

# Interconnector Trading From 1 April 2005

A Decision Paper by the  
Northern Ireland Authority for Energy Regulation

October 2004

## **(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 to facilitate its import contract with Scottish Power. The remaining 275MW are auctioned annually 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. To this effect 160MW will be available to market participants for the trading period beginning April 2005.
- 1.3 The North-South interconnector currently has a net transfer capacity of 330MW in a north-south direction. In recent years the net transfer capacity in a south-north direction has been effectively zero for the majority of the time. This has been due to system security issues in both areas and transmission constraints in RoI. Unlike Moyle, all north-south capacity to date has been allocated on a yearly product basis.
- 1.4 The Northern Ireland Authority for Energy Regulation (NIAER) published a consultation paper in August 2004 on the issues surrounding interconnector trading for the year commencing 1 April 2005. 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.
- 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 Contrary to the conclusions drawn by some consultation respondents, no caps or capacity restrictions were imposed on last year's auction. The auction outcomes were not restricted or constrained in any way. To do so would detract from the true economic market value which is placed on the capacity. NIAER has a notional 40% figure, which

triggers an analysis of the impact on the market environment of the auction outcomes in relation to proportions held by each bidder. However this does not mean that NIAER will prevent any one participant holding above 40% or has indeed done so in the past. In addition the fact that no single buyer secured 40% or more of the capacity, referred to in the August consultation, is correct. When looking at the percentage of capacity held by each participant NIAER takes the total capacity held into account i.e. total out of 400MW and this obviously includes capacity held from previous years.

## **(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 NIAER and CER have recently signed a Memorandum of Understanding in relation to the development of an all-island electricity market. There is a commitment to the development of an all-island wholesale market by 2007. It is intended that the all-island market will allow for a more efficient generation dispatch and provide a greater incentive 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 greater scope for power from NI power stations to seek markets in RoI. In addition, the way in which the north-south interconnector is defined and operated may change in an all-island environment.

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 Under Betta the England-Scotland interconnector will be treated as being part of the wider transmission system. This should make trading in GB more efficient by providing easier access to the England & Wales market. Betta will result in changes to the terms and conditions in place for connection to or use of the transmission system and for trading electricity.

2.5 Betta will make the GB electricity market more accessible and offer 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.

- 2.6 In order to facilitate trading under Betta the necessary arrangements will be incorporated into the Interim Settlement Code.

#### *Market Opening*

- 2.7 The Northern Ireland non-domestic electricity market will be 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. Contract rounds begin in April and 2005 will see, for the first time, a significantly large number of customers eligible to switch supplier. These customers who represent approximately 25% of the market by demand have hitherto only been free to move to a green supplier. Now they will be able to switch to a supplier who can source electricity from independent generation or from NIE's Power Procurement Business at a market price.

#### *Generation Market*

- 2.8 A new 400MW CCGT at Coolkeeragh, owned by ESB is due to begin commercial operation in early 2005. This is the first merchant (i.e. market risk) power station to be built in Northern Ireland, with the exception of wind farms. This plant will compete directly with NIE PPB's contracted plant, with imports from Scotland across the Moyle interconnector and with generation plant in Rol.
- 2.9 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 for its supply contract with Scottish Power. 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.
- 3.2 The fact that two and three 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 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 240MW of Moyle capacity for 2005/06 are already committed. Therefore the available transfer capacity for auction for the trading period beginning April 2005 is 160MW.

- 3.3 The north-south available transfer capacity will be 330MW. SONI is currently reviewing the calculation of losses across the north-south interconnector and also the 66c/MW charge for short –term trades.

#### **(4) Moyle Interconnector Allocation**

- 4.1 Allocation will be on the same basis as the 2004/05 auction. Bidders will submit bids on the basis of the winter ATC (i.e. bids for 160MW) 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 01/04/05 to 31/10/05

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

SONI reserves the right to reduce the ATC as may be necessary for exceptional operational circumstances.

#### **(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. 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.
- 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 wholesale market. 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	40	40
Two Year Moyle Import	20	20
Three Year Moyle Import	20	20
One year Moyle Export	80	
1 Year North-South export	125	125
2 Year North-South Export	80	

- 5.4 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 or export to which all capacity products unsold would revert. Any two-year north south remaining unsold after the second iteration would also revert to a one-year product in a third iteration.
- 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. The two and three year products will be indexed against RPI.
- 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](http://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.

## (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 be approximately £1,800/MW/month for all

Moyle products. The north-south reserve price will be approximately £410 for all products. The RPI figure, which will be used, will be that for October 2004.

## **(7) Auction Dates**

7.1 The auctions shall be held on:

	<b>North-South</b>	<b>Moyle</b>
First Iteration	24 November	8 December
Second Iteration	1 December	15 December
Third Iteration (if required)	8 December	20 December

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 Ofreg 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 Up to the present, Moyle has contracted for the sale of Moyle capacity through its standard form Moyle Interconnector Capacity Agreement ("MICA") which was executed with successful bidders following the auctions. In order to simplify this process and better facilitate short term trading of Moyle capacity (see below), Moyle has converted the MICA to a Framework Agreement, which will be published shortly. 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 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 Agreement will continue to apply for the 2005/06 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 short term trading should be facilitated in both import and export directions.

9.2 If the Moyle auctions are undersubscribed, then SONI will introduce a facility to allow short term trading of the unsold capacity post April.

9.3 However, if all capacity is sold at auction, 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 2005 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:

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