

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

Direct Dial: 020 7901 9662
Email: mark.copley@ofgem.gov.uk

Date: 17 February 2017

Dear colleague,

Request for amendment to the Congestion Income Distribution Methodology

On 24 July 2016, we¹ received a proposal from GB Transmission System Operators (TSOs) in accordance with Article 73(1) of Regulation establishing a guideline on Capacity Allocation and Congestion Management (CACM Regulation).² The proposal was submitted to us by the relevant GB TSOs in line with our assignment of obligations.³

This letter sets out our decision, in line with the all Regulatory Authority agreement, to request an amendment to the Congestion Income Distribution Methodology (CID M) proposal, pursuant to Articles 9(6) and 9(12) of the CACM Regulation, and outlines the necessary next steps that must be taken.

Background

The CID M proposes the methodology to distribute Congestion Income from single day ahead and Intraday coupling. Congestion Income is defined in CACM as the revenues received as a result of capacity allocation.⁴

The CID M is developed by all TSOs. The CACM Regulation requires⁵ the competent Regulatory Authorities to consult and closely cooperate and coordinate with each other in order to reach an agreement and take decisions within six months following receipt of the proposal by the last regulatory authority. The Agency for the Cooperation of Energy Regulators (The Agency) has confirmed that the last Regulatory Authority received the proposal on the 18 August 2016. National decisions are therefore required for this proposal by 18 February 2017.

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 See CACM Regulation here: <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32015R1222> 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 See decision letter here: <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>. At the time of this decision, the relevant TSOs that have been GB assigned responsibilities under Article 73 of the CACM Regulation are BritNed Development Limited, East-West Interconnector Company, Moyle Interconnector Limited, and National Grid Interconnectors Limited.

⁴ Article 2(16) of the CACM Regulation.

⁵ Article 9(10) of the CACM Regulation.

Our Decision

We have reviewed the proposal submitted to us in line with the requirements of the CACM Regulation, the wider objectives of the Regulation (EC) 714/2009,⁶ and our statutory duties and obligations. In making our decisions we consulted with stakeholders. We received two responses to our consultation, from SHE Transmission and FAB Link.⁷

SHE Transmission's response set out its understanding of an aspect of the CID M, in particular in the event that an interconnector was to connect to the SHE Transmission network, it does not expect any Congestion Income to be assigned to SHE Transmission.

FAB Link's response set out a number of areas within the proposal that it considers further clarification or explanation is required. These concerned both definitions within the proposal, as well as how constraints are accounted for in Congestion Income. Information of how we have considered these points in our decision is included in appendix 1.

As required by Article 9(10) of the CACM Regulation, we have consulted, and closely cooperated and coordinated with other Regulatory Authorities in order to reach an agreed position on this proposal. The all Regulatory Authority agreement, reached on 24 January 2017, is attached as annex to this decision letter and constitutes the reasons for our decision.

In line with the all Regulatory Authority agreement, we hereby request BritNed Development Limited, East-West Interconnector Company, Moyle Interconnector Limited, and National Grid Interconnectors Limited to amend the proposed CID M in line with the request set out in the all Regulatory Authority agreement annexed to this decision letter.

Decision to not undertake an Impact Assessment

In line with our minded to position in our consultation letter, we have not undertaken an Impact Assessment for this proposal. This is because the proposal, and the changes requested in the all Regulatory Authority request for amendment, would not constitute a significant change to existing arrangements whereby market revenues are earned and distributed to the GB interconnectors. Accordingly, we consider that an impact assessment is unnecessary. If alternative approaches were proposed for GB interconnectors in the future, we would at that point assess again whether an Impact Assessment is required in making a decision on whether to approve such approaches.

Next Steps

In accordance with Article 9(12) of the CACM Regulation, the relevant GB TSOs must make the amendments to the CID M necessary to address the points set out in the all Regulatory Authority agreement and re-submit an amended proposal to us and to the Agency within two months of this decision; by 20 April 2017.

If you have any queries regarding the information contained within this letter or the all Regulatory Authority agreement in the annex please contact thomas.jones@ofgem.gov.uk.

Yours sincerely,

Mark Copley
Associate Partner, Wholesale Markets

⁶ See Regulation 714/2009: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2009:211:0015:0035:EN:PDF>

⁷ The consultation letter and responses are available here: <https://www.ofgem.gov.uk/publications-and-updates/consultation-congestion-income-distribution-methodology-proposed-all-transmission-system-operators>

Appendix 1: Consultation responses – areas for clarification

	Area	How it has been assessed in our decision
1	The definition of and calculation methodology for “allocated capacity” (Article 4 of the Proposal) used in the case of HVDC Interconnectors for the distribution of the Congestion Income.	The all Regulatory Authorities position paper requests an amendment for the All TSO proposal to provide clarity on this definition and the interaction with the calculation of Congestion Income.
2	The reference to Long Term Rights in the collection of Congestion Income arising from the Single Day-Ahead Coupling and the Single Intraday Coupling (Chapter IV of the CID methodology) – are these just not nominated or returned LTRS’s [<i>Long Term Transmission Rights</i>]?	The all Regulatory Authorities position paper requests greater clarity that the income from, and remuneration of LTTRs is not in scope of this methodology.
3	How transmission losses and ramp rates are accounted for in the allocation per Interconnector of the Congestion Income.	It is our view that this is out of scope of the CID M.
4	Whether any constraints caused by the national AC networks may have an impact on the capacity of GB interconnectors made available for the day-ahead and intraday markets.	It is our view that this is out of scope of the CID M.
5	We should also be grateful if further clarity was provided as to whether the rules addressing “non-intuitive Commercial Flows” and non-negative Net Border Income in Chapter V. 3 b & c of the proposed CID Methodology are, or may in the future be, applicable to the GB market.	The all Regulatory Authorities position paper requests an amendment to these additional rules.