Airtricity welcomes the opportunity to comment on the proposed arrangements for interconnector trading under the new MAE rules. Given the size and location of the RoI electricity system, interconnection plays a vital role in supporting the operation of the system and the development of the competitive sector. Proposals for the treatment of interconnectors in the MAE must address the following issues:

- New rules must not compromise existing long-term interconnector agreements and contractual arrangements.

- The central focus must be on the resolution of “Seams” issues – difficulties in trading between different market structures on either side of an interconnection will introduce an unacceptable level of risk in trading across interconnectors.

- MAE can only confer rights at an interconnector node in RoI – these rights must be compatible with rights to trade across other interconnectors used to transfer power for delivery to the RoI system.

- A pure economic dispatch solution introduces a significant level of uncertainty in interconnector trading into/out of MAE and may conflict with scheduling and nomination arrangements in other systems.

- Superposition has proved to be an effective tool for cross-border trading. This mechanism should be preserved in order to maximise opportunities for trading multiple products across an interconnector.

- Interconnector trading rules must recognise the certification requirements of green imports/exports in RoI and in other systems and ensure that dispatch rules do not prevent the flow of green power into/out of the MAE.
**General**

Interconnector trading rules must be established within the framework of the systems on either side of the interconnection. Within the context of the MAE arrangements, the interconnection will most likely join a centralised LMP market and a decentralised bilateral contracts market. This is the case in the context of the present N.I. arrangements, or in the All-Island scenario where the interconnection point would be with Scotland. The paper also mentions the possibility of additional interconnection, such as an East-West interconnector which would also link a centrally dispatched pool with a bilateral contracts system. The proposals for interconnector trading therefore need to assess in detail the particular issues associated with trading between these two market structures.

The central focus must be the resolution of the “Seams” issues as this will dictate the level of trading which is carried out over interconnection. Interconnector trading will only be feasible to the extent that the rules can accommodate the boundary differences between systems.

**Interconnector Trading Options**

More detail is required on the implementation of the three options presented in the paper in order to fully appreciate the alternative consequences, however in principle each option applies the MAE model price-based dispatch model. It is imperative that new interconnector rules do not discourage market trades across interconnectors, therefore each option must be evaluated in terms of the additional risk imposed on interconnector users.

The economic dispatch option must also be considered in relation to the CBT directive as cited in the consultation paper. In order for market participants to inform SOs of intended use of capacity at a “reasonable time” ahead of gate closure, then it is necessary for participants to have some degree of certainty regarding their actual interconnector usage, as determined by the MCE or by other means.

**Option 1 - 3: Economic Dispatch with Implicit or Explicit Capacity Right**

Under any of these options, interconnector capacity rights are not required for interconnector dispatch as dispatch on the system is determined will always be determined by the offer/bid at the designated interconnector node. These options will treat all interconnector flows on an equal basis, however there are a number of potential difficulties associated with scheduling interconnector transfers solely on the basis of the MAE economic-dispatch:

- **Scheduling timeframe**: Price dispatch on the interconnector requires that interconnector scheduling is managed along the same timeframe as MAE. It is difficult to see how this would work under the existing nomination procedures on the North-South and Moyle interconnectors. If MAE closes before the interconnector
nomination gate, then this option would be feasible. Given that MAE is expected to reduce to 1-hour gate closure however, this scenario would be difficult to realise. Another way that this option could be implemented is if the interconnector nomination was treated as firm with the SOs engaging in post gate-closure trade to reverse a nomination, however this most likely has cost implications for SOs. The alternative is to expose the interconnector user to imbalance penalties on either side of the interconnector. This poses a significant risk to interconnector traders and could result in a sizable reduction in the level of interconnector trading into/out of RoI.

- **Pricing**: The economic dispatch solution implies that the lowest offer/highest bid will be accepted by the SMO. The obvious choice for an importing party which wants to be dispatched therefore is to bid in at a very low price, however this distorts the value of trading across the interconnector in the first place and would make it very difficult for an interconnector party to enter into contracts for offtake or delivery with parties in another jurisdiction. As interconnector trading plays an important role in reducing the dominance of an incumbent party, it is important that the interconnector rules do not introduce excessive costs to the import/export decision. A possible solution to this issue would be to set a single interconnector LMP determined by positive and negative demand across the interconnector and settled at an average price.

- **Conflict with contractual positions**: A bid-based dispatch solution may be incompatible with interconnector nominations on a contract path basis. Depending on green tracking rules, this may be of considerable significance to a green supplier who is required to demonstrate that sufficient green energy has been delivered to the system in order to match green demand.

- **Interconnector Payment**: An alternative mechanism would be required to pay for interconnectors if there was no explicit payment for use of capacity. A possible solution would be to charge all interconnector flows, however this might be inadequate in the event that the increased risk of non-dispatch reduces the volume of energy transferred.

