

# Moyle Interconnector Trading From 1 November 2007

A Consultation Paper by  
Moyle Interconnector Limited  
May 2007

## 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'). In the past, joint consultations on access arrangements for both of them were conducted by the Utility Regulator.
- 1.2. An all island wholesale electricity market, the single electricity market (SEM) will go live on 1<sup>st</sup> November 2007. It means that for market participants the North-South interconnector will be treated as part of the all island electricity transmission network and not as a stand alone interconnector between two systems. Consequently it is necessary to determine relevant access arrangements only for the Moyle interconnector beyond 1<sup>st</sup> November 2007. Moyle Interconnector Limited ("Moyle") is therefore conducting this consultation with the agreement of the Utility Regulator and invites views on the proposals for future access arrangements which it contains.
- 1.3. It is expected that the introduction of the SEM should facilitate greater trade across Moyle due to the liquid nature of the market. However it is difficult in advance to exactly determine how best to allocate Moyle capacity so that efficient trade is maximised between the GB and Ireland markets. It is also considered sensible not to significantly change the capacity allocation process until bidder behaviour can be assessed following the introduction of the new market. Additionally market participants will be dealing with the new market arrangements and any unnecessary or unhelpful changes to the Moyle capacity allocation process will only add to an already heavy workload without adding much value. It is also envisaged that new bidders for Moyle capacity may emerge and it would not be appropriate to introduce unfamiliar processes at that time.
- 1.4. Consequently the approach in developing these access arrangements has been to limit changes to those items that are necessary as a result of changes in the marketplace or are envisaged to add value without adding significant workload. In addition some flexibility has been built into these access arrangements so that within limits certain variables can be optimised as the market develops.

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1.5. In developing these access arrangements Moyle Interconnector Ltd informally consulted with a range of existing and potential users of the interconnector. Moyle appreciates the input received and would like to thank those involved in the process to date. Many of the suggestions put forward during this process have been considered in these access arrangements. Other issues raised, for example level of firmness of capacity rights, use it or sell it and facilitated secondary trading, will be considered for the future.

### **2. Arrangements and Process Management**

2.1. The allocation procedure set out herein is proposed to constitute the “relevant access arrangements” to be established by Moyle Interconnector Limited (“Moyle”) subject to the approval of the Utility Regulator in accordance with Condition 17 of the Moyle Transmission Licence.

2.2. As in previous years and in accordance with its arrangements with Moyle, SONI will manage any auctions on behalf of Moyle. SONI is ideally placed to undertake this role as it will be the operator of and Interconnector Administrator for the Moyle Interconnector as well as the system operator for Northern Ireland.

2.3. There is no set fixed level of maximum capacity which any bidder may acquire. However in the event of an over subscribed annual auction (held for capacity for periods of one or more years) a notional 40% cap figure for capacity gained at auction does exist. If this 40% cap figure is reached by any bidder at the annual auctions then this is expected to trigger an analysis of the impact on the market environment of the auction outcomes in relation to proportions held by each bidder. This analysis will be carried out by Moyle in consultation with the Utility Regulator. This does not mean that any one participant’s holding would be limited to 40%. The Utility Regulator did not need to place caps on capacity sold at the last annual auctions. It is proposed that the Utility Regulator will not restrict the total level of capacity allocated to one bidder at any monthly or weekly auctions.

### **3. Available Transfer Capacity**

3.1. To date the Moyle Interconnector has had net transfer capacities of 400MW import and 80MW export and 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 has been typically auctioned via annual and monthly auctions to appropriately licensed and authorised market participants. However in anticipation of the introduction of the SEM the annual capacity auctioned for the Apr 07 – Mar 08 year was shortened to only cover the seven months Apr 07 – Oct 07. Consequently the whole of the

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Moyle capacity is currently available to be offered to market participants from 1 Nov 2007.

