

Peter Lantry
EirGrid
Block 2,
160 Shelbourne Road
Ballsbridge
Dublin 4
EastWestInterconnector@eirgrid.com

Paul McGuckin
Mutual Energy
The Oval First Floor The Arena Building
85 Ormeau Road
Belfast
BT7 1SH
paul.mcguckin@mutual-energy.com

20th May 2015

Subject: EirGrid East West Interconnector and Moyle Interconnector Access Rules and Charging Methodology 20.04.2015 ("the Consultation")

Dear Peter, Paul,

Bord Gáis Energy (**BGE**) welcomes this opportunity to comment on the continued applicability of the existing Moyle and EWIC Access Rules in SEM, and on the notification of the intention to adopt new Harmonised Allocation Rules (**HAR**) for Financial Transmission Rights (**FTRs**) from I-SEM go-live. BGE's key concerns relate to the need for weekly and single-priced daily products to be provided under current EWIC and Moyle rules and the risk that interconnector users will be exposed to if the proposed HAR rules on: a) reduction of financial transmission rights' revenues for ramping reasons; and b) curtailment of rights and compensation caps in times of Capacity Shortage, are adopted. BGE urges consideration of these issues, particularly with regard to the potential impact on forwards liquidity in I-SEM, before any decisions are made pursuant to the Consultation.

1. Continued Applicability of Existing Moyle and EWIC Access Rules

With regard to the current rules, BGE requests EirGrid Interconnector Limited (**EIL**) and Moyle Interconnector Limited (**MIL**) to consider providing for offers of weekly and single-priced daily products on the interconnectors (**ICs**). While the current monthly and hourly-priced daily products are helpful, they do not in BGE's view fully cater for the hedging needs of market participants. For example, in times of sudden or short term planned outages or in response to wind variability, limiting parties to monthly or hour-by-hour priced daily products can add unnecessary costs to participants. The addition of weekly products and single (as opposed to hour-by-hour) priced daily products would be conducive to more efficient risk management in SEM and should assist forwards liquidity. BGE requests that EIL and MIL consider amending Schedule 6 of the access rules to reflect provision for these weekly and single-priced daily products to come into force as early as practicable.

2. Draft HAR rules to apply in I-SEM

BGE's key concerns with regard to the current draft of the HAR rules (May 2015 version), relate to two primary areas: a) the proposed right for EIL and MIL to reduce revenues payable pursuant to transmission rights by virtue of ramping restrictions on the ICs; and b) the proposed right for EIL and MIL to curtail transmission rights and related revenues in the event of a 'Capacity Shortage'. The concerns are premised on the anticipated negative impact on forwards liquidity such rules would have if they were adopted and BGE urges the TSOs and Regulatory Authorities (**RAs**) to consider the following issues before making any decision pursuant to this Consultation.

In relation to the proposed right of EIL/ MIL to reduce revenues payable for transmission rights due to ramp rates BGE believes that, as IC users have no control or influence or capacity to predict when such ramping restrictions may arise, this proposal should be excluded. EIL/ MIL are best placed to manage, control and predict the ramping needs and capabilities on the ICs and IC users are not in a position to trade out this risk. If the proposal goes ahead it could have significant repercussions on IC users' ability to rely on cross-border hedging.

Revenue adequacy is not merely an issue for IC owners but also for IC users. Other registered units in SEM manage their own technical capabilities which are factored into their own risk profiles and BGE does not see why EIL/ MIL as commercial parties should not be required to manage their own technical requirements. BGE notes that BritNed and IFA are not seeking to impact IC user revenues specifically due to ramping effects thus to level the playing field in terms of ramping effects on revenues in the France-Ireland-UK region, this proposal should be removed. EIL/ MIL must manage their own technical risks such as ramping without impinging on the usefulness of cross-border hedging and forwards liquidity. BGE does not believe that this view negatively affects the consumer as if EIL/ MIL take an overall view on the ramping risk, thereby aggregating that risk, as opposed to requiring each IC user to individually assess what the risk premium implied by IC ramping restrictions might be, this should minimise ultimate costs for the consumer.

The proposed right of EIL/ MIL to curtail transmission rights due to “insufficient physical capacity being available in any settlement period in a given direction for reasons which cannot be attributed to an event of Force Majeure, an Emergency Situation or a System Security event (a “Capacity Shortage”)” effectively provides EIL and MIL with the right to reduce the usefulness of, or stop IC users from, relying on the IC for risk management, regardless of whether the reason for such is or is not within the control of EIL/ MIL. The addition of this “Capacity Shortage” scenario goes beyond the main text (body) of the HAR that will apply in the rest of Europe and in BGE’s view renders less attractive the incentive to trade on SEM-GB interconnectors. It acts as a disincentive to EIL/ MIL to ensure IC capacity availability and places the risk of such availability on the IC users as opposed to EIL/ MIL who are best placed to manage that risk. IC users already have considerable inputs to assess when determining IC hedging options but should not reasonably be expected to factor in assumptions around when an undefined “Capacity Shortage” event might arise. The scenario is unreasonable, inequitable and will impact forwards liquidity and the cost of hedging, with consequential price impacts on end consumers. The scenario should be removed.

