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for energy consumers

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Dear Andrew

Approval of the access rules for the England–France Interconnector (IFA) including a direction to approve pursuant to Standard Licence Condition 11A paragraph 7 of the electricity interconnector licence

On 16 October 2013, National Grid Interconnectors Limited (NGIC) submitted access rules for the England–France Interconnector (IFA)¹ (the “IFA access rules”) to the Authority² for approval. These were submitted pursuant to Standard Licence Condition (SLC) 11A of IFA’s electricity interconnector licence. The IFA access rules set out the general terms and conditions that a user must accept to obtain access to and use capacity on IFA.

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

Background

On 10 November 2011, the Third Package³ was transposed into GB legislation resulting in amendments to the electricity interconnector licence, including the introduction of SLC 11A on the approval of terms for access by the Authority.

SLC 11A introduces relevant access rules objectives, against which the Authority will assess access rules and any proposed amendments. The relevant access rules objectives⁴ are that access rules shall be transparent, objective, non-discriminatory and compliant with the Electricity Regulation⁵ and any relevant legally binding decision of the European Commission and/or the Agency⁶.

SLC 11A also states that access rules must set out arrangements for maximising the available interconnector capacity, including the methodology for the calculation of interconnector capacity⁷.

¹ IFA is a 2000MW high voltage direct current (HVDC) link, connecting the transmission systems of Great Britain (GB) and France. IFA is jointly owned and operated by National Grid Interconnectors Limited (NGIC) and Réseau de Transport d’Electricité (RTE) (the French transmission system operator).

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 term “Third Package” in this letter refers to the Electricity Regulation (Regulation (EC) No 714/2009) and to the Electricity Directive (Directive 2009/72/EC).

⁴ The relevant access rule objectives are set out in SLC 11A(4).

⁵ Regulation (EC) No 714/2009 on conditions for access to the network for cross-border exchanges in electricity.

⁶ Agency for the Cooperation of Energy Regulators (ACER).

⁷ See SLC 11A(3)(a).

We also note that Ofgem considers it important that access rules for the France-UK-Ireland (FUI) region and GB interconnectors are aligned as much as possible.

Implementation of market coupling and revised IFA access rules

NGIC and RTE issued a joint consultation on proposed changes to the IFA access rules on 7 May 2013 until 5 June 2013. The focus of the consultation was on changes required to be made in order to introduce implicit auctions for day-ahead capacity allocation⁸ (market coupling) on IFA. This is in accordance with work being pursued under the North West Europe (NWE) electricity initiative⁹. We understand that the expected go-live date for the NWE day-ahead market coupling project is currently early 2014.

The consultation covered: (i) amendments necessary to accommodate implicit auctions for day-ahead capacity allocation, including fallback procedures for when implicit auctions are not available; (ii) proposals for changes to the firmness¹⁰ of nominated capacity allocated via explicit auctions, so that capacity allocated in this way has comparable firmness to capacity allocated through implicit auctions; (iii) use-it-or-sell-it (UIOSI) price compensation principles; and (iv) curtailment procedures in the event of an outage¹¹.

Following the consultation, NGIC submitted the revised IFA access rules, the consultation responses¹² and a report explaining the changes to Ofgem for approval on 2 July 2013.

Upon review of the access rules submitted to Ofgem on 2 July 2013, consideration of the consultation responses and close coordination with the Commission de Régulation de l'Energie (CRE)¹³, Ofgem requested NGIC to make some additional amendments to IFA's access rules for the purpose of meeting the access rules objectives¹⁴. These amendments were with respect to curtailment, curtailment reconciliation and provisions relating to reserving capacity to explicit intraday auctions.

NGIC amended the IFA access rules accordingly and resubmitted them to Ofgem for approval on 16 October 2013. In addition, NGIC provided to Ofgem a detailed justification as to how IFA's current approach to the order of curtailment meets the relevant access rules objectives¹⁵.

⁸ Under these arrangements, day-ahead capacity allocation will cease to be conducted via explicit auctions, and will be administered by the Price Coupling algorithm within the overall NWE Price Coupling solution. Explicit daily auctions will be used as fallback process should the implicit daily auctions mechanism be operationally unavailable.

