

Decision

Decision on our assessment for interim period and enduring development cost recovery submissions under the Capacity Allocation and Congestion Management (CACM) Regulation

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This document sets out our decision on the amounts for recovery through Transmission Network Use of System ("TNUoS") charges and GB interconnector Transmission System Operators ("TSOs"). This is based on our assessment of IFA, BritNed, Nemo Link, EWIC and Moyle's submissions of historical costs incurred by GB interconnector TSOs and Nominated Electricity Market Operators ("NEMOs") under the CACM Regulation.

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Executive Summary

Summary of this decision

This document sets out our decision on the assessment of IFA, BritNed, Nemo Link, EWIC and Moyle's interim period and enduring arrangements cost recovery submissions. These submissions relate to costs incurred establishing, amending and operating Single Day Ahead Coupling ("SDAC") and Single Intraday Coupling ("SIDC") under the European Commission Regulation (EU) 2015/1222 on Capacity Allocation and Congestion Management (the "CACM Regulation")¹.

The interim period costs determined as efficiently incurred, reasonable and proportionate will be recovered through the 2024 cycle of Transmission Network Use of System ("TNUoS"). The enduring arrangement costs determined as efficiently incurred, reasonable and proportionate will be recovered through the GB interconnector TSOs as set out under CACM regulation. These costs for recovery are all summarised in Table 1 and Table 2.

Table 1 - Summary of the final interim allowances to be recovered

Interconnector	Submitted Cost (£)	Provisional adjustment (£)	Provisional allowance (£)
IFA	897,180	-1,976	895,204
BritNed	548,602	-1,274	547,328
Nemo Link	39,943	86	40,029
EWIC	193,535	146	193,681
Moyle	107,874	82	107,955
Total interim period	£1,784,197		

¹ [Link](#) to Commission Regulation (EU) 2015/1222 on capacity allocation and congestion management.

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Table 2 – Summary of the final enduring development allowances to be recovered

Interconnector	Submitted Cost (£)	Provisional adjustment (£)	Provisional allowance (£)
IFA	141,829	-281	141,548
BritNed	84,153	-167	83,986
Nemo Link	84,153	-167	83,986
EWIC	55,315	-110	55,205
Moyle	31,698	-57	31,641
Total enduring cost	£396,366		

Background

In August 2019, we decided on the approach to cost sharing and cost recovery under the CACM Regulation, hereafter referred to as the “August 2019 Decision”.² The August 2019 Decision allowed for the recovery of development and operational historical costs incurred by GB interconnector TSOs and NEMOs as part of CACM Regulation for the interim period and enduring arrangements. The decision allowed for the recovery of efficiently incurred, reasonable and proportionate development and operational costs through Transmission Network Use of System (“TNUoS”) payments, for the interim period³. Moreover, it allowed for recovery of development costs⁴ that were assessed as efficient, reasonable and proportionate through GB interconnector TSOs, for the enduring arrangements as set out under CACM Regulation.

Following the submissions of interim period and enduring development costs from IFA, BritNed, Nemo Link, EWIC and Moyle, we have carried out a cost assessment and consulted upon our minded-to position in our August 2023 consultation, hereafter

² [Link](#) to Ofgem’s decision on the approach to cost sharing and cost recovery under the Capacity Allocation and Congestion Management (CACM) Regulation.

³ Interim period refers to the recovery of costs between 14 February 2017 and 30 August 2019.

⁴ Enduring arrangements refers to the recovery of development costs from 30 August 2019 to 21 December 2020.

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referred to as the “August 2023 Consultation.”⁵ The August 2023 Consultation detailed our assessment of the submissions, as well as the amounts we were minded to accept for recovery. It also sets out our position on two main issues highlighted through the supplementary questions (SQs) process undertaken with IFA, BritNed, Nemo Link, EWIC and Moyle during our assessment. These include,

- i. Our position on the costs as efficient, reasonable and proportionate; and
- ii. Our position on adjustments to account for currency exchange rates.

The two respondents agreed with how we had carried out our assessment for costs as being efficient, proportionate, and reasonably incurred. The same respondents also agreed with our treatment of currency exchange rates.

Having considered the consultation responses, and on the basis of our analysis, we maintain our position on the costs to be recovered as set out in the August 2023 Consultation.

