

Interconnector Trading

From 1 April 2006

A Decision Paper by the
Northern Ireland Authority for Energy Regulation
December 2005

(1) Introduction

1.1 Northern Ireland (NI) has two 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 to date has been used solely for import purposes. It currently has 125MW out of an available 400MW contracted to NIE's Power Procurement Business. The remaining 275MW is auctioned via annual and monthly auctions to appropriately licensed and authorised market participants.

Moyle capacity to date has been auctioned by products which vary by duration, namely one, two and three years. Therefore the annual amount available for auction out of the total 275MW varies each year depending on the amount of capacity allocated to each duration of product in previous years. Due to the proposed all-island market in July 2007, the rules for interconnector auctions may change. It has therefore been decided that for the 2006-07 auctions, a maximum of one year capacity will be offered on both the Moyle Interconnector and on the N-S Interconnector. To this effect 235 MW will be available to market participants for the trading period beginning April 2006 on the Moyle Interconnector.

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. 80MW of N-S capacity was sold on a two-year contract last year and so the net amount available at present for auction this year is 250MW (based on last years figure). Participants should note that the 250MW capacity is based solely on the capacity available for last year, and available capacity will be confirmed at a later date subject to the results of ongoing technical studies by SONI and ESB NG. This will be confirmed before the auction dates in January.

1.4 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 NIAER in accordance with Condition 17 of the Moyle Transmission Licence.

1.5 In accordance with previous years, SONI will manage the auction on behalf of Moyle Interconnector Limited and NIAER. SONI is ideally placed to undertake this role as it is both the system/market operator and the operator of the Moyle interconnector.

1.6 NIAER does not set a fixed level of maximum capacity which any bidder may acquire but, for both the Moyle and North -South Interconnectors, 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 NIAER will prevent any one participant holding above 40%. When looking at the percentage of capacity held by each participant NIAER takes the total capacity held into account and this obviously includes capacity held from previous years. In the second round of the North -South Interconnector annual auctions last year, the results were modified in order to facilitate the promotion of competition in the electricity market in the Irish Republic. A limit of 40% of available capacity was placed on the amount of capacity which could be secured by any bidder.

(2) Market Issues

2.1 The environment in which electricity market participants operate has changed in a number of ways since the interconnector auctions were held last year. These developments are discussed briefly below in the context of how they might affect the potential demand and hence the value of capacity across both interconnectors.

All-island Market

2.2 There is a commitment to the development of an all-island wholesale market (the Single Electricity Market (SEM) www.allislandproject.org) by July 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 may change in an all-island environment. Since the rules for the market are currently being developed, as previously mentioned, capacity on Moyle and N-S will be auctioned for one year only.

2.3 Any allocation of capacity across the interconnector should neither impede nor reduce the flexibility in, the development of an all-island electricity market.

Betta

2.4 Betta has made the GB electricity market more accessible and offers increased flexibility in electricity trading. This may affect the demand for Moyle

capacity, and particularly the ability to trade short term and avail of Moyle export capacity.

2.5 In order to facilitate trading under Betta the necessary arrangements have been incorporated into the Interim Settlement Code. Betta will continue to operate as before in 2006-07.

Market Opening

2.6 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 2007. It is for this reason that capacity will be offered for one year only, as the rules for interconnector auctions may change as a result of market opening.

Generation Market

2.7 A new 400MW CCGT at Coolkeeragh, owned by ESB began commercial operation in 2005. This was the first merchant power station to be built in Northern Ireland, with the exception of wind farms. This plant competes directly with NIE PPB's contracted plant, with imports from Scotland across the Moyle interconnector and with generation plant in Rol.

2.8 The wholesale price of electricity in both Rol and GB has been rising in recent times. There is considerable uncertainty in relation to GB power prices and world fossil fuel prices.

(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.

3.2 The fact that two and three year products have been auctioned in previous years inevitably means that a proportion of capacity is engaged until these contracts expire. Therefore the amount of capacity allocated to the existing contracted capacity must be deducted from the total transfer capacity in order to determine what is available to the market via auction. The NIE PPB contract and the auctions of earlier years means that 165MW of Moyle capacity for 2006/07 are already committed. Therefore the available transfer capacity for auction for the trading period beginning April 2006 is 235 MW.

