

**Interconnector Trading
from
1 April 2003**

**A Decision Paper by the
Director General of Electricity Supply for
Northern Ireland**

November 2002

Background

Ofreg has consulted twice during the summer and autumn of 2002 on the issues surrounding interconnector trades for the year commencing 1 April 2003, and has received responses from, and met with, numerous interested parties. Please see the Ofreg website at <http://ofreg.nics.gov.uk> for details.

Having taken account of comments and submissions received as a result of the consultation exercises, the following is the Ofreg decision regarding the forthcoming interconnector allocation procedure. These arrangements, which were finalised only after extensive consultation with all interested parties facilitate an increase in the utilisation of the interconnector in the light of experience gained from the first year of operation.

Interconnector Capacity

Moyle Interconnector

There will be a total of 400 winter capacity, 400 MW summer-day capacity and 300 MW summer-night import capacity available (April to Oct inc). Of this, 125 MW was allocated to NIE PPB under the Scottish Power Contract as an integral part of the agreement between NIE and Scottish Power under which Moyle was built. This contract remains in force until late 2007. Of the remaining capacity, 50 MW (winter) and 30 MW (summer) three year capacity was allocated in the 02/03 year, and has two further years to run. This leaves a net available transfer capacity of 225 MW in winter (day/night) and summer-days, and 145 MW in summer-nights available for the 03 / 04 year.

Of this new Net ATC, a tranche of 50 MW (all year, flat summer and winter) will be offered as an interruptible product.

To summarise, the new Net Available Transfer Capacity available for auction is as follows :

	<u>Uncommitted Capacity</u>	<u>Less 50 MW Interruptible</u>
Winter Capacity :	225 MW	175MW
Summer Day Capacity	225 MW	175MW
Summer Night Capacity (ie midnight to 8 am)	125 MW	75MW

The introduction of a 50MW tranche of interruptible capacity allows users to have flexibility, and SONI to manage the system more effectively. Interruptible capacity is interruptible at any time for system reasons. There will be no compensation to interconnector users in the event of interruption and no indication of the probability of

interruption can be given. SONI will however keep interruption to the minimum necessary for system reasons.

Any interruptible capacity not sold will be treated as short term capacity and will be offered when appropriate on a D-2 basis.

North-South Interconnector

North-South Interconnector export capacity remains at present at 170 MW. Northern Ireland – Scotland (Moyle Export) capacity shall be set in due course, and offered to the market. It is hoped that a higher figure will be included in the auction documents.

Allocation

The allocation process for capacity will also be simplified. Bidders will now submit bids on the basis of the winter ATC (ie bids for 175 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 the 400 to 300 level (less the 50 MW interruptible tranche). Details will be provided by 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 08.00hrs to 09.30hrs in a similar manner, as illustrated below :

Summer Night Capacity , commencing 01/04/03 to 31/10/03

Time	ATC	Committed	AAC
22.30-23.00	400	175	225
23.00-23.30	360	175	185
23.30-24.00	320	175	145
<u>24.00-08.00</u>	<u>300</u>	<u>175</u>	<u>125</u>
08.00-08.30	320	175	145
08.30-09.00	360	175	185
09.00-22.30	400	175	225

(committed refers to the PPB Take or Pay and the 2002/03 year product. AAC is available auction capacity which is the total capacity available in the forthcoming auction and includes the 50 MW interruptible product).

Interconnector Products

Participants in the allocation process may choose between a number of separately identified “Interconnector Products”. These have been determined having regard to the comments received in consultation. The products are as follows :

- 1 Three Year Moyle Import
- 2 Two Year Moyle Import
- 3 One year Moyle Import
- 4 North/South Export (One year)
- 5 Moyle Export (ie NI – Scotland, one year)
- 6 Moyle Interruptible

Allocation shall take place by auction. Following consultation and consequent discussion with industry participants, it has been agreed that a multi-stage auction process shall be employed. The available interconnector capacities will be divided in equal amounts over two separate auctions, to be held seven days apart. Any unsold capacity in the first auction will become available again in the second iteration. A third or residual auction may be held if the auction does not clear in round two.

As in all previous auctions a pay-as-bid rule applies. The Director General reserves the right to, at any time during the process, declare the auction void if he determines that the process appears to have been gamed, or that the outcome would lead to a non-competitive situation in the NI wholesale market. In the event of such occurrence another suitable allocation method would be devised and enacted at a later date.

The three-year and two-year Moyle import products will be indexed against RPI. Hence, in year two, a bidder will pay actual bid price for year one uplifted by RPI. This does not apply to existing three year capacity which was allocated in the 02/03 auction.

