Interconnector TSOs,
Nominated Electricity Market
Operators and other interested
parties

Email: mark.copley@ofgem.gov.uk

Date: 5 June 2018

Dear colleague,

Updated minded-to position on approach to cost sharing and cost recovery under the Capacity Allocation and Congestion Management (CACM) Regulation

In March 2017, we consulted on our proposed approach to cost recovery in relation to Commission Regulation (EU) 2015/1222 on capacity allocation and congestion management (the CACM Regulation).[1]

We received 11 responses (two of which were marked as confidential) to this consultation (the First Consultation). All non-confidential responses have been published alongside this consultation. We have taken these responses into account in formulating our revised proposal and also further engaged with relevant industry parties.

We are now seeking views on an updated minded-to position with respect to our proposed approach to cost sharing and cost recovery under the CACM Regulation. This consultation is structured as follow:

[1] Commission Regulation (EU) 2015/1222 of 24 July 2015 establishing a guideline on capacity allocation and congestion management: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32015R1222&from=EN

1. Background

(a) Legal framework

The CACM Regulation, which came into force on 14 August 2015, is a central component of the Internal Energy Market, as set out in the EU Third Energy Package. [2] It aims to maximise the efficient use of interconnection and facilitate greater cross-border electricity trade. It seeks to do this by introducing rules for market coupling and providing the legal framework for a single, modern and more efficient capacity allocation and congestion management system in both the day-ahead and intraday timeframe. Market coupling should ensure that power is produced where it is most efficient and transported to areas of consumption where it is most valued.

Articles 75 to 77 and Article 80 of the CACM Regulation specify the various categories of costs that shall be borne by Nominated Electricity Market Operators (NEMOs)[3] and Transmission System Operators (TSOs).[4]

Article 9(8) provides that Ofgem, as the relevant National Regulatory Authority (NRA), is responsible for approving capacity allocation and congestion management costs in accordance with Articles 75 to 79 of the CACM Regulation.

Article 80 requires the NEMOs and TSOs to provide a yearly report to the NRA in the relevant Member State, in which the costs of establishing, amending and operating Single Day Ahead Coupling (SDAC) and Single Intraday Coupling (SIDC) are explained in detail and broken down into:

(a) common costs from activities of all NEMOs or TSOs participating in SDAC and SIDC,
(b) regional costs from activities of NEMOs or TSOs co-operating in a certain region; or
(c) national costs from activities of the NEMOS or TSOs in that Member State.

NRAs have previously issued informal guidance to NEMOs and TSOs on how to apply the cost provisions in Article 80.[5] This guidance, issued in May 2017 to the All NEMOs Committee and ENTSO-E makes clear that the above costs have to be defined as:

- TSO costs,
- NEMO costs, or
- Joint TSO-NEMO costs.

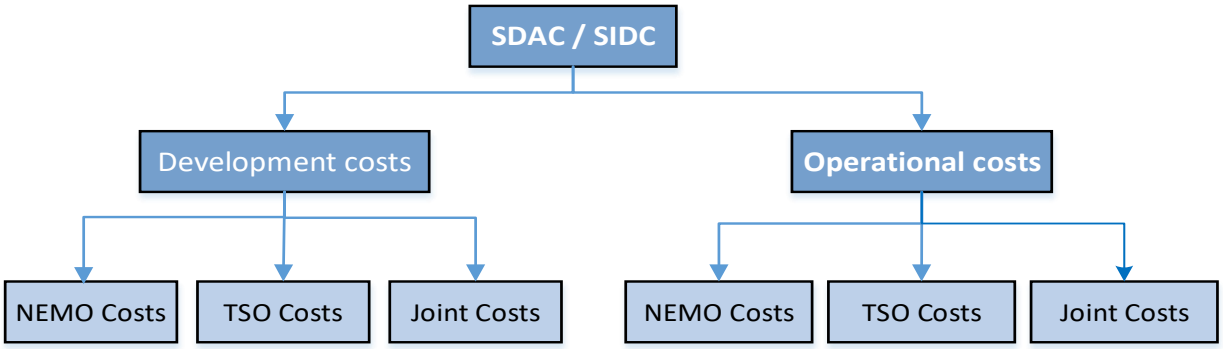
The above costs categories can be further split into costs related to:

- Establishing and amending SDAC and SIDC (development costs); and
- Operational costs for SDAC and SIDC.

