

CHARGING METHODOLOGY STATEMENT FOR THE ANGLO-FRENCH INTERCONNECTOR

This statement will become effective upon implementation
of the NWE Day Ahead market coupling project

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1 INTRODUCTION

- 1.1 National Grid Interconnectors Limited (NGIC) and RTE EDF Transport S.A. (RTE) are jointly responsible for the transmission of electricity across the Anglo-French Interconnector known as “Interconnexion France Angleterre” (IFA). This interconnector connects the national electricity transmission systems of France (owned and operated by RTE) and Great Britain (owned by three companies but operated by National Grid Electricity Transmission plc (NGET)). NGIC is a wholly owned subsidiary of National Grid Plc holding an Interconnector Licence (the Licence) to operate the IFA, and designated as a Transmission System Operator (TSO) under the European Third Package.
- 1.2 The interconnector circuits comprise two AC to DC converter stations connected by four pairs of cables between Sellindge in GB and Les Mandarins in France, some 70KM distance in total, of which 45KM is subsea. Electrical current enters and leaves the interconnector circuits at the respective points of connection to the national transmission networks at these two converter stations.
- 1.3 NGIC (and RTE) facilitate commercial access to IFA, whereby third parties are able to gain rights to transfer electricity across IFA, between the power markets of GB and France. NGIC’s Licence requires it to publish a Charging Methodology Statement which sets out the terms under which commercial access to IFA is made available.
- 1.4 This document sets out the charging methodology which will be applied by NGIC with effect from the Go-Live of the North-West Europe (NWE) Day Ahead project, which will include the introduction of day ahead implicit auctions on IFA, and is currently scheduled for November 2013. Day ahead explicit auctions will subsequently only be used as a fallback measure.
- 1.5 In parallel with the consultation on NGIC’s Charging Methodology Statement in May 2013, NGIC and RTE conducted a consultation on the IFA Access Rules, with information available on NGIC’s website via the following link: <http://www.nationalgrid.com/uk/Interconnectors/France/consultations/>. It was recommended that market participants consider the two consultations in conjunction with each other.
- 1.6 An electronic version of this document can be obtained via the following link: <http://www.nationalgrid.com/uk/Interconnectors/France/IFACHarging/>.
- 1.7 Further information on NGIC’s activities and the information contained within this document can be obtained by contacting us by telephone, email or in writing:

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- 1.8 All further references to NGIC in this document relate to its role and participation in the joint administration of the third party access arrangements for the

interconnector and in relation to its obligations as an interconnector operator and licensee in Great Britain.

2 INTERCONNECTOR CHARGING METHODOLOGY

Introduction

- 2.1 Standard Licence Condition (SLC) 10 of the Licence requires NGIC to establish a methodology showing the methods and principles on which charges for the use of IFA are based. This charging methodology is required to be approved by the Gas and Electricity Markets Authority (Authority) before it takes effect. Subsequent to this it may be modified from time to time in accordance with SLC 10(11) – (14) of the Licence.
- 2.2 This publication sets out the use of interconnector charges which apply from November 2013 as required by SLC 10 of the Licence.

Objectives of the charging methodology

- 2.3 As a minimum the interconnector charging methodology has to comply with the objectives set out in SLC 10(4) of the Licence (“relevant objectives”) which require that the charges and their underlying methodology are:
- (a) Objective;
 - (b) Transparent;
 - (c) Non-discriminatory; and
 - (d) Compliant with the Regulation¹ and any relevant and legally binding decision of the European Commission and/or the Agency².
- 2.4 In addition to this minimum set of relevant objectives NGIC has its own objectives for the charging regime. These are that the use of interconnector charges should:
- (a) Be simple to understand and implement; and
 - (b) Promote efficient use of the interconnector within the context of the differing market structures which it connects.
- 2.5 Where changes are proposed to this charging methodology these will be consulted upon with the industry in accordance with SLC 10(11). The Authority has the right to amend any proposed changes to the methodology before the changes would otherwise take effect.
- 2.6 NGIC believes that the methodology it has prescribed for charges for using its interconnector facilitates all objectives as described above.

