Methodology for GB Commercial Arrangements relating to Interconnector Capacity Calculation - Response Proforma

NGESO invites responses to this consultation by **17:00 Tuesday 2nd June 2021**. The responses to the specific consultation questions (below) or any other aspect of this consultation can be provided by completing the following form. Please note that responses submitted after this time may not be counted.

Please complete this form regarding the proposal titled: "**Methodology for GB Commercial Arrangements relating to Interconnector Capacity Calculation**".
Please return the completed form (word version) to: box.europeancodes.electricity@nationalgrideso.com

Respondent	
Company Name	BritNed Development Limited
Does this response contain confidential information? If yes, please specify.	No

№	**Question**	**Response**
1.	Do you agree with the commercial compensation methodology?	As BritNed we recognise our role as an interconnector TSO and are committed to working collaboratively with all TSOs to develop solutions to our evolving energy systems. Within the cover note and commercial compensation methodology presented there are a number of areas where we do agree, **however in this instance they are outweighed by a significant number of concerns that remain** despite previous feedback being repeatedly provided during industry working group sessions. These concerns would need to be addressed prior to go-live for this to be an acceptable methodology / framework. In summary the areas we disagree with are: 1. The cover note states this tool will not apply to **allocated capacity**, the compensation methodology still refers at some length to it. **We strongly believe these actions should not be permitted** as they are counter to all existing regulatory frameworks including the EU-UK Trade and Cooperation Agreement (TCA). 2. The methodology foresees the possibility to **restrict Day Ahead capacity** with which **we strongly disagree and consider it legally not permitted**. NTC restrictions to Day Ahead capacity raise strong concerns about social welfare benefits being decreased for the benefits of SO balancing, counterproductive measures to the development of a Lose Volume Coupling to the UK and insufficient market party compensation as restricted Long-Term capacity will be compensated at lower level than Day Ahead spread under the UIoSI arrangements. 3. NTC actions are presented as the tool of choice for controlling interconnector flows. As previously fed back**, there are other more appropriate tools for action** such as potential SO-SO trades that do not intervene in the market and are cost reflective. Whilst the cover note references developments of enduring arrangements, these only cover technical system enhancements and not commercial enduring arrangements and a roadmap to achieve them. 4. The **compensation methodology does not in fact keep Interconnector TSOs whole** for the actions taken. A discount factor is applied to the clearing price with no consideration given to the context of how that discount is calculated. Furthermore, we strongly disagree that this would lead to a compensation from the Interconnector to NGESO due to higher clearing prices as a result of the restriction. Compensating the restricting party in this case sets wrong incentives. 5. **NTC restrictions are intervening in the market**, however the commercial consequence of the action is not commensurate with the action being taken. This will in turn **erode consumer welfare benefit from interconnectors and mask investment signals for network / system / process enhancements to reduce their volume**. 6. The methodology for these actions being taken remains uncertain, single-sided and uncoordinated. **At present there is no engagement with the adjacent TSOs**, **nor is there any transparency on the calculations or the process that will be applied** to their use

		when a regional action is required with NTC actions being split across multiple TSOs in that area or across the same border. Neither was alignment achieved with the interconnectors in the respective working groups. 7. The response to an NTC action could drive an interconnector not to meet its capacity market contract obligations, for which it would be penalised. We believe **we should not be adversely affected in one contract as a result of taking an instruction from NGESO on another**. This should a) not affect future de-rating considerations; and b) be updated in the Capacity Market rules as per other ancillary services. In summary the areas we do agree with are: 8. Subject to the methodology above, any restrictions to interconnector capacity should be compensated, and interconnector TSOs and Market Parties should be kept whole.
2.	Any further comments relating to the commercial compensation methodology?	Within our response we have covered feedback on both the Cover Note and the Compensation Methodology. Where the points are relevant to both, we will only cover them once. Our response is structured to cover: **1. General feedback** **2. Commercial methodology compensation Cover Note** **3. Commercial compensation methodology** **1. General feedback** **1.1 The use of NTCs are contained in a cover note** – The cover note makes statements of some significance, for example the limitation of the use of NTCs on channel interconnectors to Intraday unallocated capacity. Whilst we agree with this and believe this should endure, there is no regulatory or contractual standing for the statements. **To take this forward** we would ask for NGESO to confirm the legal standing of the Cover Note that will endure after the consultation closes. **1.2 NTC restrictions as a tool of choice** – The documents shared to date position NTC restrictions as the tool of choice for managing physical flows on the interconnector by intervening in the market. This goes against a number of well-established market fundamentals and erodes the societal benefits interconnectors bring. The NTC actions are further noted as being a potential daily tool for network management with further used planned into the DA timescales once a CBA has been completed. **To take this forward** we acknowledge that NTC restrictions are and will be required in the overall toolkit. We do however believe these should be framed as the absolute last resort **with further tools developed**, namely counter trade and re-dispatch (SO-SO trades), that will sit before them in the operational hierarchy of use. The development of this tool with others also potentially being possible should be prioritised with urgency and formally committed to, with a timeline, by NGESO. **1.3 Timing of NTC action** – Currently NTC actions are taken in equivalent form by the issuing of Intraday Transfer Limits (ITLs). These are issued up to 28 hours prior to the delivery period the actions will cover. These actions are therefore addressing forecast events as opposed to addressing emergency situations i.e. more definitely going to happen. **To take this forward** we would like to see commitment from NGESO that a process will be developed to progress NTC actions as close to real time as possible and not at the same time for any delivery day in question. This approach leaves capacity in the market for as long as possible to allow it to respond to short term events and then take action on a known situation rather than a speculative one. **1.4 The response to an NTC action from NGESO could impact contract commitments under a Capacity Market contract –** The response to an NTC action could drive an interconnector not to meet its capacity market contract obligations, for which it would be penalised. We believe we should not be adversely affected in one contract as a result of taking an instruction from NGESO on another. This should a) not affect future de-rating

considerations; and b) be updated in the Capacity Market rules as per other ancillary services.