3.2. To date market participants could only access somewhat less than the full capacity of the Moyle Interconnector. Restrictions on import capacity below 410MW (400MW at N Ireland entry point) have been due to system restrictions. However, one of the principles of the Single Electricity Market is that such system restrictions on the island of Ireland should not affect market participants' trading volumes or prices within the central market system. An additional 40MW restriction has applied to commercially available capacity during the winter period due to an island wide expectation on the size of the largest single in-feed to the system (approximately 400MW). While not a formal limitation the expectation exists because a larger single in-feed may introduce excessive costs of providing reserve to cover the loss of such a supply. The extent of any additional reserve costs is uncertain as they depend on the level of dispatch of the capacity. Also any additional reserve costs may be offset by the benefit of the cheaper power that is dispatched. Reserve costs will be charged as constraints within the SEM so that the costs are clearly discoverable and more transparent. In this way actions to reduce these constraint costs can be properly valued. It would therefore seem appropriate to offer the 40MW of capacity, currently restricted, to market participants and consequently discover any associated constraint costs.

3.3. Consequently, in future Moyle will make its capacity available to market participants up to the values contained in its connection agreements. The capacities to be made available on this basis will therefore be the maximum Available Transfer Capacity ("ATC"), as defined in the Trading and Settlement Code ("TSC"), consisting of:

- Maximum Import ATC - 450MW in the winter and 410MW during the summer period (April – October inclusive)
- Maximum Export ATC - 80MW at all times.

Auchencrosh will continue to be the point at which Moyle capacity is measured for the purposes of capacity sales and the above capacity figures are stated at that point.

3.4. The TSC provides that the ATC for each Trading Day will be calculated on behalf of Moyle and published by the Market Operator in accordance with the market rules. The ATC will be less than the maximum values set out above if the physical capability of the Interconnector to deliver energy to the Transmission System is reduced (e.g. by a failure of the Moyle Interconnector or the GB system) but not due to transmission constraints or other aspects of the operation of the Transmission System.

3.5. In this context, it is relevant to note that, over the last four years, the Moyle Interconnector has delivered availabilities of 99.4%, 99.6%, 98.9% and 99.5%.

#### **4. Alignment with all island tariff year**

- 4.1. Moyle believes that suppliers will consider it most appropriate if annual (or longer term) capacity for sale on the Moyle interconnector aligns with the customer contract year. It is expected that for most customers their contract year and the tariff year will align. The all island tariff year will be set in the first instance to run from 01 Nov 07 to 30 Sep 08 and thereafter from 01 Oct 08 in periods of twelve months. Consequently it is proposed that the longer term (11 months or more) capacity auctions will be set to coincide with the post SEM tariff years.
- 4.2. Moyle believes that it would be most appropriate to hold the Moyle longer term auctions at or about the same time as directed contracts are offered to market participants. Moyle proposes to make the decision on the exact timing of auctions bearing in mind the expectation noted above. Moyle will ensure that notice of forthcoming auctions is appropriately communicated to interested parties.

#### **5. Products**

- 5.1. Capacity made available to market participants will be profiled flat for the applicable period both for import and export capacity. For clarity 410MW of import capacity will be available every hour of the year and an additional 40MW will be available during the winter hours. Ramping will still obviously apply in accordance with the market rules and procedures if a capacity holder changes its nomination within its available capacity.
- 5.2. In order for suppliers to match supplies with customer contracts annual capacity will continue to be offered that aligns with the all Island tariff year. Additionally to satisfy any suppliers who may enter into longer term contracts with suppliers some capacity will be offered for two and three year contract periods.
- 5.3. Bidders in the annual auction will bid for interconnector capacity for the forthcoming year (eleven months for the initial annual auction). The bidder may also elect to have the same bid apply to that same capacity for year two and/or year three. If a bidder is successful and their bid is higher than the average successful bid then they will also be allocated whatever year two and year three capacity they applied for. If however a bidder is successful in the annual auction but their bid is below the average successful bid then they will not be allocated any year two or year three capacity they applied for except where their successful bid is within 30% of the average successful bid and higher bidders have been allocated less than 30% of the offered annual capacity in year two and/or year 3. In the circumstances where allocation of year 2 and/or year 3 capacity is made to successful bidders in the annual auction whose bid is less than the average

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successful bid then allocated capacity for year 2 or year 3 will be restricted to 30% of the auctioned annual capacity. The arrangements described above are an attempt to reconcile the following somewhat conflicting issues:

- Ensure that bidders appetite for longer term capacity is satisfied;
- Ensure that the value of longer term capacity is not reduced by an over supply;
- Ensure that excessive capacity is not restricted from market participants who may put a greater value on shorter term capacity .