Explicit and Implicit auction principles

- 2.7 It is necessary to distinguish between implicit and explicit auctions of capacity. From the effective date of this statement, capacity rights will be made available via an explicit auction mechanism in Long Term (LT) and Intraday timescales. In the

¹ Regulation 2009/714/EC of the European Parliament and of the Council of 13 July 2009 on conditions for access to the network for cross-border exchanges in electricity and repealing Regulation 2003/1228/EC(12)

² The Agency for the Cooperation of Energy Regulators established by Regulation 2009/713/EC of the European Parliament and of the Council of 13 July 2009(10)

case of Daily Auctions, an implicit auction mechanism will apply; however, by exception, explicit auctions for Daily capacity may be invoked as a fallback facility in the event that Implicit Daily Auctions are not available.

- 2.8 The explicit auction mechanism describes auctions where participants may gain rights to nominate transfers specifically on IFA, with such nomination to be made in a subsequent step. In the explicit auction process, participants declare how much they are willing to pay for capacity and place bids accordingly. These bids are then ordered by price and, starting from the highest one, allocated until all the available capacity is accounted for, whereupon the price for the capacity payable by all successful bidders is set to the bid price of the lowest allocated bid. This methodology both reflects and applies the widely-recognised principle typically characterised as “clearing” or “marginal” pricing.
- 2.9 In contrast, the implicit auction mechanism is designed to enable available capacity to be used in order to integrate the respective spot markets in France and Great Britain with the flow on the IFA set in accordance with the energy prices in the respective power exchanges (PXs). Thus the auctioning of capacity is included (implicitly) in the power exchange auctions of electrical energy. As the capacity is made available to the spot price mechanism, rather than to individual users, the price for capacity is derived from the price difference between the two energy markets. This implicit auction methodology is known as “market coupling” and will apply in the first instance across the entire NWE Region.

3 ACCESS RULES AND USE OF INTERCONNECTOR

Introduction

- 3.1 This document should be read in conjunction with the IFA Access Rules which set out the conditions of access for use of IFA including the process by which access (capacity) rights are secured.
- 3.2 NGIC has an obligation to ensure that the IFA Access Rules fulfil the requirements of this Charging Methodology Statement. To the extent that changes in the IFA Access Rules result in a requirement to modify this Charging Methodology Statement then this shall be carried out in accordance with SLC 10(11) – (14) of the Licence.

Eligibility to use the Interconnector

- 3.3 Details of the third party access regime applicable to IFA in accordance with SLC 11 can be found via the following link:
<http://www.nationalgrid.com/uk/Interconnectors/France/Participation/>.
- 3.4 Customers wishing to become an IFA User, and thus be able to participate in all explicit auctions, can apply via a non-discriminatory eligibility process administered jointly by NGIC and RTE. The eligibility requirements are set out in Rule B2 of the IFA Access Rules and include the requirement for parties to be signatories to the IFA Access Rules via an IFA User Agreement and signatories to the relevant market codes in GB and France. These codes include, but are not restricted to, the Balancing & Settlement Code and Connection & Use of System Code in GB and Accord de Participation in France.

Interconnector access rights

- 3.5 IFA has a maximum physical capability of 2000MW in each direction (France to GB and GB to France) measured at mid-Channel.
- 3.6 NGIC in conjunction with the French transmission system operator, RTE, conducts explicit interconnector capacity Auctions on a non-discriminatory basis for the right to flow electricity in a specific direction (“the capacity right”).
- 3.7 Users of IFA may acquire explicit interconnector capacity in accordance with the IFA Access Rules. Obtaining explicit capacity permits the User the right to nominate a transfer of electricity from one end of IFA to the other.

