

Charging Methodology Statement

EIRGRID EAST WEST INTERCONNECTOR

Issue 1.0

**Effective From
31 August 2012**

VERSION CONTROL

Version:	Final
Issue:	1.0
Date of Issue:	31 August 2012
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1 INTRODUCTION

- 1.1 EirGrid Interconnector Limited (EIL) is responsible for the transmission of electricity across the East West Interconnector known as 'EWIC'. The Interconnector connects the national electricity transmission systems of Ireland and Great Britain. The East-West Interconnector is fully compliant with all EU legislation, providing increased opportunity to market participants to trade electricity between the Single Electricity Market (SEM) on the island of Ireland and British Electricity Trading and Transmission Arrangements (BETTA) market in Great Britain. EIL is a wholly owned subsidiary of EirGrid plc and holds the Electricity Interconnector Operator Licence issued by the Commission for Energy Regulation (the "CER Licence") and Electricity Interconnector Licence issued by Ofgem (the "Ofgem Licence").
- 1.2 The EWIC link comprises of two AC to DC converter stations connected by two cables between Shotton in Wales and Portan in Ireland some 260KM distance in total, of which 186KM is subsea.
- 1.3 This document sets out the charging methodology which will be applied by EIL for the use of the East West Interconnector following the launch of the new Auction Management Platform (AMP) scheduled for 'Go-Live' in June 2012 in compliance with Condition 20 of the CER Licence and Condition 10 of the Ofgem Licence.
- 1.4 An electronic version of this document can be obtained by visiting the EirGrid website at: www.eirgrid.com/eastwest
- 1.5 Further information on EirGrid activities and the information contained within this document can be obtained by contacting us by telephone, email or in writing:
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2 INTERCONNECTOR CHARGING METHODOLOGY

- 2.1 EIL is required to establish a Charging Methodology outlining the methodology for applying for, determining access to and charging for the reservation and use of capacity on EWIC. This charging methodology is required to be approved by the relevant Regulatory Authorities before it takes effect. Subsequent modifications as per the CER Licence and Ofgem Licence to the charging methodology may be submitted to the relevant Regulatory Authorities if such modifications are deemed to better achieve the relevant charging methodology objectives. EIL shall review its charging methodology at least once in each calendar year and, subject to its licences, make modifications to the Charging Methodology for the purpose of ensuring that it better achieves the relevant charging methodology objectives.

Objectives of the charging methodology

- 2.2 As a minimum the interconnector charging methodology has to comply with the objectives set out in Conditions 20(1) and 20(3) of the CER Licence and Condition 10(4) of the Ofgem Licence, which require that the Charges and their underlying methodology are:
- (a) Objective;
 - (b) Transparent; and
 - (c) Non-discriminatory
- 2.3 In addition to this minimum set of relevant objectives EIL has its own objectives for the charging regime. These are that the use of interconnector charges should:
- (a) Be simple to understand and implement; and
 - (b) Promote efficient use of the interconnector within the context of the differing market structures it connects.
- 2.4 Where modifications are proposed by EIL to this charging methodology these will be consulted upon with the industry in accordance with Condition 20(8) of the CER Licence and Condition 10(11) of the Ofgem Licence. The relevant Regulatory Authorities have the right to amend any proposed changes to the methodology before the changes would otherwise take effect.
- 2.5 EIL believes that the methodology it has prescribed for charges using EWIC facilitates the relevant objectives described above.

