

EIRGRID INTERCONNECTOR DAC

SEM Committee
5 May 2023

FAO -
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RE: Compensation Arrangements for Net Transfer Capacity Reductions (NTC)

EirGrid Interconnector DAC (EIDAC) welcomes the opportunity to comment on the compensation arrangements for Net Transfer Capacity (NTC) Reductions in the SEM (SEM Committee consultation ref: SEM-23-024).

The East West Interconnector (EWIC) is a fully regulated asset which operates on behalf of Irish consumers. Revenue earned by EWIC is attributed to Irish consumers¹. As such we believe this allows EIDAC the opportunity to offer a constructive response on the optimal applicable SEM-GB compensation arrangements for the benefit of consumers.

EIDAC responds to the questions as set out in the Consultation Paper as follows -

Question 1 – Part 1

Please set out your view on the appropriate arrangements for NTC reduction compensation going forward in the SEM, given the current arrangements for crossborder trading.

The Consultation Paper published by the SEM Committee accurately notes that compensatory obligations as set out in the SEM-GB Interim Cross Zonal Capacity Arrangements (ICZA) were “conceived in the context of Financial Transmission Rights (FTRs) being sold on the SEM-GB interconnectors”. EIDAC believes this is an important point to be considered.

At present, the existing electricity forward market design exclusively assumes that “All TSOs” are the owners of the sale of Long Term Transmission Rights (LTTRs) as set out in the Regulation on Forwards Capacity Allocation (Commission Regulation (EU) 2016/1719) (FCA). ACER, in a recent policy paper, stated that “A TSO (or a SAP) is always a central counterparty to the holders of LTTRs².” The FCA and Harmonised Access Rules (HAR) then largely set out the obligations of the counter party (TSOs) to holders of LTTRs under various events (Curtailment, Fallback etc).

This narrow transactional framework between a) TSOs as central counterparty and b) the holders of LTTRs formed the basis for the existing compensatory rules set out under the SEM-GB ICZA. Article 3 (20) of the ICZA sets out compensation for “Reduction of NTC”. This Article of the ICZA applies the LTTR curtailment compensation principles as set out in Article 48(i) and 59 of the HAR and the SEM-GB Regional Annex³ but then only (incorrectly in EIDAC's view) assumes a single case of curtailment (i.e.

¹ [cer12149.pdf](#)

² [Electricity Forward Market PolicyPaper.pdf \(europa.eu\)](#)

³ <https://eepublicdownloads.entsoe.eu/clean-documents/nc-tasks/IU%20->

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TSO NTC Reduction).

EIDAC believes that this background is an important consideration in looking forward to an appropriate and legally compliant design for new compensatory rules for Interconnector Owners under the revised SEM arrangements:

- (i) Curtailment of LTRs and the FCA and Regional Annex is no longer applicable on the SEM-GB border. The application of curtailment compensation principles designed for LTRs into intraday timeframes for NTC Reduction is therefore problematic and fundamentally flawed as these are designed for ensuring LTR Holders are fully reimbursed rather than to define compensation principles against operational security actions taken by a TSO.
- (ii) EIDAC also believes that the exclusive reference to “TSO NTC Reduction” in the ICZA as a singular compensatory rule to be applied is in itself problematic for a number of reasons, including the following:
 - a. The ICZA appears to reduce *all* curtailment events by various parties that may arise against interconnector capacity to the onshore TSOs (i.e. SONI TSO and EirGrid TSO).
 - b. This is supported for example in Appendix 1 of the ICZA where it is stated that “*For the purposes of this proposal, EirGrid or SONI will have initial responsibility when ESB or NIE are identified as the ‘causer’*”.
 - c. It is also clear that NGEESO as the onshore GB TSO considers itself removed from the NTC compensation principles set out in the ICZA as it has progressed alternative proposals (which in EIDAC’s view are not compliant with the applicable regulatory framework).

As a consequence; EIDAC does not believe that the existing NTC Reduction compensation framework within the ICZA provides sufficient security to Interconnector Owners against all parties in terms of cost recovery and reimbursement against curtailment events within the intraday timeframe. For example, in the event that a transmission fault on an Irish Transmission Asset Owner or GB National Grid owned asset gives rise to a reduction of cross zonal capacity, it is uncertain if the Interconnector Owner will be properly reimbursed by responsible parties.

