

How should a TA regime embrace Interconnectors?

A question posed at the TASG meeting on the 6th June for future discussion.

From a high level principle point of view and in keeping with EU Directives and UK legislation, Interconnectors (Owners and Users) have to have access to the Transmission System on terms that:

1. do not hinder competitive trading between the markets, and
2. do not unduly prejudice or give preference to them when compared with 'within market' parties.

Currently, it could be argued that this is not the case. This has been as a result of a number of compromises that have had to be crafted into the component parts of the transmission and energy market in E&W, in order to accommodate the differing interfaces with the neighbouring systems, whilst maintaining the essential requirements identified for E&W. Furthermore, to date, the Interconnector Test has tended to be done at an advanced stage of market design and in remaining timescales that make a good fit difficult to achieve.

However, there is now more of an awareness of the importance of the interconnectors, especially as the markets in Europe open up. The opportunity exists for any new ongoing E&W (GB) market design to be shaped such that it will fully accommodate the interconnectors. Each new element of a proposed TA regime should be tested to see the effect on both the Owners and the Users of Interconnectors, whether and by how much each of the two points mentioned above might be impacted. This will then show whether there is a need for a general design change or whether this is seen as a feature that requires special treatment for interconnectors, either within the E&W market design or within the Use of Interconnector Agreements as appropriate.

Interconnector Models

From an Interconnector Owner and User perspective, the following market designs could be beneficial:-

Model 1 – Interconnectors Become Infrastructure

An ideal position for the Interconnector Users (and arguably one that fits with the NETA model better) would be one that produced no additional costs to them, over and above the market energy prices in the two markets and a defined access charge or Cross Border Tariff. This, however, would only be acceptable to the Interconnector Owners if they were the Transmission Businesses and had incorporated the Interconnector assets into the network infrastructure; this would then allow the more intrinsic benefits of such assets to be recognised beyond the value of the price differential and all parties would contribute to their upkeep. There would though need to be a mechanism that determined which parties had access to the Interconnectors and in this scenario there would probably have to be an auction based system, such as currently in operation on the Anglo-French Interconnection. The monies received from the auctions would be brought in within the Transmission Businesses to offset the costs of running the Interconnectors. Such a model would be in keeping with the EC vision that there should be no 'pan-caking' of charges and one that would allow the maximum amount of trade between the systems. The

optimum solution should be one that permits trade even when there are small differentials in market prices; any charges imposed have the effect of artificially restricting trade and are arguably not cost-reflective in any case. A Model along these lines would provide a level playing field for all potential Interconnector Users.

Model 2 – Merchant Interconnectors

If the Interconnectors are built and invested in by a party other than the Transmission Business, then that party needs (or at least would like) to earn a rate of return on its capital invested. Therefore, any auction receipts would be kept by that Merchant Interconnector Owner. The general benefits of having an Interconnector would still be enjoyed by the other market players, through increased competition, increased security of supply and access to wider markets. Therefore any network infrastructure that has to be built to accommodate the Interconnector could still be included within the Transmission Business and charged out to all parties but excluding the Interconnector Owners/Users as in Model 1. This too would be in keeping with EC thinking.

From an Interconnector User perspective the following could also be beneficial (although less so than either of the first two Models):-

Model 3 – Interconnectors only face Energy Based Charges

If Transmission costs were still charged to the Interconnector Owners, either as now or under a revised regime, and these were treated as normal business costs arising from having built the assets. These costs should not then be passed through to the Interconnector Users. The Interconnector Owner (whether Transmission Company or Merchant) would face the risks associated with matching income with costs, but no more so than any other party in the markets except maybe in one area, if the current methodology of demand charges is maintained. The IUs might still be expected to meet any energy based charges eg BSUoS because this is within the management control of the IUs, as well as the Interconnector capacity auction price. The removal of the Transmission Charges from the Interconnector Users would however provide increased certainty of outcome and this could be reflected in the Interconnector auction prices. There would not have to be any risk premiums built into the auction prices and additional barriers to trade.

Model 4 – As 3 but with Transmission Charges

A variant of Model 3 might be one that had Transmission Charges passed through to Interconnector Users in some way (directly or through the Interconnector Agreement), but those charges were made specific to the Interconnectors. This would provide the certainty necessary for more efficient trade, albeit it is less efficient than having no charges, but it would not be in line with EC thinking of no transmission charges for cross border trades. The more charges there are then the less likely there will be any trade between systems, albeit that the prices might indicate that trades should be made.

Common Features

Overall though, there are some basic features which might be expected for the interconnectors and common to the Models above, such as:-

1. Contracts for capacity would be one-way contracts across the Interconnector.
2. Obtaining Interconnector access rights would automatically include Transmission access rights.
3. Firm contracts up the full capacity of Interconnector in each direction.
4. Non-firm products would be available beyond the full capacity, contingent upon off-setting contracts in the opposite direction.
5. No uncertainty of charges (however small or large) before capacity auctions.
6. Access to the markets in all timescales.
7. Capacity buyback (importing or exporting) operates only through the Interconnector Users once the capacity rights have been obtained and through the Interconnector Owner before the auctioning of those rights.

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