

RA comments on IC Owners recommendations on interconnector capacity curtailment

6th March 2013

In the letters approving the Access Rules for Moyle and East West Interconnectors, (dated 4th September 2012), the SEM RAs and Ofgem asked that IC owners undertake a consultation on issue of curtailment of capacity on interconnectors.

On 13th November 2012, a joint consultation document on the issue was published by Moyle and East West. The consultation closed on 11th December 2012 and six responses were received from Bord Gáis Energy, Electrорoute, Energia, ESB, RWE Supply and Trading and SSE Generation

Following consideration of same, the IC owners have recommended no changes to Access Rules in the paper forwarded to SEM RAs and Ofgem on 24th December 2012.

The SEM RAs have considered the recommendation and in order to reach a final decision on this issue would like the IC owners to consider some issues in more detail. The purpose of this note is to outline these issues.

The Consultation Note issued by the Interconnector owners on 13th November 2013 requested comments from respondents on the current Access Rules in relation to the impacts of the interconnector capacity curtailment on auction management and on scheduled transactions.

The interconnector owners are required to ensure that access arrangements are transparent, objective and non-discriminatory and must comply with all relevant EU legislation, primarily Regulation (EC) No 714/2009 and in particular Annex 1 of the Regulation which sets out guidelines for the management and allocation of available transfer capacity of interconnectors between national systems.

Having reviewed the recommendations from the Interconnector Owners, the Regulatory Authorities have a number of observation and questions below. The RAs request that the Interconnector Owners respond to these by 5th April 2013.

Auction Management in the Event of Curtailment

The majority of respondents have supported not making any changes to the current access rules with regard to auction management in the event of curtailment of capacity. A number of supporting arguments were put forward including compliance with the Directive and coordination with other interconnectors connected to GB.

However, one respondent, Electrорoute suggests that the current rules discriminate against short term traders to the benefit of purchasers of long term capacity. Furthermore, they suggest that Annex 1 (2.7) of the congestion management guidelines specifically disallows this as follows;

Capacity allocation shall not discriminate between market participants that wish to use their rights to make use of bilateral supply contracts or to bid into power exchanges.

It would appear from the suite of product offerings on Moyle and EWIC that the IC owners do comply with the above for the general sets of auctions on the interconnectors. However, in the case

where curtailment occurs (such as the reduced EWIC availability or loss of Moyle cable) it may not necessarily hold true because shorter term auctions are cancelled in order to protect the long term holdings.

The Regulation states that *“Each capacity-allocation procedure shall allocate a prescribed fraction of the available interconnection capacity”* and the majority of respondents support the IC owner position that capacity that is not available should not be auctioned. In scenarios where interconnectors are fully available all the time there is no issue for IC owners or for long and short term capacity holders. However, if interconnector curtailment is becoming more regular, perhaps the same doesn’t hold true. In particular, long term auctions continue to offer capacity based on full availability where in reality more instances of reduced capacity are being observed.

The RAs would therefore welcome views from the interconnector owners on the merits of this point and whether adjustments might be warranted to the schedule of auctions or the curtailment approach. The RAs are mindful of increased interest from shorter term capacity purchasers in the market and there is already evidence of greater activity in the SEM intra-day market.

In summary, the RAs would welcome the thoughts of the IC owners on the following;

1. Whether the more frequent level of outages and reduced availability on the interconnectors might warrant a change in either the curtailment policy or the auction schedule
2. If any change were to be made, what approach would be best and why
3. What are the potential impacts of making any changes
 - a. On existing and potential long term capacity holders
 - b. On existing and potential short term capacity holders
 - c. On overall auction revenues
 - d. On overall utilisation of the interconnectors
4. Finally, we would welcome a more detailed analysis from the interconnector owners on how the recommendations submitted on 24th December complies with the licence requirement that it is transparent, objective and non-discriminatory and must comply with all relevant EU legislation.

In relation to the above it is important to note that the RAs have not taken any position on the decision proposed by the Interconnector Owners or on the arguments raised by Electroroute. However, we do believe that the further rationale and analysis is required from the Interconnector Owners to allow us make a reasoned decision.

Management of Scheduled Transactions in the Event of Curtailment

The IC owners have recommended that no change is made to the current policy in relation to the treatment of scheduled transactions in the case of a curtailment event. There was no clear consensus on the issue from respondents with three in favour of the current approach and three in favour of moving to an approach similar to that employed on the IFA interconnector.

The RAs have no specific questions on the recommendation from the IC owners but we would welcome a more detailed analysis on how the recommendations submitted on 24th December complies with the licence requirement that it is transparent, objective and non-discriminatory and must comply with all relevant EU legislation. This analysis should also include an assessment as to

why the proposed approach better complies with the licence objectives than the alternative put forward in the consultation paper and supported by half the respondents.