



East West Interconnector

Integrated Single Electricity Market (I-SEM)

**Capacity Remuneration Mechanism
Detailed Design Second Consultation Paper
SEM-15-014**

A Submission by EirGrid Interconnector Limited

February 2016

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INTRODUCTION

EirGrid Interconnector Limited (EIL) welcomes the publication of the Capacity Remuneration Mechanism Detailed Design Second Consultation Paper and the opportunity to respond to these proposals.

The East West Interconnector is a high-voltage direct current (HVDC) interconnector which links the electricity transmission grids of Ireland and Great Britain. The East West Interconnector is a fully regulated interconnector which is owned by EirGrid Interconnector Limited (EIL), a wholly owned subsidiary of EirGrid Plc and is operated in accordance with the Interconnector Operator licences issued by CER and Ofgem. SONI Ltd acts as Interconnector Administrator¹ for both of the interconnectors that connect the island of Ireland and GB.

Our approach to operating the East West Interconnector is underpinned by the following points:

1. We operate the East West Interconnector to maximise benefit to SEM consumers through trade and provision of capacity and other services. EWIC is an enabler of market competition and lowers the overall cost of the supply of electricity.
2. The operation of the East West Interconnector is fully regulated and is fully compliant with European and national regulatory requirements in relation to open access.
3. Under the regulatory model in place revenue from the East West Interconnector does not impact on or affect EirGrid's profitability. EirGrid's profits are not affected by revenue from the East West Interconnector.

¹ The "Interconnector Administrator" is a defined role under the Single Electricity Market Trading and Settlement Code. It is part of the SONI license to Participate in the Transmission of Electricity to provide this and the "Interconnector Error Administrator" services as such expressions are defined in the GB Balancing and Settlement Code for the Moyle interconnector. SONI Ltd also provides these services to the East West Interconnector.

SUMMARY

EIL recommends alignment with the GB CRM to the greatest extent possible in order to minimise any direct or indirect influence on the FTR Option valuation by market participants. The solution should be based on expected interconnector availability and not based on historic or realised energy flows.

DECC recently provided a response to a similar GB capacity market consultation exercise². DECC present some important observations including highlighting known impediments to implementing some of the CRM solutions being proposed here.

The provider led solution has significant drawbacks given its complex nature. A fully coordinated and agreed methodology, developed by all TSOs and RAs within the capacity calculation region of UK and Ireland and with other eligible providers beyond the UK, is required when implementing a provider led solution (described also as a generator led solution) either in the simple or hybrid sense. The added complexity associated with these mechanisms arises where providers from elsewhere in Europe are also eligible to participate. Such a complex solution does not exist within Europe at present and it is unrealistic to expect this to be delivered within the existing I-SEM timelines.

EIL expect that any proposed derating methodology for interconnectors will be consulted on separately to this consultation.

² Capacity Market supplementary design proposals and Transitional Arrangements and Proposed amendments to the Capacity Market Rules 2014 and explanation of some immediate amendments to the Capacity Market Rules 2014 Consultations Government Response. January 2015

Responses to the questions from the consultation are provided below.

1. INTERCONNECTION AND CROSS-BORDER CAPACITY

A. WHICH OF THE APPROACHES TO THE TREATMENT OF CROSS BORDER CAPACITY DO YOU PREFER AND WHY? (FOR THE PROVIDER LED AND INTERCONNECTOR LED APPROACH, PLEASE SPECIFY WHETHER YOU PREFER THE “PERFORMANCE BASED” OR “AVAILABILITY BASED” VARIANT).

INTERCONNECTOR LED APPROACH:

EIL favours an Availability Based, Interconnector Led approach to the Capacity Remuneration Mechanism (CRM) complementary to the existing CRM arrangements in the GB market.

EIL believes this approach is the most suitable mechanism for procuring capacity for the I-SEM when the various options are assessed against the published assessment criteria (Section 1.4 SEM-15-014). Fundamentally the administered scarcity pricing incentivises the supply of energy during a scarcity event within the I-SEM, while the capacity market provides a longer term signal to ensure that sufficient generation is available to respond to this signal. The CRM solution that most effectively ensures high interconnector availability is also the solution that ensures “non-I-SEM capacity” can respond to the price signals in the I-SEM during any scarcity event. EIL considers that an interconnector led approach to the CRM, would ultimately provide the greatest consumer benefit.