Capacity Charges

- 2.6 The right to flow electricity in any particular direction will be offered on a non-discriminatory basis via an explicit auction mechanism on the AMP and implicitly in the SEM. The explicit auction rules are set out in the East West Interconnector Access Rules www.eirgrid.com/eastwest. The implicit auction arrangements are set out in the SEM Trading and Settlement Code.
- 2.7 Capacity rights will be offered in units or multiples of 1MW/period. The East West Interconnector Access Rules set out the basis on which capacity rights will be offered, allocated to and utilised by eligible Users.
- 2.8 The price that Users will pay in explicit auctions to EIL for each capacity right in a congested auction is the price bid in an auction for the last unit in descending order of price (Clearing (Marginal) Price) that was accepted by EIL (but subject to any curtailment in the event of unplanned outages). If the User does not exercise these capacity rights, they may subsequently be purchased by another (or the same) eligible User in accordance with the principles and criteria of Use it or sell it ("UIOSI") as described in the East West Interconnector Access Rules.
- 2.9 To determine whether congestion has occurred intraday, all in-merit bids¹ will be summed and compared to the available interconnector capacity for the same trading period. In-merit bids for the GB to IE direction are bids with a price less than or equal to the Shadow Price in the applicable MSP software run in the relevant trading period and In-merit bids for the IE to GB direction are bids with a price greater than or equal to the Shadow Price in the applicable

¹ Intra Day Congestion Charging Methodology Decision Paper SEM-12-054 Section 2.2 Options for Determining Congestion

MSP software run in the relevant trading period. The charge for congestion will be calculated based on a marginal pricing approach using a Factor of 50%², calculated as follows:

For Direction (Great Britain to Ireland), Price = (Ex Ante Shadow Price – Highest Accepted Bid) x Factor

For Direction (Ireland to Great Britain), Price = Max[0, (Lowest Accepted Bid – Ex Ante SMP) x Factor]

- 2.10 Charges in respect of superpositioned capacity will accrue to EIL.

Bid acceptance

- 2.11 EIL will accept bids in strict accordance with the criteria set out in the East West Interconnector Access Rules.

Capacity release

- 2.12 EWIC has a maximum capability of 500MW MEC and 530MW MIC at Deeside. EIL will make available capacity rights for any given day up to the maximum capability via auctions for that day taking into account Net Transfer Capacity³, planned outages and extended unplanned outages.
- 2.13 Capacity rights unsold in longer term auctions may cascade into auctions closer to the day to which the capacity right applies.
- 2.14 In situations where EIL has sold more capacity rights than it can deliver, due to a Net Transfer Capacity reduction, a process will be applied to ensure that the exercisable capacity rights are no greater than the capability of EWIC. This process known as "Curtailment" is set out in the East West Interconnector Access Rules. Users will be credited only for purchased capacity that EIL are not able to deliver. For capacity acquired in an implicit auction, the User will not be charged for the curtailed Units and no credit will be due.

3 CHARGING METHODOLOGY

Introduction

- 3.1 This publication sets out the Charging Framework that will apply from the date as approved by the Regulatory Authorities as required by Condition 20 of the CER Licence and Condition 10 of the Ofgem Licence.
- 3.2 In accordance with Condition 20(6) of the CER Licence and Condition 10(15) of the Ofgem Licence, details of the third party access regime applicable to EWIC are published here: www.eirgrid.com/eastwest.

Eligibility to use the Interconnector

- 3.3 Customers wishing to become an EWIC user can apply via a non-discriminatory eligibility process administered jointly by EirGrid Group and ELEXON. The eligibility requirements are set out in Rule B2 of the East West Interconnector Access Rules and require parties to be signatories to the East West Interconnector Access Rules via an East West User Agreement and signatories to the relevant market codes in Ireland and Great Britain. These codes include the Balancing & Settlement Code and Connection & Use of System Code in BETTA and the Trading & Settlement code in SEM.

² The 50% factor ensures that the charge for capacity is a proportion of, and less than, the infra-marginal rent earned by the User.

³ Net Transfer Capacity as defined by ENTSO-E:

https://www.entsoe.eu/fileadmin/user_upload/library/ntc/entsoe_transferCapacityDefinitions.pdf

https://www.entsoe.eu/fileadmin/user_upload/edi/library/ecan-v5r0/ecan-guide-v5r0.pdf

- 3.4 It is the responsibility of EWIC users to comply with these codes. EIL understands that the payment of charges associated with the Balancing & Settlement Code, the Trading and Settlement code and the Connection & Use of System Code are levied by Elexon, SEMO and National Grid Electricity Transmission respectively. EIL understands that under the Connection & Use of System Code that Balancing Services Use of System (BSUoS) charges are levied by National Grid Electricity Transmission on trading parties that hold an Interconnector Balancing Mechanism Unit (BM Unit) in BETTA in respect of Balancing Services Activity⁴. Further detail of the charges can be found in the respective codes.

