ElectroRoute Energy Trading

Paul McGuckin
First Floor The Arena Building
85 Ormeau Road
Belfast
BT7 1SH

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Dear Paul,

Response to *Report on Curtailment Approach*, dated 13 November 2012

I welcome the opportunity to give Electroroute Energy Trading Limited's views on the topic of capacity allocation procedures on the GB-SEM interconnectors. As you know, ElectroRoute Energy Trading ("ElectroRoute" hereafter) has been a user of the Moyle Interconnector since early 2012 and is registered to use the East-West Interconnector when that cable becomes available. ElectroRoute has been very seriously affected by the reduction in available capacity on the Moyle Interconnector, and will be similarly affected by the voluntary curtailment of the East-West Interconnector to 250MW proposed by EirGrid Interconnector Limited ("EIL"). ***ElectroRoute strongly disagrees with the approach to capacity allocation described in your report and believes that it will stifle effective competition, is discriminatory and furthermore is not compatible with EC guidelines.***

ElectroRoute is a recent entrant to the electricity markets on the island of Ireland and in Great Britain, commencing live trading in February of this year. Our business model involves the import and export of electricity between the Single Electricity Market and Great Britain. We primarily purchase interconnector capacity in monthly, quarterly and daily lots, and we trade with industry counterparties on each side of the Irish Sea in the short term markets.

Under the capacity allocation policy recently adopted by Moyle Interconnector Limited ("MIL") and EIL shorter term auctions will be cancelled in partial outage situations if previous long term capacity sales amount to more than the projected available transfer capacity (as now). In other words holders of long term capacity, and longer tenors of product, are favoured, with their existing capacity holdings taking precedence over the requirements of parties who tend to purchase shorter term products, in the event of partial outages. To parties wishing to use the interconnector and who intended to purchase shorter term capacity, or who intended to supplement their capacity holdings, a partial outage such as the current situation is therefore equivalent to an outage of the entire interconnector: those parties are locked out.

To give a concrete example of the impact of the new rules, consider that there will be no monthly, quarterly or seasonal import auctions in relation to the East-West Interconnector until the problems relating to telecommunications interference are resolved. The auctioning policy therefore appears to directly discriminate against one class of interconnector users – namely shorter term purchasers of capacity – in favour of longer term purchasers of capacity. These shorter term purchasers of capacity suffer the vast majority of the outage risk whilst the long term purchasers take very little. In certain

circumstances (such as the present East-West situation) shorter term capacity purchasers may have no access at all to the interconnector for sustained periods of time.

It is apparent that under the current policy every time a Moyle pole trips in future the same scenario will play out, and a similar effect will manifest itself on the East-West Interconnector should that interconnector be curtailed due to transmission outages or scenarios similar to the ongoing voluntary shutdown.

The purchase of short term capacity and the associated import/export of electricity in the prompt marketplace is an essential part of the strategy, which is encouraged at European level, of bringing markets together dynamically. Short term users of the interconnection between Ireland and Great Britain perform a socially useful function which brings net welfare gains to consumers in the FUI region, and is to be contrasted with long term unresponsive "hedging" flows which are not so attuned to the price signals from the two markets.

The interconnector owners must be aware that there are essentially two different categories of user on the Moyle Interconnector today: those companies who utilise the interconnector to offset existing customer supply positions in the SEM (Airtricity/SSE and Bord Gais would be examples of these), and also non-physical traders (ElectroRoute or Danske Commodities fit this description).

Non-physical traders have an important role to play in ensuring that the social benefit of an interconnector is realised. The first category of users, however, often stands in the way of the full utility of an interconnector being enjoyed. That category of users, which tends to number amongst its members the "incumbent" parties with heritage as privatised but formerly monopolistic utilities, or semi-state bodies, does not always respond properly to relative price signals, as previous research by the SEM Committee[1] has identified. You note in your report that Regulation (EC) No 714/2009, on conditions for access to the network for cross border exchanges in electricity, lays down guidelines for capacity allocation. One of the requirements (paragraph 2.7) in those guidelines is 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."

