

## **MOYLE RESPONSE TO CONSULTATION COMMENTS**

Moyle Consultation on Relevant Access Arrangements, MICFA, MIFD  
Comments Received by: 28th May 2007

### **Relevant Access Arrangements**

<b>Section</b>	<b>Comment</b>	<b>Company</b>
2.3	Firm 40% restriction on capacity acquired by any bidder (or parent company thereof) at each auction should be applied	Airticity
3.3	Definition of Summer should be April - September to align with the EFA trading calendar	VPE
4.1	Not all products should be aligned with the tariff year - there should be a spread	Airticity
4.2	Annual auctions should be held as early as possible	Airticity
4.1	A 12-month annual product from November would align better with supplier customer contracts	VPE
4.2& 6.1	Annual auctions towards end of calendar year should attract more bids than an alignment with the directed contracts process	VPE
5.3	Should be explicit auctions for 2 & 3 year capacity	Airticity
5.3	Two and three year products should be auctioned explicitly and provision should be made for auctioning forward years independently	VPE

5.6	Minimum of 30% of capacity should be made available for longer term products and explicit auctions should be held first	Airticity
5.4	SONI requires its additional costs in running a wider range of auctions to be recoverable	SONI
6.3	If capacity is not fully taken up at auction it should be released to successful bidders or posted for electronic secondary trading	Airticity
6.3	Moyle should make provision for the sale of capacity not sold at annual auctions (eg annual sold as an 11 month product)	VPE
7.1	Reserve price should be removed	Airticity
7.1	Reserve price should be removed	VPE
9.0	Auction process should be conducted over a shorter time period eg bids in at 10am, results published at 11am	VPE
9.1	Uncomfortable with fax or e-mail bids	SONI
10.0	Requirement for 3 months security cover for unrated bidders should be relaxed	Airticity

	Losses should only apply in the direction of dominant flow	Airticity
	<b>MICFA</b>	
4.1	Should include a pre-condition for users to have a Transmission Use of System agreement with SONI to deal with Grid Code compliance and liability issues.	SONI

**4th June 2007**

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***Response***

There is no need for a limit unless it is considered that such an allocation may have a detrimental effect on competition within the market. The access arrangements actually do contain a provision for a limit to be applied at the annual auctions if required. Placing a firm limit could allow bidders to acquire capacity at well below the competitive rate if reallocated capacity was awarded to a bidder at their failed bid price. Moyle is conscious to avoid this scenario and in the case where a limit might be applied then Moyle would argue strongly that any reallocation should only be made to bidders who are prepared to pay the original average bid price. The capacity available at shorter term auctions is limited and the duration of the product is short consequently it is difficult to envisage a realistic scenario where capacity allocations based on bid prices could adversely affect competition within the market, therefore no cap is applied.

The proposed capacities available for sale at auction are 410MW at all times throughout the summer period and 450MW in the winter period. These capacities are in line with Moyle's connection agreement. The summer period is not defined in the connection agreement however April - October tends to be the standard in Northern Ireland aligning with the British summer time period. Moyle's intention is that an additional 40MW will be available for winter period short term auctions the conflict with the EFA trading calendar is not relevant. However if Moyle was to offer a winter period product then it may become an issue. This type of product is not under consideration for the 07/08 period.

While Moyle had assumed that customer contracts would align with the new traffic year this may not be the case. Given this uncertainty it therefore would seem appropriate to run a number of annual capacity auctions to align with expected customer contract years. A balance obviously needs to be sought between matching supplier's customer contracts and the number of auctions that are held. Now that the details of the directed contracts process have been announced it appears that this source of supply is less of an alternative to Moyle than first envisaged. However it is understood that suppliers will want to source some of their supplies early and therefore a Moyle alternative should be provided.

Moyle is inclined to propose the following solution: a single auction of annual and 2/3 year capacity in June/ July; the main annual auction with two iterations in late September/ early October - including longer term capacity if demand exists; a further single auction of 12 month capacity in early March 2007. For the annual auctions held in 2007 bidders would indicate if they require annual capacity for 11 or 12 months (ie Nov 07 to Sep 08 or Nov 07 to Oct 08 inclusive) - a choice which would not be taken into account in bid ranking.