Next steps

Following publication of our decision, IFA, BritNed, Nemo Link, EWIC and Moyle must inform National Grid Electricity System Operator (NGESO), before 25 January 2024 of the interim costs to be recovered through the 2024 cycle of TNUoS charges. Once the costs have been recovered from TNUoS charges, NEMOs including EPEX Spot, can recover their share of costs from GB interconnector TSOs. Similarly, these GB interconnector TSOs will also need to inform NEMOs of the enduring development costs NEMOs will be able to recover from themselves.

We are only deciding on the final amounts eligible for recovery. Therefore, GB interconnector TSOs and EPEX Spot will need to agree between themselves how the invoicing process should work.

⁵ [Link](#) to the August 2023 Consultation: Consultation on cost recovery submissions under the Capacity Allocation and Congestion Management (CACM) Regulation

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1. Introduction and background

Context and overview

- 1.1. The CACM Regulation came into force on 14 August 2015, and is a central component of the Internal Energy Market, as set out in the EU Third Energy Package and later in the Clean Energy Package⁶. It aims to maximise the efficient use of interconnection and facilitate greater cross-border electricity trade. It seeks to do this by introducing rules for market coupling and providing the legal framework for a single and more efficient capacity allocation and congestion management system in both the Single Day Ahead Coupling ("SDAC") and Single Intraday Coupling ("SIDC") timeframes. Market coupling should ensure that power is produced where it is most efficient and transported to areas of consumption where it is most valued.
- 1.2. In summary, the August 2019 Decision sets out how costs in relation to the CACM Regulation should be shared between Transmission System Operators (TSOs) and Nominated Electricity Market Operators (NEMOs), and the appropriate mechanism for their recovery in GB. Our decision separated the costs into three different time periods, as presented in Figure 1 below.

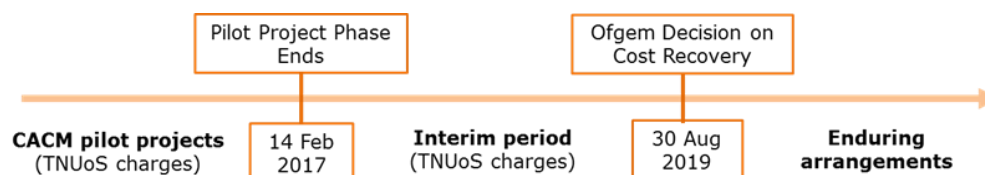


Figure 1 - Timeline of the three different time periods for cost recovery

- 1.3. In summary, Articles 80 of the CACM Regulation Costs split into three categories as follows:
- Common costs: Pan-European costs resulting from the coordinated activities of all NEMOs or TSOs participating in SDAC and SIDC;

⁶ The most relevant EU legal instruments in this regard are Directive 2009/72/EC (in the context of the Third Energy Package) as well as Regulation (EU) 2019/943 and Directive (EU) 2019/944 (in the context of the Clean Energy Package).

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- Regional: Regional costs resulting from activities of NEMOs or TSOs cooperating in a certain region, for GB this would be costs associated with the Channel and Ireland-UK (IU) Regions; and,
- National: National costs in GB resulting from the activities of NEMOs or TSOs in GB.

CACM pilot projects

- 1.4. Our August 2019 Decision decided to allow the recovery of efficiently incurred, reasonable and proportionate development and operational costs that were incurred before 14 February 2017 or that were contractually committed to before this date, for both pilot projects (the North West Europe ("NWE") price coupling and Cross Border Intraday ("XBID")).

Interim period

- 1.5. We decided to permit cost recovery for the short period between the end of the pilot project phase, i.e. 14 February 2017, and the date of the August 2019 Decision (the interim period). This means that efficiently incurred, reasonable and proportionate development and operational costs incurred during this period may also be recovered through TNUoS charges. EPEX Spot, who were a NEMO in GB under CACM regulation, can recover their specific share of interim period costs from GB interconnector TSOs once the costs have been paid to GB interconnector TSOs through TNUoS charges.

Enduring arrangements

- 1.6. Our decision with respect to enduring arrangements for cost sharing and cost recovery under the CACM regulation is presented below in Table 3.