Incumbent companies satisfying supply positions in SEM through long term bilateral arrangements with affiliates or counterparties are at a direct advantage given that the liquid power exchange in Great Britain effectively goes no further out than day-ahead. In fact the spirit of the paragraph, and the regulation as a whole, is to emphasise that companies such as ElectroRoute and other non-physical traders should be afforded equal protection compared to incumbents. The interconnector access policies as they currently stand clearly fail in this obligation of non-discrimination.

Your report rather hopefully cites the same EC regulation in support of your capacity allocation policy, specifically picking the following sentence:

"Each capacity-allocation procedure shall allocate a prescribed fraction of the available interconnection capacity"

[1] SEM-09-042

The word “available” is highlighted in your report, suggesting that you believe that this is evidence to back your chosen policy. To reach the conclusions that you do your interpretation of the key part of the phrase must be something like “*prescribed-fraction-of-that-capacity-which-the-interconnector-owner-forecasts-at-the-time-of-the-auction-will-be-available*”, which is certainly not what the regulation says.

It is important to recognise three things that the regulation does not talk about: it does not talk of forecasts of availability; it does not talk of auctioning absolute MW amounts from the available interconnection capacity, and instead talks of *prescribed fractions*; nor does it in any way preclude the auctioning of capacity which is either unavailable at the time of auctioning or which is expected to be unavailable at the time of usage.

The paragraph from the regulation that you have highlighted is therefore an unusual choice, given that the capacity allocation approach which you offer up is specifically incompatible with its provisions. The only way that we may be sure that all of the capacity technically available on an interconnector is allocated *as a prescribed fraction* is to ensure that all of the capacity which is currently forecast to be unavailable is also so allocated. Otherwise when greater availability returns to a curtailed interconnector the auctioned 25MW which represented the last 1/10th of 250MW forecast availability will become 1/20th of its fully available 500MW state, which is of course a totally different fraction.

If the regulation had spoken about availability forecasts and MW amounts your approach might have been more valid, incidentally, but it does not, and it is an unavoidable conclusion that the current Moyle and East-West policy is incompatible with the EC regulation. Happily the regulation in no way mandates the asymmetric allocation of outage risk between different classes of interconnector users.

Under the old arrangements for capacity auctions Moyle Interconnector would auction the full notional capacity of the interconnector at all times, regardless of any likelihood of outages, and then pro-rate all capacity holders equally to reflect partial outages or reductions in transfer capacity. In this way all capacity users and purchasers faced equal outage risk from the interconnector asset.

We believe that reversion to a variation of this original policy would be markedly fairer for a number of reasons, since under the new status quo:

• because long term capacity is auctioned up to three years in advance, the position of incumbent parties (who purchased as far back as 2009) is preserved relative to new entrants, discouraging competition;

• parties who are able to take multi-year positions in advance (largely parties who have significant existing generation or supply positions) are favoured compared to smaller parties; and

• daily interconnector capacity auctions will be rendered meaningless, because no capacity will be explicitly allocated to them.

The current policies are discriminatory and in breach of European guidelines; additionally they are directly at odds with Europe-wide initiatives to incentivise price coupling and short term trading

between markets. The effect of the current policies is to protect of traditional long term and incumbent positions.

The suggestion that other interconnectors in the region are also protecting incumbent positions and practices can never be a reasonable excuse for similar unjust practices our jurisdiction. There is little or no commercial benefit in having exact alignment of access rules across the region in relation to outage risks, as outages, when they happen, will happen independently on each asset. We do not believe that alignment between interconnectors on this issue should be a regulatory objective, and certainly not one that should take precedence over non-discrimination.

ElectroRoute is disappointed that the consultation is effectively asking interested parties to agree with the current practices of the interconnector owners, and is surprised that it does not seriously explore or propose any alternatives.

ElectroRoute cannot therefore support your new policy and we would urge both interconnector owners to revert to a policy similar to that originally used by MIL in 2011 and earlier years and one that fully complies with relevant regulations and guidelines.

Yours sincerely,

Alex Bryson
Head of Trading, ElectroRoute

cc. Eugene Coughlan, Commission for Energy Regulation
Tanya Hedley, Utility Regulator
Olaf Islei, Ofgem