Market price will determine flow during a scarcity event, providing the capacity into the market at the time of need. The capacity market should be structured to ensure that available capacity exists to the market. In the case of HVDC interconnectors, the day-ahead and intraday market coupling arrangements will dictate energy flows and not the CRM. The value of an interconnector within the I-SEM is ensuring high availability for efficient cross-border exchanges,

and the CRM should reflect this. In order to ensure an efficient overall market design, it is vital that the CRM works with the wider market coupling arrangements, and not work against them

Interconnector owners are not permitted to trade in the day-ahead or intraday markets and will not be in a position to influence the results of the market coupling algorithm, therefore a performance based interconnector led solution would place risk with a party who would be prohibited from mitigating that risk, to the ultimate detriment of consumers. Market coupling should ensure that interconnector energy flows from the lower price market to the higher price market, ultimately ensuring that capacity is delivered to the I-SEM during a scarcity event where the interconnector is available and Administered Scarcity Price signals are effective.

It is also important that interconnectors are able to mitigate the effects of unplanned outages in the context of the CRM. For example, in the event of a trip, interconnectors should be able to limit losses using the secondary market to mitigate the exposure to the TUoS customer. This would be similar to the manner which other GB interconnectors manage their physical commitments in the energy market in the event of unplanned outages.

INTERCONNECTOR LED: – PERFORMANCE BASED:

An Interconnector Led, Performance Based approach to the CRM fails to allocate the benefits associated with the transportation in a fair and reasonable manner. Under the existing statutory framework, TSOs (including interconnector TSOs) cannot trade energy. Therefore, if the interconnector is fully available, any failure of the interconnector to deliver energy during a scarcity event cannot be mitigated by the interconnector. The Administered Scarcity Price at each end of the interconnector will be determined by the relevant authorities. An Interconnector Led, Performance Based solution that attempts to penalise interconnectors that were fully available during a scarcity event would lead to sub-optimal outcomes for consumers as it introduces a level of uncertainty for interconnector owners as they cannot control the flows on the interconnector under a scarcity event and so cannot manage associated commercial risks or reasonably honour CRM commitments that are controlled by other non I-SEM participants with which the interconnector may have no contractual relationship or influence over. This would inadvertently limit the value of the CRM in incentivising further

interconnection developments; particularly with capacity auctions across the I-SEM/GB border are limited to Financial Transmission Right Options only.

INTERCONNECTOR LED: – AVAILABILITY BASED:

EIL is firmly of the opinion that an Interconnector Led – Availability based solution offers the most effective mechanism for ensuring cross border capacity is able to access the I-SEM during times of system need. This design is also consistent with the current approach to the incentivisation of interconnection adopted by CER. Any mismatch between declared interconnector availability as defined in the common grid model and actual flows will be even more transparent under the market coupling arrangements. Given this consistency with the existing arrangements and the absence of any further incentive on EWIC under these proposals, we do not see how we would have either discretion around how we manage these activities or any incentive to act on any potential conflict of interest, even if we did have the ability to do so. We would therefore prefer that this is assessed in a structured manner through the licensing and governance workstream, to ensure that we remain able to operate EWIC in a manner that delivers the maximum benefit for customers across the I-SEM, in this context by ensuring Interconnector availability at the times of greatest system need and facilitating access to lower cost generators in GB.

NET OFF DEMAND:

This approach does recognise that capacity will be provided across the interconnector; however, it does not provide any capacity payments to reflect the support (if any) provided by cross-border capacity. The Net off demand approach fails to provide any incentive to units operating outside the I-SEM, or to interconnectors facilitating access by these generators. It fails to allocate the benefits associated with the transportation of the capacity in a cost reflective manner. This solution would also fail to adequately incentivise interconnector development by any party or provision of capacity outside our jurisdiction.

