

All interested parties,
stakeholders in GB and beyond,
and other regulatory bodies

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Dear colleague,

Approval of the arrangements concerning more than one NEMO in one bidding zone

On 12 December 2016, we¹ received two proposals developed by Transmission System Operators (TSOs) for arrangements concerning more than one Nominated Electricity Market Operator (NEMO) in a bidding zone. The proposals were submitted to us by the relevant Great Britain (GB) TSOs in accordance with the guideline on Capacity Allocation and Congestion Management (CACM)² and in line with our assignment of obligations under CACM.³

This letter sets out our decision to approve the proposals and the necessary next steps that must be taken.

Background

CACM Articles 45 and 57 require methodologies to be developed for the day-ahead and intraday timeframes respectively. Articles 45 and 57 of CACM require TSOs, in cooperation with NEMOs, to develop proposals for cross-zonal capacity allocation and other necessary arrangements for such bidding zones. The proposals should describe the expected impact on the objectives of CACM and include proposed timescales for their implementation (CACM Article 9(9)).

TSOs are required to submit these proposals within four months of more than one NEMO being designated in a bidding zone. EPEX SPOT SE and Nord Pool Spot are designated as NEMOs to perform day-ahead and intraday coupling in GB.⁴

¹ The terms “we”, “us”, “our”, “Ofgem” and “the “Authority” are used interchangeably in this document and refer to the Gas and Electricity Markets Authority. Ofgem is the office of the Authority.

² [Commission Regulation \(EU\) 2015/1222 of 24 July 2015 establishing a guideline on capacity allocation and congestion management](#). The CACM Regulation came into force 14 August 2015. It aims to maximise the efficient use of interconnection and facilitate greater cross-border electricity trade, through market coupling in the day-ahead and intraday timeframes. Market coupling should make sure power is produced where it is most efficient and used where it is most valued, to lower prices for consumers and support secure and sustainable supply.

³ <https://www.ofgem.gov.uk/publications-and-updates/decision-our-consultations-assignment-transmission-system-operator-obligations-under-capacity-allocation-and-congestion-management-regulation-within-gb>. The relevant GB TSOs that were assigned responsibilities under Article 16 of the CACM Regulation is National Grid Electricity Transmission plc. The relevant GB TSOs assigned responsibilities under Article 17 of the CACM Regulation are National Grid Electricity Transmission plc, Moyle Interconnector Limited, East-West Interconnector Company, BritNed Development Limited, National Grid Interconnectors Limited.

⁴ <https://www.ofgem.gov.uk/publications-and-updates/final-decisions-applications-apx-and-nps-be-designated-nominated-electricity-market-operators-great-britain>

TSOs submitted their original proposals on 11 April 2016. Following our review of these proposals we requested that the proposals were amended and resubmitted to us.⁵ In our request for amendment we did not consider that either of the proposals was sufficiently detailed for us to approve the proposals at that time. It was unclear what was actually being proposed in terms of process, roles and responsibilities. It was also unclear how the proposals met the objectives of CACM. Finally we said that stakeholders should have the opportunity to comment upon the proposals and expected impacts. This is important in allowing us to understand that the proposals are the best solution for GB.

Our decision

We have reviewed the amended proposals submitted to us in line with the requirements of the CACM Regulation, the wider objectives of the Regulation (EC) 714/2009⁶, and our statutory duties and obligations. In making our decisions we have considered the justification, provided simultaneously with submission of both the proposals and TSOs consultation with stakeholders.

We hereby:

- Approve the proposals submitted by the TSOs in accordance with Article 45 of CACM
- Approve the proposals submitted by the TSOs in accordance with Article 57 of CACM

Decision not to undertake an Impact Assessment

We have not undertaken an Impact Assessment for either of these proposals. Within the TSOs' proposals they confirm that no alternatives were identified that are compatible with CACM requirements and existing day-ahead arrangements or proposed intraday arrangements. The TSOs also carried out a stakeholder consultation on the proposals between 18 November and 28 November 2016. No responses were received to this consultation. We therefore consider that stakeholders have had opportunity to comment on the proposals and identify any alternative options that TSOs should consider.

Next steps

Both proposals set out the necessary next steps. In the case of intraday, we note that the proposals will be developed in parallel with the changes to access rules and technical systems as required to deliver single intraday market coupling. This is collectively referred to by the TSOs as the Local Implementation Project (LIP). The target date of implementation of each TSO's LIP will be indicated in the respective access rules modification proposal.

We consider that intraday market coupling should be implemented as soon as possible as that will ensure maximum benefits for consumers. We also note that industry has requested clarity over the future arrangements for future cross-border capacity allocation (through the Joint European Stakeholder Group). We encourage the relevant TSOs to share more detail with stakeholders on how this will be achieved in GB. In the event of any delay in implementing intraday market coupling, we expect relevant TSOs to justify why this is in the interest of GB consumers.

Finally, the proposals make reference to a binding decision of the Authority on cost recovery. We plan to consult shortly on our proposed approach to cost recovery for electricity interconnectors and NEMOs. Following consultation with stakeholders and consideration of responses we will issue a decision on the matter. However we note that

⁵ <https://www.ofgem.gov.uk/publications-and-updates/request-amendment-proposed-arrangements-more-one-nominated-electricity-market-operator-bidding-zone>

⁶ <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2009:211:0015:0035:EN:PDF> .

the decision on cost recovery is separate from the detailed methodologies, terms and conditions to be developed by TSOs and NEMOs for regulatory approval.

If you have any questions about the contents of this letter please contact David McCrone (david.mccrone@ofgem.gov.uk) in the first instance.

Yours faithfully,

Mark Copley

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