

Integrated Single Electricity Market (I-SEM)

**Capacity Remuneration Mechanism
Detailed Design Third Consultation Paper
SEM-16-010**

A Submission by EirGrid Interconnector Limited

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INTRODUCTION

EirGrid Interconnector Limited (EIL) welcomes the publication of the Capacity Remuneration Mechanism Detailed Design Third Consultation Paper (SEM-16-010) 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 principles:

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.

RESPONSES TO THE QUESTIONS POSED IN THE CONSULTATION PAPER

Responses to the questions from the consultation are provided below and follow the sub-headings and section numbering as appears in the consultation document. Responses are general in nature rather than responding to each individual question posed.

The EIL response is shaped by the following general points:

- EIL is funded through Transmission Use of System (TUoS) charges; therefore the “missing money” problem that drives the need for the CRM does not apply to EIL.
- This has ensured that EWIC is funded at the lowest possible cost, which has delivered substantial benefits for customers and is consistent with the European framework for interconnectors.
- EIL does not intend to be a competitive bidding participant in any CRM auctions, instead it facilitates the provision of energy from physical generation located in GB, or further afield.

SECTION 3. AUCTION FREQUENCY AND VOLUMES

EIL has no opinion on the frequency of the auctions and the volume auctioned through them.

- We are obliged under Condition 15 of our licence to make available the maximum capacity of the interconnector for cross border exchanges of electricity. EIL will continue to make capacity available to the SEM market, but EIL will not be in a position to influence flows on the interconnector as they will be dictated by market coupling.
- CER has the authority under Condition 19 of our licence to ensure that any income above the amount required is used to offset TUoS charges paid by final customers.

- We therefore have nothing to gain or lose as a result of the decisions to be made in this regard.

SECTION 4. MARKET POWER

EIL agrees that by its very nature an auction market should operate freely and without gaming and other related anti-competitive market influences. EIL consider that any mitigation measures introduced to prevent such occurrences should have regard to best international practice and lessons arising from the establishment of other such auctions in other jurisdictions. Periodic reviews of the CRM auction design should be catered for such that any unilateral abuse, anti-competitive behaviour or unusual bidding patterns can be investigated and addressed.

Notwithstanding the above;

- EWIC provides benefits to final customers across the island by facilitating the participation of generators beyond our shores in the SEM (and subsequently I-SEM). This reduces the market power of the incumbent generators.
- EIL is indifferent to the proposed mitigation measures, and will bid into the auction (if required) in accordance with its licence and any directions issued by CER in this regard.
- EIL would be in breach of condition 15 of its licence if it withheld capacity in any timeframe.
- EIL believe that the CRM approach should be in 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.

SECTION 5. AUCTION DESIGN

EIL agrees that the auction design should seek to maximise net consumer welfare, but does not have an opinion on the most effective and efficient method of achieving this.

EIL would not communicate with other bidders nor would it seek to obtain information about other bids. Instead, it will bid in a manner consistent with its licence, relevant statute, and any directions issued by CER under Condition 4 of EIL's licence. EIL has no incentive to breach any requirements placed upon it, as it is unable to gain financially as a result.

As a network asset funded through TUoS charges, we have no comment to make on the auction format, however we also recognise a need to comply with the terms of any decision around State Aid made by the EC and will participate in the auction if required to. We would expect our Licence to be modified to ensure compliance with any criteria imposed and will discharge any obligations in a manner that delivers the greatest social welfare, consistent with Regulation 8(3) of S.I. 445/2000, "minimising the overall costs of the generation, transmission, distribution and supply of electricity to final customers."

EIL do not gain any benefit from the choice of Auction format but would think it would be more beneficial to have the Option 1: Sealed Bid option for the T-4 Auction as it would remove market power abuse and it's quite similar to the SEM today which would make it easier for participants.

SECTION 6. AUCTION PARAMETERS

- EIL has no comment to make as to the choice of parameters as these will not affect our overall risk or 'financeability'.

SECTION 7. AUCTION GOVERNANCE, ROLES AND RESPONSIBILITIES

- EIL welcomes the SEM Committee’s aim of aligning the DS3 and CRM qualification exercises (to the extent that EIL is a participant in either).
- We understand that DS3 is following a process that is mandated by procurement law while the CRM is following different governance process. These two processes cannot be aligned completely. There is however the potential for CRM to follow the mechanisms set out through the transposition of the Utilities Directive.
- We believe that the process for reviewing the CMC on an annual basis to be efficient, particularly as the auctions are run annually rather than the continuous trading facilitated by the TSC.
- EIL welcomes the introduction of an Independent Auction Monitor. This will provide confidence to the market and this should strengthen the societal benefits of the CRM. We consider this to be the most cost effective approach to giving assurance to parties participating and should strengthen market confidence. The conflicts of interest that have been indicated are perceived, not actual, due to mitigations already put in place by CER.
- Given this consistency within the Governance 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. Our objective is 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.

SECTION 8. OTHER RESIDUAL ISSUES

Strike Price

- EIL has no comment on strike price and relies on the SEMC to act in the best interest of all consumers on the island, who underwrite both EWIC and Moyle.

Socialisation of Difference Payments

- we need the outcome of CRM2 decisions before we can identify any risk that is passed on to EIL through timing of income and expenditure. TUoS support is determined annually in advance, based on assumptions around the cash flow associated with CRM.