Statutory consultation on amendments to the Capacity Market Rules – response from Moyle Interconnector Ltd

1. Context

Moyle Interconnector Ltd ("Moyle") owns and operates the 500MW HVDC interconnector between Scotland and Northern Ireland and welcomes this consultation on amendments to the Capacity Market Rules, particularly the positive assessment of CP136.

Moyle is supportive of the interconnector led approach to cross border participation in the Capacity Market. We note that discussions are ongoing at European level to develop harmonised arrangements for cross border participation in capacity markets but are not optimistic that a more effective generator led approach can be delivered. We therefore expect and believe that the interconnector led approach should endure. Despite our support of the interconnector led approach, we chose to opt out of the first opportunity to participate in the capacity auction[1]. This was due to concerns that application of the current rules would not adequately value Moyle's potential contribution to meeting GB demand at times of system stress. These concerns were twofold:

1. The de-rating factor determined for interconnectors between GB and SEM in 2015 was excessively low and skewed downwards due to application of a flawed methodology.
2. Interconnector participation in the capacity market (in MW terms) would be limited to this de-rating factor multiplied by Transmission Entry Capacity ("TEC"), an approach we do not believe is optimal and which penalises Moyle in particular.

CP136 addresses the TEC issue at point 2 above and we are encouraged that Ofgem is minded to take forward an amended version of this proposal.

2. Comments on amended version of CP136

Ofgem's proposed decision states:

"We are of the view that the intention of including "or if different, maximum technical capacity" is to account for situations where the interconnector is physically incapable of delivering its CEC. However, we consider that including this term could result in ambiguity as it is not defined parameter. Instead, we believe it would be preferable for longer term technical issues to be accounted for in the Interconnector's De-rating Factor. We are therefore minded to take forward this proposal without the 'maximum technical capacity' term (i.e. setting connection capacity always equal to CEC)".

The intention of the reference to 'maximum technical capacity' was to account for situations where an interconnector had CEC that did not match its maximum capacity in normal operation. This is not the case for Moyle so we are content with Ofgem's decision to remove this wording.

3. Question 1 - CP136

Do you agree that de-rating from CEC rather than TEC is a more appropriate way to measure the de-rated Capacity of Interconnector CMUs? Do you agree with the suggestion to cap Interconnector de-rated capacity at TEC, or should the requirement for interconnectors to hold sufficient TEC be removed altogether?

[1] T-4 Capacity Market Auction for 2019/20 held in December 2015

As the proposer we strongly agree that de-rating from CEC rather than TEC is a more appropriate way to measure the de-rated Capacity of Interconnector CMUs.

We would also support Ofgem's further suggestion that the requirement to hold sufficient TEC per 3.6A.2(a) could be removed altogether. Indeed, footnote 2 of CMP136 noted that we did not believe any reference to interconnector TEC was necessary for the purposes of the capacity market. Our core proposal made the assumption that an argument to align interconnector treatment with that of generators would be a more readily accepted improvement than one that sought to introduce a new approach (i.e. removal of TEC requirements for interconnectors).

We refer the reader back CP136[2] and in particular the section "Future relevance of TEC for interconnectors" which sets out why TEC should not be relevant to interconnector participation in the capacity market. It is also relevant to this point that Moyle can already exceed its TEC today in order to deliver Low Frequency support to the GB system (such as may be required during a stress event).

As part of CP136 we stated that *"It should be relatively easy for National Grid to identify the likely co-incidence of system stress events and high levels of wind generation in south east Scotland - intuitively one would not expect this to be high but National Grid (or their/DECCs advisors) could analyse this point as part of determining De-Rating Factors."* Since submitting this proposal we have had further analysis undertaken by Baringa Partners to examine the correlation between system stress events and 'demand net wind'[3]. This analysis indicated a low to moderate correlation and that Moyle would thus be expected to support GB well in excess of its current TEC limit at times of system stress i.e. CEC*implied de-rating>TEC. Limiting de-rated capacity to TEC therefore does not seem optimal given that mechanisms exist that will allow flows in excess of TEC to be delivered.

We would suggest that the correct treatment of interconnectors in the CM Rules would require the following changes:

- Definition of De-rated capacity – the original definition (i.e. without the changes shown in Annex E) could be reinstated

- 3.6A.2(a) – replace the word "Transmission" with "Connection" or delete this whole paragraph, given that (b) requires provision of the Grid Connection Agreement which will be the relevant evidence of CEC anyway.

[2] https://www.ofgem.gov.uk/system/files/docs/2016/01/moyle_interconnector_ltd_-_capacity_market_rules_cp136_0.pdf

[3] We have not included the Baringa analysis here but would be very happy to share and discuss with Ofgem.