In the UK Government issued Consultation on Capacity Market supplementary design proposals and Transitional Arrangements (September 2014), DECC explicitly states that the “Government is committed to allowing interconnector participation in the GB Capacity Market and believes that their inclusion would contribute to security of electricity supply and provide value for money for consumers.”

In addition, EIL have the following comments and observations with the Net off Demand solution (as proposed):

- EIL believes the degree to which such an approach would be in line with EU Internal Energy Market Regulations or adhere to the EU State Aid Guidance would need to be carefully considered.
- Although this approach was used for the first GB CRM auction in December 2014, the then existing timelines for further GB CRM auction developments included for full recognition of interconnectors, and arguments supporting the 2014 auctions were based on having insufficient time to fully develop and consult on the cross-border solution. These arguments would be unlikely stand up in the I-SEM CRM context for interconnector led options.

FTR LED:

FTR product can only be sold a maximum of one year out. As a result, FTR products will not be available for CRM auctions beyond this timeframe. As this solution restricts capacity auctions to an FTR timetable, it immediately introduces inefficiencies in how value is derived for the FTR product. Furthermore the CRM auction calendar may not align with the FTR one. The FTR and CRM markets serve different needs and direct coupling of the products adversely influences the optimum price for the FTR product – potentially influencing the annual FTR prices. Such distortion of prices due to the direct coupling of different products operating over different timeframes would fail to deliver the most efficient market for the end consumer.

Any proposal to directly link FTR auctions to CRM auctions would place pressure on auction holders to have multi-annual FTR auctions in order to better align with the needs of the capacity market – limiting the availability of shorter duration products that are needed to facilitate market coupling, thus driving an inefficient solution for both auctions.

Furthermore, Interconnector Operators will be reluctant to commit all de-rated capacity to annual auction to facilitate CRM auctions given the adverse effect this would have on achieving the optimum price for the FTR product. It would be rash to commit to selling all de-rated capacity at one auction as the value will change over time.

Finally, as set out in the draft Commission Regulation (EU) establishing a guideline on a forward capacity allocation (the FCA Guideline), interconnectors are obliged to spread FTR Option products over at least annual and monthly auctions. An FTR Led, CRM solution that follows such a strategy could result in pressure on the interconnector owners to auction capacity to meet the needs of the CRM at the expense of facilitating financial hedges to support liquidity in the energy market.

In addition, EIL has the following comments and observations with the FTR Led solution (as proposed):

- Allocation of Day Ahead flows: The solution assumes that FTR rights details are available to the CRM settlement system. This will not always be the case resulting in unnecessary complications in CRM settlement.
- The consultation did not adequately consider how each participant would report their FTR rights to the CRM system.
- Allocation of remaining flows: Use of “aggregate cross border flows” would need to be clearly defined. These will be subject to arrangements around inter-jurisdictional sharing of balancing services under the Electricity Balancing Code, which is still under development.

PROVIDER LED:

Given that one of the East West Interconnector's main purposes is to facilitate competition between generation on the island of Ireland and those in GB, this option has merit as part of a longer term pan-European solution, under common governance. This situation is some way off, and without this wider cooperation is unlikely to be feasible.

Both the proposed Performance and Availability Provider Led solutions would require the market operator to acquire and validate energy data from CRM participants outside of the I-SEM area. This requirement would become more onerous in the performance based solution where access to energy meters belonging to providers located outside the I-SEM is required to determine performance.

Additional complexities exist in correctly accounting for losses between the provider and the I-SEM. The determination of losses in this scenario would in reality, be impossible to accurately quantify given the large number of variables affecting the losses during the scarcity event. The implementation of such a complex solution, together with a known inability to accurately determine the exact quantity of delivered capacity introduces a practicality / cost barrier to both the development and implementation of this CRM solution.

The differences in the trading arrangements between GB and the I-SEM would also add complexity here, as bilateral trades and volumes settled through the balancing and settlement code in GB would need to be considered when assessing the performance of the provider. Access to these data would also be required.

The complexity of delivering this solution in a unilateral manner, combined with the difficulties in determining performance, would be unlikely to provide the appropriate investment signals to the market to provide capacity.

