

Mr. Stuart Cook  
Ofgem  
9 Millbank  
London SW1P 3GE

Mr. J.A.J. van Hardeveld  
APX-ENDEX  
21 Southampton Row  
WC1B 5HA, London

Date: 17-11-2010  
Reference: 10110918/ACLAX/JHARD  
Subject: APX-ENDEX response to the Project Transmit consultation.

Dear Mr. Cook,

Thank you for providing us with the opportunity to respond to the Project Transmit consultation. As you are aware, one of the priorities of the European Union is to create a genuine single market for electricity in Europe. It is an ambition which the Anglo-Dutch energy exchange APX-ENDEX very much supports. Market integration enhances diversity of supply, competitive dynamics, price resilience, social welfare and security of supply.

The integration of day-ahead markets across Europe using the proven approach of market coupling is critical to delivering robust markets. Efficient intraday cross border trading is also essential for the transition to a low carbon energy sector by accommodating the increased intermittency created by the growing amount of wind energy produced in Great Britain.

The current transmission charges for electricity applied in Great Britain threaten to hinder the efficient integration of the GB market with Continental Europe and Ireland. We believe that further alignment of Great Britain with progressing EU law and the goal of the creation of a single market for electricity in Europe is needed. The charge levied by the national Transmission System Operator (TSO) National Grid for the balancing of the British transmission system (the "BSUoS" charge) is also levied upon interconnector flows and therefore effectively acts as a cross border transmission charge (akin to a flow based tariff). GB System losses are also effectively applied to cross border flows. Both the BSUoS charge and system losses effectively represent a barrier to efficient market integration, and the benefits that this will deliver.

Interconnector owners have recently been exempted from the charge levied by National Grid for the use of the transmission network (the "TNUoS" charge). We strongly recommend the similar removal of the BSUoS charge and GB system losses for interconnector owners.

For your information I have attached the APX-ENDEX response to the National Grid Transmission Charging consultation, which explains our views in further detail. Should you have any queries please do not hesitate to contact me.

Yours sincerely,

Andrew Claxton,  
Director Business Services and International Development

ANNEX. APX-ENDEX response to the National Grid Transmission Charging consultation.

**ANNEX. APX-ENDEX response to the National Grid Transmission Charging consultation.**

Mr. Iain Pielage  
Electricity Charging & Access Development  
National Grid Electricity Transmission Ltd.  
National Grid House, Warwick Technology Park, Gallows Hill  
CV34 6DA, Warwick

Mr. J.A.J. van Hardeveld  
APX-ENDEX  
21 Southampton Row  
WC1B 5HA, London

Date: 26<sup>th</sup> of August 2010  
Reference: 10080642/ACLAX/JHARD  
Subject: APX-ENDEX response to the National Grid Review of Interconnector Charging Arrangements Consultation (GB ECM-26).

Dear Mr. Pielage,

Thank you for providing us with the opportunity to respond to the review of the current GB Interconnector charging arrangements. APX-ENDEX welcomes National Grid's decision to review the charging arrangements and its proposal to exempt interconnectors from the TNUoS<sup>1</sup> charging methodology. APX-ENDEX however strongly recommends including the BSUoS<sup>2</sup> charge and GB system losses in the review and proposes the similar removal of these charges for interconnector owners, in order to:

- Align with the intent of EU legislation and the goal of a single market for electricity in Europe; and
- Align with the ITC<sup>3</sup> mechanism that is delivering a single market across most of Europe today.

## Charges are not consistent with objectives of EU legislation and the goal of a single market for electricity

One of the European Union's priority objectives is to create a genuine single market for electricity. A GB market that is closely integrated with the Continental European markets and the Irish market will enhance diversity of supply, competitive dynamics, price resilience, social welfare and security

---

<sup>1</sup> Transmission Network Use of System (TNUoS).

<sup>2</sup> Balancing Service Use of System (BSUoS).

<sup>3</sup> The Inter Transmission System Operator Compensation mechanism (ITC).

of supply of the GB market. The current Use of System charges (the BSUoS and TNUoS charges) prevent GB from experiencing the full benefits of market integration.

An important step towards the completion of the Internal Market for electricity is the adoption of the second and third legislative package for energy. Both legislative packages contain measures that will facilitate cross border collaboration and investment, which are mainly laid down in the Regulation on conditions for access to the network for cross border exchanges in electricity<sup>4</sup>. One of the objectives is to ensure that generators of electricity face the same network charges irrespective of where their customer is located. The Regulation therefore involves the harmonization of principles on cross border transmission charges and the establishment of a compensation mechanism for cross border flows of electricity.

Consumers of electricity in Great Britain must pay BSUoS charges when they import from or export to another Member State. Furthermore, the pancaking of these charges can occur, when for example electricity is exported from Ireland to France. Interconnector capacity users will then be hit twice by the BSUoS charge for importing in and exporting from Great Britain. It would appear to us that the current treatment of system losses in GB has similar negative features.

