

Interconnector Trading from 1 April 2004

A Decision Paper by the
Northern Ireland Authority for Energy Regulation

October 2003

(1) Introduction

- 1.1 Northern Ireland's two interconnectors are extremely valuable resources for the electricity sector here. Until such times as new generation is available to the Northern Ireland electricity market the interconnectors are necessary to meet the demand for electricity. Capacity across the Moyle interconnector is the main means by which generation is currently available to serve the eligible sector in Northern Ireland.
- 1.2 The Northern Ireland Authority for Energy Regulation (hereafter referred to as NIAER) published a consultation paper in July 2003 on the issues surrounding interconnector trading for the year commencing 1 April 2004. Having taken account of the comments and submissions received as a result of the consultation process, and following further consultation with the relevant licensees, this paper presents the NIAER decisions regarding the forthcoming interconnector allocation procedure. 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." *(Further NIAER references will be replaced by Ofreg, given it is the entity responsible for implementing day-to-day practices).*
- 1.3 SONI, will manage the auction on behalf of Moyle Interconnector Limited and Ofreg. SONI is ideally placed to undertake this role, as it is both the system/market operator and the operator of the Moyle interconnector.
- 1.4 It would be imprudent to look at any allocation process for interconnector capacity without taking account of both the prevailing and future market circumstances. It is hoped that capacity will be available from Coolkeeragh in quarter one of 2005. In addition Ofreg has recently commissioned a Market Opening Steering Group which will finalise proposals for the 2004 market-opening phase. Given such future market changes it is important to structure the auction such that it facilitates liquidity and simplicity in the market, having regard to the risks and costs to electricity customers generally. This can be done by ensuring the appropriate products are available.
- 1.5 Ofreg has had discussions with NIE's Power Procurement Business (PPB) in order to assess the products which PPB might be able to offer the market in the 2004/05 trading period. Ofreg will inform the market of likely system costs and charges as early as possible. Tariffs and levies for 2004/05 have been discussed at IME meetings in September and October and indicative figures will have been provided before the auctions. IME members stressed the importance of receiving timely and accurate information in relation to tariffs and levies, which will not be subject to change.
- 1.6 It is the intention to hold the North-South auction at the same time as the Moyle auction. However the North-South net transfer capacity figure (NTC) will not be available until the 21 November 2003. The calculation of the North-South NTC figure is dependent on the equivalent South-North calculation made by Eirgrid. Eirgrid will only have the required information

available on the 21 November. However Ofreg and SONI will discuss the possibility with Eirgrid of providing this figure at an earlier date, as requested by IME Members. Ofreg, SONI, CER and Eirgrid will continue to monitor this situation and are confident that, as in previous years, market participants will be able to access whatever capacity they need across the North-South interconnector. Specific details on the north-south auction, for example NTC, reserve price, products will be made available as early as possible on, or before, the 21 November 2003.

- 1.7 Present indications from SONI provide a North-South NTC of at least 300MW. The figure will hopefully be higher but this depends on the outcome of system studies and negotiations with Eirgrid. The final NTC figure will be made available in the auctions as a one-year product, split approximately equally over the first and second iteration. Any unsold capacity will be left for SONI to allocate under the same circumstances as last year.

(2) Moyle Interconnector Capacity

- 2.1 The Moyle interconnector capacity will be the same as last year. There will be a total of 400 MW winter capacity, 400 MW summer-day capacity and 300 MW summer-night import capacity available (April-Oct inc.). Of this, 125MW are contracted to NIE PPB under the Scottish Power Contract. This contract was an integral part of the agreement between NIE and Scottish Power under which Moyle was built. This contract remains until late 2007.
- 2.2 The fact that three and two year products have been auctioned 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 available transfer capacity in order to determine what is available to the market. Therefore a net available transfer capacity of 155 MW is available.

(3) Moyle Allocation

- 3.1 Allocation will be on the same basis as the 2003/04 auction. Bidders will submit bids on the basis of the winter ATC (i.e. bids for 155 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 400 to 300 level. 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 overleaf:

Summer Night Capacity, commencing 01/04/04 to 31/10/04

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

(4) Auction Methodology and Products

- 4.1 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 a second iteration. A third or residual auction may be held if the auction does not clear in round two. If a third iteration is necessary all capacity will be offered as a one year product.
- 4.2 The auction will have the pay-as-bid, sealed envelope format, as in previous years. In addition, Ofgem 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 wholesale market. In the event of such occurrence another suitable allocation method would be devised and enacted at a later date.
- 4.3 The following table provides a simple illustration of the capacity available for sale at auction.

