

Charging for interconnection capacity allocated intra-day in the SEM

(A response by Synergen)

1 Introduction

This paper is Synergen's response to the consultation paper issues by EirGrid Interconnector Limited and Moyle Interconnector issued on 21st February 2012. Synergen has no objection to this response being published.

The consultation paper addresses 3 questions:

1. Should UIOLI or UIOSI be adopted intra-day?
2. How should intra-day congestion be determined?
3. How should the congestion charge for implicitly allocated (intra-day) capacity be charged?

These questions are addressed in the following three sections of this response.

2 UIOLI or UIOSI?

In reality this issue revolves around whether the revenues obtained through the implicit auctioning of interconnection capacity intra-day should be passed onto the original rights holder, or retained by the interconnector owner. Further, if implicit auction revenues are returned to the original rights holder, should this be for the EA2 auction or for both EA2 and WD1?

The paper notes that under UIOSI and UIOLI there could be differential impacts on the value of capacity rights held. Synergen does not necessarily accept that this means that the revenues to the interconnector asset owner are necessarily different under UIOLI or UIOSI. Under UIOLI auctioned rights would have a lower value, but the asset owner would receive the revenues from any intra-day implicit auction. Under UIOSI revenues from any intra-day implicit auction would be retained (from EA2, or, EA2 and WD1). Consequently, we would expect that the value of rights under UIOLI to be discounted by the expected loss of revenue under UIOSI – but that the asset owner, and rights holders, to be broadly neutral over time to either outcome. Consequently, other considerations, such as overall market efficiency and equity, should be the basis of any decision.

Synergen's primary concern is that the trading arrangements should provide for competition between generators and interconnector users on terms that are as equitable as practical. This should mean that the opportunities to "market test" in earlier gate closures are limited – as they are for conventional generation. Other pertinent considerations are the alignment of the arrangements of the arrangements

for Moyle and EWIC with other arrangements in the FUI region and the relative costs of implementing any arrangements. On this basis Synergen would support a UIOLI approach intra-day.

3 Determining congestion intra-day

Synergen concurs with the recommendation in the paper that definition of interconnection congestion should be determined as follows: *“Sum all the interconnector offers at gate closure and if this is greater than the available capacity in the relevant direction at that gate closure, then congestion has occurred”*.

Synergen understands that this definition is on a directional basis i.e. if superposition led to flows not being constrained, but the offers in one direction exceeded capacity in that direction, then congestion would occur.

4 Congestion charging for implicitly allocated capacity

The established practice in coupled markets is that congestion charges for the implicit auction of capacity are determined by the spread of prices between the coupled markets. Therefore it would appear prudent to adopt a consistent approach under congestion between the SEM and GB.

Option 1 – Marginal pricing. Under this approach the difference between the highest importing interconnector bid would be used to determine the congestion charge - set as *ex-ante SMP minus the highest scheduled interconnector offer*. This marginal unit would thus recover its costs, other (lower priced) units would receive the difference between their bid and the bid of the highest scheduled offer as an IMR. In practice, this sets an IMR for lower priced interconnector units based on the price of the highest schedule unit.

Synergen recognises that:

- It does ensure that interconnector users do at least recover their costs (assuming cost reflective bidding). Other lower cost, scheduled interconnector units would recover costs plus IMR; and
- It is capable of cost effective implementation.

Synergen considers that there is no clear economic rationale for this approach – and it does not reflect the principle of splitting based on the differentials in market price between importing and exporting markets as it is not clear that the highest scheduled interconnector offer is reflective of the market price in the exporting region. Consequently, Synergen does not support this option.

Option 2 – “pay as bid”. This option involves applying a tolling charge to the differential between SMP and its offer. Assuming bids are cost reflective, this would provide some IMR to all scheduled units. However, as with Option 1, there is no economic rationale for this approach – although it does provide for IMRs to all scheduled units – including the highest priced unit. However, Synergen considers that the lack of robust economic rationale for this option means that it cannot be supported.

Option 3 – Use BETTA price instead of interconnector offers. This option seeks to adopt the principles adopted in price-coupled markets. As the paper notes, this option would require further investigation to determine the most appropriate BETTA market reference price, and to reconcile the explicit and implicit capacity regimes of the SEM and BETTA regimes.

Synergen considers that (in principle) this is the most appropriate option, as it does have a clear economic rationale. Option 3 therefore merits further investigation to determine suitable SEM and BETTA market reference prices.