5.4. The SEM should bring a more transparent and accessible wholesale market to the Island of Ireland. In such an environment a shorter term product should be of value so that shorter term fluctuations in GB/Ireland relative prices can be exploited. Previously monthly capacity products have been offered and this will continue. In addition it is proposed that it would be appropriate to introduce weekly capacity products. However it recognised that weekly auctions introduce a significant increase in the administrative effort involved in allocating Moyle capacity. Further to introduce such a change to the allocation process at day 1 of the SEM does not seem appropriate as both SONI and market participants will be dealing with significant other changes which may prevent the weekly product being fully recognised. Therefore subject to satisfactory set up of administrative arrangements it is proposed that a weekly product be introduced at some time during 2008. The weekly products will include standard and non standard products similar to those available in the existing monthly auctions. In future daily capacity products may be appropriate. However it is considered to be pragmatic for now to introduce a weekly product and monitor the level of interest in that product before making the step to daily products. Seasonal or quarterly capacity products will also be considered in future following a review of capacity uptake in the first year of the SEM.

5.5. It is recognised that markets change over time and sometimes at very short notice. In order to allow a degree of flexibility in applying these relevant access arrangements where appropriate absolute requirements have been replaced with boundaries within which it is proposed that Moyle Interconnector Ltd will operate. Where boundaries do exist in these arrangements Moyle will inform potential capacity holders of the specific arrangements in a timely fashion. This would normally be achieved by publication of the appropriate absolute values in the Invitation to Bid document for the relevant capacity auction.

5.6. The appropriate level of capacity to be offered in each product category will be set by Moyle Interconnector Ltd subject to compliance with the boundaries set out below:

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Capacity Product	Import Capacity made available		Export Capacity made available	
	Minimum MW	Maximum MW	Minimum MW	Maximum MW
<b>Annual</b>	200	380	30	70
<b>Monthly</b>	30	450	10	80
<b>Weekly</b>	0	450	0	80

Capacity will be offered in 5MW blocks as is usual.

5.7. Any unsold capacity in the annual capacity auction will be made available in the monthly auctions or in the weekly auctions when introduced. All unsold capacity for any forthcoming month will be made available in the relevant weekly auction when introduced.

### 6. Auction Timing

6.1. Timing of auctions will be set by Moyle subject to the following constraints

Capacity Product	Auction timing prior to relevant capacity period "CP"	
	Latest Time	Earliest Time
<b>Annual</b>	CP-1 month	CP – 5 months
<b>Monthly</b>	CP- 5 days	CP - 1 month
<b>Weekly</b>	CP- 2 days	CP – 1 month

6.2. Auctions for monthly capacity products and weekly products when introduced will be held once for each capacity period.

6.3. For the annual auction 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. The multi-stage approach is to allow bidders the opportunity to reassess their bids following the disclosure of the average bid price in the first iteration. Any unsold capacity in the first auction will become available again by the same product type in the second iteration. Approximately half the available annual capacity will be offered in the first stage auction.

6.4. Notwithstanding the above if any capacity in a particular auction is not sold then Moyle may at its own discretion hold a further auction at any time prior to the start of the relevant capacity period for this unsold capacity. Any capacity so offered would be offered on the exact same terms as it was previously offered.

6.5. The allowable timeframe in which to hold weekly auctions has been left deliberately long. It is not yet known what interest will be shown in the weekly capacity product and it may become appropriate to hold

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auctions for a number of weekly periods on the same day for reasons of simplicity.

### **7. Reserve Price**

7.1. Previously the reserve price was set at £1971/MW/month. A separate reserve price was also set for the monthly non-standard product. The non standard product was introduced to encourage use of the interconnector at a time when interest in using Moyle was low. It effectively allowed bidders to bid less than the prevailing reserve price for standard capacity. Demand for interconnector capacity can change with time. When demand increases the reserve price becomes irrelevant. However it seems appropriate that Moyle should be able to adjust down the reserve price if it believes that this is required to stimulate interest in capacity. Consequently the maximum reserve price is set at £2010/MW/month (£1971/MW/month inflated from Oct 06 to March 07). Moyle may set a lower reserve price for any auction or type of product subject to the cap of £2010/MW/month. Moyle may quote the reserve price for a particular product/ auction in different units (eg £/MWh). In this circumstance the minimum acceptable bid price calculated on a per megawatt of capacity per month basis will not exceed £2010/MW/month.

