Bord Gáis Energy
think beyond

Paul McGuckin
Moyle Interconnector Limited
First Floor The Arena Building
85 Ormeau Road
Belfast
BT7 1SH
paul.mcguckin@mutual-energy.com

Rodney Doyle
EirGrid plc
The Oval
160 Shelbourne Road
Dublin 4
rodney.doyle@eirgrid.com

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RE: Charging for interconnector capacity allocated intra-day in SEM ("the Consultation")

Dear Paul, Rodney,

Bord Gáis Energy (BG Energy) is grateful for the opportunity to comment on the Consultation concerning charging for interconnector capacity allocation intra-day on the Moyle and EWIC interconnectors.

Long term allocation of cross-border capacity for electricity is necessary to enable hedging of cross-border price risk and to boost competition. Long term capacity rights can be considered as an asset similar to generation capacity and the value of such rights must be maintained for the benefit of long term capacity holders. Maintaining the value in these long term capacity rights in intraday capacity allocation will ensure continued competition in long term capacity auctions as well as optimum revenues from such auctions for interconnector owners.

The remainder of this response is predicated on the recognition that the SEM has its own unique characteristics as an electricity market compared to for example the Great Britain or French markets. The specific questions raised in the Consultation are dealt with in the Sections hereafter.

1. UIOSI and UIOLI

BG Energy is strongly of the view that the value of long-term capacity rights must be preserved particularly in a centrally-dispatched market such as the SEM. Use-it-or-sell-it (UIOSI) principles are thus more appropriate than Use-it-or-lose-it (UIOLI) principles for the SEM.

Though the Congestion Management Guidelines (CMG) of EC Regulation 714/2009 require coordinated development of access rules in the France-UK—Ireland (FUI) region, this does not require the rules themselves to exactly mirror each other. Fundamentally, congestion management methods and procedures for allocating capacity must take into account the characteristics of the market in question and the SEM's characteristics are unique from a FUI perspective. As long as the processes in the FUI region are compatible and do not negatively affect capacity allocation across the region, which adoption of a UIOSI principle pursuant to this Consultation would not, CMG requirements will be satisfied.

Capacity allocation rules must appropriately correspond to the characteristics of the market in question. A primary driver for purchasing long term capacity rights in the SEM is the lack of control over whether submitted nominations will in fact be dispatched, as compared to, for example, the certainty in dispatch such nominations submitted in BETTA have. Due to the SEM's central dispatch process, SEM participants have no power to determine if their nominated capacity will in fact be used. Were UIOLI to apply in place of UIOSI, if SEM participants are not scheduled in the EA1 run, where they have already purchased long term capacity they would be exposed to the risk of having to pay for capacity rights twice. This risk would result in a lower willingness to pay high prices for long-term rights, negatively impacting interconnector owner revenues and increasing TUOS charges for end consumers.

BG Energy believes that the UIOSI (b) option better reflects the value of long term capacity rights. The interconnector owner has already been paid for the capacity, and UIOSI should apply to the whole of the trading day. BG Energy requests clarification as to why a differentiation has been made between the value of the capacity rights in the first and the last 12 hours of the trading day?

2. Calculation of when the Interconnector is Congested

BG Energy agrees with the Consultation's proposal that the key determinant of whether an interconnector auction is congested should be whether demand for capacity exceeds supply. All the interconnector offers should thus be summed at a gate closure and if the sum is greater than the available capacity in the relevant direction at that gate closure, congestion must be deemed to have occurred. BG Energy also requires confirmation however that this calculation applies to each of the EA1, EA2 and WD1 windows?

3. Calculation of Congestion Charges

From the information provided, BG Energy believes that the most appropriate method of calculating the congestion charge is Option 2 – a 'pay as bid' approach. The preference for this Option is subject to a number of assumptions as to interpreting how the Option works in practice and confirmation of the following assumptions is requested:

- The actual users of the intraday capacity whose offers are scheduled, receive 50% of the congestion charge with the other 50% being paid to the original capacity holder (maintaining some value in the capacity rights which the original capacity holder has already purchased from and paid to, the interconnector owner);
- It is understood that as it is very difficult to determine which new capacity user's accepted offer applies to which long-term capacity holder's capacity, all of the congestion charges from accepted offers is pooled and each long-term capacity holder receives the same price per MWh on a pro-rata basis; and
- As the long term capacity rights holder has already paid for the ownership of the capacity in the explicit auctions and shares the congestion charge with the new capacity rights holder, the capacity payments should accrue to the long term capacity holder as they are the party that makes the capacity available.

On the basis of the above interpretation, Option 2 displays a number of merits and BG Energy believes that it best fits the realities of a centrally-dispatched market wherein long-term capacity rights purchases are necessary for efficient risk management. The Option benefits the new capacity rights holder by allowing them to retain some of the congestion charge making their purchase of the capacity potentially very economical. The Option also incidentally encourages optimal use of the interconnector by encouraging the purchase of unused capacity, more so than would occur were such economic benefits not accruable to the new capacity rights holder. Some of the benefit of the sale of unused capacity rights must accrue to the original capacity holder to maintain some value in the long-term rights they have already paid for. Sharing the congestion charge between the original and the actual user of the capacity also deals with the Consultation's contention that capacity holders would game the market by submitting speculative bids in the EA1 window.

4. Miscellaneous Comments

BG Energy is amenable to the 'Superposition' mechanism as explained in the Consultation. For additional flows made possible under this mechanism, it is reasonable that charges for such flows would be payable to the interconnector owner.

BG Energy also commends the operation of a secondary market in trading unwanted long-term capacity on Irish interconnectors. The market greatly assists capacity rights holders in optimising their portfolios in line with market realities and welcomingly boosts liquidity in the forward market.

5. Conclusion

Recognising the need to protect against potential capacity hoarding while ensuring efficient usage of the interconnectors in the short-term and long-term, the congestion management charging arrangements must strike a balance between providing trading opportunities without damaging the value of long-term capacity. On that basis, BG Energy believes that the UIOSI (b) option combined with the Option 2 'pay-as-bid' approach to congestion charging will best achieve this objective. UIOSI (b) provides optimum protection of the value of long-term capacity rights, which is beneficial for both the long-term capacity holder and the interconnector owner. Together with UIOSI (b), the Option 2 'pay-as-bid' congestion charging method will then encourage optimal trade, while also retaining value in long-term capacity rights.

I hope that you find the above suggestions and comments helpful. If you have any queries, please do not hesitate to contact me.

Yours sincerely,

Julie-Anne Hannon
Regulatory Affairs – Commercial
Bord Gáis Energy

{By email}