Regarding curtailment and caps, BGE supports Eurelectric’s and EAI’s submission to the HAR consultation in March 2015¹ including that payments capped at initial price paid should only apply to Force Majeure situations. Furthermore, the May 2015 version of the HAR² is very unclear around the curtailment compensation in times of System Security, the definition of which remains unclear. The suggestion that FTR option payments might also be capped when a certain day-ahead price is reached adds further uncertainty to hedging options. BGE believes that practical examples of situations where caps may arise and apply and how they would impact EIL/ MIL and/ or market participant revenues would greatly assist assessment of proposals and the possible impacts thereof.

Further, BGE submits that the use of a “long-term” and a “day-ahead” firmness deadline adds complexity to the issue of firmness. Given the need for financial firmness of transmission rights sufficiently far in advance, not least from an IC user revenue certainty perspective, BGE believes that the RAs should lead discussions on firmness and come to agreement as between EIL/ MIL and IC users that is appropriate from a consumer cost perspective.

Finally, the HAR Annex 12 proposes that the HAR rules will apply to transmission rights with a product period beginning on or after the I-SEM go-live date. In order to ensure a smooth transition from the current rules, and to minimise the impact on suppliers’ ability to offer long term contracts to consumers the auctions for FTRs will have to occur as early in 2016 as possible which implies the need to consult on and finalise product specifications etc. well before the auctions as IC users must know what they are bidding for. The risk of a slippage in timelines is quite high particularly if FTR obligations are chosen to apply in I-SEM. BGE therefore considers that a suitable interim or fall-back solution is required if it becomes clear that the 2016 deadline will not be met. Impacts on IC users’ hedging options and costs and consequently on consumer prices and contracts, must be avoided insofar as possible.

In conclusion, BGE urges EIL and MIL to consider introducing weekly and single-priced (as opposed to hourly) daily products which would better assist mitigating the risk of short term outages and wind variability. BGE believes that the proposal to reduce FTR revenues due to ramp constraints must be removed as similar to IC users with physical plants, the risk of ramping best lies with the entity best placed to manage it – the owner of the equipment. Allowing ramp restrictions affect revenues also places the Irish ICs on an uneven playing field with BritNed and IFA for example, which hinders forwards liquidity. The proposal to allow

¹ Please see EAI response submitted via the ENTSO-E consultation portal, attached to this response

² This is with specific reference to Article 59(3) of the latest version of the HAR (May 2015)

curtailment for Capacity Shortage scenarios must also be removed as it goes far beyond what the HAR text itself proposes and is an unreasonable assumption to expect IC users to build into their risk profiles. BGE suggests that industry would benefit from practical examples of when caps on curtailment might arise in the various scenarios to enable informed discussion and agreement on suitability to be reached between industry and TSOs. It is submitted that the RAs are best placed to lead discussions and agreement on firmness of IC rights given their influence on the value on forwards hedging, and BGE urges EIL/ MIL to expedite finalisation of products that will be auctioned for I-SEM and consider the need for a fall-back solution if delays are anticipated or materialise to avoid impacts on consumer retail offerings. BGE also requests that should any changes be made to the Forwards Network Code that requires the HAR itself to be amended; any such changes will be subject to consultation.

In addition to providing comments on the continuation of the current IC access rules for EWIC and Moyle, BGE has also taken this opportunity to provide comments on the draft HAR that ENTSO-E is currently working on as it has not been consulted on at a SEM level. EAI submitted a response to the ENTSO-E consultation on the draft HAR in March 2015, many of which views are reflected in our comments above. That EAI response (submitted via the ENTSO-E consultation portal) is attached to this response for your information. In relation to the HAR rules, it is our view that industry, EIL/ MIL and the RAs may benefit from a local consultation or specific workshop thereon before any decisions on the allocation rules for FTRs in I-SEM are made.

We hope that you find the above comments and suggestions helpful but please do not hesitate to contact us should you have any queries thereon.

Yours sincerely,

Julie-Anne Hannon
Regulatory Affairs – Commercial

{By email}

cc. Joe Craig (Joe.Craig@uregni.gov.uk), James Curtin (jcurtin@cer.ie)

Attachment (1): “20150330 EAI response ENTSGE cons on allocation transmission rights Submitted”