3.3 The North-South available transfer capacity is to be confirmed by SONI before the January auctions following studies being undertaken at present and by agreement with ESB NG.

3.4 The applicable loss factors for 2006 across the North – South Interconnector are to be agreed by SONI and ESBNG. SONI and ESB NG are currently

reviewing the 20c/MW charge for short – term trades. Consideration will be given to either the use of an administration charge and a monthly equivalent reserve price for capacity made available in this short term manner.

Both SONI and ESB NG reserves 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 2005/06 auction. Bidders will submit bids on the basis of the winter ATC (i.e. bids for 235 MW) 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 01/04/06 to 31/10/06

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 seven 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 March 2007. Interim arrangements will be put in place to cover the period until July 2007 when SEM is due to be operational.

5.2 The auction will have the pay-as-bid, sealed envelope format, as in previous years. In addition, NIAER 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 The following table provides a simple illustration of the capacity available for sale at auction.

Product	Iteration 1	Iteration 2
One Year Moyle Import	95	90
One year Moyle Export	80	
1 Year North-South export	100	100

50 MW of both N-S and Moyle capacity will be retained to be auctioned on a monthly basis, on the reserve price pro-rata in the same manner as the current Moyle monthly auctions. The first monthly auction will be held in March 2006.

5.4 Should any available capacity for any product remain unsold after the first round of the annual auction, it will be made available in the second round by the same product type.

5.5 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.

5.6 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" 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, and with respect to any caps which are placed on bids.

(6) Reserve Prices

6.1 The reserve price will be set on the same basis as previous years i.e. this year the reserve price will be that of last year uplifted by RPI. The Moyle reserve price will therefore be £1,901.49/MW/month for all Moyle products. The North-South reserve price will be approximately £420 for all products. The RPI figure used was that for October 2005.

(7) Auction Dates

7.1 The auction dates for the 2006 auction will be:

Moyle (first iteration)	17 January
-------------------------	------------

N-S (first iteration)	23 January
Moyle (second iteration)	25 January
N-S (second iteration)	30 January

The available capacity for the annual N-S auction will be confirmed closer to the auction dates. In reflecting these forecasts it may be necessary to reduce the NTC during summer to account for network maintenance.

7.2 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 NIAER will also publish, after each iteration, the average successful bid price for each product. Once the auction process is complete NIAER/SONI will publish the capacity obtained by each bidder by name and product type.

7.3 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.

7.4 Bidders are asked to note that the deadline for receipt of auction bids will now be 10:00 am on the specified date. This is to allow more time for administration and queries prior to publication of results.

(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 NIAER does not consider it unreasonable. Therefore the security provisions of the Moyle Interconnector Capacity Framework Agreement will continue to apply for the 2006/07 auction.

(9) Short-term Trading

9.1 Capacity holders can currently take advantage of secondary trading, albeit on an informal basis. However given the importance of capacity trading in a secondary market for liquidity and competitiveness, NIAER feels that a more appropriate formal mechanism to facilitate shorter term trading should be facilitated in both import and export directions.

9.2 If the Moyle auctions are undersubscribed as was the case last year, the facility to accommodate shorter term trading will continue to be through the monthly auction process already in place.

9.3 However, if all capacity is sold at auction on either the North-South or the Moyle Interconnectors, then SONI will produce a paper suggesting options as to how short term trading on a 'use-it-or lose- it basis' could be facilitated. Specialist advice will be sought from the provider of the MITS system. It is the intention that this paper will be published to the market for consultation. It is felt that 1 July 2006 is a realistic date by which such short term trading facilities could be in place.

9.4 The recovery mechanism associated with the costs of short-term trading has yet to be formalised by Ofreg. However it will most likely be recovered initially from SONI and then charged to interconnector users through a short-term charge for administration (in much the same way as the recovery of superposition costs).

(10) Additional Information

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

Kris Kennedy
Market Administrator
SONI Ltd.
Castlereagh House Control Centre
Manse Road
Belfast
BT6 9RT
Tel: 028 90794336
Fax: 028 90707560
Email: kris.kennedy@soni.ltd.uk