



Mark Lane
EirGrid Interconnector limited
The Oval
160 Shellbourne
Ballsbridge
Dublin 4
Ireland

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

Direct Dial: 0207 901 7371
Email: pamela.taylor@ofgem.gov.uk

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Dear Mark

Approval of the charging methodology for the EirGrid East-West Interconnector (EWIC) including a direction to approve pursuant to Standard Licence Condition 10 paragraph 7 of the electricity interconnector licence

On 22 August 2012, EirGrid Interconnector Limited¹ (EIL) submitted a charging methodology (the "EWIC charging methodology") to the Authority² for approval. This was submitted pursuant to Standard Licence Condition 10 of EIL's electricity interconnector licence. The EWIC charging methodology explains the charges that will be applied by EIL to users for access to (including use of) interconnector capacity on EWIC³.

This letter contains a direction to approve the EWIC charging methodology and sets out the background and reasons for our approval under section 49A of the Electricity Act 1989.

Transposition of the Third Package

On 09 November 2011 the regulations under section 2(2) of the European Communities Act 1972 ("domestic regulations") came into force and transposed the Third Package into GB domestic legislation and into GB licences, including the standard conditions of the electricity interconnector licence. Amendments made by the domestic regulations transposing the Third Package have resulted in wide ranging changes to the GB electricity regulatory framework⁴.

The domestic regulations amended the standard conditions of electricity interconnector licences and, amongst other things, amended Standard Licence Condition 10 on the approval by the Authority of the charging methodology to apply to third party access to the licensee's interconnector⁵. In particular the relevant charging methodology objectives were amended to include compliance with the Electricity Regulation⁶ and any relevant legally binding decision of the European Commission and/or the Agency.

¹ EirGrid Interconnector Limited is a wholly owned subsidiary of EirGrid Plc the Irish TSO. The company commercially operates an electricity link between Great Britain and the Republic of Ireland.

² 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.

³ The EirGrid East-West Interconnector is a 500MW High Voltage Direct Current link that runs between the Republic of Ireland and Great Britain. It is anticipated to start commercial operation in October 2012.

⁴ More information can be found here: <http://www.legislation.gov.uk/uksi/2011/2704/contents/made>

⁵ The revised electricity interconnector licence standard conditions can be found here: <http://epr.ofgem.gov.uk/EPRFiles/Electricity%20Interconnector%20Standard%20Licence%20Conditions%20Conso%20dated%20-%202010-11-2011%20-%20Current%20Version.pdf>

<http://www.legislation.gov.uk/uksi/2011/2704/schedule/8/made>

⁶ Regulation (EC) No 714/2009 on conditions for access to the network for cross-border exchanges in electricity

EIL's proposed charging methodology

EIL issued its proposed charging methodology for consultation on 29 February until 13 April 2012⁷. It received two responses to the consultation. The two responses supported the proposed charging methodology. The proposed charging methodology and the consultation responses were submitted to Ofgem on 15 June 2012.

Paragraph 1.9 of the Congestion Management Guidelines which are annexed to, and form part of, the Electricity Regulation⁸, requires mechanisms for intraday congestion management of interconnector capacity to be established in a coordinated way by 01 January 2008. To meet this requirement reforms were initiated in the Republic of Ireland and Northern Ireland to introduce intraday trading in the Single Electricity Market (SEM). The implementation of intraday trading in the Single Electricity Market and on the EWIC is necessary to ensure better compliance with the Congestion Management Guidelines.

Concurrently, EIL and Moyle Interconnector Limited issued a joint consultation on charging for interconnector capacity allocation in intraday⁹.

EIL and Moyle Interconnector Limited's joint consultation closed on the 14 March 2012. On 4 May 2012, EIL and Moyle Interconnector Limited submitted a recommendation paper, together with the ten consultation responses received, to the SEM Committee and Ofgem seeking approval for proposed intraday interconnector congestion charging arrangements.

Following consideration of the consultation responses and discussion with Ofgem, the SEM Committee issued a decision paper on 6 July 2012 on the intraday congestion charging methodology¹⁰. The decision paper also instructed EIL to amend its charging methodology to incorporate the SEM Committee decision and to submit its charging methodology to the relevant regulatory authorities for approval by 13 July.