- The additional complexity and cost of implementation and operation of the provider led solution may diminish the ultimate benefit to the customer' when rewarding capacity from non I-SEM providers.
- In the UK Government issued Consultation on Capacity Market supplementary design proposals and Transitional Arrangements (September 2014), DECC explicitly states

“We had also examined the option of non-GB generators bidding into the Capacity Market auction. This option seems more intuitive in that it is consistent with the current Capacity Market design for domestic capacity providers and is aligned with the current direction of thought at EU level. However, it creates significant complexity as it potentially means many non-GB parties bidding into the auction which in turn means many non-GB generation sites to verify, which would require enhanced cooperation with neighbouring Transmission System Operators (TSOs) on data-sharing platforms, measurement and testing. It would also require a change to a number of aspects of the Capacity Market auction parameters, pre-qualification (development of a method to pre-qualify non-GB generators in the countries to which GB is currently connected - Ireland, France and the Netherlands), the auction design (changes to take into account these different bidding zones up to the capacity of the interconnector), secondary trading, and further work on the nature of the obligation and nature of the product that a non-GB plant can offer.”

The consultation continues:

“...a generator-led solution will require a significant amount of international cooperation to bring to fruition.”

In addition to the noted issues with this type of solution in terms of practical implementation (as detailed in Section 2.4.31 in the consultation document), EIL has the following comments and observations with the Provider Led solution (as proposed):

- The solution fails to consider the potential effect of transmission constraints etc. from non I-SEM regions affecting flows.
- The difficulties this proposal places on the company tasked with assessing the performance of non I-SEM providers following a scarcity event has not been adequately considered in the Consultation. This cannot be underestimated, as at a minimum the performance assessor must:
 - Have access to all non I-SEM contracted parties energy meter data,
 - Develop and maintain a contractual relationship with all non I-SEM participants
 - Fairly ‘police’ this solution across multiple jurisdictions.

- Ultimately, the implementation of such a solution would be so complex and costly that it could not realistically be delivered with the timeframe required under the I-SEM deadlines; however this does not rule out a longer term cooperative multi-jurisdiction solution.

PROVIDER LED - PERFORMANCE BASED

In addition the comments for a Provider Led CRM solution as detailed above, EIL have the following comments and observations specific to the Performance Based solution:

- The challenge imposed on the performance assessor is immense, for example:
 - Assessing the performance of multiple, providers following each scarcity event.
 - Securing access to reliable energy meter/trading data and attempting to determine its credibility in regions where such verification may not be possible.
 - The energy provider has no control over the actual interconnector flows during a scarcity event, or even the destination of its *ex-ante* trading through Euphemia, yet would appear to be penalised for underperformance in the event of their full availability during an under performance of flows on the interconnector.
 - No mechanism currently exists for verifying a provider's ability to provide capacity through structured tests operating (or being constructed) outside the I-SEM.

PROVIDER LED – AVAILABILITY

In addition the comments for a Provider Led CRM solution as detailed above, EIL have the following comments and observations specific to the Availability Based solution:

- The challenge imposed on the performance assessor is immense, for example:
 - In the event of a scarcity event where the Interconnector fails to provide its contracted capacity amount, it's unclear how the proposed shortcomings would be determined. The obligations on the performance assessor to determine whether the failure to provide capacity was as a result of a failure to generate or offering to generate would need to be determined. This exercise could even

require the performance assessor to investigate dispatch instructions of other TSOs – something which may be impractical / cost prohibitive to implement in reality. Availability would need to be assessed net of bilateral trades made in other jurisdictions.

HYBRID:

EIL considers the hybrid solution, as proposed is an unsuitable solution to the CRM for the following reasons:

The hybrid approach fails to fairly compensate interconnectors for the value they add in providing access to lower cost capacity.

The approach of splitting the revenue for cross-border capacity between external providers and the owners of the physical interconnectors in combination with placing responsibility for the relevant difference payments with the relevant Interconnector fails to ensure that costs and benefits associated with the transportation of the energy is delivered in a fair and reasonable manner. This could act as a disincentive to interconnector participation in the scheme.

Payments during technical failure of the Interconnector asset.

