

GB Commercial Arrangements relating to Interconnector Capacity Calculation

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1. Context

To manage Interconnector flows, NGESO currently uses a number of tools including:

- System Operator (SO) Re-dispatching (balancing) actions and a corresponding countertrade is arranged to change the scheduled flow of an interconnector. These are procured as a balancing service between the two SOs, leaving the interconnector unaffected.
- Third party forward trades which are nominated during the Intraday timescales to affect a certain change in flow on an interconnector.
- Intraday Transfer Limits (ITLs) can be used by NGESO to limit changes to the scheduled flow occurring during the intraday market by limiting the amount of un-allocated capacity released into the intraday auction. ITLs can also be used to prevent a previously traded position from being unwound back in the other direction.
- For emergency situations, under the Grid Code, all new interconnectors are required to provide Emergency Assistance and then act on an Emergency Instruction.
- Commercial or mandatory intertrips, fast de-load schemes, and system frequency protection services (e.g. Limited Frequency Sensitive Mode) can also be utilised.

The Commission Regulation (EU) 2015/1222 establishes a guideline on capacity allocation and congestion management (CACM) that entered into force on 14 August 2015. Commission Regulation (EU) 2016/1719 establishes a guideline of forward capacity allocation (FCA) and entered into force on 17 October 2016. Their objectives are to maximise the efficient use of interconnection and facilitate greater cross border electricity trade. Under the Regulations, TSOs are required to calculate and allocate cross border capacity to market parties. The output of this calculation of the coordinated cross border capacity due to constraints on the Transmission System may be a reduction of the interconnector's Net Transfer Capacity (NTC).

Under the CCMS, a reduction of NTC could restrict capacity being sold in auctions in various timescales and restrict both unallocated and allocated capacity. 'Unallocated capacity' is the capacity that has not been sold within the interconnector's previous auction whereas 'allocated capacity' is the capacity that has been sold. Of the existing tools that NGESO use to manage interconnector flow, ITLs are the tool most closely equivalent to a reduction of NTC of unallocated Intraday capacity prior to the intraday auction, as illustrated in diagram 1.

Diagram1:

Timing of NTC	Impact of NTC	
Capacity management feeds into Day Ahead auctions	Unallocated capacity restricted	Allocated capacity restricted
Capacity management feeds into Intraday auctions	Unallocated capacity restricted	Allocated capacity restricted

In addition, the implementation of cross-border trading of pan European reserves (e.g. TERRE) will require the development of new tools, in co-ordination with other EU TSOs. The new platforms will also reduce the functionality of some of the existing System Operator tools.

2. Legal Framework

In accordance with the requirements of Article 21 of CACM, the Day Ahead and Intraday Capacity Calculation Methodologies for the IU Region (GB-SEM) was approved in July 2018 and the CCM for the Channel Region (GB- France, GB- Netherlands and GB-Belgium borders) was approved in November 2018.

The Long Term CCMs for IU and Channel Regions are still under development and yet to be approved by the Regulators.

The approved CCMs will introduce a coordinated capacity calculation process that precedes each round of market activity and subsequent capacity allocation for Long Term (LT), Day-Ahead (DA) and Intraday (ID) timescales. The approved CCMs provides effective and appropriate management of interconnectors. This means that where required for system security, constraints on the onshore GB National Electricity Transmission System (“NETS”) can limit cross border capacity shared over GB interconnectors. The capacity calculation requires coordination between the TSO that operates the relevant interconnector and the connecting TSOs either side of the Interconnector.

The Day Ahead and Intraday CCMs were due to go-live in Autumn 2019 but given some delays in the implementation of the Common Grid Model, this has led to the go-live being pushed back until Q4 2021. In accordance with the CCM, NGESO has the right to reduce capacity, whilst still respecting any connection conditions of the interconnector’s Bilateral Connection Agreement (BCA).

While the methodologies specify the process for the coordinated capacity calculation, they are silent on the appropriate commercial treatment of the consequences resulting from the performance of these methodologies

At the time of the go live for the Irish Integrated Single Electricity Market (I-SEM) in 2017, the cross border arrangements required by CACM were not in place, therefore it was necessary for interim arrangements¹ for the IU border to be developed. This allowed the objectives of the I-SEM to be achieved without preventing the development of enduring CACM or FCA mechanisms. The expectation is for enduring arrangements to now be developed in line with all GB borders with neighbouring regions.