- **Compatibility with existing interconnector arrangements**: Moyle and North-South interconnectors are used to deliver energy into RoI. Moyle and North-South capacity is currently auctioned on a long-term basis, with the next Moyle auction (December 2003) offering a 3-yr product which will extent to 2007. The Economic Dispatch approach could result in a scenario whereby interconnector users would have to pay for capacity on one interconnector without having security of dispatch on another – this introduces an unacceptable cost for traders. In order for MAE to accommodate arrangements which have been established under the current market structure, the interconnector rules must facilitate contracts which have already been put in place with parties in interconnected systems.

- **Explicit capacity rights**: As discussed in the paper, the allocation of explicit capacity rights leads to potential for hoarding of capacity with obvious consequences for competitiveness in the market. This type of gaming can be overcome by applying a
use-it-or-lose-it provision, but this does not confer any additional rights on interconnector traders if their ability to transfer energy is determined purely by success in the MAE auction. An explicit right to capacity is therefore of little value in itself. The only reason that traders would purchase capacity rights in this regard is to demonstrate contractual flow e.g. in the case of green imports/exports. As the purchase of this capacity would not ensure any greater chance of dispatch, then the charge for this capacity would become a tax on particular types of contract arrangements.

There are other options which are not discussed in detail in the consultation paper, including the allocation of a certain quantity of ‘firm’ interconnector capacity to those parties who value it most.

*Proposal for Option 4 – Firm Transmission Rights Allocation*

This option would treat a tranche of interconnector nominations from capacity holders with explicit rights as non-dispatchable demand (positive or negative, depending on whether nominations were for export or import). Prices for this flow would be settled at an average price, at either the average system price or some other reference node on the system, most likely determined by the constraints in the North Dublin area. This would enable interconnector traders to secure some level of certainty about scheduled interconnector flows and would price interconnector flows according to the value of the generation on the system. The remaining tranche of interconnector capacity can be reserved on a short-term capacity basis for nomination and dispatch into the MAE.

Under this option, the costs for interconnector assets would be recovered through auction proceeds, or some other method whereby interested parties purchased rights to an amount of non-dispatchable capacity. Participants interested in interconnector trading will pay for capacity on the basis that they have a degree of security on interconnector transfers for a predetermined cost. Under this option:

- Nomination and allocation is similar to current procedures. Conferring firm rights on the interconnector enables parties to enter into contracts in other systems as the risk that these contracts will not be delivered is minimised.
- Allowing short-term interconnector trading in response to MAE conditions will optimise use of interconnector assets.
- This does not require substantial change in existing contractual arrangements.
- This option can be adopted to implement a use-it-or-lose-it provision – any interconnector capacity which has been sold on a non-dispatchable basis and is not nominated can be released to the market for bidding into MAE.
- The allocation of a “firm” capacity right and settlement at an average price would enable superposition to continue.

*Renewables*
Given the step-wise nature of renewable asset development, interconnection has played a vital role in the creation of a green market, in both the North and South, and any new interconnector rules must give due regard to the implications for cross-border trading of green power. The current risks attached to green interconnector trading are similar to ‘non-green’ interconnector trading risks, however one important difference is the flow requirement for green certification purposes.

While the rules for green tracking in MAE have yet to be decided, there will clearly be some requirement for measuring the import/export of green energy in the system. Under current green tracking rules, a green supplier must have contracts in place which demonstrate delivery of the required amount of green energy to meet green sales over a specified period of time. The delivery of imported green power cannot be secured under conditions where nominated flows are subject to price-based dispatch. This would require a green supplier to constantly bid at a very low price to ensure that sufficient green power was delivered to the system – this situation would not be sustainable and would lead to a significant contraction of the green market.

Rules for the export of green power out of MAE must consider the green certification processes required in other jurisdictions. For example, the current arrangements for the import of wind into Northern Ireland requires a green supplier to import an historic profile of RoI wind output. This means that suppliers must schedule a certain amount of power every trading period. The only way to secure this transfer in a price-based dispatch scenario is for the supplier to bid very high prices in order to make sure that the nomination is accepted. Essentially this transfer is “must run” as the N.I. import rules require a set profile – the MAE interconnector options proposed by the CER would be in direct conflict with this requirement.

It is possible that FTRs would enable importers/exporters to manage the basis risk between a bid-based LMP and the market price – however, the rationale and the extent to which firm transmission rights can be replaced by interconnector FTRs needs to be explored in much greater detail. Similarly, the issues surrounding the “deliverability” of renewables would need to be clarified. The treatment of renewables traded across interconnectors could be accommodated through the issue of ‘non-dispatchable’ interconnector capacity as this would ensure ‘delivery’ of green power. This would also allow superposition of green products to continue, ensuring maximum use of green power across markets.