal, Quarterly and Monthly) with the addition of Daily (and potentially weekly) auctions).
- 2.2.** The introduction of computerised auctions will see a move away from the current paper-based approach and the arrangements describe the new processes.
- 2.3.** Implicit intra-day auctions are expected to be introduced to SEM in 2012. These auctions will be conducted within SEM and the detailed rules around them will be set out in the SEM Trading and Settlement Code. Moyle reserves the right to review its access arrangements, pursuant to Condition 17 of its licence, within the year commencing October 2011 if required.
- 2.4.** 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.** Alignment with “Congestion Management Guidelines” (“CMGs”). This move towards alignment is largely driven by the commissioning of the East-West Interconnector (“EWIC”) which is expected to be fully compliant with the CMGs. Moyle is conscious of current EC infraction proceedings and is seeking to align itself with the CMG requirements through coordinating it’s approach with that of other interconnectors in the region. To this end there will be a number of changes to the way capacity is sold on the Moyle Interconnector and the rights attached to this capacity - these are outlined in Section 4 below.
- 3.2.** The introduction of the AMP will allow Moyle to hold capacity auctions with greater granularity and offer capacity holders more options for the resale and transfer of capacity.
- 3.3.** A review of the product types and volume of capacity offered for each product type is required, particularly in light of the new products that will be available.

4. Summary of key changes to access arrangements

4.1. Removal of reserve price

In order to align more closely with the CMG's, and in anticipation of EWIC going live, Moyle does not intend to set a reserve price for auctions held on the AMP.

4.2. Move to marginal pricing

Historically Moyle's capacity auctions have been held on a "pay-as-bid" basis whereby the individual auction participants bid price determines the price they pay for capacity.

With the introduction of the AMP Moyle intends to move to a "pay-as-cleared" basis whereby the marginal accepted bid sets the price that all participants pay for capacity allocated in that particular auction.

e.g. 100MW offered

Participant A bids for 50MW @ £5 MWh

Participant B bids for 40MW @ £4 MWh

Participant C bids for 40MW @ £3 MWh

Participant A is allocated 50MW, Participant B is allocated 40MW and Participant C 10MW. Participant C's bid is the marginal bid and all participants pay £3 MWh for the allocated capacity

If an auction is not cleared (i.e. total bids for capacity are less than the capacity offered) then the price paid will be zero.

The auction results, including the marginal price achieved, will be published as soon as practicable after the end of each auction as set out in section D2 of the access arrangements.

4.3. £MWh to replace £/MW/month

Historically the smallest granularity of capacity that Moyle has offered has been monthly and bids have been made on a £/MW/month basis. This has been a rather inaccurate method of charging as months have varying durations.

With the introduction of the AMP all bids and auction results will be quoted in £MWh. This will align Moyle with other interconnectors in the region and result in an improved capacity charging methodology.

4.4. Introduction of Daily capacity auctions

With the current manual auction process it is not deemed to be feasible to hold daily auctions due to the timescales and administrative work this would entail.

With the introduction of the AMP and automated auctions it is now intended to introduce daily capacity auctions. We would envisage that a daily auction would be held on D-1 in advance of the first SEM gate closure at 0930.

Question

We would welcome views on the introduction of daily auctions, particularly whether they are desirable and/or practical and also on the preferred timing for a daily auction.

4.5. Auction granularity of 1MW

Previously capacity was allocated in blocks of 5MW. This was mainly to reduce the administrative burden on both the Interconnector Administrator and auction participants in the paper based auctions. The AMP will remove any such burden so capacity will now be sold in minimum units of 1MW.

4.6. Introduction of secondary market

Participants will be able to avail of capacity transfers and secondary trading using the AMP.

Settlement for capacity transfers will be undertaken outside of the AMP and it will simply be used by the relevant participants to enter and confirm the capacity transfer, replacing the existing manual process.

The secondary market is new to Moyle. Participants will be able to offer capacity that they have previously purchased for sale in an upcoming auction. The participant will then receive the marginal price achieved in that auction but will remain liable for the charges due in relation to their own purchase of the capacity.

4.7. Introduction of long-term capacity nominations and Use-it-or-sell-it

The CMGs state that “.....capacity rights.....shall be subject to the use-it-or-lose-it or use-it-or-sell-it principles² at the time of nomination”.

Due to the nature of the SEM as a centrally dispatched market Moyle has not had a nominations process which is the norm in self-dispatch markets. It is proposed to now introduce a version of this, in conjunction with UIOSI as a step towards alignment with the CMGs. This will entail Capacity Holders using the AMP to indicate their intention to submit offers into SEM in respect of their interconnector capacity (i.e. nominate) before “Nominations Gate Closure” (expected to be on D-2).

Any capacity that is not nominated will be entered into the Daily capacity auction and revenues generated from this will be paid to the previous capacity holder.

² UIOLI is the process whereby un-nominated capacity is resold with revenue generated being retained by the interconnector owner. UIOSI is the process whereby un-nominated capacity is resold and revenue generated is paid to the original holder of the capacity.

There will be an option in the AMP to submit default nominations that will avoid users having to manually enter nominations on a daily basis.

4.8. Change to curtailment/rebate rules

Currently, the rules set out in the MICFA dictate that a rebate of capacity charges will only be payable where capacity has been curtailed for a period of greater than 24 consecutive hours. This does not align with EU requirements for firmness so it is our intention that we will rebate capacity charges (based on the weighted average price paid at auction) in respect of outages of any duration.

4.9. Expected introduction of intra-day trading and Use-it-or-sell-it or Use-it-or-lose-it

Intra-day trading is expected to be introduced to SEM during the period contemplated by these access arrangements. This will entail capacity associated with offers that are not in merit at the first SEM gate closure being implicitly reallocated within SEM at later gate closures.