During previous Channel TSO discussions, GB interconnectors have held the position that they are supportive of the NTC capacity calculation process subject to being held whole both before and after the cross zonal capacity becomes firm, and that they are appropriately recompensed for any reduced interconnector capacity. The existing GB frameworks do not currently address any commercial arrangements from the future capacity calculation methodologies and NGESO is now seeking industry views on the need for, and type of, commercial arrangements through this consultation.

Prior to the implementation of CCM, there is an ongoing need for NGESO to manage interconnector flows and any commercial arrangements that are approved for the CCM methodologies will also be applied to the existing interconnector capacity management tools (i.e. ITLs).

3. Consultation purpose

This consultation seeks industry views on:

- Commercial arrangements to be applied to recognise the impact on interconnectors operators from the CCM methodologies

¹ <https://www.sem-o.com/documents/general-publications/Interim-Cross-Zonal-TSO-Arrangements-for-GB-ISEM-go-live-Publication.pdf>

- Prior to the go-live of CCM, NGENSO continues to have the need to secure interconnector flows hence it is intended to adopt any principles confirmed for the enduring CCM commercial solution to existing tools such as ITLs for Channel region interconnectors.
- Any commercial arrangements decided upon through this consultation shall be implemented via amendment of the contractual agreements entered into with the relevant parties.

The output of this consultation will inform our decision as to whether to introduce these commercial arrangements, as a balancing service, into our C16 statements and guidelines as part of our annual C16 consultation process. The C16 proposal will be consulted on before submission to Ofgem. More information on the C16 statements can be found on this link:

<https://www.nationalgrideso.com/balancing-services/c16-statements-and-consultations>.

It is recognised that although interconnectors do not pay BSUoS charges, actions related to interconnectors can be incorporated into BSUoS charges, as is the case for some generators. The cost of capacity management will be reported in line with the C16 statements.

The ongoing Brexit discussions results in uncertainty as to which EU framework will apply in GB in the future. To reduce this uncertainty NGENSO assumes that the principles of this consultation should be applied under all future scenarios, where it can be assumed that interconnector capacity management will be still required.

4. Payment principles

To maintain transparency, NGENSO is in favour of a single solution for all GB interconnectors as opposed to bilateral arrangements. The standard solution should apply to all borders with the current capacity calculation regions. The approved mechanism should apply to all existing and new interconnectors and would cover capacity reductions for day ahead and intraday timescales in accordance with the respective CCM. Once the long term IU and Channel CCMs are approved it shall be assessed whether the outcome of the consultation shall apply when these methodologies are implemented.

Any commercial arrangements for the reduction in interconnector capacity by NGENSO shall follow the following principles. For the avoidance of doubt the commercial arrangements are between the

Interconnector and NGESO. This does not cover the arrangements between the interconnector and the holders of transmission capacity through the interconnector auction processes:

- To ensure cost neutrality, payments to interconnectors for allocated capacity, must only reflect the cost of remunerating transmission capacity holders;
- Any payments should take into account that interconnectors may generate income through a reduction in capacity (e.g. as capacity becomes scarce this may increase the price of capacity and congestion income may increase). This may result in interconnectors paying rather than receiving payments;
- Any applicable payment must only cover the volume of NTC capacity reduction from the instruction of NGESO, at that specified time;
- No payment shall be due if the capacity reduction is the result of factors outside the GB National Electricity Transmission system (NETS) (e.g. reduced availability of the interconnector circuits or constraints in the connecting European grids by the other EU TSOs). In the case of loss of access resulting from the interconnector's assets (such as a trip by the interconnector), there should be no compensation to the interconnector;
- Ex-ante capacity reductions resulting from planned maintenance or works on the NETS shall not result in any compensation between the ESO and the interconnector owner if the Bilateral Connection Agreement (BCA) for that interconnector describes a reduction of the transmission entry capacity (TEC) for that specific planned outage condition;
- A reduction of capacity can only be paid once; and should the NTC be restricted by two TSOs simultaneously, a sharing methodology should be agreed amongst TSOs to prevent over compensation from both SOs.