The proposal specifies that interconnectors will make any difference payments which arise as a direct result of a technical failure of their asset. A concern for interconnectors which are fully regulated is that there would not be a difference in the clearing price of the zonal auction and the I-SEM zonal capacity clearing price and hence will have received no difference payments between the I-SEM and GB markets. If this were to occur then the interconnector remains exposed to an unlimited cost associated with difference payments if unavailable. So for interconnectors it would be essential for a limitation of financial exposure to be addressed and preferably not to expose interconnectors to difference payments at all.

Potential Conflicts of Interest.

EIL disagrees with the suggestion that the interconnector led and hybrid approaches may increase the potential for conflicts of interest regarding the role of EirGrid as owner and operator of the East West Interconnector and new functions as Delivery Body for the I-SEM CRM (as suggested in 2.5.1.) .This is due to the fact that the RAs are developing the CRM auction rules, EirGrid will not have any discretion in how it undertakes the CRM auctions and neither EirGrid or EIL has no incentive to act on any conflict, even if one were to exist.

All of the issues that apply to the provider led solutions also apply here, however implementing the proposed Hybrid solution adds in risk to interconnector owner that is ultimately passed back to consumers.

B. SHOULD THE DE-RATING OF INTERCONNECTORS BE BASED ON HISTORIC PERFORMANCE, OR INCLUDE FORWARD MODELLING TO PROJECT HOW ITS PERFORMANCE COULD CHANGE IN THE FUTURE?

Any potential de-rating of Interconnectors should be made solely or predominantly on forward modelling as this approach best caters for the expected capacity contribution of an Interconnector during a scarcity event when considered against expected changes to the markets that may not have been applicable or reflected in historic performance.

The implementation of the I-SEM will cause significant change in the industry on the island of Ireland, particularly in relation to the scheduling of flows between balancing zones. On this basis, historical, pre I-SEM interconnector flows do not represent the expected system flows³ and cannot be considered representative of future flows. They are therefore unsuitable for use in CRM auctions.

The introduction of I-SEM on the island of Ireland in 2017 will include market coupling with GB at the day ahead and intraday stages. The new market design on the island of Ireland will ensure that the full technically available capacity of the interconnector will be made available to the

³ The SEMC Impact Assessment for the I-SEM High Level Design highlighted that the majority of the financial benefits would come from more efficient interconnector flows

market coupling algorithm at the day-ahead and intraday stages. It would be expected that during times of system stress in the I-SEM market prices would reflect this stress and a flow from GB to Ireland would be scheduled as a result. There is a risk that using flows based on the intra-day trading arrangements will result in excessive de-rating of the interconnection between Ireland and GB that would not be reflective of the contribution that these interconnectors are expected make to security of supply on the island during times of system stress.

Recent experience in the UK, where historical flows were dominant in modelling resulted in inappropriate derating of Ireland-GB interconnectors and has resulted in an inaccurate assessment of Capacity from Ireland to GB in times of GB system stress.

EIL welcome the opportunity at a later stage to offer feedback on the proposed methodology for determining an interconnector's derating. EIL expect the derating methodology to be consulted on separately to this consultation.

C. IF THERE IS A PREFERENCE FOR THE "INTERCONNECTOR LED PERFORMANCE BASED" APPROACH THERE WILL BE A NEED TO ALLOCATE TOTAL INTERCONNECTOR FLOWS BETWEEN SPECIFIC INTERCONNECTORS. WHICH OF THE SPECIFIC APPROACHES SET OUT IN 2.4.6 DO YOU PREFER? THESE APPROACHES WERE:

- BALANCE INTERCONNECTOR UTILISATION;
- PRO-RATA TO INTERCONNECTOR METERED FLOW; AND
- COMPLEX POWER FLOW MODELLING

EIL believes an Interconnector Led, Availability approach to CRM is that which is appropriate. However in the event for whatever reason, and EIL would caution against adopting such an approach, that a performance based approach is adopted, EIL have a preference for a pro-rata allocation of capacity against interconnector metered flow;

An approach that allocates contracted flows between interconnectors in proportion to their respective metered flows is preferable as it more fairly appropriates capacity payment benefits.

