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Andrew Stone
Networks Commercial
Ofgem
9 Millbank
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31st March 2017

Dear Andrew,

Consultation on proposed approach to cost recovery in relation to Capacity Allocation and Congestion Management (CACM) mechanisms for electricity interconnectors

This response is on behalf of National Grid Interconnectors Limited, joint operator of the IFA interconnector.

The adoption of CACM and designation of NEMOs has clarified the roles and legal responsibilities of all the parties involved in market coupling, as well as setting the principles upon which costs should be recoverable by those parties undertaking obligations imposed on them by CACM. The specific arrangements within each Member State fall to the individual regulators to approve and we thus recognise Ofgem's role in this matter and the importance of this consultation in ensuring that the GB arrangements are compliant with the CACM requirements.

Prior to CACM entering into force in August 2015, market coupling in North West Europe evolved over several years, with support strongly encouraged from ACER, Regulators and the European Commission, but without any formal legal obligation. The pilot projects were progressed on a voluntary basis with interim contractual arrangements put in place and before the designation of power exchanges as nominated electricity market operators (NEMOs) was possible under CACM. There was thus no direct role for Regulators to approve NEMO costs and their recovery route, therefore the TSOs involved in the pilot projects funded the participating power exchanges on the understanding that the TSOs would be allowed to recover those costs, and we welcome Ofgem's recognition of this in the consultation.

We include below some specific comments on the consultation but we would like to note that the consultation does not cover TSO development costs in complying with CACM, and we look forward to working with Ofgem to understand how the TSO cost recovery articles in CACM, and indeed the other network codes/guidelines should be implemented in GB.

Recovery of CACM Development Costs

Creation of the infrastructure to provide the CACM capability is the fundamental part of the internal energy market that CACM brings about, and article 7.2(a) of CACM states that NEMOs are responsible for “developing and maintaining the algorithms, systems and procedures for single day-ahead and intraday coupling”. Article 76.1¹ states that NEMOs shall bear the costs of establishing, updating or further developing the algorithms for day-ahead and intra-day coupling. The IT systems, licences and service contracts are all owned by the NEMOs, and future changes will be under their control.

It is our view that NEMOs have the primary role in developing these systems and it is therefore appropriate that costs incurred by them are subject to regulatory scrutiny and should be recoverable in accordance with CACM (article 76.3), and not via congestion revenue. Congestion revenue is calculated based on the price difference, (if any), between bidding zones and CACM provides no possibility of increasing this revenue to recover any costs. We strongly contend that congestion revenue cannot therefore be considered as a cost recovery route.

While article 76.2 makes provision for TSOs to voluntarily make a contribution to the NEMO costs, this clause is intended for those member states that wish for NEMO costs to be borne on the same basis as their TSO’s CACM costs i.e. through network tariffs. If Ofgem wish to allow NEMOs to recover their costs via network tariffs then a recovery route could be implemented directly between the NEMOs and the GBSO.

Recovery of CACM Operating Costs

We agree with Ofgem that the operational costs are NEMOs costs, as they relate to matching, clearing and settling energy market transactions, which under CACM are NEMO tasks (article 7). We also support the proposal that equivalent arrangements should apply to NEMOs passporting into GB as well as those designated by Ofgem.

Pilot Projects

We agree with Ofgem’s proposal for the recovery of the development costs associated with the pilot projects.

The pilot projects were encouraged and supported by regulators, ACER and the European Commission due to the consumer benefits that would be realised by early implementation of the anticipated provisions of CACM. The projects were undertaken on a voluntary basis and against a clear backdrop of regulatory support for cost recovery. We therefore agree that recovery of the development costs

¹ All references relate to clauses in CACM.

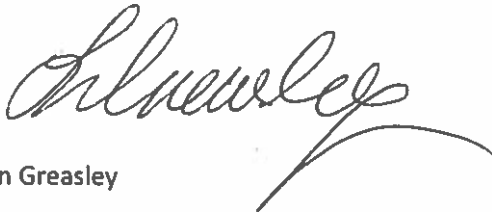
associated with the pilot projects² via TNUoS is entirely consistent with the understanding on which the parties entered into these projects.

It is however also our view that the operational costs associated with the pilot projects should be treated on the same basis, and recoverable via TNUoS, as that was the understanding the parties had when participating in the pilot projects, and consistent with arrangements in place in the other countries involved.

In terms of transition to the enduring CACM arrangements, this should be as from the 14th February 2017 for both projects, as that is the date specified for approval of both the day-ahead and intra-day arrangements in the "Request for amendment by all NRAs agreed at the energy regulators' forum on all NEMOs' proposal for the plan on joint performance of MCO functions (MCO Plan), 26.09.2016". As discussed above, recovery of power exchange costs via network tariffs is consistent with CACM, so recovery of all NEMO operational costs, and the development costs already committed up to the 14th February 2017, should be via TNUoS.

If you require any further information about any aspect of this response, then please do not hesitate to contact me.

Yours sincerely



John Greasley

Customer and Regulatory Manager

² Including development of the GB Hub arrangements, required to ensure a single GB reference price and fair treatment of both GB Power Exchanges.