To take this forward we would like to see [codified protection as is the case for generators]

2. Commercial methodology compensation cover note

2.1 The definition of 'emergency situation' – The cover note presented states at page 2 that the CCM '*will also apply to (very rare) situations where allocated capacity is restricted in an emergency (i.e. the emergency situations outlined in the TCA)'*. We have not found a definition, nor a set of examples, of what constitutes an emergency situation within either the TCA or the documents shared to date.

To take this forward we would ask NGESO to clearly state what emergency situations are defined in the TCA and the definition they will be applying to an emergency situation in this context.

2.2 The use of NTCs for unallocated capacity – The cover note presented states '*When NTCs are used, it will be used predominantly for managing unallocated capacity. Allocated capacity will only be curtailed in a small number of exceptional circumstances as outlined in the TCA e.g. in emergency situations*. The bottom of page 2 refers. While this seems to imply that the use of NTCs is not restricted to emergency situations for unallocated capacity, the TCA does not differentiate between allocated and unallocated capacity when it limits curtailment to emergency situations.

To take this forward we would ask NGESO to confirm that NTCs will only be used to manage capacity (unallocated or allocated) in emergency situations. Furthermore, TCA ENER 13.1(c) states that any such curtailment should take place in '*a non-discriminatory manner*'. We would ask NGESO to confirm how it will ensure interconnectors are dealt with in this way.

2.3 The potential future use of NTCs for Allocated capacity – Once capacity is allocated and rights documents issued, it is no longer owned by the interconnector TSO. This capacity can then only be taken away from the rights holder by the interconnector TSO under very specific circumstances, namely an emergency situation on the interconnector itself and not due to an issue on an adjacent TSO network. The issue must also be a real situation and not a forecast one.

To take this forward we would ask NGESO to exclude the right to curtail allocated capacity from any proposed methodology and rely on the optionality for issue of an emergency instruction, a tool that already exists, to effect the associated action. We recognise the term emergency situation is emotive and comes with additional reporting requirements however this can be evolved to ensure it aligns with the essence of the action being taken.

3. Commercial compensation methodology

All comments noted above are equally applicable to the commercial compensation methodology however are consciously not covered twice.

3.1 Compensation for NTC restrictions masking investment signals – The compensation proposal for NTC actions does not as presented provide appropriate pricing signals to the market that could or should drive investment in alternative products or network / process development that will drive an overall beneficial solution to consumers. The actions themselves will intervene in the market and only give a real-time price representation and not consider any wider medium to long term impacts, nor will they account for certain scenarios where the actions prevent the ability for the interconnector to respond to market events

To take this forward we would like to see a specific proposal provided by NGESO as to how investment signals will be appropriately calculated such that investment signals are no longer masked as they would be by the current proposal as the true cost of action will be higher than the compensation proposed.

3.2 Discount factor applied to compensation does not keep interconnectors whole and does not reflect the costs of the restriction measures taken – The compensation methodology does not in fact keep Interconnector TSOs whole for the actions taken. A discount factor is foreseen to be applied to the clearing price with no consideration given to the context of how that discount is calculated.
Furthermore, we strongly disagree that this should in cases lead to a compensation from the Interconnector to NGESO due to higher clearing prices resulting of the imposed NTC restrictions. Compensating the restricting party in this case sets the wrong incentives.It leads to a situation in which NGESO is stimulated to restrict the market, as it offers a cheap balancing tool at market cost (compared to other tools) but also creates additional surplus on the operational costs side through the Interconnector payments (at the costs of market participants).
We are concerned that with the discount factor the true costs of the actions taken to, the market, the interconnector and the end users, are not represented correctly. We are worried that this masking of true costs of action will lead to postponement of required development of other operational tools and network enhancements.
We deem these true cost signals crucial in order to trigger the right actions to create a stable network that can cope with future interconnections, fast responding markets and renewable integration as the future requires.

To take this forward we would like to see the discount factor removed for the above stated reasons.

3.3 Impact on Long-term hedging market:

When restricting allocated, unnominated Long-Term capacity that would usually go through a Day Ahead UIoSI process the methodology will negatively impact on the Long-Term hedging strategy and trade portfolio of market participants. It likely to cause less activity on the long-term hedging market due to the unfair treatment when compensating market participants potentially multiple times per week by the Weighted Average Marginal Price as per the access rules, instead of the Day Ahead market spread they would receive had it gone to the market.
This way of compensation might be acceptable for rare events such as Interconnector outages and respective curtailments associated with it but not in case of frequently applied restrictions by a third party such as NGESO.

To take this forward we would like to ask NGESO to exclude any considerations about Day Ahead NTC restrictions from the methodology proposal for BritNed to not negatively impact the available hedging products.