Table 3 - Enduring arrangements overview

Party	Development costs	Operational costs
TSOs	<ul style="list-style-type: none">• To be borne by GB interconnector TSOs from their congestion income.	<ul style="list-style-type: none">• To be borne by GB interconnector TSOs from their congestion income.
NEMOs	<ul style="list-style-type: none">• Allowed to recover their share of efficiently incurred, reasonable and proportionate common, regional and national enduring development costs from the GB interconnector TSOs.	<ul style="list-style-type: none">• Costs (including clearing and settlement costs) are allowed to be recovered through fees charged by NEMOs to users of that service (e.g. traders); and• Efficiently incurred, reasonable and proportionate costs, associated with the circumstances where a NEMO is providing a service to the GB interconnector TSOs, are to be recovered by the relevant NEMO from the relevant GB interconnector TSOs.

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- 1.7. This document sets out our decision on the assessment of IFA, BritNed, Nemo Link, EWIC and Moyle’s interim period and enduring development cost recovery submissions under the CACM Regulation. The amount determined as efficiently incurred, reasonable and proportionate will be recovered through the 2024 cycle of Transmission Network Use of System (“TNUoS”). The enduring arrangement costs determined as efficiently incurred, reasonable and proportionate will be recovered through the GB interconnector TSOs as set out under CACM regulation.

This document

- 1.8. We consulted on our minded-to position setting out the amounts for recovery of remaining CACM Regulation historical costs through TNUoS charges and GB interconnector TSOs. This is based on the submission of interim period and enduring development costs from IFA, BritNed, Nemo Link, EWIC and Moyle as required under the CACM Regulation.
- 1.9. We expect IFA, BritNed, Nemo Link, EWIC and Moyle to recover the interim period costs through the 2024 cycle of TNUoS charges. Once the costs have recovered from TNUoS charges, NEMOs including EPEX Spot, can recover their share of costs from GB interconnector TSOs. We also expect EPEX Spot to recover the enduring development costs from IFA, BritNed, Nemo Link, EWIC and Moyle in making our final decision on the publication of this document.
- 1.10. The final determination of these costs will allow IFA, BritNed, Nemo Link, EWIC and Moyle to inform National Grid Electricity System Operator (NGESO) of the costs to be recovered through the 2024 cycle of TNUoS charges to allow NEMOs including EPEX Spot to recover their share of interim period costs. The final determination of the enduring development costs will also allow EPEX Spot to recover their share of enduring costs from IFA, BritNed, Nemo Link, EWIC and Moyle following this decision.
- 1.11. This document includes a summary of the responses to our August 2023 Consultation and sets out our decision on efficient, reasonable and proportionate interim period and enduring development costs.

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Related publications

- 1.12. [Decision on approach to cost sharing and cost recovery under the Capacity Allocation and Congestion Management \(CACM\) Regulation](#) Published: August 2019
- 1.13. [Decision on proposed modifications to the standard conditions of the electricity interconnector licence, the special conditions of the electricity interconnector licence held by NGIL and the electricity transmission licence held by NGE SO](#) Published: October 2020⁷
- 1.14. [Decision on the cap and floor regime for the GB-Belgium interconnector project Nemo](#) Published: December 2014⁸
- 1.15. [Decision on assessment of IFA, BritNed and Nemo Link's pilot project and interim period cost recovery submissions under the Capacity Allocation and Congestion Management \(CACM\) Regulation](#) Published on 22 January 2021
- 1.16. [Consultation on cost recovery submissions under the Capacity Allocation and Congestion Management \(CACM\) Regulation](#) Published on 29 August 2023

Our decision-making process

- 1.17. The August 2023 Consultation closed on 26 September 2023. We have reviewed the response received, which has been published alongside this consultation.

⁷ The proposed changes implement our decision on the approach to cost sharing and cost recovery under the CACM Regulation in the electricity interconnector licences.

⁸ This decision is on the design of the cap and floor regulatory regime for NEMO Link. Cap and floor is a developer-led approach which balances incentivising investment through a market-based approach, with appropriate risks and rewards for the project developers.

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Decision-making stages

Date	Stage description
29/09/2023	Stage 1: Consultation open
26/10/2023	Stage 2: Consultation closes (awaiting decision), Deadline for responses
03/11/2023	Stage 3: Responses reviewed and published
03/11/2023	Stage 4: Decision

General feedback

We believe that consultation is at the heart of good policy development. We are keen to receive your comments about this report. We'd also like to get your answers to these questions:

1. Do you have any comments about the overall quality of this document?
2. Do you have any comments about its tone and content?
3. Was it easy to read and understand? Or could it have been better written?
4. Are its conclusions balanced?
5. Did it make reasoned recommendations?
6. Any further comments

Please send any general feedback comments to stakeholders@ofgem.gov.uk.

