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Dear Penny,

Direction to NESO under condition C9.5 of the Electricity System Operator Licence to review the GB NTC Calculation Policy

Net Transfer Capacity ("NTC") restrictions are a non-frequency balancing tool used by National Energy System Operator ("NESO") to manage the capacity of electricity interconnectors. As NESO considers there to be no efficient market-based means through which NTC restrictions could currently be procured, NESO requires a derogation from the requirements set out in Part C of Condition C1.17 of NESO's Electricity System Operator (ESO) Licence.[1]

The effective operation of the NTC framework relies not only on the commercial arrangements associated with NTC restrictions, but also on a clear and transparent set of specifications governing when and why NTC restrictions may be applied, and how their timing, sizing and allocation are determined. These arrangements are currently contained within the GB NTC Calculation Policy,[2] which includes the Principles of Use ("PoU") for NTC restrictions.

[1] We granted such a derogation in September 2023 which was due to expire on 30 September 2026. Alongside this letter, we have provided a further derogation out to 30 September 2030.

[2] The GB NTC Calculation Policy published by the National Energy System Operator (NESO) in August 2026, can be accessed here: https://www.neso.energy/document/315901/download

As part of the Authority's decision[3] granting NTC restrictions a derogation for September 2023 to September 2026, we set expectations for NESO to review and consult on the associated NTC Commercial Compensation Methodology ("CCM"), which contained the PoU at the time. In August 2025, NESO commenced this review through an informal call for input followed by a formal consultation between 6 February 2026 and 17 April 2026.[4] As part of that review, NESO removed the PoU from the CCM and retained them solely within the GB NTC Calculation Policy.

Whilst we support the rationale for this change as it allows the CCM to focus exclusively on compensation arrangements and avoids duplication of the PoU across multiple documents, in doing so the PoU themselves were not exposed to a consultation process and stakeholder input. As a result, a fundamental component of the NTC specifications did not undergo a consultation process as anticipated under ESO Licence Condition C9.2 and which we expected to occur as part of the consultation associated with the September 2023 derogation decision.

Furthermore, we note that the GB NTC Calculation Policy itself, which forms an integral part of the specifications of this balancing service, has not previously been subject to a dedicated consultation process. Stakeholders also raised this issue during the consultation on the CCM, expressing concern that the underlying GB NTC Calculation Policy had not been consulted upon despite its central role in the specifications of NTC restrictions as a balancing service.

We consider it important that stakeholders are provided with an opportunity to scrutinise and comment on the framework governing the calculation and application of NTC restrictions. Therefore, we are issuing this C9.5 Direction as we consider that they must be exposed to a consultation process in line with the requirements under C9.2.

We expect, in line with the requirements of ESO Licence Condition C1.34 and C1.35, NESO's proposals to be supported by a clear rationale and evidential basis, demonstrating how they contribute towards the transparent, proportionate, and non-discriminatory application of NTC restrictions. Given that these arrangements govern how restrictions are applied to interconnector capacity, they should also clearly demonstrate how they support the effective trading of electricity with connected markets and alignment with the objectives underpinning Part C of ESO Licence Condition C1, and C1.23 in particular.

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[3] The decision to grant the Electricity System Operator a derogation from Standard Licence Condition C28.4(h)(i) for Net Transfer Capacity, published by Ofgem on 28 September 2023, can be accessed here: https://www.ofgem.gov.uk/sites/default/files/2023-09/C28_Derogation_Decision_Sept23_Final%20Version.pdf

[4] The documents relating to NESO's current CCM consultation, including consultation papers and draft methodology documents are available on NESOs website here: https://www.neso.energy/what-we-do/energy-markets/interconnectors/what-ntc#Current-Commercial-Compensation-Methodology-Consultation

Ofgem's Decision

Under ESO Licence Condition C9.5, we are directing NESO to undertake a review and consultation of the GB NTC Calculation Policy, including the PoU governing the application of NTC restrictions by 30 September 2027.

The purpose of this Direction is not to prescribe a particular set of operating principles, nor to conclude that the existing PoU or GB NTC Calculation Policy are inappropriate – it may ultimately be the case that the existing arrangements remain the most suitable and proportionate framework for governing the application of NTC restrictions.

However, given the importance of the PoU and the wider GB NTC Calculation Policy to the operation of the NTC framework, and noting that neither have been subject to a dedicated consultation process, we consider that further review and stakeholder scrutiny is necessary.