[%20HAR%20annex%20IU%20proposal%20approved.PDF](#)

Directors Michael Behan, Rodney Doyle, Michael Mahon, Siobhan Toale
Company Secretary Michael Mahon

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Question 1 – Part 2

Would this be impacted if cross-border forward hedging instruments were introduced in advance of MRLVC and, if so, in what way?

EIDAC notes the recent decision paper by the SEM Committee on Cross Border Trading Arrangements for SEM-GB⁴. While a compensatory regime is not properly established for cross zonal capacity allocation in the intraday market in SEM-GB, EIDAC believes that separately the most recent previous Ireland-UK proposal for a Long Term Common Capacity Calculation Methodology⁵ could be recast to provide a firm basis for compensation rules for cross-border forward hedging instruments (either FTRs or PTRs). EIDAC believes it is critical that the Long Term forwards compensation rules are kept clearly distinguishable and separate to intraday and day ahead proposals in line with the European regulatory framework (e.g. via a local HAR methodology).

Question 2 - This paper references various principles that underpin different approaches to compensation arrangements for NTC reduction (i.e. 'causer pays', 'cost neutrality', 'different compensation arrangements for allocated and unallocated capacity'). In your view, what principles should underpin compensation arrangements for NTC reduction going forward in the SEM?

EIDAC believes that clear and concise definitions derived from the EU regulatory framework should be included in the ICZA. It is clear that different regulations apply the same terms differently. As a consequence, it is necessary to ensure that each definition is clearly defined and its applicability to each timeframe should be clearly set out.

Question 3 Are there any other factors, not covered in this paper, which should be considered by the RAs ahead of a decision? If providing, please explain relevance.

As noted in the answer to Question 1 above, any new regime of compensatory principles in SEM needs to consider and have regard to the recent consultation by ACER on the future of the Forwards Markets in Europe and emerging developments in Market Reform both in the UK and EU in general. For example ACER notes that *"the issuing of long-term transmission rights ('LTTRs') by TSOs, is not the product of careful evaluation of market needs, but rather the remnant of the very beginnings of cross-border trade in the EU"*⁶. The ACER consultation provides a number of alternative mechanisms for forwards

⁴ [SEM-GB Cross Border Trading Decision Paper | SEM Committee](#)

⁵ [https://www.eirgridgroup.com/site-files/library/EirGrid/200422-Long-Term-CZC-Calculation-Methodology-\[FOR-PUBLICATION\].pdf](https://www.eirgridgroup.com/site-files/library/EirGrid/200422-Long-Term-CZC-Calculation-Methodology-[FOR-PUBLICATION].pdf)

⁶ <https://www.ceer.eu/documents/104400/-/-/8fca26ef-8791-7da0-1fa2-e64518b4ebf8>

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arrangements that decouples TSOs from ownership of these rights in general. The SEMC needs to consider these emerging developments and the role of TSO as an implicit counter party to the sale of LTTRs.

Secondly, while the consultation paper refers to compensation for SEM-GB interconnectors, GB parties do not appear to adhere to or recognise the existing ICZA as a binding obligation. As noted by SEMC, NGESO has progressed its own proposals. This results in non-symmetric compensation regimes by EirGrid and NGESO for interconnector operators. The SEMC therefore needs to clarify if this decision applies within SEM as a bidding zone only or if it applies to both SEM and GB with explicit approval from all parties (ie, all of the relevant Regulatory Authorities, the TSOs and the ICOs).

Finally, EIDAC notes that as further interconnection to Europe develops from SEM (e.g. the Celtic interconnector), it is important that a single set of compensatory principles applies to all Interconnector Owners to avoid discriminatory regimes between borders. EIDAC's proposals regarding supplementary methodologies to support rules for compensation in the event of capacity restrictions are based on legislative guidelines as set out under existing European regulation (e.g. the System Operation Guideline⁷, Forward Capacity Allocation Guideline⁸ and Capacity Allocation and Congestion Management⁹).

Yours sincerely,

[sent by email and accordingly bears no signature]

John Ging
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CC Errol Close, Head of Regulation, EirGrid

⁷ Available [here](#)

⁸ Available [here](#)

⁹ Available [here](#)