The following illustration summaries the breakdown and structure of costs that applies to both to SDAC and SIDC:

[2] The most relevant EU Third Energy Package instruments in this context are Directive 2009/72/EC and Regulation (EC) 714/2009.
[3] Pursuant to Article 4 Ofgem has designated Nord Pool and EPEX SPOT as NEMOs in Great Britain.
[4] In the context of this consultation, any references to a TSO is a reference to a GB interconnector owner/operator.
[5] Informal guidance to NEMOs and TSOs on how to apply the cost provisions set forth in Article 80 of the Commission Regulation (EU) 2015/1222 of 24 July 2015 establishing a Guideline on Capacity Allocation and Congestion Management, issued May 2017 to All NEMOs Committee and ENTSO-E.

Figure 1: Costs breakdown and structure[6]



The CACM Regulation also provides Ofgem, as the relevant competent authority for Great Britain (GB), with some degree of discretion in relation to appropriate arrangements for the recovery of such costs in GB. In particular:

- Article 75(1) provides that reasonable, efficient and proportionate costs[7] incurred by TSOs shall be recovered through network tariffs or other appropriate means as determined by the competent regulatory authority;

- Article 75(2) provides that:

    - the GB share of common costs and regional costs resulting from the co-ordinated activities of all NEMOs or TSOs; and
    - national costs resulting from the activities of NEMOs or TSOs in GB

  shall be recovered through NEMO fees, network tariffs or other appropriate mechanisms as determined by the competent regulatory authorities;

- Article 76(3) provides that reasonable, efficient and proportionate costs incurred by NEMOs in relation to establishing, amending and operating market coupling[8] shall be recovered through fees or other appropriate mechanism under national agreements with the competent regulatory authority.

(b) The First Consultation and our previously proposed approach

In the First Consultation we set out our minded-to position on cost recovery[9] under CACM Regulation. The consultation set out our proposed approach with respect to the arrangements for recovery of costs for:

- the North West Europe (NWE) price coupling and Cross Border Intraday (XBID) pilot projects, and
- the enduring cost recovery arrangements (to apply from the end of the pilot phases).

[6] The costs breakdown and structures for SDAC and SIDC are shown in Figure 1 under a single diagram. However, in line with NRA guidance of May 2017, SDAC and SIDC costs have to be reported separately.
[7] Meaning costs arising from obligations imposed on TSOs under Articles 8, 74 and 76 to 79 of the CACM Regulation.
[8] ie the costs which have not, pursuant to Article 76(2), been recovered from any voluntary contribution from TSOs.
[9] March 2017 consultation on proposed approach to cost recovery in relation to Capacity Allocation and Congestion Management mechanisms for electricity interconnectors: https://www.ofgem.gov.uk/system/files/docs/2017/03/consultation_on_cacm_cost_recovery_20170228.pdf

The First Consultation proposed the following approach in relation to cost recovery for (a), the CACM pilot projects and (b), for enduring arrangements that would apply following the end of the pilot phases:

(i) Pilot projects

We proposed to allow the relevant TSOs[10] to recover development costs related to the NWE and the XBID pilot projects from Transmission Network Use of System (TNUoS) charges[11] for development costs incurred before 14 August 2015 and 14 February 2017[12] respectively.

We also proposed that any development costs incurred after that date should be borne by the TSOs themselves and paid for from their congestion revenues. We further proposed that the operational costs for both the NWE and XBID pilot projects should be borne by the NEMOs.

The proposed approach, as set out in the First Consultation, is summarised in the following table.

Table 1: Overview of approach to CACM pilot project costs as set out in the First Consultation

NWE Project	**Date incurred**	**Recovery from**
Development costs	Before 14 August 2015	TNUoS charges
	After 14 August 2015	congestion revenues of GB TSOs
Operational costs	Before 14 August 2015 and After 14 August 2015	NEMOs
XBID Project	**Date incurred**	**Recovery from**
Development costs	Before 14 February 2017	TNUoS charges
	After 14 February 2017	congestion revenues of GB TSOs
Operational costs	Before 14 February 2017 and After 14 February 2017	NEMOs

(ii) Enduring arrangements

Our initial proposed approach on the allocation of CACM Regulation related costs was largely based on a distinction of whether the costs related to the creation and provision of infrastructure to provide market coupling capability on the one hand (development costs), or costs associated with making use of that capability to make power trades, including clearing and settlement costs, (operational costs) on the other.