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2. Overview of our consultation

Section summary

This section outlines the key considerations that we set out in our August 2023 Consultation, as well as an overview of the responses that we received to that consultation.

Our consultation position

2.1. Our August 2023 Consultation set out our minded-to position on the remaining CACM Regulation historical costs through TNUoS charges and GB interconnector TSOs following our assessment of IFA, BritNed, Nemo Link, EWIC and Moyle submissions of interim period and enduring development costs, under CACM Regulation.

Table 4 - Summary of the final interim period allowances

Interconnector	Submitted Cost (£)	Provisional adjustment (£)	Provisional allowance (£)
IFA	897,180	-1,976	895,204
BritNed	548,602	-1,274	547,328
Nemo Link	39,943	86	40,029
EWIC	193,535	146	193,681
Moyle	107,874	82	107,955
Total interim period	£1,784,197		

Table 5 – Summary of the final enduring development allowances

Interconnector	Submitted Cost (£)	Provisional adjustment (£)	Provisional allowance (£)
IFA	141,829	-281	141,548
BritNed	84,153	-167	83,986
Nemo Link	84,153	-167	83,986
EWIC	55,315	-110	55,205
Moyle	31,698	-57	31,641
Total enduring cost	£396,366		

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- 2.2. As Table 4 and Table 5 demonstrates, our minded-to position in our consultation included adjustments to each of the interconnectors' submitted costs.
- 2.3. We adjusted all the submissions to reflect our assessment of an efficient, reasonable, and proportionate representation of currency exchange rates. The currency exchange rate applied was based on the date of the costs incurred or as close to it as reasonably practicable.

Consultation responses

- 2.4. We received responses from IFA and EWIC.
- 2.5. The two respondents agreed with how we had carried out our assessment for costs as being efficient, proportionate, and reasonably incurred. The same respondents also agreed with our treatment of currency exchange rates. They also mentioned that this would be the final remaining GB costs to be recovered under CACM Regulation.
- 2.6. We have included the two consultation responses as subsidiary documents to the publication and set out our views on the areas covered in the consultation responses in Chapter 3 of this document.

3. Our decision

Section summary

This section sets out our cost decision, following consideration of consultation responses. It also provides a summary of our cost assessment process.

Overview of our decision

- 3.1. Following our August 2023 Consultation, we have considered all the consultation responses whilst coming to our decision. Where necessary, we have undertaken further assessment and analysis to ensure that the final position as set out in this decision is robust and gives due consideration to Ofgem’s principal objective to protect the interests of existing and future consumers.

Overview of allowances

- 3.2. Following careful consideration of the responses to our consultation, as well as undertaking further assessment and analysis, we have decided to maintain the cost positions that we presented as provisional allowances within the August 2023 Consultation. The costs submitted by the interconnectors and the allowances that we have determined for each of these are set out in Table 1 and Table 2 of this document.

Our assessment of the CACM cost recovery claims

Overview

- 3.3. IFA, Nemo Link, Moyle, BritNed and EWIC made their cost submissions on 26 May 2023, 26 May 2023, 31 May 2023, 12 and 14 June 2023 respectively. Following our request, each interconnector also provided a report which gave an overview of the interim period costs and enduring development costs in the submissions, and further details of the activities, projects and parties related to these historical costs.
- 3.4. During our cost assessment, we ensured that each interconnector had explained and justified the costs that it had submitted in relation to establishing, amending and operating SDAC and SIDC.

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- 3.5. We ensured that the costs submitted to and assessed by us from each of the interconnectors included a clear justification and description of what aspects of establishing, amending and operating SDAC and SDIC they were in relation to. We also requested clear explanations from EPEX Spot through the SQs process. Where resettlements were required between NEMOs, they were already performed and excluded from these totals and that the costs presented in this report have not previously been invoiced, with no payment ever made. If costs could not be clearly described or were not efficient, reasonable and proportionate, the interconnectors working with EPEX Spot decided to remove it from their cost submission and instead provided us with an updated submission.