Any payments would be reflective of actual flows, apportioning the benefit to the interconnector that delivers best during times of system stress.

D. IF THERE IS A PREFERENCE FOR THE “FTR LED” APPROACH, WHICH OF THE SPECIFIC APPROACHES SET OUT IN 2.4.15 (NET OR GROSS) DO YOU PREFER FOR THE ALLOCATION OF NON-DAY-AHEAD FLOWS?

EIL don't believe either proposal is suitable for the reasons set out above.

E. IF THERE IS A PREFERENCE FOR THE “PERFORMANCE BASED PROVIDER LED” APPROACH, WHICH OF THE SPECIFIC APPROACHES SET OUT IN 2.4.25 DO YOU PREFER FOR THE ALLOCATION OF INTRA-DAY AND BALANCING MARKET TRADES?

- AS TRADED
- PRO RATA TO RELIABILITY OPTION (IN WHICH CASE – DO YOU PREFER “GROSS” OR “NET”)
- IGNORE – ALL IN BALANCING MARKET

EIL doesn't believe Performance based Provider Led is suitable for the reasons set out above.

F. IF THERE IS A PREFERENCE FOR THE “HYBRID” APPROACH:

- SHOULD THIS BE PAIRED WITH THE “DELIVERY BASED” OR “AVAILABILITY BASED” PROVIDER LED APPROACH?
- SHOULD INTERCONNECTOR PARTICIPATION BE MANDATED OR VOLUNTARY?

EIL doesn't believe a Hybrid approach (as presented) is suitable for the reasons set out above.

2. SECONDARY TRADING

A) DO RESPONDENTS AGREE THAT DIRECT SECONDARY TRADING OF RELIABILITY OPTIONS SHOULD BE PERMITTED?

Yes. Secondary trading of reliability options should be permitted for reasons of efficiency and system security. Efficiency is enhanced if the relevant Capacity Provider is able to enter into a secondary trade that transfers its Reliability Option rights and obligations for the period it is unavailable. This transfer ensures that the system has a realistic expectation of meeting its capacity needs during a scarcity event.

Such an approach allows the appropriate level of capacity be sold for a specific period of time and not an overly conservative figure that accounts for partial capacity unavailability causing an inefficient solution.

B) SHOULD SECONDARY TRADING OF RELIABILITY OPTIONS BE VIA AN ORGANISED SECONDARY PLATFORM? IF SO, WHICH ONE OF THE OPTIONS IS PREFERRED?

Yes. Secondary trading should be via a Mandatory Centralised Market.

As per the consultation document, the mandatory centralised market option will be best for competition. Any development and operational costs associated with such a market should be more than justified by the benefits (as detailed in the consultation document) being delivered.

EIL would welcome the opportunity to comment further on a centralised market option in the next round of consultation if this option is selected.

C) DO RESPONDENTS BELIEVE THAT “BACK-TO-BACK” TRADING TO LAY-OFF EXPOSURE TO DIFFERENCE PAYMENTS SHOULD BE PERMITTED?

No. EIL do not believe that allowing “back-to-back” trading as presented provides the system operator with any real expectation of Capacity during times of scarcity. Such ‘back-to-back’

trading, given their unregulated nature, devalue the Capacity market itself by diluting the market with parties that have not undergone any pre-qualification process and may not be backed by physical plant.

D) WITH RESPECT TO THE CREATION OF A CENTRALISED RELIABILITY OPTION SECONDARY MARKET PLATFORM:

I. IS THERE LIKELY TO BE SUFFICIENT DEMAND FOR SECONDARY TRADING TO JUSTIFY THE COST OF THE DEVELOPMENT OF A CENTRALLY ORGANISED PLATFORM;

- (I) Yes. Unscheduled outages of extended duration can be expected from Interconnectors from time-to-time. Such outages may result in a minimum outage duration of significant length (e.g. a marine cable failure with a typical repair time > 1 month).

Once the interconnector operator becomes aware of such an outage, it is important that the financial risk associated failing to honour capacity commitments can be mitigated, particularly as in the case of a regulated interconnector it would otherwise fall directly to end customers.

