SEM-22-038 Imperfections Charge 2022/23 Consultation Paper – Moyle Interconnector Limited response – August 2022

This response is on behalf of Moyle Interconnector Ltd and briefly answers each of the questions posed below.

1. *Whether the TSOs' forecasts of costs and assumptions for Tariff Year 2022/23 are reasonable*

We limit our remarks to the costs and assumptions associated with Interconnector Counter Trades. Since early September 2021 SONI (and EirGrid) have taken to regularly restricting the ability of the Moyle Interconnector (and East West interconnector) to export at the ex-ante stage i.e. in advance of the IDA1 auction. Moyle Interconnector Limited is entitled to be compensated for congestion revenues foregone as a result of these actions, which currently totals over €14m. SONI contests this point and matters are being progressed to resolve this dispute. Given that the action of restricting interconnector exports at the ex ante stage may be an alternative to interconnector counter trading, the costs of which are recovered via imperfections, it seems natural that the payment of compensation towards Moyle in respect of export restrictions would also be recovered by SONI via imperfections. It is not clear from the information provided whether the €35.79m sought by SONI and EirGrid in respect of interconnector counter trades contemplates such compensation or the fact that the action of restricting exports is frequently taken instead of countertrading. We would suggest that the amount sought should include an allowance for this compensation in order to avoid significant upward pressure on next years k-factor due to SONI and EirGrid's failure to account for the cost of the actions they have taken. If this is not factored in now then next year's imperfection charge is likely to include compensation costs associated with 20/21, 21/22 and 22/23 tariff years.

It should also be stressed that restriction of interconnector exports, which has been happening more days than not, has meant that the TSOs needed to countertrade much less than they otherwise would. This will have artificially depressed the imperfections costs incurred and presented by the TSOs in 20/21 and 21/22 since restricting interconnector exports seems to be treated as a cost-free action. Of course, that is an erroneous position given the contractual obligations, the significant resultant revenue losses for interconnector owners and the funding requirements of interconnector businesses. In Moyle's case the interconnector is financially underwritten by Northern Irish consumers who would otherwise benefit from those lost revenues which should be recovered via imperfections charges.

We note that the 20/21 reforecast grouped interconnector flows and wind patterns together for the purpose of reporting and updating the forecast. Whilst it is correct that there is a strong link between wind patterns and interconnector flows (i.e. the direction of flow is usually determined by the extent to which the wind is blowing), grouping these factors together does not provide sufficient transparency of the imperfections cost drivers and reasons for movement up or down. E.g. an increase in constraints costs could be driven by higher wind or lower interconnector availability (and vice versa[1]) but grouping the impact of these factors hides what the actual driver is.

Given the above, we would suggest that the SEMC should ensure it is satisfied that the funding sought in relation to interconnector counter trading, including compensation for foregone congestion revenues, is reasonable.

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[1] Stated for simplification - various combinations of these factors will have differing impacts. For example, very low wind and high interconnector availability could also increase imperfections costs due to the TSOs needing to buy power from GB.

2. *If there are actions the TSOs could take to minimise Imperfections Charges*

We make no comment here and recognise that addressing the compensation matter raised above would increase imperfections charges. However, we see this as properly accounting for costs in the correct place rather than increasing costs since currently Moyle Interconnector Limited (and indirectly Northern Irish consumers) are solely bearing the cost of restricting exports across the Moyle interconnector, which is being done to support the all-island system. If countertrading instead of restricting exports, a cost would be incurred by SONI/EirGrid which would clearly have been recovered through imperfections charges.

3. *If the Imperfections Price for Tariff Year 2022/23 should be determined based on forecasts using either daily projected quarterly fuel and carbon costs averaged over a 12-month period, or utilising the K-factor run rate approach*

We do not think using backward looking 12-month averages of fuel and carbon costs is sensible, given that much of that period will pre-date the war in Ukraine and market views are not entirely irrational, albeit volatile. The k-factor run rate approach does seem like a more sensible means of smoothing the impact of these cost increases.

4. *Whether the K-factor for under or over-recovery from previous Tariff Years should be spread over more than one subsequent Tariff Year and, if so, over how many Tariff Years*

In the current extraordinary circumstances, we would support spreading the k-factor for under-recovery over a number of years (we would suggest at least 5 given the quantum) to lessen the immediate impact on consumers. This assumes that the cost of financing under recovery is reasonable and the TSOs would not be earning an inflation linked return. The recovery period should be kept under review in the event that imperfections costs, and costs in general, come back towards historic levels.

5. *The merits of implementing a biannual review of the costs covered by Imperfection Charges and a proposed modification to the Trading and Settlement Code to allow bidirectional alterations to the Imperfection Charge Factor*

As above, the current global volatility would lead us to support this proposal in order to allow the regulatory authorities the opportunity to react to both adverse and positive developments more quickly in the interests of consumers. We suggest this should be considered as a temporary measure to deal with the ongoing volatility since stable annual tariffs are preferable.