Given the uncertainties at this stage surrounding pricing and risks in the SEM (the value and certainty of CPM capacity payments to interconnector users is of particular concern) it is Moyle's belief that prices for longer term products would be discounted more now than after SEM go live. Additionally more players may enter the market as the SEM establishes itself as a transparent liquid wholesale market thereby increasing competition for Moyle capacity. Consequently Moyle is wary of entering into

longer term contracts at less than the true potential value of the product. On the other hand it is keen to satisfy any desire there may be for such products. The proposal in the consultation paper was an attempt to satisfy any demand there might be provided the prices bid were in line with the annual auction prices. Given the consultation responses Moyle is inclined to hold explicit auctions. However to ensure that the prices bid are pushed towards the value of the product rather than the reserve price Moyle propose to limit the amount of capacity offered (eg 40MW) and only offer more if the prices paid are comparable with those paid for the annual product.

Moyle supports SONI's position in this regard. SONI is obliged by its licence to carry out a number of functions regarding the Moyle interconnector including remaining party to the Operation and Agency Agreement. Moyle would expect that reasonable costs incurred by SONI in complying with these licence obligations are part of its allowed revenue. The introduction of a wider range of auctions is in line with the regulators expectations for the France, UK and Ireland Regional Electricity Market. Consequently it should be expected that the reasonable costs of introducing such changes will be part of the System Operators allowed revenue.

Moyle believes that releasing unsold capacity to successful bidders would devalue the auction process. In any event unsold capacity from one auction will fall into the auctions for shorter term capacity. Within the shortest timeframe interested parties may approach Moyle if they are interested in purchasing any unsold capacity. At that point a further auction or bi-lateral trade may be appropriate. Moyle recognise that there is a considerable gap in time frame between annual and monthly auctions. Therefore in future Moyle may consider offering a seasonal product. However it is not seen as appropriate now given all the other activities underway associated with SEM introduction.

Moyle believe that there are not yet enough players in the marketplace focused on maximising arbitrage value to allow the reserve price to be removed. Indeed with the introduction of CPM payments Moyle consider that a reserve price of £2010 /MW/month is low. However it has been maintained to allow the market more scope in bidding. Of course non standard products, which have a lower effective reserve price, will continue to be offered for short term auctions .

Moyle recognise the risk of market movement that exists between the time of bid submission and being informed of the auction result. SONI have always informed bidders of the auction results as soon as possible. However the 15:00 deadline allows for any problems that may cause delays in the process, primarily problems where NIAUR needs to be consulted or involved. In the event where no problems arise which need to be referred to NIAUR then SONI will inform successful bidders of the auction results as soon as practically possible after the auction has been complete but in any event no later than 15:00.

It is anticipated that weekly auctions for capacity will be introduced during the forthcoming capacity year. The way bids are submitted and the way auctions are conducted will need a re-think at that time. It is likely that some form of electronic bidding format would be introduced then that could be applied to all auctions. Consequently Moyle now proposes that a change to the method of bidding will be introduced then and for now the sealed envelope method will be maintained. This proposal is in line with limiting the number of modifications for SEM introduction and avoids the legal costs in ensuring that liability is correctly allocated in the bidding process.

Moyle has some sympathy with the resopndee. Unfortunately the security cover required is a condition of Moyle's financiers. In Moyle's opinion and experience the financiers would not change such a condition as it would weaken their security.

Moyle believes that this approach is contentious as it means that one party would pay for all the losses and another would piggy back free of charge. The existing allocation of losses means that all users benefit fairly by any netting of power transfers and Moyle believes that the existing arrangement should remain in place.

It is not yet clear exactly who will need to have what transmission use of system agreement in place. Moyle believes that the proposals in this regard are still being considered. In any event Moyle believes that the MICFA already covers for such an eventuality - the rights of a capacity holder to use capacity is conditional upon the holder "having entered into and complying at all times with the System Documents" ref 4.1(b). The definition of System Documents ("all agreements....which require to be entered into by persons who.... use or are granted rights to use...the NIE system...") covers for any such Use of System agreement being introduced.