Ultimately, this approach attributed all enduring development costs to TSOs and all enduring operational costs, including clearing and settlement costs, to the NEMOs.

[10] The relevant TSOs being IFA and BritNed, which were the two GB TSOs that participated in the CACM pilot projects.
[11] In line with comfort letter dated 22 June 2015 with respect to the NWE pilot project and letters dated 16 January 2014 and 31 March 2015 with respect to the XBID pilot project.
[12] 14 August 2015 for the NWE pilot project on the basis that this is the date on which the CACM Regulation came into force and so the 'pilot phase' of the NWE price coupling project came to an end. 14 February 2017 for the XBID pilot project on the basis of it being the backstop date by which all NRAs acknowledged -through the joint Request for Amendment on the all NEMO Proposal for the Market Coupling Operator Plan- that the XBID project is the pan-European solution for SIDC and agreed that from this date onwards all relevant costs must be treated in accordance with CACM Regulation.

Following consideration of responses to the First Consultation and further bilateral discussions with relevant parties, we have reviewed and revised our proposed approach in relation to cost recovery under the CACM Regulation as set out below.

2. Our proposed revised approach

We set out below our updated minded-to position with respect to how costs related to the CACM Regulation should be shared between relevant parties and the appropriate mechanism for recovery of such costs in GB. A diagram providing an overview of our proposed enduring framework can be found in Appendix 1.

(a) Pilot projects

We note that some respondents raised concerns with our proposed approach to costs relating to the NWE and XBID pilot projects, as set out in our First Consultation. In particular, with respect to the timings and scope of our proposed arrangements for the pilot projects, specifically:

- regarding the proposed dates on which the pilot phases of the NWE and XBID projects should come to an end and the enduring arrangements apply; and
- whether it was appropriate to allow for the recovery of development costs but not operational costs.

A number of respondents suggested that the different dates we proposed for the NWE and XBID pilot projects to transition from pilot phase to the enduring arrangements under the CACM Regulation should be aligned to a single date and set to 14th February 2017[13] for both projects. While other respondents stated that the enduring arrangements should only apply once all CACM related tasks had been completed.

Some respondents expressed the view that operational costs for both of the CACM pilot projects should, in line with the understanding parties had at the time of participation in the pilot projects, be treated on the same basis as development costs and so be recoverable from TNUoS charges.

Following consideration of consultation responses, we have reviewed and revised our proposed approach to arrangements for the CACM pilot projects as follows:

- To ensure consistency with the all NRA agreed position, set out in our decision to approve the Market Coupling Operator Plan (MCO) plan[14], we consider it appropriate to **align the pilot phase end dates for both pilot projects with the date of 14 February 2017**;

- We acknowledge that letters[15] issued by NRAs regarding arrangements for the recovery of pilot project costs may have created a degree of uncertainty with respect to how such costs would be recovered. Further, this uncertainty may have contributed to expectations on the part of relevant parties having been formed at the time of participation in the pilot projects, that development and operational costs would be treated on the same basis in terms of cost recovery. In recognition of

[13] This being the date specified in the "Request for amendment by all NRAs agreed at the energy regulators forum for all NEMOs proposal for the plan on joint performance of MCO functions (MCO plan)" as the latest date from which all costs incurred "shall be treated in accordance with the Regulation 2015/1222" https://www.ofgem.gov.uk/system/files/docs/2017/02/all_nra_position_paper_mco_plan.pdf

[14] Approval of the MCO Plan proposed by all Nominated Electricity Market Operators https://www.ofgem.gov.uk/publications-and-updates/approval-market-coupling-operator-plan-proposed-all-nominated-electricity-market-operators

[15] Letters issued by NRAs, dated 22 June 2015 with respect to the NWE pilot project and dated 16 January 2014 and 31 March 2015 with respect to the XBID pilot project.

this, we consider it appropriate to revise the scope of the proposed arrangements for recovery of pilot projects costs set out the in Frist Consultation. We propose to do this by extending the scope of the pilot project cost recovery arrangements. In particular, we propose that, **efficiently incurred, reasonable and proportionate pilot project development and operational costs incurred before 14 February 2017 for both pilot projects are to be recovered from TNUoS charges.**

We recognise that the nature of contracts[16] entered into by the relevant TSOs in relation to the pilot phase of the NWE and XBID projects may be such that, whilst costs have been contractually committed to, they have not actually been incurred before the 14 February 2017 cut-off date. Therefore, we propose to **allow for the recovery of efficiently incurred, reasonable and proportionate costs that were contractually committed to prior to 14 February 2017 but not actually incurred by this date where supporting documents[17] can be provided in evidence.**

(b) Enduring arrangements

Our proposed enduring framework for cost sharing and cost recovery under the CACM Regulation, as set out below, is intended to apply from 14 February 2017[18] onwards and we expect the same principle to apply for common, regional and national costs.