East West Access Rules

- 3.5 The East West Interconnector Access Rules set out the conditions of access for use of the East West Interconnector this includes the process by which access rights (capacity) can be secured.
- 3.6 EIL has an obligation to ensure that the East West Interconnector Access Rules fulfil the requirements of this Charging Methodology statement. To the extent that changes in the East West Interconnector Access Rules result in a requirement to modify this Charging Methodology Statement then this shall be carried out in accordance with Condition 20(8) in the CER's Electricity Interconnector Operator Licence and Condition 10(11) of Ofgem's Electricity Interconnector Licence Standard Conditions.

Units

- 3.7 Access (capacity) charges are expressed in €/MW/hour to two decimal places.

Invoicing

- 3.8 EIL produces and issues invoices that are derived from the use of EWIC charges levied in accordance with the East West Interconnector Access Rules and this statement. Payment for capacity will be in Euros only.

Interconnector access rights

- 3.9 Users of EWIC can acquire interconnector capacity in accordance with the East West Interconnector Access Rules. These capacity holdings may be used by the User in the SEM market to obtain an energy transfer allocation on EWIC subject to the SEM market rules.
- 3.10 All access rights relate to a particular period and to each hour within that period.
- 3.11 Advance purchase of capacity is available in a series of explicit capacity product auctions on a unidirectional basis ranging from annual products to daily products, plus intraday implicit auctions.

Secondary trading

- 3.12 A User that holds firm capacity may relinquish this capacity for use by other eligible Users. There are two mechanisms to achieve this. The first is characterised as reassignment and the second is achieved via a title transfer as part of its resale.
- 3.13 Reassignment involves the bilateral transfer of capacity to another eligible User where the original User retains the obligation to pay EIL for that capacity.
- 3.14 A title transfer can be realised through the resale of capacity (via the auction process) to another eligible User in accordance with the principles and criteria of resale as described in the East West Interconnector Access Rules.
- 3.15 EIL facilitates a complimentary resale service through the use of the AMP.

Use it or sell it ("UIOSI")

- 3.16 The East West Interconnector Access Rules contain automated UIOSI provisions, in accordance with which any portion of long-term capacity (hourly resolution) that is not nominated for use in SEM is deducted from the User's entitlement and made available to the daily auction process, with the proceeds (if any) being returned to the original User (UIOSI).

⁴ At the time of writing a CUSC modification proposal has been approved by Ofgem to remove BSUOS charges for Interconnector BM Units, implementation of which is pending.

- 3.17 Any daily capacity which is unused is made available to the Intraday auction process. UIOSI will apply in the intraday timeframe in accordance with the East West Interconnector Access Rules.

Access (Capacity) charges

- 3.18 The charge payable to EIL will be a unit price of capacity multiplied by the number of units of capacity.

Charges and Payments

- 3.19 Charges for the provision of Ancillary Services are available in the Statement of Charges and Payments for Ancillary Services, available on the EirGrid website at www.eirgrid.com and National Grid UK website at <http://www.nationalgrid.com/uk/Electricity/Balancing/services/>.

4 CAPACITY TO BE OFFERED

- 4.1 The capacity offered will be 100% of EWIC capability taking into account Net Transfer Capacity, planned outages and unplanned outages. Details of planned outages are published and can be found at www.eirgrid.com/eastwest. In the event of an NTC reduction, curtailment will be applied where necessary, in accordance with the East West Interconnector Access Rules.
- 4.2 A timetable for auctions other than daily will also be published on the website at the URL above.