### **8. Moyle decisions regarding access arrangements**

8.1. In making any decision regarding auction timing, reserve price or capacity amount made available in each product category Moyle will also have regard to the following objectives:

- To maximise the use of the interconnector.
- To maximise the receipts from capacity auctions.

### **9. Auction Process**

9.1. All auctions will have the pay-as-bid format, as in previous years. It is proposed that bidders who wish to submit their bids in a form other than a sealed envelope may do so (eg fax or e-mail). However it would be up to the bidder to satisfy themselves that the bid has indeed been received by the appropriate person within the appropriate timescales. Bidders would also need to make themselves fully aware of the confidentiality risks associated with other forms of communications. This option is proposed so that the process of submitting bids might be simpler for bidders should they wish to avail of it at their own risk. These other forms of communication are not as confidentially secure and there is a risk to proper delivery. Bidders would be required to accept all risks consequent on use of bidding methods other than the current sealed envelope format. Introduction of the optional communication channels would be subject to confirmation that legally all risks consequent on using the optional communication channels can indeed be avoided by SONI.

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- 9.2. The Utility Regulator 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 and Republic of Ireland wholesale market. In the event of such occurrence another suitable allocation method would be devised and enacted at a later date.
- 9.3. Bids received by SONI as agents of Moyle Interconnector Limited will be binding and if accepted represent an obligation to pay for the acquired capacity under these auctions. Successful bidders will pay the bid price as marked on their bid forms submitted against each capacity block. Bid prices are exclusive of VAT.
- 9.4. Any entity, which is a signatory to the Moyle Interconnector Capacity Framework Agreement will be eligible to bid. This document references other codes and documents which must be complied with to enable a party to bid for capacity and a capacity holder to use capacity. Entities, which are part of the same holding company, will be treated as separate entities with respect to the submission of bids.
- 9.5. Potential bidders need not register to bid for each auction. This is a change from previous years. The registration to bid process could be of some limited use to new bidders but the value of the process would be accessible simply by contacting SONI and or Moyle without the need for a registration process. Given the expected increase in the number of auctions and the familiarity of existing bidders with the auction requirements, a registration to bid process is seen as an unnecessary burden both for bidders and SONI acting as agents of Moyle Interconnector Ltd. However bidders must satisfy themselves that they are indeed eligible to bid. Bids from bidders who are not eligible to bid will be rejected.
- 9.6. Bids must be received by the auction dates and times, as specified in the bid papers to be issued by SONI on behalf of Moyle. Bids will be considered on the morning of the due date by SONI. A Utility Regulator representative will be present if the Utility Regulator deems it to be appropriate. Bids shall be ranked by bid value. The bidders will be informed that day of their accepted bids and associated allocations. SONI and the Utility Regulator will also publish, after each iteration, the average successful bid price for each product. Once the auction process is complete the Utility Regulator/SONI will publish the capacity obtained by each bidder by name and product type.
- 9.7. Invitation to Bid papers will be published in advance of the auction in order to allow sufficient time for bidders to familiarise themselves with the auction process.



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9.8. Bidders are asked to note that the deadline for receipt of auction bids will 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.

9.9. Moyle will contract with successful bidders for Moyle capacity on the basis of its standard Moyle Interconnector Capacity Framework Agreement. The Framework Agreement along with the framework deed will be required to be executed prior to the auction. The form of these documents relevant to post SEM Moyle capacity is being consulted on as part of this consultation process. It should be noted that all existing Framework Agreements will expire in accordance with their terms at SEM Go-live, so that it will be necessary for existing holders of such agreements to execute Framework Agreements in the new form in respect of Moyle trading from that date. Similarly, it will also be necessary for existing Capacity Holders to execute the Moyle Interconnector Framework Deed in the new form. 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.

### **10. Credit Rules**

10.1. 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 the Utility Regulator does not consider it unreasonable. Therefore the security provisions of the Moyle Interconnector Capacity Framework Agreement will continue to apply for the 2007/08 auctions.

### **11. Secondary Trading of Moyle Capacity**

11.1. Capacity holders can currently take advantage of secondary trading under the arrangements provided for in the standard capacity agreements. It is not proposed to change these arrangements.

### **12. Responses**

Responses to this consultation should be sent to:

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Responses to the consultation to be received by 28<sup>th</sup> May 2007. Moyle will publish all responses received on its website <http://www.nienergyholdings.co.uk/> unless you request otherwise in your response.