Following consideration of responses to the First Consultation and after extensive further bilateral engagement with relevant parties, we have reviewed and revised our proposed approach to enduring arrangements as follows:

(i) Cost sharing (initial cost allocation)

We have re-evaluated whether the approach that we set out in the First Consultation, of allocating costs according to whether they relate to development or operation of market coupling, was the most appropriate and proportionate approach.

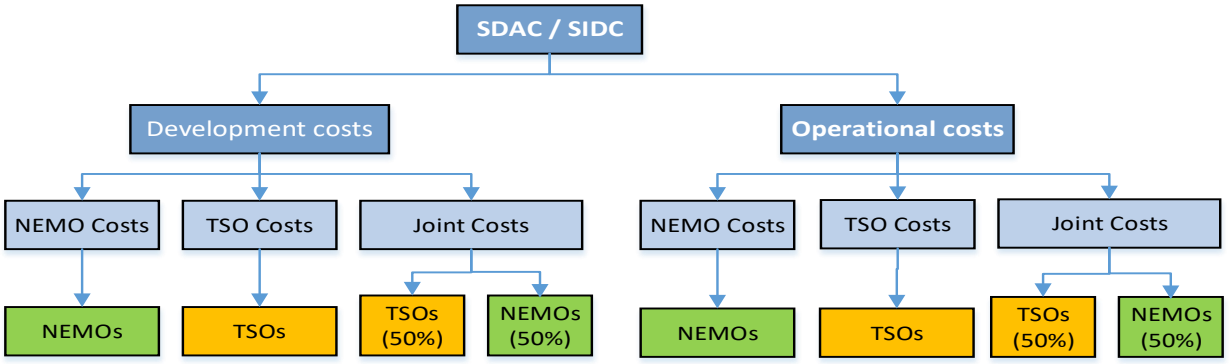
We acknowledge that there were a number of potential deficiencies with this approach. For example, it does not fully consider or reflect the joint NEMO-TSO costs category.

It also could inadvertently result in NEMOs bearing the TSOs' share of operational costs as well as the TSOs' share of joint operational costs, thereby potentially placing a disproportionate share of enduring operational costs on NEMOs.

We have therefore concluded that allocating NEMO and TSO costs according to a purely functional split, with joint NEMO-TSO costs shared between parties on a 50:50 basis, is a more appropriate and proportionate approach for initial cost allocation. This revised approach to the initial allocation of enduring development and operational costs is illustrated in Figure 2 below.

[16] Such contracts may typically include a schedule of milestone payments over a period of time rather than an upfront payment for the entire contract value.
[17] This may be in the form of a copy of the contracts and milestone payments schedule.
[18] Following the end of the NWE and XBID pilot phases on 13 February 2017.

Figure 2: Cost sharing prior to introduction of cost recovery



It should be noted that the diagram above illustrates how costs are shared and borne in the first instance, **before** any element of cost recovery is introduced. The introduction of appropriate mechanisms for cost recovery for certain categories of cost alters[19] who ultimately bears that particular category of cost from that shown above. Our proposed arrangements for the recovery of enduring costs is set out below.

(ii) Cost recovery

We have already set out above that we propose to allow all development and operational costs for the pilot phases of the NWE and XBID projects to be recovered from TNUoS charges. In this section we discuss our proposed cost recovery framework for enduring (post pilot phase) costs related to SDAC and SIDC. We envisage the principles of this enduring framework to apply to common, regional and national costs.