Note that the existing three year capacity holders who bought their capacity on the understanding that they were obtaining a 400/300 MW split between summer and winter will not automatically have a right to the “increase” in their equivalent summer day capacity. Instead Ofreg has determined that those capacity holders which currently have three-year capacity may be offered increased summer day capacity equivalent to that created by the new interconnector ATC proposals at a price equivalent to their highest bid price as paid in the auction in which they acquired that capacity. For example a company which holds 5 MW of winter and 3 MW of summer capacity under the three year allocation, will have the option of securing the additional 2 MW during the summer days at the highest price they paid for the three year capacity in the 02/03 auction. If existing capacity holders do not avail of this option then the capacity will revert to SONI to make available as summer interruptible capacity. In other words summer interruptible could increase to 70 MWs if none of those who bought three year capacity for 2002/05 exercise their option of buying the additional summer capacity.

The following table provides a simple illustration of the capacity available for sale at auction.

Product (MWs)	First Iteration	Second Iteration	Residual
Three Year	20	15	N/a
Two Year	20	15	N/a
One Year	55	50	Remaining
Moyle Export	TBA	N/a	N/a
North / South	-	170	N/a
Interruptible	30	20	Remaining

Note that there will be no specific transit product (ie combined Scotland to Republic of Ireland capacity). Holding the North South auction at stage two will enable bidders who wish to transit energy to the RoI market to make informed bids for North-South capacity. The level of Moyle Export Capacity will be announced in the SONI bid documents, when it is finalised.

Moyle capacity, other than PPB's take-or-pay and the already committed 3-year product, will be reduced by the appropriate factor for summer nights. Thus some having 7 MW of winter capacity would see this reduced between midnight and 8am during the summer period (Apr-Oct inc) to 3 MWs.

Reserve Prices

The Reserve Prices, above which a bid will be considered valid, shall be as follows:

Three Year Moyle Import	£1750 / MW / Month
Two Year Moyle Import	£1750 / MW / Month
One Year Moyle Import	£1750 / MW / Month
One Year Moyle Export	£1750 / MW / Month
North / South Export (one year)	£400 / MW / Month
Interruptible	£1650/MW/Month

2002 Three Year Product

Suppliers holding any of this capacity are requested to inform Ofreg by 5pm on 26 November if they want to exercise their option to take the additional summer capacity. This is to enable the capacity to be added to interruptible capacity in the auction should they not wish to exercise this option.

Auction Dates

Auction dates shall (provisionally) be as follows :

First Iteration	Monday 9th December 2002
------------------------	---------------------------------

Second Iteration
Residual Iteration

Monday 16 December 2002
Thursday 19 December 2002

Bids must be received by the auction dates, as specified in the bid papers to be issued by SONI. 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 afternoon of their accepted bids and associated allocations. Ofreg will also publish the average price paid for the total MW capacity allocated in that round.

Should any available capacity for any product remain unsold it will be made available in the second round for the same product. If the second round (held on identical terms) does not clear all the capacity then a third or residual iteration will be held on 19 December. In this auction the only products available would be One Year Import Capacity on Moyle, to which all Moyle capacity types unsold will revert and interruptible capacity.

Superposition

In the recent Ofreg consultations the concept of superposition on the North/South interconnector was explored as a means of relieving the constraint, particularly in the South/North direction.

At this stage it is not possible to include an explicit interconnector auction product to cover superposition, but there is general agreement between regulators and system operators in both jurisdictions that a means to facilitate superposition will be explored fully, and if possible a system may be developed before April 2003 which would by necessity be short term and interruptible in nature.

Qualification Requirements for Participation in the Allocation Process

Please see the annex to this paper to obtain details of the necessary licences and other agreements which must be entered into by bidders in the allocation process.

Conclusion

Ofreg has determined that the solution to interconnector allocation contained herein is a simple, fair and transparent allocation method.

Transfer of Moyle Interconnector to a Special Purpose Vehicle (SPV)

NIE has proposed transferring Moyle to a SPV. If this happens it may require capacity holders to sign new agreements. This however should be a formality.

Annex

Guidelines for Capacity Holders and Users of the Moyle Interconnector

In order to be a Moyle Interconnector Capacity Holder or a Moyle Interconnector User there are a number of requirements/criteria, which must be met. These relate to the various documents and contracts which capacity holders/users must be counter-party to.

This document defines both Moyle Interconnector Capacity Holders and Moyle Interconnector Users and provides guidelines on the contracts required by each respectively.

