

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

Direct Dial: 020 7901 9662
Email: Mark.Copley@ofgem.gov.uk

Date: 13 October 2017

Dear colleague,

Approval of the HAR Regional Annexes for the Ireland – United Kingdom region and for the Channel region
Approval of the Single Allocation Platform methodology and of its cost sharing methodology
Approval of the Ireland-United Kingdom regional design of long-term transmission rights
Request for amendment of the Channel regional design of long-term transmission rights

Between 13 and 18 April 2017, we¹ received seven proposals from GB Transmission System Operators (TSOs) in accordance with Articles 31 and 49 - 52 of the guideline on Forward Capacity Allocation (the FCA Regulation).² Those proposals related to the Harmonised Allocation Rules (HAR); two HAR regional annexes for the Ireland-United Kingdom (IU) region and the Channel region; the Single Allocation Platform (SAP) methodology and the SAP cost sharing methodology; and two methodologies on the design of long-term transmission rights (LTTRs) for the IU and Channel regions. The proposals were submitted to us by the relevant GB TSOs in line with our assignment of obligations.³

This letter sets out our decision to approve the two HAR regional annexes, the SAP and the SAP cost sharing methodologies and the IU regional design of the LTTRs pursuant to Article 4(9) of the FCA Regulation.

It also sets out our decision to request an amendment to the Channel regional design of the LTTRs proposal pursuant to Article 4(11) of the FCA Regulation.

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 [Commission Regulation \(EU\) 2016/1719 establishing a guideline on forward capacity allocation](#). The FCA Regulation came into force 16 October 2016. It builds on the Commission Regulation (EU) 2015/122 of 24 July 2015 establishing a guideline on capacity allocation and congestion management (CACM Regulation) to maximise efficiency in cross-border electricity trading. Specifically, the FCA Regulation provides a harmonised framework for forward capacity markets to allow market participants to hedge positions before the day ahead timeframe.

³ See mTSO decision letter here: <https://www.ofgem.gov.uk/publications-and-updates/decision-our-consultation-assignment-transmission-system-operator-obligations-under-requirements-generators-demand-connection-high-voltage-direct-current-and-forward-capacity-allocation-regulations-within-gb> The relevant GB TSOs that were assigned responsibilities under Article 31 and 49 - 52 of the FCA Regulation are BritNed Development Limited, National Grid Interconnectors Limited, EirGrid Interconnector Designated Activity Company (EIDAC), and Moyle Interconnector Ltd.

This letter however does not cover the approval of the HAR. As they could not find an agreement, Regulatory Authorities submitted the HAR to ACER for decision on 16 August 2017 in accordance with Article 4(10) of the FCA Regulation. ACER's decision on the HAR methodology was adopted on 2 October 2017⁴.

This letter concludes with an outline of the necessary next steps.

Background

The proposals for the SAP and SAP cost sharing methodologies are pan-EU proposals, developed by all EU TSOs. The HAR regional annexes and regional design of LTTRs are regional proposals developed by the relevant TSOs within each capacity calculation region (CCR).⁵

The FCA Regulation requires 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 proposals by the last Regulatory Authority⁶. ACER has confirmed that all proposals were received by all Regulatory Authorities on 13 April 2017 at the latest, with the exception of the proposal on the regional design of LTTRs for the Channel Region which was last received on 18 April 2017. National decisions on those proposals are therefore required by 13 October 2017 with the exception of the proposal for the regional design of LTTRs for the Channel region which is required by 18 October 2017 at the latest.

HAR and regional annexes

The FCA Regulation requires all TSOs to jointly develop a set of Harmonised Allocation Rules for the TSOs to comply with for the trading of LTTRs. The TSOs in the IU and Channel Regions have also submitted separate regional specificities, submitted as annexes to the HAR. These HAR regional annexes include the date at which they will take effect.

The SAP and SAP cost sharing methodologies

The FCA Regulation requires a common proposal for a set of functional requirements and for the establishment of a single allocation platform. This proposal includes governance and the technical functionalities and tasks of the platform. The submission proposes that the company known as Joint Allocation Platform (JAO) operates the SAP. JAO is a joint service company owned and operated by TSOs. It already performs yearly, monthly and daily auctions of transmission rights on 27 borders in Europe as well as acting as a fallback for market coupling. It has been allocating forward capacities in line with the HAR pilot project since 1 January 2015.

Article 59 of the FCA Regulation sets out that all TSOs issuing LTTRs on the SAP shall jointly bear the costs using a sharing methodology that shall be reasonable, efficient and proportionate. The proposal sets out the cost sharing per SAP task will be based on different combinations of two-cost sharing keys: (i) per allocation border; and (ii) per TSO. This approach seeks to ensure a fair distribution of costs where TSOs with more borders are required to pay a proportionately higher share of the common costs.

⁴ And can be found here: http://www.acer.europa.eu/Official_documents/Acts_of_the_Agency/Pages/Individual-decision.aspx

⁵ As per Article 2(3) of the CACM Regulation: A capacity calculation region means the geographic area in which coordinated capacity calculation is applied.

⁶ Article 4(9) of the FCA Regulation.

Regional design of LTTRs

The Channel and IU LTTR proposals set out the LTTR products that TSOs propose to offer on each bidding zone border (BZB) within the relevant CCR. Annex 1 sets out the details of these proposals.