The CACM Regulation allows Ofgem to determine the "*appropriate mechanism*" for cost recovery in relation to both NEMO and TSO costs. Specifically, it allows Ofgem to determine the appropriate mechanism for the recovery of:

- The GB share of costs arising from obligations imposed on TSOs under the relevant Articles of the CACM Regulation[20];
- The GB share of NEMOs' costs in respect of establishing, amending and operating market coupling (common and regional costs)[21];
- The GB share of common and regional costs resulting from activities of NEMOs and TSOs and national costs arising from the activities of NEMOs or TSOs.[22]

(a) Recovery of enduring development costs

We continue to consider it appropriate for **all enduring development costs to be borne by TSOs.** This is because the market coupling capability forms an integral part of TSOs' interaction with market participants, allowing for efficient allocation of their respective interconnector capacities. **NEMOs should therefore be allowed to recover their share of common, regional and national enduring developments costs from the TSOs**.

[19] Under our proposed enduring arrangements, NEMOs' enduring development cost are ultimately borne by (recovered from) TSOs.
[20] Articles 75(1) allows Ofgem to determine the appropriate mechanisms for TSO costs arising from Articles 8, 74 and 76 to 89 of the CACM Regulation.
[21] Article 76(3)
[22] Article 80(2)

We stress that our proposals for the recovery of enduring development costs by NEMOs from TSOs is limited to efficiently incurred, reasonable and proportionate costs that are intrinsically linked to enabling or facilitating the development of the SDAC & SIDC functionality. This means that enduring development costs:

- related to any NEMO-specific or otherwise bespoke functionality or service(s);and[23]
- which are not related to the development of an integral part of the market coupling functionality, as required to be established under the CACM Regulation

are excluded from being eligible for recovery by NEMOs from TSOs.

Going forward, we would encourage the TSOs and NEMOs to constructively engage in order to determine whether particular enduring development cost items are recoverable under the parameters outlined above. In the event that TSOs and NEMOs fail to reach an agreement on particular enduring development cost items, we will seek to facilitate discussions between the parties with a view to assisting them to reach an agreement on the eligibility for cost recovery.[24]

(b) Recovery of enduring operational costs

As discussed above, we have revised our proposed approach to the allocation of enduring operational costs, from all such costs being allocated to NEMOs, to allocating operational costs according to a functional split.[25]

We consider that the **appropriate mechanism for the recovery of TSO enduring operational costs is through GB Interconnectors' congestion revenue.**

We consider that **the appropriate mechanism for the recovery of NEMO enduring operational costs is through fees charged to users of NEMOs' service(s) (i.e. traders)**

(c) Clearing and settlement costs

In the First Consultation we proposed that **Clearing and Settlement costs should be borne by NEMOs and are not recoverable from TSOs.[26]** We continue to consider this to be the most appropriate arrangement. In our view, competition between NEMOs over the provision of services such as clearing and settlement is essential to keep the relevant costs at efficient levels. This is a central reason for opting for a competitive instead of a monopoly NEMO regime in GB.

We consider that **the appropriate mechanism for NEMOs to recover costs related to the clearing and settlement service they provide should be through fees charged by NEMOs to users of that service (ie traders).**

[23] We note that Article 6(1)(c) requires NEMOs, in their internal accounting, to keep separate accounts for MCO functions and other activities in order to prevent cross-subsidisation.
[24] Where agreement still cannot be reached, we will make a determination on whether a particular cost is recoverable. However, we would expect such interventions to be limited.
[25] The costs associated with NEMO operational functions and TSO operational functions are borne by NEMOs and TSOs, respectively.
[26] Except where NEMOs offer a service to a TSO in respect of management of congestion income and delivery of functions under the approved methodology on arrangements concerning more than one NEMO in a bidding zone. The approved methodology can be found under the link here.

(iii) Key issues on cost recovery raised in the First Consultation responses

We note that our proposed revised approach to the recovery of enduring costs, as set out in this consultation, does not reflect some of the views expressed by certain stakeholders responding to the First Consultation, who consider that enduring costs should be recoverable via TNUoS charges.

However, we deem it important and necessary to consider the CACM Regulation cost recovery provisions in the specific context of the GB energy market and take into account the particular circumstances of interconnector TSOs in GB as compared to the typical arrangements of interconnector TSOs in other Member States.

In the vast majority of European Union (EU) Member States, interconnectors are part of an integrated national TSO and form part of that TSO's Regulated Asset Base (RAB). Their revenues are underwritten by the electricity consumers of the host Member State and these TSOs receive a regulated return underwritten by those consumers. Any surplus revenue is also shared with consumers. In contrast, GB interconnectors are not part of a GB national TSO, but commercial and separately licensed entities operating on a primarily merchant basis.