It is Moyle's view that there should be a charge for such implicitly allocated capacity as not having any charge would damage the value of previously sold long-term capacity. The issue to be determined is whether revenue generated by such charges should fall to the interconnector owner (UIOLI) or if it should be paid to the original capacity holder who was out of merit at the initial gate closure (UIOSI).

Question

What would users' preference be in relation to UIOSI versus UIOLI in the SEM intraday capacity allocation process?

5. Auction products, volumes and timing

5.1. Products

As stated previously, it is Moyle's intention to offer annual products for years commencing October 2011, 2012 and 2013. Moyle intends to offer seasonal (6 month), quarterly, monthly and daily products (and potentially weekly).

Question

Does this suite of products meet the needs of potential bidders in the capacity auctions? Is there appetite for any other product types such as weekly

5.2. Volume of capacity to be offered in each timeframe

125MW of East to West capacity has already been allocated for the period Oct-11 to Sep-12. Beyond Sep-12 70MW has already been allocated to Sep-13. The entire West to East capacity is available for allocation from Oct-11.³

We will continue to align the Moyle tariff year with the SEM tariff year (i.e. October – September).

The table below provides an indicative illustration of the capacity to be offered across each timeframe

Capacity Product	Import (East-West) Capacity made available	Export (West-East) Capacity made available
	Minimum MW	Minimum MW
Year 2 and 3	60	0
Annual	200	100
Half-yearly	15	5
Quarterly	10	5
Monthly	55	5
Weekly	0	0
Daily	5	170

This table is for discussion purposes at this stage and the volumes allocated to each timeframe are liable to change based on participant feedback. The minimum volumes to be offered in each timeframe will be published in the approved access arrangements. Capacity not sold in long-term auctions will roll forward into shorter-term auctions.

East-West capacity

We have assumed that users' continued preference will be for longer term capacity products. While there will be the possibility of offering weekly products these are not required by the CMGs and we do not envisage introducing these immediately unless users express a strong interest.

We expect that there may be limited demand for daily East-West capacity due to the likely tight timeframes involved so would not anticipate holding a significant volume of capacity back for daily auctions.

West-East capacity

We would expect to take a different approach for West-East capacity with most of the capacity being held back for daily auctions. The logic for this approach is that demand for West-East capacity is likely to be driven by the level of wind in Ireland on any given day. Historically the dominant flow direction has been from East to West but on a windy day (assuming SEM prices are more sensitive to wind than Beta prices) the economic flow direction may become West-East. Since wind is

³ Capacity allocations on Moyle can be viewed here:

http://www.mutual-energy.com/The_Moyle_Interconnector/Capacity_Holdings.php

difficult to forecast accurately across the longer term we see greater value in allocating this capacity across shorter timeframes. We are also concerned that the move to pay-as-cleared (coupled with low demand for West-East capacity) may present an opportunity for capacity hoarding by participants who could acquire capacity for free in long term auctions without intending to use it. We intend to offer a reasonable proportion of annual capacity in the forthcoming auctions as these will be held before AMP introduction and will be subject to a reserve price.

Question

Is our indicative allocation of capacity across each timeframe in the respective directions appropriate for participants needs? Is there genuine demand for longer term export products? We would welcome any specific suggestions for improvement.⁴

5.3. Capacity period timing

It is Moyle's intention to continue offering its capacity on a SEM trading day basis (i.e. each capacity period starts at 0600 and ending immediately before 0600 at a future date) as we feel that this is appropriate for our users. However, this is not in line with other European interconnectors which offer capacity on a calendar day basis (i.e. midnight to midnight) and Moyle could potentially be required to align its capacity contract period with other interconnectors in the region. Such products are not offered at present as they do not align with the current SEM design.

Question

Are calendar day products desirable and would these be of any more or less value than trading day products?

5.4. General auction timing

When EWIC goes live there will be two interconnectors connecting the same two markets, auctioning their capacity separately and offering broadly the same products across the same timeframes. While this presents greater access to interconnector capacity for participants we are conscious of a potential issue in relation to auction timing. If Moyle and EWIC hold auctions at the exact same time then users will either have to choose which auction to participate in or else participate in both and take the risk that they acquire more capacity than they need.

A potential solution for this could be to either hold the auctions at separate times or stagger their closing times (as the AMP will facilitate revision of bids this

⁴ Please note, a short separate consultation will be conducted specifically on long term auctions held prior to October 2011. This will be held concurrently with this consultation and responses to both will be considered when deciding on auction timing and volumes to be auctioned.

would allow users to update their bids for the later auction after publication of the results of the first).

Question

We would appreciate users' views on how this issue may be dealt with and whether they have any preference as to which auctions are scheduled to close first.

5.5. Annual 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 May to July 2011. Additionally a third longer term auction approximately one month ahead of the contract period would again seem to be appropriate. As these auctions will be held before the AMP is introduced they will be conducted using the existing manual pay-as-bid, sealed envelope arrangements. As in previous years a reserve price will apply to these auctions. A brief consultation on these auctions is expected will be issued in due course.

Question

Are the timings proposed for annual auctions appropriate? Are there specific dates that participants would prefer these auctions to be held?

6. Responses

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

Paul McGuckin
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 29th April 2011.

As well as responses to the specific questions asked in this paper we would welcome views on any other pertinent issues that these do not address.

Moyle will publish all responses received on its website www.mutual-energy.com unless otherwise requested by respondents.

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
- Winning bidders and their capacity allocations will be published following each auction as well as the winning bid prices for 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 (although now more options available)
- 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 regulatory authorities
- 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
- Where Moyle exercises its discretion, within the boundaries set in 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