⁹ The European electricity "Target Model" requires that the Transmission System Operators (TSOs) allocate all cross border capacity in the day-ahead timeframe using implicit auctions by 2014. The North West European (NWE) Regional Initiative (RI) is a TSO led project to introduce single price coupling in the region. NWE comprises Central West Europe (CWE), North Europe and GB (IFA and BritNed interconnectors).

¹⁰ Firmness of capacity determines the compensation that a capacity holder receives in the event its capacity is not available. For example, if there is a forced outage of the interconnector and the capacity holder is not able to utilise the capacity rights it purchased, then compensation is payable by IFA

¹¹ Since the implementation of the Capacity Management System (CMS) in October 2009, IFA's approach to curtailment has been based on product order (shorter-term capacity bookings curtailed first). NGIC and RTE consulted market participants also on an alternative approach to apply curtailment on a pro-rata basis across all products.

¹² The consultation received in total eight responses.

¹³ The French regulatory body for gas and electricity markets.

¹⁴ In accordance with SLC11A(6), Ofgem issued a direction on 30 September 2013 which instructed NGIC to amend the access rules for the purpose of meeting the access rules objectives and to resubmit the amended rules to the Authority for approval. Please see: <https://www.ofgem.gov.uk/publications-and-updates/direction-issued-national-grid-interconnectors-limited-ngic-pursuant-paragraph-12-standard-licence-condition-its-electricity-interconnector-licence>

¹⁵ NGIC provided evidence on the activity of users across all product periods (i.e. longer-term and shorter-term capacity bookings) and about new participants signing up to the IFA access rules. Therefore they stated that their approach to curtailment based on product order does not constitute a disincentive for new entrants or short-term capacity users to use IFA's services. NGIC also explained that it is the products themselves that differ with respect to the application of the curtailment provisions and that all users are free to buy any combination of products, for which the Access Rules are clear and transparent, and value them as they consider appropriate. Also all respondents to IFA's consultation expressed a clear preference for the existing curtailment system based on a product booking order over a pro-rata curtailment methodology.

The Authority has decided to approve the IFA access rules submitted on 16 October 2013. SLC 11A(14) requires that, unless the Authority directs otherwise, that amended access rules are published 28 days prior to coming into effect. The approved IFA access rules should take effect to coincide with the go-live date of the NWE day-ahead market coupling project. A direction issued in accordance with SLC 11A of the electricity interconnector licence, can be found in the annex to this letter.

Inclusion of IFA losses in the NWE Price Coupling algorithm

In their joint consultation on proposed changes to the IFA access rules, NGIC and RTE also consulted on the inclusion of losses on IFA in the NWE Price Coupling algorithm¹⁶. The NWE Price Coupling algorithm has the functionality to include physical losses on HVDC¹⁷ cables as an allocation constraint. The activation of any allocation constraints in the algorithm is subject to approval by the relevant National Regulatory Authorities (NRAs). Following the consultation, NGIC submitted a proposal to Ofgem on 18 July 2013 to include losses as an allocation constraint on IFA in the Price Coupling algorithm.

The Authority has considered the proposal submitted by NGIC. We have also considered the results of a study performed by the NWE day-ahead price coupling project¹⁸. This study found that including losses on HVDC interconnectors in the NWE Price Coupling algorithm could increase overall social welfare. The Authority recognises that losses are a technical constraint for HVDC cables. The Authority has therefore decided to approve the activation of IFA cable losses in the NWE Price Coupling algorithm.

Next steps

Ofgem considers the implementation of market coupling on IFA to be a significant step towards the completion of the European internal energy market. We appreciate the steps that have been taken to modify IFA's trading systems and access rules to accommodate implicit auctions for day-ahead capacity allocation. We also welcome the introduction of an enhanced firmness regime for nominated capacity allocated via explicit auctions¹⁹ and the provisions for UIOSI²⁰ compensation.

Ofgem would like to monitor the efficiency of the cross-border trading arrangements on IFA following the implementation of market coupling. As part of this monitoring exercise we would like to request NGIC to submit a report to the Authority within three months from the implementation of market coupling on IFA summarising the experience from the implementation of the project. In particular, we would be interested in the impact of including allocation constraints in the NWE Price Coupling algorithm (i.e. HVDC losses) and the effectiveness of the revised curtailment compensation approach, including the impact of the compensation caps.

