



Response to Joint EWIC and Moyle Interconnectors Report on  
Curtailement Approach

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11<sup>th</sup> December 2012

SSE welcomes the opportunity to comment on the joint EWIC and Moyle Interconnector Report on Curtailment Approach. The clarifications provided on interconnector capacity auction and curtailment approaches on the SEM interconnectors, as well as on BritNed and IFA, is welcome and has helped shape out views on this matter.

## **Capacity Auction Management**

Regarding the first matter of capacity auction management, it is our view that the change to the access rules for the Moyle Interconnector in October 2011, namely to cease auctioning forecast unavailable capacity, is the correct interpretation and application of the relevant requirements of EU Regulation 714/2009. Furthermore we agree with the same treatment being applicable to EWIC. Not only does this also accord with the relevant EU regulation as noted above, it also ensures that on this particular issue, all four of the FUI region interconnectors are fully aligned.

While the objective of harmonisation is achieved here, and is no small thing in our view, it is even more pertinent that the treatment is the most appropriate one to adopt, from a view of reflecting the 'true' value of interconnector capacity, as well as executing a 'fair' bargain. Offering for sale capacity that is, with the best of available knowledge, unavailable is in our view contrary to all principles of fair trade. So in addition to European legislation, we view that the current approach to managing interconnector capacity auctions by only offering for sale forecast available capacity reflects the spirit of fair commerce.

## **Capacity Curtailment Approach**

On the second issue of the approach to adopt for the curtailment of capacity already held, we note that European legislation does not offer much guidance here. Equally the respective differing treatments on BritNed and IFA offer no guide as to the most appropriate treatment. Hence our view on this issue has relied more on an analysis of the varying values of interconnector capacity across the time plane.

Classical finance (particularly options theory) demonstrates that the potential value of any asset is greatest the longest it is held. This is because over the long term, mean reversion would cause the asset price to converge with the 'true' asset value. Under this view, interconnector capacity bought at a long-term auction has more inherent value than one bought at a day-ahead auction, as the investor in the long-term capacity has sacrificed all other returns his capital could earn in the intervening period for the certainty of holding capacity on an interconnector. On this basis, it is our view that the relative value of interconnector capacity diminishes as one approaches delivery, and that this variance in value ought to be reflected in the treatment of such capacity for curtailment purposes.

Given the discussion in the preceding paragraph, we regard the current treatment of interconnector capacity on the IFA as the most appropriate approach to adopt. Furthering the support of this approach is the principle underpinning day-ahead explicit capacity holding, relative to intra-day capacity usage. Capacity held from the long-term is given precedence over capacity appropriated in the very near-term. We believe this principle of relative value (or priority) across various time-periods is the most appropriate to guide the treatment of capacity holdings for curtailment purposes. On that basis we would recommend that the treatment, as obtains on the IFA, be adopted on EWIC and Moyle.