The following table summarises the guidance contained within the FCA and CACM on compensating long-term transmission rights holders:

	Capacity reduction before Day Ahead firmness deadline	Capacity reduction after Day Ahead firmness deadline	Force Majeure and emergency situations
Reduction of allocated capacity	Day ahead market spread (articles 35 and 53 of FCA)	Not considered in CACM or FCA	Initial price paid for long term transmission rights (article 56 FCA, article 72 CACM)
Reduction of unallocated capacity	Not considered in CACM or FCA		

5. Next steps

We welcome the views of interested parties on the commercial arrangements for interconnector capacity reductions. Please provide your responses by close on **Tuesday 3rd December 2019** to: box.europeancodes.electricity@nationalgrideso.com. We would be interested in your views and to gather options under two scenarios:

- Where there is a provision made, under the Regulations, to compensate long-term transmission rights holders; and
- In situations where payment is not detailed.

Following consideration of responses to this consultation, we will expect to consult on the framework changes necessary via the C16 statements. The C16 statements shall undertake its annual consultation process and requests Ofgem's approval for it to commence from 1 April 2019.

There will be two December workshops to facilitate and support this consultation process and invitations of these workshops shall be sent out in the meantime. The aim of the two workshops are:

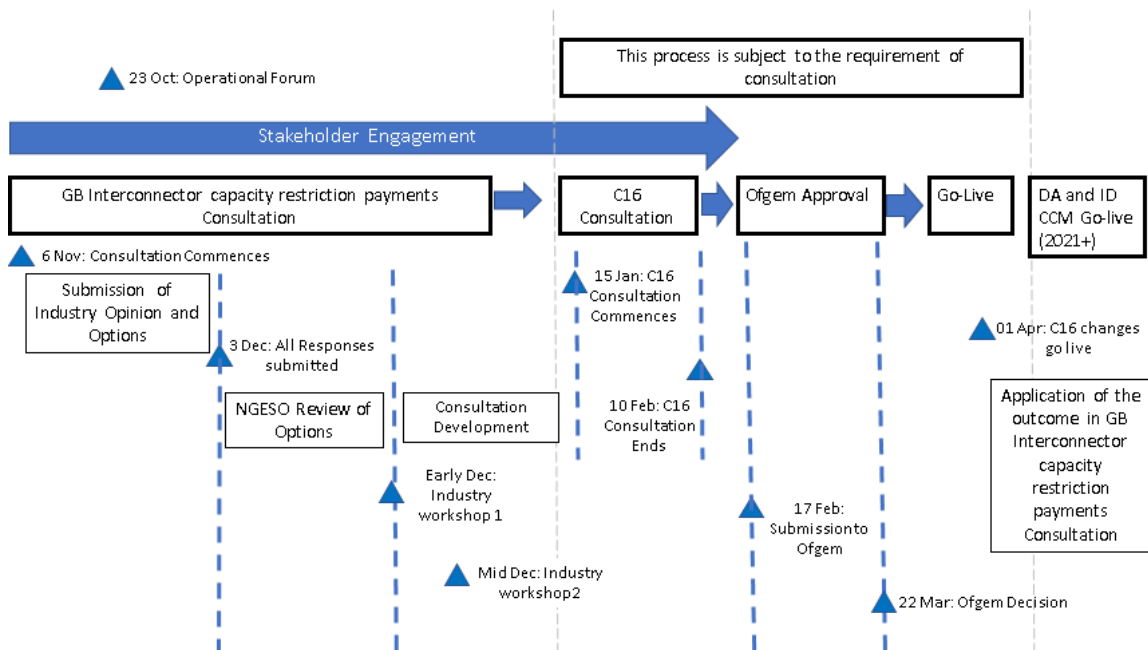
- Workshop 1 – A teleconference to share consultation feedback and introduce any consequential options provided by the industry.
- Workshop 2 – Opportunity to discuss the options to support the recommendation outcome of this consultation process.

Consultation Questions:

1. Do you agree with the proposed payment principles?
2. What are your views and proposals for commercial arrangements in line with the intraday and day ahead CCMs?
3. Where interconnectors suffer losses as a result of a reduction of unallocated capacity do you have any proposal for commercial arrangements in this situation?
4. Do you believe the agreed commercial principles should be applied to the long term CCMs after their approval?
5. Do you agree the C16 Statements consultation process is the right process to capture the output of this consultation?

Consultation Process:

The diagram below illustrates the planned timescales for each milestone of this consultation process.



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