We therefore direct NESO to undertake a review of the GB NTC Calculation Policy. This review should be comprehensive in scope and supported by meaningful stakeholder engagement. In undertaking this review, NESO should ensure that stakeholders are provided with sufficient information and evidence to enable effective scrutiny of the GB NTC Calculation Policy and the PoU contained within it. NESO should ensure that the resulting GB NTC Calculation Policy clearly articulates:

1. the objectives that the GB NTC Calculation Policy and the PoU contained within are intended to achieve and the rationale underpinning them;
2. how the arrangements support transparent, proportionate, replicable and non-discriminatory decision making;
3. the approach used to determine whether an NTC restriction is required, including how forecast system conditions, network requirements and expected market outcomes are assessed, and the point at which these assessments are made;
4. how alternative operational and market-based measures are considered before an NTC restriction is applied, including where applicable the availability of countertrading, redispatch, return to service of network assets or other relevant mitigating actions;
5. the approach used to determine the timing, sizing, duration and allocation of NTC restrictions, including how they may be adjusted as forecast conditions evolve, and how equitability of application is achieved across interconnectors;
6. the evidence base underpinning the approach, including how experience and data from the use of NTC restrictions have informed its development;
7. how the arrangements promote alignment with Part C of ESO Licence Condition C1, including transparent and non-discriminatory decision-making and support for the effective trading of electricity across interconnected markets.

We expect NESO to engage meaningfully with stakeholders as part of this exercise and to provide a clear explanation of how stakeholder views have been considered and the reasons why particular approaches have been accepted, changed or rejected. We expect that NESO would engage relevant stakeholders ahead of formal consultation as part of this process. As stakeholders have raised feedback on the GB NTC Calculation Policy and the PoU contained within, we consider that this Direction provides an opportunity for further evidence and views to be submitted and appropriately considered by NESO through further engagement and consultation.

In carrying out a review of the GB NTC Calculation Policy prior to formal consultation, NESO should ensure that the resulting arrangements clearly demonstrate how the application of NTC restrictions supports transparent and non-discriminatory decision-making, facilitates the effective trading of electricity across interconnected markets, and remains consistent with NESO's wider regulatory obligations and relevant interconnector arrangements, including any requirements established as part of the Trade and Cooperation Agreement (TCA) between the UK and the EU.

We are directing NESO to complete the review, consultation and all associated activities no later than 30 September 2027, unless otherwise approved by the Authority. This date represents the latest date by which the work must be completed and the Authority informed of the outcome of that work in accordance with ESO Licence Condition C9.4. NESO should commence the work as soon as reasonably practicable and take all reasonable steps to complete it before this date. For clarity, our Direction does not set the deadline for implementation of any potential changes to the methodology, only for identifying and confirming them. However, we do expect any updates to be implemented in a timely fashion with transparent timelines.

Yours sincerely,

James Hill
Principal Policy Expert – Electricity System Operation

For and on behalf of the Gas and Electricity Markets Authority

Annex 1 – Direction on Condition C9.5 in relation to the GB NTC Calculation Policy

For and on behalf of the Gas and Electricity Markets Authority

DIRECTION PURSUANT TO PARAGRAPH 9.5 OF STANDARD LICENSE CONDITION C9 OF NATIONAL ENERGY SYSTEM OPERATOR'S ELECTRICITY SYSTEM OPERATOR LICENCE IN RELATION TO THE PROCUREMENT AND USE OF BALANCING SERVICES

Whereas:

1. National Energy System Operator ("NESO") is the holder of an Electricity System Operator Licence (the "Licence") granted or treated as granted under section 6(1)(da) of the Electricity Act 1989 (the "Act").
2. Licence Condition ("LC") C9 (Procurement and use of balancing services), sub-paragraph 9.5 allows the Authority to direct NESO to reconsult with relevant parties.
3. For the reasons set out in the letter to which this Direction is attached, the Authority has decided to direct NESO to undertake a review and consultation on the GB NTC Calculation Policy, including the Principles of Use governing the application of NTC restrictions by 30 September 2027.

Therefore:

In accordance with paragraph 9.5 of LC C9, the Authority hereby directs NESO to undertake a review and consultation on the GB NTC Calculation Policy, including the Principles of Use governing the application of NTC restrictions, and to confirm the outcome of that review and consultation to the Authority no later than 30 September 2027.

This Direction and the letter to which it is attached constitutes notice of the reasons for the decision pursuant to section 49A of the Act.

This Direction may be amended or revoked by the Authority, after such consultation as is required by the licence.

James Hill
Principal Policy Expert – Electricity System Operation
For and on behalf of the Gas and Electricity Markets Authority
21 September 2026