



Andrew McIntosh
Commercial Manager
National Grid Interconnectors Ltd
National Grid House
Warwick Technology Park
Gallows Hill, Warwick
CV34 6DA

*Promoting choice and value for
all gas and electricity customers*

Direct Dial: 020 7901 7371
Email: pamela.taylor@ofgem.gov.uk

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Dear Andrew

Revised charging methodology statement for the Anglo-French interconnector (IFA)

On the 21 October 2011, National Grid Interconnectors Limited (NGIL) notified the Authority¹ of proposed amendments to the charging methodology statement for the Anglo-French Interconnector (the "IFA charging methodology"), as well as the responses received to its consultation on the proposed amendments².

The Authority considers that the proposed amendments better achieve the IFA charging methodology relevant objectives and welcomes the proposed revisions. The Authority also requests NGIL to undertake a full review of the IFA charging methodology against the electricity interconnector licence and the Electricity Regulation³ (including annexes), which have been amended following the transposition of the Third Package into domestic legislation and licences.

The proposed amendments

The proposed amendments to the IFA charging methodology reflect the fact that, as of 1 April 2010, users of IFA are no longer liable to pay Transmission Network User of System (TNUoS) charges for entry or exit to the GB transmission system. The removal of TNUoS charges follows the Authority's decision⁴ not to veto National Grid Electricity Transmission plc's (NGET) Use of System Charging Methodology Modification Proposal GB ECM-26: "Review of interconnector charging arrangements".

The decision that interconnector users are no longer liable to pay TNUoS charges was deemed necessary to comply with relevant European legal requirements. In particular, compliance with Article 13, on the inter-TSO compensation mechanism, and Article 14, on charges for access to networks, of the Electricity Regulation. Therefore, we consider that the proposed amendments to the IFA charging methodology, better achieve the relevant

¹ The Gas and Electricity Markets Authority. Ofgem is the Office of the Authority. The terms "Ofgem" and "the Authority" "we" and "us" are used interchangeably in this letter

² Pursuant to standard licence condition (SLC) 10 which states that the licensee shall consult on the proposed amendment to the charging methodology and furnish the Authority with a report setting out, amongst other things, the terms proposed for modification and including responses received to the consultation.

³ Regulation (EC) No 714/2009 on conditions for access to the network for cross-border exchanges in electricity

⁴ <http://www.nationalgrid.com/NR/rdonlyres/46289F11-D100-4BC8-A791-6DEF891CC047/43450/ECM26decisionletterpublished041010.pdf>

charging methodology objective⁵ that the charging methodology shall be compliant with the Electricity Regulation.

Third Package implementation

On 10 November 2011 the regulations under section 2(2) of the European Communities Act 1972 (domestic regulations) transposed the Third Package into GB domestic legislation and into GB licences, including the electricity interconnector licence. Amendments made by the domestic regulations transposing the Third Package have resulted in changes to the GB electricity regulatory framework⁶. The Electricity Regulation also imposes requirements directly on NGIL, with which it is necessary for NGIL to ensure compliance.

Changes to the electricity interconnector licence include, but are not limited to, amendment of standard licence condition (SLC) 9 on use of revenues, amendment of SLC 10 on charging methodology approval, the insertion of a new SLC 11A on the approval of access rules by the Authority⁷ and the insertion of new SLCs 19 to 23 setting out provisions relating to information disclosure, certification of transmission system operators and regional cooperation.

Request for review

Having reviewed the IFA charging methodology, we note that it is not fully compliant with the requirements of the amended SLC 10 of the electricity interconnector licence. In particular, SLC 10 states that the charging methodology shall set out the methodologies for the calculation of any charges imposed for access to (including use of) the interconnector and/or the provision of ancillary services [...]. The IFA charging methodology does not currently contain information relating to charges or payments for the provision of ancillary services over the interconnector. Additionally, compliance of the IFA charging methodology with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency needs to be ensured.

Therefore, the Authority requests NGIL to review the IFA charging methodology against the requirements of the electricity interconnector licence and the Electricity Regulation. Pursuant to SLC 10(10) of the electricity interconnector licence NGIL should complete the review and provide the Authority with a report on the review within three months of this request. Following submission of the report, NGIL shall then make such modifications to the IFA charging methodology as may be requisite for the purpose of better achieving the relevant charging methodology objectives.

For further information, regarding the content of this letter, please contact my colleague Olaf Islei (olaf.islei@ofgem.gov.uk)

Yours sincerely

Pamela Taylor
Associate Partner, European Wholesale

⁵ SLC 10(4) The charges and the application of the underlying charging methodology shall be objective, transparent, non-discriminatory and compliant with the Regulation and any relevant legally binding decision of the European Commission and/or the Agency.

⁶ More information can be found here: <http://www.legislation.gov.uk/ukxi/2011/2704/contents/made>

⁷ The draft revised electricity interconnector licence standard conditions can be found here: <http://www.legislation.gov.uk/ukxi/2011/2704/schedule/8/made>