Our Decision

We have reviewed the proposals submitted to us in line with the requirements of the FCA Regulation, the wider objectives of the Regulation (EC) No 714/2009,⁷ and our statutory duties and obligations. In making our decisions we have considered how TSOs took into account the views expressed during the mandatory public consultation on the proposals.⁸ We have also consulted GB stakeholders on all proposals through the Joint European Stakeholder Group.⁹

As required by Article 4(9) of the FCA Regulation, we have consulted, and closely cooperated and coordinated with other Regulatory Authorities in order to reach agreement on these proposals. The relevant Regulatory Authorities found agreements on:

1. the SAP and SAP cost sharing methodologies on 18 September 2017;
2. the Channel HAR regional annex on 26 September 2017;
3. the IU HAR regional annex on 9 October 2017;
4. the IU regional design of LTTRs on 11 October 2017; and
5. the Channel regional design of LTTRs on 9 October 2017.

These agreements are attached as annexes to this decision letter and constitute the reasons for our decisions.

In line with the above-mentioned Regulatory Authority agreements, we hereby adopt the following decisions:

1. Approve the SAP and the SAP cost sharing methodology proposed by Moyle Interconnector Limited, EirGrid Interconnector Designated Activity Company (EIDAC), BritNed Development Limited, and National Grid Interconnectors Limited;
2. Approve the Channel HAR regional annex proposed by BritNed Development Limited and National Grid Interconnectors Limited;
3. Approve the IU HAR regional annex proposed by Moyle Interconnector Limited and EIDAC;
4. Approve the IU regional design of LTTRs proposed by Moyle Interconnector Limited and EIDAC;
5. Request BritNed Development Limited, National Grid Interconnectors Limited and NEMO Link Limited to amend the proposed Channel regional design of LTTRs in line with the request set out in the Regulatory Authority agreement annexed to this letter.

⁷ Regulation (EC) No 714/2009 here: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2009:211:0015:0035:EN:PDF>

⁸ The consultation documents and information are available on the ENTSO-E website, here: <https://www.entsoe.eu/news-events/entso-e-consultations/Pages/default.aspx>

⁹ More information about JESG is available here: <http://www2.nationalgrid.com/UK/Industry-information/Electricity-codes/European-network-code/Joint-European-Stakeholder-Group/>

Decision not to undertake an Impact Assessment

We have not undertaken an impact assessment for these proposals. The HAR and HAR Annex proposals, and SAP and SAP Cost Sharing proposals, merely relate to parameters and processes necessary for the implementation of the FCA Regulation which has already been subject to an impact assessment. The proposals for the IU and Channel LTTR methodologies do not constitute a significant change to existing GB requirements and arrangements. For these reasons, we do not consider there to be value in undertaking impact assessments on these proposals.

Next steps

SAP and SAP cost sharing methodologies

In accordance with the above mentioned Ofgem decisions, the SAP and SAP cost sharing methodologies will take effect on each bidding zone border with direct current interconnectors within 24 months of the approval (13 October 2019). All GB TSOs must publish the SAP and SAP cost sharing methodologies on the internet in line with Article 4(13) of the FCA Regulation.

HAR regional annexes

In accordance with the decisions, the Channel HAR regional annex will take effect in the Channel region on 1 January 2018. The Channel TSOs must publish the IU HAR regional annex on the internet in line with Article 4(13) of the FCA Regulation.

In accordance with the decisions, the IU HAR regional annex will take effect in the IU region at I-SEM market go-live¹⁰. The IU TSOs must publish the IU HAR regional annex on the internet in line with Article 4(13) of the FCA Regulation.

Regional design of LTTRs

In accordance with this decision, the IU regional design of LTTRs will take effect at I-SEM market go live. The IU TSOs must publish the regional design of LTTRs on the internet in line with Article 4(13) of the FCA Regulation.

In accordance with Article 4(11) of the FCA Regulation, BritNed Development Limited, National Grid Interconnectors Limited and NEMO Link Limited must make the necessary amendments to the Channel regional design of LTTRs proposal to address the points set out in the all Channel Regulatory Authority agreement. They must re-submit an amended proposal to us within two months of this decision, i.e. by 13 December 2017.

If you have any queries regarding the information contained within this letter, or the Regulatory Authority agreements in the annexes please contact Matthew Ramsden at matthew.ramsden@ofgem.gov.uk.

Yours sincerely,

Mark Copley
Associate Partner, Wholesale Markets

¹⁰ As per the IU proposal: I-SEM is the name given to the project to redesign the single electricity market on the island of Ireland in order to implement the European target model for electricity, due to go live in May 2018.

Annex 1

Channel LTTR proposal:

CCR	BZB	Product	Timeframes	Form	Implementation date
Channel	GB:FR	PTRs ¹¹	Annual Seasonal Quarterly Monthly Weekend	Base load	Approval of proposal
	GB:NL	PTRs or FTR – options	All GB:FR timeframes + Weekly + Easter Weekend + Long weekend	Base load Peak load Off-peak load	LTTRs issued by the Single Allocation Platform ¹²
	GB:BE	PTRs	All GB:FR timeframes + Weekly	Base load Peak load Off-peak load	First provisional auction specification for LTTRs published

IU LTTR proposal:

CCR	BZB	Product	Timeframes	Form	Implementation date
IU	GB:SEM	FTR – options ¹³	Yearly calendar Yearly non-calendar Seasonal Quarterly Monthly Other timeframes considered in 2 years	Base load Peak load & off-peak load available for delivery from 2020	I-SEM go live date (expected 23 May 2018)

¹¹ PTRs refers to physical transmission rights as defined by Article 32 of the FCA Regulation.

¹² As per Article 2(4) of the FCA Regulation: The Single Allocation Platform means the European platform established by all TSOs for forward capacity allocation.

¹³ FTR – options refers to financial transmission rights – options as defined by Article 33 of the FCA Regulation.