Additionally, looking forward, we would welcome NGIC considering the necessary changes that may be required to the IFA access rules to facilitate the implementation of the intraday project²¹ as part of the NWE electricity initiative and the anticipated requirements of the Capacity Allocation and Congestion Management (CACM) and the Forward Capacity Allocation (FCA) network codes.

¹⁶ With a combined loss factor value of 2.313%.

¹⁷ High voltage direct current (HVDC).

¹⁸ NWE Day-Ahead Market Coupling Project Introduction of loss factors on interconnector capacities in NWE Market Coupling, April 2013. This document can be accessed on line at: <http://www.fui-portal.eu/auctionplatforms/publication/5188db19c51943608f02c646>

¹⁹ This applies to capacity allocated via long-term explicit auctions only. For intraday explicit auctions and day-ahead fallback explicit auctions, the compensation mechanism is to reimburse capacity holders if the sold capacity is unavailable.

²⁰ The UIOSI price to be paid by the interconnector operators to the UIOSI capacity holders is derived from the daily auction in which such UIOSI capacity has been sold.

²¹ Under the intraday project IFA will introduce continuous implicit intraday trading and will cease to conduct intraday capacity allocation via explicit auctions.

Yours sincerely

Rachel Fletcher
Interim Senior Partner, Markets

ANNEX

Direction issued to National Grid Interconnectors Limited (NGIC) pursuant to paragraph 7 of Standard Licence Condition 11A (Approval of terms for 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 11A of the electricity interconnector licence ("the Licence") granted or treated as granted under section 6(1)(e) of the Electricity Act 1989 to National Grid Interconnectors Limited ("NGIC").
2. Standard Licence Condition 11A provides that the licensee shall prepare and submit for approval by the Authority a statement setting out the Access Rules (as defined in the Standard Licence Conditions for electricity interconnector licences).
3. Standard Licence Condition 11A paragraph 4 requires that the Access Rules shall be transparent, objective, non-discriminatory and compliant with the 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 11A paragraph 5, requires interconnector licensees to take all reasonable steps to ensure that all persons, including those in other Member States who may have a direct interest in the Access Rules, 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 Access Rules, the representations, if any, made by interested persons and any change in the terms of the Access Rules intended as a consequence of such representations.
5. In accordance with Standard Licence Condition 11A paragraph 5, on 02 July 2013 NGIC furnished the Authority with a report setting out the terms originally proposed on IFA interconnector access rules including changes as result of a public consultation.
6. After careful consideration of the report submitted on 02 July 2013 and the responses to the public consultation, in accordance with Standard Licence Condition 11 paragraph 6, the Authority requested NGIC to amend the Access Rules provisions with respect to curtailment, curtailment reconciliation and provisions relating to reserving capacity to explicit intraday auctions so that they meet the relevant access rules objectives of objectivity, transparency and non-discrimination.
7. NGIC accepted the requested amendments and, in accordance with Standard Licence Condition 11A paragraph 6, re-submitted the access rules to the Authority for approval on 16 October 2013 (the "IFA access rules"). NGIC also provided detailed justification as to how the current curtailment processes met the relevant access rules objectives.
8. Having regard to the relevant access rules objectives set out in SLC 11A paragraph 4 and to our principle objective and statutory duties, the Authority has decided to approve the IFA access rules. The Authority considers that the IFA access rules meet the relevant access rules objectives. The Authority hereby directs, pursuant to paragraph 7 of Standard Licence Condition 11A of the Licence, that the IFA access rules are approved.
9. SLC11A(14) of the Licence requires that, unless the Authority directs otherwise, that the Access Rules shall be published 28 days prior to coming into effect. The Authority considers that it is important for the IFA access rules to come into effect to coincide with the go-live date of the NWE day-ahead market coupling project. The NWE day-ahead market coupling project go-live date is currently set for early 2014.

11. 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: 22 November 2013

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Rachel Fletcher

Interim Senior Partner, Markets

Duly authorised on behalf of the Authority