Capacity rights

- 3.8 All access rights (explicit capacity) relate to a particular period and direction and to each hour within that period. Advance purchase of such capacity rights is available in a series of capacity product Auctions on a directional basis ranging currently from up to one year ahead to intraday. As such, capacity is offered in units (multiples of 1MW/period, where the period is per hour for Daily/Intraday Auctions, and per weekend, month, quarter, season, year (as the case may be) in LT Auctions). Note the implicit format for the day ahead auction and further criteria as described below in sections 4 and 5.
- 3.9 The range of products available is reviewed periodically and changes may be made by providing notice to Users accordingly.
- 3.10 The capacity offered will be 100% of the physical IFA capability in all hours for any given day after taking into account any outage requirements, comprising both planned and unplanned outages. Details of planned outages are published and can be found by clicking on:
<http://www.nationalgrid.com/uk/Interconnectors/France/GeneralInfor/>. In the event of an unplanned outage, curtailment will be applied where necessary in accordance with the IFA Access Rules.
- 3.11 A timetable for LT Auctions is published in advance and can also be found via the link in paragraph 3.10.
- 3.12 Capacity rights unsold in longer term auctions may be offered for sale again into auctions closer to the day/hours to which the capacity right applies as per the principles defined within the IFA Access Rules, including, for the avoidance of doubt, the Daily and Intraday Auctions. This ensures that all possible capacity remains available to the market up to and on the day of use.

4 EXPLICIT AUCTIONS

Access (capacity) charges

- 4.1 The explicit auction rules are set out in the IFA Access Rules which describe the basis on which capacity rights are offered, allocated to and may be utilised by eligible Users. Bids will be accepted by NGIC (and RTE) in strict accordance with the criteria set out in the IFA Access Rules.

- 4.2 The price which all successful Users will pay for each capacity right in a given Auction is the price bid for the last accepted unit in descending order of price.
- 4.3 The charge payable to NGIC (and RTE) will be a unit price of capacity (expressed in €/MW/hour) multiplied by the number of units of capacity (MW) multiplied by hours within the product.
- 4.4 Users who acquire explicit capacity will receive invoices which are derived from the capacity charges levied in accordance with the IFA Access Rules and this statement. Under current practice NGIC invoices for capacity sold in the direction of GB to France and RTE in the direction of France to GB, and should this change Users will be notified accordingly. Payment for capacity will be in Euros only.

Secondary trading

- 4.5 A User which holds explicit capacity may relinquish this capacity for use by other eligible Users. There are two mechanisms for achieving this, namely Capacity Transfer and Resale, both of which are described in the IFA Access Rules under Rule E4.
- 4.6 Explicit Capacity Transfer involves the bilateral transfer to another eligible User of explicitly sold capacity. This transfer is conducted outside of NGIC's (and RTE's) systems and the original User retains the obligation to pay NGIC for the transferred capacity.
- 4.7 Explicitly sold capacity may be offered for Resale via a subsequent Auction, and where that capacity is Resold, NGIC (and RTE) pass through the proceeds to the Party who made the Resale. The original User retains the obligation to pay NGIC (and RTE) for the original capacity purchase. There is no charge for the Resale service provided via the Capacity Management System (CMS – the IT system used for conducting Auctions and other associated Interconnector Capacity activities).

Use of Capacity

- 4.8 A User which holds explicit capacity is entitled to use such capacity subject to the conditions imposed by the application of the process described in the IFA Access Rules under Rule E7. In order to exercise its entitlement to use this capacity, a User may nominate a cross-border transfer between France and GB of one or more unit(s) up to the maximum amount which is available to it, i.e. those units which it has secured by successfully participating in Auctions and/or via the process of Capacity Transfer referred to above in 4.5.
- 4.9 In accordance with its entitlement as noted above, a User may nominate capacity in one or both direction(s) (as required). Nominations are divided into hourly blocks and the process is conducted on CMS separately for each of the following timescales: Long Term, Daily and Intraday.

Unused capacity

- 4.10 If the User does not exercise its capacity rights, they may subsequently be purchased by another (or the same) eligible User in accordance with the principles and criteria of Use It or Sell It ("UIOSI")/Use It or Lose It ("UIOLI") as described in the IFA Access Rules.

