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Dear Adam,

Approval of modified Charging Methodology for the Interconnexion France-Angleterre (IFA) interconnector including a direction to approve pursuant to Standard Licence Condition 10 of the Electricity Interconnector Licence

On 8 February 2016, National Grid Interconnectors Limited ("NGIC") submitted a proposed modified Charging Methodology (the Charging Methodology) for the IFA interconnector¹ to the Authority² for approval. The Authority is the designated National Regulatory Authority (NRA) for Great Britain under Section 3A of the Utilities Act 2000.

The proposed modified Charging Methodology was submitted pursuant to Standard Licence Condition (SLC) 10 of NGIC's electricity interconnector licence³ (the Licence). The Charging Methodology sets out the methods and principles on which charges for the use of the IFA interconnector are based. The current Charging Methodology for the IFA interconnector was approved by the Authority on 1 October 2013.⁴

We have decided to approve the Charging Methodology on the basis that it meets the relevant objectives⁵. This letter contains a direction to approve the Charging Methodology. It also gives notice of the reasons for our approval as required under section 49A of the Electricity Act 1989.

Background

The Forward Capacity Allocation (FCA) European Guideline (ENC)⁶ was adopted by Member States on 30 October 2015.⁷ Once FCA enters into force it will become a directly applicable Regulation. FCA requires GB Transmission System Operators (TSOs) to develop a set of

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 electricity interconnector licence standard conditions:
https://epr.ofgem.gov.uk/Content/Documents/Electricity_Interconnector_Standard%20Licence%20Conditions%20Consolidated%20-%20Current%20Version.pdf

⁴ Authority approval of the England-France Interconnector (IFA) Charging Methodology – 1 October 2013:
<https://www.ofgem.gov.uk/publications-and-updates/approval-england-france-interconnector-ifa-charging-methodology>

⁵ The relevant objectives are set out in paragraph 4 of SLC 10. They state that charging methodology shall be transparent, objective, non-discriminatory and compliant with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency.

⁶ The term European Network Code has been used to describe the new Regulations developed under the Third Package. We use the terms network code, guideline and Regulation interchangeably.

⁷ FCA (30 October 2015 draft): <http://www2.nationalgrid.com/WorkArea/DownloadAsset.aspx?id=43823>

harmonised allocation rules (HAR).⁸ The HAR contains procedures for the allocation of long-term transmission rights and the terms on which market participants may participate in explicit auctions for such rights.

On 15 October 2015 we approved modifications to the Access Rules for the IFA interconnector.⁹ The modifications provided for the adoption of a pilot version of the HAR with respect to the IFA interconnector.¹⁰ These amended IFA Access Rules are required to go live no later than 1 July 2016.

IFA's proposed modified Charging Methodology

NGIC submitted its proposed modified Charging Methodology for approval in accordance with SLC 10(9) of the Licence. In accordance with SLC 10(11), NGIC conducted a consultation on its proposed modifications to the Charging Methodology from 1 December to 31 December 2015. One consultation response was received. The respondent sought clarity concerning the existing process for curtailment and compensation for non-nominated long term capacity and did not make any specific comments about the proposed modified Charging Methodology. No changes were made to the proposed modified Charging Methodology as a result of the consultation.

NGIC's proposed modifications seek to ensure that the Charging Methodology is aligned with the HAR and the amendments to IFA's Access Rules that were approved by the Authority on 15 October 2015.

The proposed modifications also propose to amend the 'curtailment' section of the current Charging Methodology so as to include a description of the principles of NGIC's compensation mechanism in the event that capacity of the IFA interconnector is curtailed.

The Authority's decision

We consider the proposed modified Charging Methodology meets the relevant objectives.¹¹ In particular, we note that the proposed modifications seeks to align the Charging Methodology terminology with the terminology used in the HAR and that consistency makes it easier for users to trade across interconnectors between GB and other markets. Further, we also welcome the proposed modifications to expand the 'curtailment' section of the current IFA Charging Methodology by outlining the principles that will form the basis of NGIC's compensation mechanism in the event of a curtailment. We consider that these proposals particularly facilitate the relevant objective of transparency.

A direction to this effect, issued in accordance with paragraph 14 of SLC 10 of the electricity interconnector licence, is annexed to this letter.

Yours sincerely,



Stephen Beel
Partner, Competitive Networks

⁸ FCA (30 October 2015 draft) Articles 51-52.

⁹ Authority approval of the England-France Interconnector (IFA) modified Access Rules – 15 October 2015: <https://www.ofgem.gov.uk/publications-and-updates/approval-modified-access-rules-england-france-interconnector-ifa-2015>

¹⁰ NGIC elected to implement the FCA requirement to develop a HAR as a voluntary pilot project based on an early version of FCA submitted in April 2014 to ACER for its recommendation

¹¹ The relevant objectives are set out in paragraph 4 of SLC 10. They state that charging methodology shall be transparent, objective, non-discriminatory and compliant with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency.

Direction issued to National Grid Interconnectors Limited pursuant to paragraph 14 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 Standard Licence Condition 10(14) of the electricity interconnector licence (the "Licence") granted or treated as granted under section 6(1)(e) of the Electricity Act 1989 (the "Act") to National Grid Interconnectors Limited (the "Licensee") in respect of the Interconnexion France-Angleterre (IFA) interconnector, an electricity interconnector between Sellindge in England and Les Mandarins in France (the "Licensee's Interconnector").
2. Standard Licence Condition 10(2) provides that the Licensee shall prepare and submit for approval by the Authority a statement setting out the charging methodology for access to (including use of) the Licensee's Interconnector.
3. Standard Licence Condition 10(4) requires the Charging Methodology to 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 for the Co-operation of Energy Regulators (the "relevant charging methodology objectives").
4. Standard Licence Condition 10(9) provides that the Licensee shall review its charging methodology at least once in each calendar year and, make such modifications to the charging methodology as may be requisite for the purpose of ensuring that the charging methodology better achieves the relevant charging methodology objectives.
5. Standard Licence Condition 10(11) requires the Licensee to take all reasonable steps to ensure that all persons, including those in other Member States that 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 Licensee must 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.
6. In accordance with Standard Licence Condition 10(11), on 8 February 2016 the Licensee furnished the Authority with a report setting out the Licensee's proposed modified Charging Methodology.
7. The Authority has decided to approve the Licensee's proposed modified Charging Methodology on the basis that it meets the relevant charging methodology objectives.
8. In accordance with SLC 10(15) the Licensee will publish the proposed modified Charging Methodology as soon as practicable after it has been approved by the Authority and, at a minimum, 28 days prior to it coming into effect. The effective date of the proposed modified Charging Methodology shall be the earlier of 1 July 2016 or the date that the Licensee's Access Rules approved by the Authority on 15 October 2015 come into effect.
9. THE AUTHORITY HEREBY DIRECTS, pursuant to paragraph 14 of Standard Licence Condition 10 of the Licence, that the Licensee's proposed modified Charging Methodology is approved. 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.

10. This Direction constitutes notice of the Authority's reasons for the decision pursuant to section 49A of the Act.

A handwritten signature in black ink that reads "S3 Beel". The signature is written in a cursive style with a large, stylized "S" and "B".

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Stephen Beel

Partner, Competitive Networks

**Signed on behalf of the Authority and authorised for that purpose by the Authority
on 4 May 2016**