Our consultation position and consultation responses

- 3.6. The two respondents to our August 2023 Consultation, noted that they expect this to be the final remaining GB costs to be recovered under CACM Regulation and do not expect any further claims to be made. They were satisfied with how we have assessed costs as being efficient, proportionate, and reasonably incurred.
- 3.7. One respondent mentioned that they expect these costs will be treated in actual values without any additional time value of money adjustment.
- 3.8. The same respondent mentioned, where possible, it would be helpful to get an indication of when it expects GB interconnector TSOs to make the payment(s) to EPEX Spot.

Our decision

- 3.9. As part of our decision, we are maintaining our position on the interim period and enduring development costs, following our assessment of the submissions from IFA, Nemo Link, Moyle, BritNed and EWIC.
- 3.10. Prior to the cost recovery submissions, we made the parties aware of our costs recovery decision in January 2021 when we decided on additional time value of money adjustments. The GB interconnector TSOs worked with EPEX Spot to provide the actual values incurred in the respective years. We therefore note that these costs will be treated in actual values and not with any additional time value of money adjustments.

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3.11. Ofgem are only responsible for the decision on the final amounts eligible for recovery as per CACM Regulation. Therefore, the respective GB interconnector TSOs and EPEX Spot will need to come to an agreement on the invoicing and settlements of these payments. This approach was set out by Ofgem in written correspondence to the parties.

3.12. We also note that this will be the final remaining GB costs to be recovered under CACM Regulation and do not expect any further claims to be made.

Currency exchange rates

Overview

3.13. An interconnector is a transmission link between two different countries; such countries might use different currencies. In the case of the interconnectors affected by this decision (IFA, Nemo Link, Moyle, BritNed and EWIC), the countries linked to Great Britain (respectively France, Belgium, Ireland and the Netherlands) all use the Euro as their currency. Depending on where such interconnectors decided to establish their headquarters, their corporate reporting might be denominated in either GBP or EUR.

3.14. Moreover, the costs involved in the development, construction, maintenance, and operation of these interconnectors may have incurred in either GBP or EUR. As such, there is a degree of GBP/EUR exchange rate risk for these interconnectors.

3.15. In their cost submissions, each of the GB interconnector TSOs had converted invoices in Euros to GBP using an FX rate dated in April 2023.

Our consultation position

3.16. In our consultation document, we stated that our decision would determine the cost recovery allowances in GBP, irrespective of the currency in which these costs were incurred. This is due to the fact that these allowances would then be used IFA, BritNed, Nemo Link, EWIC and Moyle to inform National Grid Electricity System Operator (NGESO) of the costs that they will recover through the 2024 TNUoS cycle.

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- 3.17. We stated that we aimed to ensure consistency between our reporting of efficiently incurred, reasonable and proportionate costs and of the payments that the interconnectors will receive through the 2024 cycle of TNUoS charges. Therefore, we considered it appropriate for any costs incurred to be converted between EUR and GBP using the relevant exchange rate at the date of the invoices or as close to it as reasonably practicable, as we did not consider it appropriate to pass any foreign exchange gains or losses onto GB consumers through TNUoS.
- 3.18. Moreover, we did not consider that uplifting the GBP-denominated cost recovery allowance would represent fair and reasonable cost recovery, as it would transfer FX risk fully to GB consumers, who are unable to hedge against it, especially considering that, in this case, FX risk is the result of a corporate decision to report in EUR rather than in GBP, a decision on which GB consumers had no say.

Consultation responses on this topic

- 3.19. The two respondents agreed with our proposed approach to use the value of GBP currency for the cost recovery claims, including our approach to request an adjustment to the interim and enduring costs based on the average annual currency exchange rates for each year of its claim.
- 3.20. One respondent added that they expect to be invoiced by EPEX Spot in line with the values set out by Ofgem in its final decision.

Our decision

- 3.21. As part of our decision, we are maintaining our position on the value of GBP currency for the cost recovery claims, including our approach to request an adjustment to the interim and enduring costs based on the average annual currency exchange rates for each year of its claim.

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4. Next steps

Section summary

This section sets out the next steps associated with this decision.

- 4.1. Following publication of our decision, IFA, BritNed, Nemo Link, EWIC and Moyle will need to inform NGESO of the final interim period costs to be recovered through the 2024 TNUoS charges cycle by 25 January 2024.
- 4.2. We understand NEMOs including EPEX Spot, can recover their share of interim period costs from these GB interconnector TSOs once monthly TNUoS payments have been made to the GB interconnector TSOs. We also expect EPEX Spot to recover the enduring development costs from the respective GB interconnector TSOs.