- 4.11 The UIOSI provisions are designed in such a way that any portion of LT capacity which is not nominated for an hour ceases to be reflected in a User's entitlement and is made available to the implicit auction mechanism (or to the Explicit Daily Auctions in the event that Implicit Daily Auctions are unavailable) with the proceeds (if any) being returned to the original User.
- 4.12 The UIOLI provisions are designed in such a way that any capacity sold as part of the Explicit Daily Auction which is unused in any hour ceases to be reflected in a User's entitlement and is made available to the Intraday auction process, with the proceeds (if any) not being returned to the original User.

Curtailment

- 4.13 In situations where NGIC has sold more capacity rights than it can deliver, typically in the event of an unplanned outage, a process will be applied whereby the explicit capacity rights and/or nominations are reduced to limit the surplus of Capacity/Nominations over IFA capability. This process known as "Curtailment" is set out in the IFA Access Rules. Users will be compensated for purchased capacity which NGIC (and RTE) have not been able to deliver.

5 IMPLICIT DAILY AUCTION

Introduction

- 5.1 NGIC's implicit auction mechanism will be facilitated as part of the NWE Day Ahead market coupling arrangements which encompass interconnector capacity and PXs' order books from GB, France, Germany, Benelux and Scandinavia.
- 5.2 Where Implicit Daily Auctions are in operation, no price is payable by Users to NGIC for capacity allocated via this mechanism. Where capacity is so allocated, the value attached to it will be based on the loss adjusted price differential between GB and France and the scheduled flow determined by the Implicit Allocation Algorithm, and this will be passed through to NGIC (and RTE) by the power exchange clearing houses.

"Unused capacity"

- 5.3 The remuneration (if any) from the implicit auction mechanism for unused Long Term units is based on the implicit auction loss-adjusted price differential between France and Great Britain and is returned to the original User in accordance with Rule E.5.2.2.

Curtailment

- 5.4 Implicit Nominations on behalf of the PXs and/or clearing houses will be physically firm, and hence will not be subject to curtailment.

6 ANCILLARY SERVICES

- 6.1 The interconnector circuits support ancillary services that can be exchanged between the national network TSOs RTE and NGET, and which include Emergency

assistance, Constraint management, Intertripping. The facility to exchange other ancillary services may be agreed from time to time between NGIC, NGET and RTE.

- 6.2 Should any TSO-TSO ancillary service be exchanged operationally then currently a volume-related charge (£/MWh) is applied to NGET. This charge is applied on a contractual basis between NGIC and NGET, reflecting the Licence separation between the interconnector and transmission companies.

7 SCHEDULE 1: ACRONYMS AND DEFINITIONS

EXPRESSION	ACRONYM	DEFINITION
Capacity Management System	CMS	The IT system used for conducting Auctions and other associated Interconnector Capacity activities As defined in IFA Access Rules, Schedule 1: Definitions and Interpretation
Implicit Allocation Algorithm		The price coupling algorithm referred to in the Framework Guidelines on Capacity Allocation and Congestion Management for Electricity published by the Agency for the Cooperation of Energy Regulators (FG-2011-E-002, 29 July 2011); As defined in IFA Access Rules, Schedule 1: Definitions and Interpretation
EXPRESSION	ACRONYM	DEFINITION
Implicit Daily Auction		The process whereby the Interconnector Operators at day-ahead stage allocate the Daily Offered Capacity via the Implicit Allocation Algorithm

		As defined in IFA Access Rules, Schedule 1: Definitions and Interpretation
Long Term	LT	Processes relating to Auctions with Product Periods greater than 1 Contract Day and associated Interconnector Capacity activities, the business process for which is described in Schedule 4 As defined in IFA Access Rules, Schedule 1: Definitions and Interpretation
National Grid Electricity Transmission plc	NGET	National Grid Electricity Transmission plc, a company incorporated in England and Wales
RTE EDF Transport S.A.	RTE	RTE EDF Transport, trading as "RTE" or "Réseau de Transport d'Electricité"
Use It or Lose It	UIOLI	As defined in IFA Access Rules, Schedule 1: Definitions and Interpretation
Use It or Sell It	UIOSI	As defined in IFA Access Rules, Schedule 1: Definitions and Interpretation