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**Consent given by the Gas and Electricity Markets Authority (the "Authority") pursuant to standard condition C2 (Prohibited Activities) of the electricity transmission licence granted under section 6(1)(b) of the Electricity Act 1989 (the "Act") to National Grid Electricity System Operator Limited (the "Licensee")**

To: National Grid Electricity System Operator Limited, (Company Number: 11014226),  
Faraday House, Gallows Hill, Warwick, CV34 6DA

**Whereas:**

1. The Licensee is the holder of a licence granted under section 6(1)(b) of the Act (the "Licence").
2. The Licensee requested that the Authority grant consent to the Licensee pursuant to standard condition C2 of the Licence, to permit National Grid North Sea Link Limited<sup>1</sup> ("NGNSL") to launch a new financial hedging product to be used in relation to NGNSL's share of revenues in respect of the North Sea Link Interconnector between Great Britain ("GB") and Norway (the "NSL Interconnector")<sup>2</sup> whereby NGNSL may enter into or acquire the benefit of contracts with third parties, where such contracts confer rights or obligations (including rights or obligations by way of option) in relation to or by reference to the price at which electricity is sold or purchased at specified times (the "Trading Instrument"). The Trading Instrument applies only to NGNSL's share of revenues across the NSL Interconnector and allows bilateral agreements between NGNSL and market parties for a financial swap based on the GB and NO2<sup>3</sup> markets in forward and day ahead timeframes.
3. Further details on the operation of the Trading Instrument as provided to the Authority by NGNSL, are set out below (references to the Trading Instrument and its operation should be read in this context):
  - a) The buyer will be under an obligation to pay to the seller (ie NGNSL) a fixed price for an agreed volume of MW in forwards market timescales for a defined period;
  - b) The seller (ie NGNSL) will be under an obligation to make a variable payment to the buyer calculated by reference to the price differentials between the N2EX day-ahead auctions in GB and NO2 (which determine the implicit auction results for NGNSL) and the agreed volume;

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<sup>1</sup> National Grid North Sea Link Limited (company number 08082344).

<sup>2</sup> The NSL Interconnector is a 1.4 GW electricity interconnector between Blyth, Northumberland in GB and Kvitlidal in Norway. The project was jointly developed by NGNSL and by Statnett, the Norwegian transmission system operator.

<sup>3</sup> NO2 is the Norwegian bidding zone in which the NSL Interconnector is connected.

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- c) To ensure NGNSL is able to achieve market-reflective value of electricity at that point of time, the process for entering into such agreements will include a detailed assessment of commercial value based on market analysis and growing the range of potential counterparties; and
  - d) There is potential for a range of the above bilateral agreements with multiple counterparties, for one or more forward products.
4. Activities performed in the execution of the Trading Instrument are of a type proscribed under standard condition C2 and permitted only with the written consent of the Authority. Specifically, the Trading Instrument would see NGNSL (as an affiliate of the Licensee) enter into or acquire the benefit of a contract conferring rights or obligations (including rights or obligations by way of option) in relation to or by reference to the sale, purchase or delivery of electricity at any time or the price at which electricity is sold or purchased at any time.

**Reasons for the Authority decision:**

5. The Authority considers that the consent requested should be granted for the reasons outlined below:
- a) The following reasons are informed by and based upon the information provided to the Authority by NGNSL. Our understanding is that:
    - i As a financial instrument, the Trading Instrument would have no, or minimal, effect on the physical flows of the NSL Interconnector;
    - ii Agreements made with counterparties would be completely independent of the Licensee; and
    - iii There would be no, or minimal, risk of abuse by the Licensee of its position as operator of the transmission system and in carrying out activities in relation to co-ordinating and directing the flow of electricity onto and over the national electricity transmission system or relating to the flow of electricity over the NSL Interconnector and, as such, there would be no reason to have the C2 prohibition apply.
  - b) As other interconnector operators, that are not affiliated with the Licensee, are not restricted by standard condition C2, withholding this consent, without cause, would risk unfairly disadvantaging NGNSL.
6. Having had regard to its principal objective and statutory and other duties, the Authority is satisfied that a consent in accordance with standard condition C2 would be appropriate in the circumstances set out below.

**Now the Authority consents hereby as follows:**

7. In accordance with and for the purpose of paragraph 2 of standard condition C2 the Authority hereby consents, with effect from 8 December 2023, to NGNSL entering into or acquiring the benefit of a contract conferring rights and obligations (including rights or obligations by way of option) in relation to or by reference to the price at which electricity is sold or purchased at any time. This is for limited and specific use pursuant to the Trading Instrument, where the

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entering into or acquiring the benefit of a contract conferring rights and obligations (including rights or obligations by way of option) in relation to or by reference to the price at which electricity is sold or purchased at any time, relates to NGNSL's share of revenues across the NSL Interconnector only.

8. This consent shall remain in effect until 31 December 2026, subject to the provisions of paragraph 9. All stages of Trading Instrument operation and execution, including entering into or acquiring the benefit of a contract conferring rights or obligations (including rights or obligations by way of option) in relation to or by reference to the price at which electricity is sold or purchased must fall within the duration of this consent, subject to the provisions of paragraphs 12 and 13.
9. This consent may be revoked or amended in writing by the Authority from time to time.
10. The duration of any bilateral agreement between NGNSL and market parties relating to the Trading Instrument must not go beyond 31 December 2026.
11. If the direction to consider revenue from a financial hedging product as an Additional Revenue Source (the "SC5 Direction") is revoked or amended, this consent shall be revoked or amended as directed by the Authority.
12. If this consent and/or the SC5 Direction is revoked or amended (where applicable), any existing bilateral agreements between NGNSL and market parties relating to the Trading Instrument that were effective prior to the date of revocation or amendment of this consent and/or the SC5 Direction, are permitted (under the terms of this consent) to continue to be effective for the remaining duration of that bilateral agreement notwithstanding such revocation or amendment, subject to the provisions of paragraph 10.
13. In the event of revocation or amendment (where applicable) of this consent and/or the SC5 Direction, NGNSL must not, from the date of revocation or amendment of this consent and/or the SC5 Direction, enter into contract(s), where those contract(s) relate to the Trading Instrument.
14. In the event of revocation or amendment (where applicable) of this consent and/or the SC5 Direction, the Licensee shall procure that NGNSL, from the date of revocation or amendment of this consent and/or the SC5 Direction, does not enter into contract(s), where those contract(s) relate to the Trading Instrument.
15. Notwithstanding paragraph 14 of this consent, the Licensee must inform the Authority as soon as practicable if they become aware of a breach of the condition in paragraph 13 of this consent.
16. In the event of a material change in circumstances in relation to the activities covered by this consent the Licensee must inform the Authority as soon as practicable, and the Authority shall consider if any amendments or revocation of the consent is required.

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**Notice:**

This document constitutes notice under section 49A of the Act of the reasons for the Authority's decision to give this consent.

8 December 2023

James Hill, Principal Policy Expert - Electricity System Operation

**Duly authorised on behalf of the Gas and Electricity Markets Authority**