Product	Iteration 1	Iteration 2
One Year Moyle import	40	35
Two Year Moyle import	25	15
Three Year Moyle Import	25	15
One Year Moyle export	40	40

- 4.4 Should any available capacity for any product remain unsold it will be made available in the second round by the same product type. If the second iteration (held on identical terms) does not clear all the capacity then a third or residual iteration will be held. In the residual iteration the only product available would be one-year Moyle import to which all capacity products unsold would revert.
- 4.5 Bids received by SONI as agent for Moyle Interconnector Ltd. will be binding and, if accepted represent an obligation to pay for the acquired capacity under this auction. Capacity blocks with the 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. The two- and three-year products will be indexed against RPI.

- 4.6 Any entity, which is a signatory to the relevant licences and industry codes, for example Interim Settlement Code, Supply Competition Code, Grid Code, will be eligible to bid (see following link to SONI website: <http://www.soni.ltd.uk/upload/03102002111829.pdf>). Entities, which are part of the same holding company, will be treated as separate entities with respect to the submission of bids.

(5) Reserve Prices

- 5.1 The reserve price will be set on the same basis as in previous years i.e. this year the reserve price will be that of last year uplifted by RPI. Last year's reserve price was £1,750 per MW month for Moyle three, two and one year products. The RPI figure, which will be used, will be that for October 2003.
- 5.2 The North-South reserve price will also be calculated on the same basis as last year. Ofreg believes a North-South reserve price remains necessary to reflect the economic value of the long-term capacity and provide an economic signal as to the value of superposition. The reserve price will therefore be £400, uplifted by RPI

(6) Auction Dates

- 6.1 In an IME meeting of February 2002 market participants requested that the auction be held at a much earlier stage of the year than previous auctions. The rationale behind an earlier auction is to allow market participants sufficient time to assess their market position and commitments well in advance of the next contract round. A considerable number of complaints were received by Ofreg from eligible customers in relation to the manner in which contracts were negotiated and altered in the 2003/04 trading period. This has raised concerns within Ofreg about customer service practises in the eligible supply sector.
- 6.2 The auctions shall be held on:
- Tuesday 25 November – first iteration
 - Tuesday 2 December – second iteration
 - Tuesday 9 December – third iteration (if required)
- *These dates are subject to the North-South NTC publication date remaining 21 November. Any revision of these dates will be made available to market participants as soon as possible.*
- 6.3 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 opened on the morning of the due date by SONI in the presence of an Ofreg representative, shall be ranked by bid value, and bidders will be informed that day of their accepted bids and associated allocations. Ofreg will also publish the full list

of successful bidders and bids for the total MW capacity allocated in that round.

- 6.4 Bid papers will be made available at least two weeks prior to the first iteration in order to allow sufficient time for bidders to familiarise themselves with the auction process.

(7) Moyle Interconnector Ltd. Requirements

- 7.1 Clause 5 of the Moyle Interconnector Limited's standard Capacity 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 Ofreg does not consider it unreasonable. Therefore the security provisions outlined in Clause 5 of the Moyle Interconnector Capacity Agreement will continue to apply for the 2004/05 auction.

- 7.2 Bidders will have a period of one month from the date of the last iteration to sign the relevant agreement/s with Moyle Interconnector Ltd., failing which the capacity will again be offered for sale. A copy of the agreement will be circulated with the bid papers.

(8) Short-term Trading

- 8.1 The ability to trade capacity effectively in a secondary market is important for enhancing the liquidity and thus competitiveness of the eligible supply market. Ofreg will ask SONI to look at appropriate mechanisms and costs to ensure capacity can be traded on a short-term basis. Secondary trading is already a facility the capacity holders can take advantage of outside any formal arrangements SONI may propose.

(9) Industry Developments

Interfacing with Proposed Republic of Ireland (RoI) Market – Study

- 9.1 Ofreg, on behalf of the IME Group, has recently commissioned a study into how the Northern Ireland electricity market may potentially interface with the proposed trading arrangements in the RoI. IME members will be updated on the progress of this study and it is expected to be completed by the end of 2003.

Market Opening Steering Group

- 9.2 Proposals have been made to open the market to 60% i.e. to all non-domestic customers by mid 2004. A Market Opening Steering Group (comprising Ofreg, DETI, NIE and industry participants) has started worked on the implementation details and costs of this next stage of market opening. It is NIAER's intention to publish a paper on this issue in late autumn/winter 2003.

Betta

- 9.3 The implementation of Betta has been postponed until April 2005. Market participants must make their own assessment of how Betta will affect the Northern Ireland electricity market. This has been facilitated by a Betta seminar held at Ofreg for the IME group.

10 Additional Information

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

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