On 09 July 2012, EIL submitted its charging methodology (as well as a report explaining the proposed changes) to Ofgem for approval. The proposed charging methodology amended the charging methodology submitted on 15 June 2012 to incorporate the SEM Committee decision on intraday congestion charging. Further amendments were made following a request from Ofgem and the EWIC charging methodology was re-submitted for approval on 22 August 2012.

Approval of the EWIC charging methodology

The Authority has decided to approve the EWIC charging methodology on the basis that it meets the relevant charging methodology objectives. A direction issued in accordance with paragraph 7 of SLC 10 of the interconnector licence to this effect can be found in the Annex to this letter.

Yours sincerely

Pamela Taylor
Associate Partner, European Wholesale

⁷ <http://www.eirgrid.com/media/EastWestInterconnectorChargingMethodology.pdf>

⁸ The Guidelines on the management and allocation of available transfer capacity of interconnectors between national systems annexed to the Electricity Regulation.

⁹ <http://www.mutual-energy.com/Download/Congestion%20charging%20consultation.pdf>

¹⁰ SEM12054 - Decision Paper on Intraday Congestion Charging
http://www.allislandproject.org/en/sem_publications.aspx?year=2012§ion=2

Direction issued to EirGrid Interconnector Limited pursuant to paragraph 7 of Standard Licence Condition 10 (Charging Methodology to apply to third party access to the licensee's interconnector) of its electricity interconnector licence

1. This Direction is issued by the Gas and Electricity Markets Authority (the "Authority") pursuant to paragraph 7 of Standard Licence Condition 10 of the electricity interconnector licence ("the Licence") granted or treated as granted under section 6(1)(e) of the Electricity Act 1989 to EirGrid Interconnector Limited ("EIL").
2. Standard Licence Condition 10 paragraph 2 provides that the licensee shall prepare and submit for approval by the Authority a charging methodology for access to (including use of) the licensee's interconnector.
3. Standard Licence Condition 10 paragraph 4 requires that the charges and the application of the underlying charging methodology shall be transparent, objective, non-discriminatory and compliant with the Electricity Regulation (Regulation (EC) No 714/2009 on conditions for access to the network for cross-border exchanges in electricity) and any relevant legally binding decision of the European Commission and/or Agency (collectively the 'relevant access rules objectives').
4. Standard Licence Condition 10 paragraph 5, requires interconnector licensees to take all reasonable steps prior to submitting the charging methodology to the Authority to ensure that all persons, including those in other Member States who may have a direct interest in the charging methodology, are consulted and allow them a period of not less than 28 days within which to make written representations. The interconnector licensees shall also furnish to the Authority a report setting out the terms originally proposed in the charging methodology, the representations, if any, made by interested persons and any change in the terms of the charging methodology intended as a consequence of such representations.
5. In accordance with Standard Licence Condition 10 paragraph 5, on 9 July 2012 EIL furnished the Authority with a report setting out the terms originally proposed in its charging methodology including any changes as result of the public consultation and SEM Committee decision on the intraday congestion charging methodology.
6. After careful consideration of the report submitted on 9 July 2012 and the responses to its public consultation, in accordance with Standard Licence Condition 11 paragraph 6, the Authority requested EIL to amend the charging methodology. The requested amendment was to improve the transparency of the proposed intraday arrangements. The amendment was requested to better meet the relevant charging methodology objectives.
7. EIL accepted the requested amendments and, in accordance with Standard Licence Condition 10 paragraph 6, re-submitted the charging methodology to the Authority for approval on 22 August 2012 (the "EWIC charging methodology").
8. Having regard to the relevant access rules objectives set out in SLC 10 paragraph 4 and to our principle objective and statutory duties, the Authority has decided to approve the EWIC charging methodology. The Authority considers that the EWIC charging methodology meets the relevant charging methodology objectives. In particular, the EWIC charging methodology ensures compliance with the Congestion Management Guidelines, which are an annex to, and form part of, the Electricity Regulation.
9. The Authority hereby directs, pursuant to paragraph 7 of Standard Licence Condition 10 of the Licence, that the EWIC charging methodology is approved.
10. This Direction shall have immediate effect and shall remain in effect until such time as the Authority may revoke or vary the Direction in writing upon reasonable notice.

Dated: 4 September 2012

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Pamela Taylor

Associate Partner, European Wholesale

Signed on behalf of the Authority and authorised for that purpose by the Authority