

Response to Consultation Paper SEM-26-29 on network imperfections charges

Dear Regulatory Authorities,

We welcome the opportunity to comment on the proposed network imperfections charges to be levied for the period October 2026 to September 2027.

This response is on behalf of Moyle Interconnector Ltd (“MIL”) which owns the Moyle Interconnector, a 500MW HVDC link between the NI and Scottish electricity transmission networks. We therefore limit our comments to matters raised relating to interconnectors in the report and particularly costs attributed to Interconnector Net Transfer Capacity (“NTC”) Restrictions.

1. Inflationary cost drivers

We note that increased interconnector imports are referred to as an “inflationary [imperfections] cost driver” in the consultation document. We would query this characterisation - while a correlation between higher interconnector imports and higher imperfections costs may be observed, this is a symptom of wider market conditions rather than a case of interconnector imports being a *driver* of imperfections costs. Interconnector flows are determined by ex-ante market prices in the SEM and GB and elevated ex-ante prices in SEM will result in interconnector imports being scheduled¹. The driver behind higher ex-ante prices and any increased imperfections costs attributed to interconnector imports is therefore ultimately increased demand (primarily in the greater Dublin area). While the paper notes that “*higher demand increases the likelihood of units to clear in the market that otherwise would have to be run out of market to satisfy System Security requirements at an Imperfections Cost*”, the impact of that increased demand being locationally concentrated around Dublin is not drawn out and we would expect that to be a significant driver of constraint costs.

The consultation paper also states “*Interconnector flows and RES Capacity Updates (combined) have the second greatest inflationary impact on the PLEXOS modelled Imperfections costs and are forecast to increase Imperfections Costs by ~3 times greater than the impact of demand in Tariff Year 2026/27.*” This is a difficult statement to unpick. As mentioned above: 1. the locational impact of demand is not clear; 2. it is not obvious why the impact of interconnector flows and RES Capacity Updates are aggregated here; 3. the ‘impact of demand’ does not seem like an appropriate metric to compare the impact of these factors with given that demand is what drives everything in the market (including interconnector flows) so this statement may be a simplification that underplays demand impacts.

¹ Which, as the consultation paper notes, will have a deflationary effect on ex-ante prices.

2. Costs attributed to Interconnector Net Transfer Capacity Restriction

We very much welcome the recovery of costs attributed to compensation for Interconnector Net Transfer Capacity Restriction via imperfections.

Since SONI and EirGrid began taking these actions in 2021 our position has been that these should be compensated and that imperfections are the appropriate cost recovery route for the TSOs. Restricting NTCs is analogous to where generators are instructed to deviate from their market schedules (for example, to increase or decrease output for system security reasons) and are compensated for the difference between their instructed dispatch and market position. Furthermore given that the action of restricting interconnector NTCs at the ex-ante stage may be an alternative to interconnector counter trading², the costs of which have long been recovered via imperfections, it is natural that the payment of compensation towards interconnectors in respect of NTC restrictions would also be recovered via imperfections.

Whilst including costs relating to NTC restrictions will exert upward pressure on imperfections in the upcoming tariff year, it is worth noting that the historic actions that are now being compensated have meant that the TSOs needed to countertrade much less than they otherwise would, which will have artificially depressed the imperfections costs incurred and presented by the TSOs since 2021. We see the inclusion of these costs as properly accounting for costs in the correct place rather than increasing overall system costs. If costs related to NTC restrictions were not recovered via imperfections then they would be borne by the individual TSO (or interconnector owner via foregone revenues if not compensated) and ultimately customers in the relevant jurisdiction (through their funding of the respective TSO or underpinning of interconnector investments). Since these actions have historically been taken to support the all-island system it is appropriate that they are recovered on an all-island basis.

Lastly, we note that the paper states that these costs arise from NTC restrictions that were enacted “*to maintain system security, particularly in managing stability risks on the SEM-GB interconnectors*”. We are not aware that any NTC restrictions were enacted to manage stability risks on the Moyle (or any other) Interconnector. Our understanding is that they were used to maintain system security on the all-island system, primarily via management of operating margins.

² If the TSOs were to countertrade instead of restricting NTCs, a cost would be incurred by SONI/EirGrid and would be recovered through imperfections charges.