II. DO RESPONDENTS THINK THAT CAPACITY PROVIDERS SHOULD BE ALLOWED TO ACQUIRE RELIABILITY OPTION VOLUME IN EXCESS OF THEIR DE-RATED CAPACITY (PLUS THE TOLERANCE MARGIN), AND IF YES, HOW THE LIMIT ON RELIABILITY OPTION VOLUME FOR THE NET PRIMARY AND SECONDARY VOLUME SHOULD BE STRUCTURED?

- (II) Yes. Capacity providers should be allowed to acquire Reliability Option volume in excess of their de-rated capacity (plus the tolerance margin). EIL believe the limits for reliability options for volumes should be allocated as follows:
- a. Primary – Capacity should be allocated up to the published de-rated Capacity.
 - b. Secondary – Capacity should be allocated up to the nameplate rating of the provider.

III. WHAT LIMITS SHOULD BE PLACED ON SECONDARY TRADING TIMEFRAMES, INCLUDING: THE TIMING OF SECONDARY TRADE EXECUTION - HOW SOON AFTER THE AUCTION SHOULD THEY BE ALLOWED, AND HOW LATE IN RELATION TO REAL TIME DELIVERY SHOULD THEY BE ALLOWED; AND THE LENGTH OF THE RELIABILITY OPTION CONTRACT WHICH CAN BE TRADED?

- a. How soon after the auction should they be allowed – no comment

- b. How late in relation to real time delivery should they be allowed –
No limit should be placed on how close to real time delivery that a secondary trade can be executed. As detailed in D (I) above, outages of known minimum duration with a significant minimum length can occur without prior notice to an interconnector. From a system security perspective, it is preferable to reallocate the capacity obligation to a provider that has undergone pre-qualification and is backed by physical plant.

- c. The length of the Reliability Option contract which can be traded – No restriction should be placed on the Reliability Option Contract length for the reasons as set out in b. above.

IV. SHOULD THE CAPACITY MARKET DELIVERY BODY MAINTAIN THE PROCESSES AND CAPABILITY TO UNDERTAKE PRE-QUALIFICATION THROUGHOUT THE YEAR, AND WHAT SERVICE STANDARDS ARE REQUIRED FOR PROCESSING NEW APPLICATIONS?

Yes. In order to maintain an efficient capacity market that does not inhibit entry of new participants it is important that new participants can undergo pre-qualification and ultimately participate in primary and secondary auctions as required.

3. DETAILED RELIABILITY OPTION DESIGN

Stop-loss limits questions

D) DO RESPONDENTS FAVOUR THE I-SEM CAPACITY YEAR RUNNING FROM OCTOBER TO SEPTEMBER, WITH ANNUAL STOP LOSS LIMITS APPLYING OVER THAT I-SEM CAPACITY YEAR?

No. EIL do not agree with the proposed I-SEM Capacity Year as proposed. A January to December 'calendar' year is a more suitable proposal for the following reasons: Peter

- a. A calendar year would align with existing FTR annual auctions
- b. A calendar year has been adopted by the GB market and other non I-SEM markets
- c. A calendar year better aligns with European norms.
- d. The precise start date of the I-SEM is within Q4 2017 is not known – It would be better to start CRM at Q1 2018 to allow for smoother transition.

E) DO RESPONDENTS BELIEVE THAT "PER EVENT/DAY" AND "PER MONTH" LIMITS ARE REQUIRED IN ADDITION TO THE ANNUAL STOP LOSS LIMIT?

Yes. Such stop loss limits are necessary to drive value from participants to provide capacity following poor performance at the beginning of the year.

F) WHICH APPROACH DO RESPONDENTS FAVOUR FOR THE DEFINITION OF THE PER DAY/EVENT LIMIT?

A single Settlement Day is the preferred definition of the day/event limit.

G) PLEASE PROVIDE VIEWS ON THE APPROPRIATE LEVELS FOR THE EACH OF THE PROPOSED STOP LOSS LIMITS.

Monthly limit: Annual Capacity payment ÷ 6

Daily limit: Annual Capacity payment ÷ 100