Moyle Interconnector Capacity Holder (MICH)

A Moyle Interconnector Capacity Holder is a party to a Moyle Interconnector Capacity Agreement (MICA) under which the right to use capacity has commenced and has not been expired or terminated. MICHs must be party to the Interim Settlement Agreement (ISA) and comply with the requirements of the Interim Settlement Code (ISC).

Capacity allocated to MICHs will be charged at the Capacity Charge (a function of the Bid Price and the nominal MW value of the Units of Contracted Capacity) and that this application, if successful, represents an obligation to pay for Units of Contracted Capacity whether or not that capacity is used.

The facility exists for a MICH to assign their capacity to another person providing that the other person is party to the ISA and complies with the ISC (see Appendix 2 MICA)

A Party to the Interim Settlement Agreement and Interim Settlement Code

Generators and suppliers are also bound by the Interim Settlement Agreement and Interim Settlement Code or the Renewables Output Factor Agreement and the Renewables Output Factor Code. They must also be a signatory to the Use of System Agreement and are bound by the statement of basis of charges for the use of system.

Copies of the Interim Settlement Agreement and Interim Settlement Code are available by clicking on the following links:

<http://www.soni.ltd.uk/upload/11032002132915.doc>

<http://www.soni.ltd.uk/upload/11032002133137.doc>

or can be obtained from SONI, Castlereagh House Control Centre, 12 Manse Road, Belfast, BT6 9RT (tel: 028 90704336). Copies of the Renewable Output Factor Agreement and Renewable Output Factor Code, Use of System Agreement and Statement of Use of System Charges are available from NIE, Danesfort, 120 Malone Road, Belfast BT9 5HT.

However if you are a generator and a Moyle Interconnector Capacity Holder you must also have a connection agreement and are therefore bound by the statement of basis of charges for connection and by the Grid Code. Details on these can be found by clicking on the following link:

<http://www.soni.ltd.uk/downloads.asp?cat=1>

Alternatively if you are a second tier supplier and a Moyle Interconnector Capacity Holder then you must also be a signatory to the Second Tier Supply Agreement and are bound by the Supply Competition Code and the Bulk Supply Tariff.

A copy of the Supply Competition Code can be obtained from Ofreg or by clicking on the following link:

<http://ofreg.nics.gov.uk/licensees/Licences/Lic%20Applic/SCcode.pdf>

Information on the Bulk Supply Tariff (BST) Agreement is available from NIE.

Moyle Interconnector User (MIU)

A Moyle Interconnector user is a party to a bi-lateral trade facilitated by the Moyle Interconnector Capacity Holder.

Requirements for Moyle Interconnector Users

If you are a Moyle Interconnector User you must be a party to the Interim Settlement Code and Interim Settlement Agreement. Moyle Interconnector Users are also bound by the terms of the Interconnector Capacity Agreement. These can be obtained from SONI at the above address or by clicking on the following links:

<http://www.soni.ltd.uk/upload/11032002133137.doc> – Interim Settlement Agreement

<http://www.soni.ltd.uk/upload/11032002132915.doc> – Interim Settlement Code

<http://www.soni.ltd.uk/downloads.asp?cat=11> – Interconnector Capacity Agreements

Generators and Suppliers in Northern Ireland

Under the Electricity (Northern Ireland) Order a generation licence is needed to cover the production of electricity and a supply licence to cover its provision to premises. Northern Ireland.

Certain exemptions apply and these are set out in a statutory rule: the Electricity (Class Exemptions from the Requirement for a Licence) Order (Northern Ireland) 1992 (S.R. 1992 No.88) as amended by the Electricity (Class Exemptions from the Requirement for a Licence) Order (Northern Ireland) 1999 (S.R.1999 No. 352).

A generator is defined as “a person who generates electricity under a Licence or exemption under the Order and who is subject to the Grid Code either by virtue of a licence or exemption or pursuant to any agreement with NIE or otherwise”. A second tier supplier is a holder of a second tier supply licence.

Generation Licences

Applications for a generation licence should be made to Ofreg and are subsequently evaluated by Ofreg. A copy of a draft generation licence is available on the Ofreg website (<http://ofreg.nics.gov.uk/>) under “Electricity & Gas Licensees” and then “New Electricity Licence or by clicking on the following link:

<http://ofreg.nics.gov.uk/licensees/Licences/Lic%20Applic/Draft%20generation%20licence.pdf>

Second Tier Supply Licence

Applications for a second tier supply licence should be made to Ofreg and subsequently evaluated by Ofreg. A copy of a draft second tier supply licence is available on the Ofreg website under “Electricity & Gas Licensees” and then “New Electricity Licence” or by clicking on the following link:

http://ofreg.nics.gov.uk/licensees/Licences/Lic%20Applic/draft_2TS.pdf