BSUoS charges are levied on the basis of metered volume to participants, with overall charges equally split between generation and demand. BSUoS is also levied upon Interconnector flows and therefore effectively acts as a cross border transmission charge (akin to a flow based tariff). As the costs for the BSUoS charges will be reflected in the prices of imported and exported electricity, in practice the BSUoS cost allocation mechanism creates a dead band and reduces price convergence, and impedes optimal capacity utilization and the creation of a truly single market.

The TNUoS and Triad<sup>5</sup> charges also restrict the free flow of electricity. Depending on how much risk a capacity owner is willing to take, the economically rationale response of Triad charges will be the withdrawal of interconnector capacity twenty to forty times a year. The current transmission charging regime therefore also results in sub optimal capacity availability.

APX-ENDEX therefore believes that not only TNUoS but also BSUoS should not apply to interconnectors as they effectively act as cross border transmission charges, which does not seem consistent with the above mentioned EU objectives and the goal of an integrated single market for electricity.

---

<sup>4</sup> Regulation No 714/2009 on conditions for access to the network for cross border exchanges in electricity (repealing Regulation 1228/2003).

<sup>5</sup>Triad charges relate to National Grid's transmission charges. They measure maximum demand readings three times a year and use the average of these readings to calculate Transmission Network Use of System (TNUoS) charges.

## TSOs are compensated for hosting cross border flows through the ITC mechanism

The Regulation<sup>6</sup> on cross-border trade in electricity provides for the introduction of a compensation mechanism between Transmission System Operators (TSO) based on the costs of hosting cross-border flows of electricity. This Inter TSO compensation (ITC) mechanism is to be made binding and provides for the harmonisation of transmission charges. APX-ENDEX welcomes the fact that Great Britain is part of the ITC mechanism, but stresses the need for national charging arrangements that align with these European arrangements.

The ITC scheme came into force in 2002 and since then was gradually developed with a constantly growing scope of the countries covered. The ITC scheme in its current form has been operational since 2008. The aim of the scheme is to support the development of a single market for electricity in Europe by providing fair and non-discriminatory arrangements for trans-European electricity flows, thereby enhancing competition between markets. The costs covered under the ITC mechanism are contributions towards network infrastructure and the incremental transmission losses attributable to the hosting of transit flows.

The costs are paid by sink and source countries to transit countries, based on the lesser of their volume of exports and imports. In other words, countries who are a net exporter or importer of electricity compensate those who support the transit of power. Balancing costs and ancillary services are not part of the ICT mechanism and are normally paid via local tariffs on native loads and/or generation, and are not applied cross border flows.

As a result of the ITC mechanism, a generator in Germany would face the same TSO charges selling to a customer whether in France or Germany (and similarly for a generator in France). The ITC mechanism thereby removes the possibility of “pancaking” of charges as explained in the previous chapter.

The charging mechanism in Great Britain is driven by a regulatory regime where interconnectors are treated as both generators and demand, whereas in Continental European countries interconnectors are considered to be part of the transmission grid. APX-ENDEX believes that Interconnectors should be considered to be a different class of users. None of the current transmission charges should apply.

In the consultation document National Grid states that as a result of the fact that EU legislation defines interconnectors as transmission assets and TSOs are compensated for cross-border flows under the ITC mechanism, Interconnector flows would become neither production nor consumption, and therefore TNUoS generator and demand charges would no longer be appropriate (once the mandatory ITC mechanism is in place).

---

<sup>6</sup> Regulation 1228/2003.

We believe Britain should align itself with the European ITC arrangements. This could be achieved by the below three recommendations:

1. Recompense for network costs via the ITC mechanism – i.e. TNUoS as proposed in the consultation paper.
2. Recompense for the incremental impact of transit flows on transmission losses via the ITC mechanism, or perhaps more simply an exemption for interconnector flows from system losses.
3. Exempt interconnector flows from paying balancing costs – i.e. BSUoS.

## Conclusion

In conclusion, APX-ENDEX very much supports National Grids proposal to modify certain Interconnector charging arrangements, but strongly recommends adding system losses and the BSUoS charging methodology to the review and to propose their similar removal. The BSUoS charge as well as the issue of losses needs to be addressed as it represents a barrier to efficient market integration, and the benefits that this will deliver. From our discussions with market parties we have furthermore found widespread support for altering the GB transmission charging regime in order to facilitate cross border trading.

APX-ENDEX is willing to work with regulators, transmission owners, market participants and all other relevant parties in order to find the right solutions to achieve this. Should you have any queries please do not hesitate to contact Jethro van Hardeveld, Public and Regulatory Affairs Advisor, email [j.vanhardeveld@apxendex.com](mailto:j.vanhardeveld@apxendex.com) or phone +44 (0)7795 801308.

Yours sincerely,

Andrew Claxton,  
Director Business Services and International Development