In our view, these factors need be taken into account when determining the "appropriate mechanism" for cost recovery in GB. Indeed, the CACM Regulation itself requires cost recovery arrangements to be addressed at a national level, recognising that the "appropriate mechanism" may vary between Member States.

We note that a number of respondents to the First Consultation, including TSOs and NEMOs, consider that the concept of 'recovery' in the CACM Regulation implies that enduring costs related to SDAC and SIDC are recoverable from a third party.

Further, according to these respondents, this 'third party' should be GB consumers as they are the ultimate beneficiaries of market coupling and consequently the appropriate recovery mechanism is through network tariffs (TNUoS charges).

We acknowledge that market coupling of the day ahead and intraday market does indeed provide benefits to GB consumers. However, we also note that the proposals set out in this consultation allow for the recovery of efficiently incurred, reasonable and proportionate development and operational costs for the pilot phases of both the NWE and XBID projects from TNUoS charges. We consider this to be an appropriate contribution from GB consumers to reflect the gained benefit. We also note that pilot project development and operational costs constitutes a significant portion of the overall costs of establishing SDAC and SIDC.

However, GB consumers are not the only beneficiaries of market coupling; TSOs and NEMOs also benefit in their respective commercial operations. TSOs, through more efficient capacity allocation and NEMOs, by being able to offer their customers the access to the coupled day-ahead and intraday markets.

Given that TSOs and NEMOs also benefit from the provision of market coupling capability, we do not consider it appropriate for the enduring cost of that capability (development or operational) to be recoverable from GB consumers at little or no cost to the parties themselves. We consider this to be a disproportionate and inequitable solution, given that these parties are largely commercial[27] entities that earn commercial revenues, any profit from which is not shared with GB consumers.[28]

[27] With the exception of East-West interconnector which is wholly supported by Irish consumers and the Moyle interconnector which is a mutualised company, wholly owned by Northern Irish consumers.

For the reasons mentioned above, and acknowledging the specific characteristics of the GB energy market- in particular, the merchant nature of the GB interconnector regime being different to the arrangements prevalent in majority of EU Member States Europe - we do not consider it appropriate for GB consumers to bear the costs of SDAC or SIDC on an enduring basis.

(c) Cost sharing keys

(i) Common and regional costs

We note that Article 80(3) of the CACM regulation prescribes the sharing key to be used to calculate how common costs should be shared among the TSOs and NEMOs in Member States and third countries participating in SDAC and SIDC. This sharing key determines the bill for each Member State (the Member State Bill).

Consequently, this means that the sharing key prescribed in Article 80(3) is required to be used to calculate the Member State Bill for GB at a UK level, meaning that it is comprised of both a GB and Northern Ireland (NI) element. Going forward, we anticipate discussing the appropriate means by which to differentiate the GB element from the NI element with the Utility Regulator (the relevant competent national authority in Northern Ireland).

For the sharing of regional costs, Article 80(4) of the CACM Regulation affords TSOs and NEMOs the choice to either:

(a) jointly agree a proposal for the sharing of regional costs (which must then be individually approval by the competent national authorities of each Member State in the region) or
(b) use the sharing key prescribed in Article 80(3) of the CACM Regulation.

To date we have not received a proposal from the TSOs and NEMOs regarding the sharing of regional costs. We therefore propose using the sharing key prescribed in Article 80(3). However, in the event that TSOs and NEMOs have a preference for sharing regional costs in accordance with a jointly agreed proposal, we would invite them to submit these proposals for our consideration as part of their consultation response.

We do not anticipate there being a need for a specific sharing key for national costs other than the intra-TSO and intra-NEMO keys described below.

(ii) Intra-TSO and Intra-NEMO sharing key

Our first consultation did not describe how the total share of costs attributable to GB TSOs and GB NEMOs, respectively, should then be split between GB TSOs and GB NEMOs. We have set out below our proposals for how these costs should be split. It should be noted that our proposals for both the Intra-TSO split and the Intra-NEMO split envisage a dynamic sharing key that adapts to account for new parties entering and exiting the GB energy market.

In particular, in the case of the Intra-TSO split, new interconnectors should start bearing the relevant costs from the point that they become operational and commence participation in SDAC and SIDC. In the case of the intra-NEMO split, new NEMOs should start bearing the relevant costs from the date their designation takes effect. Where a NEMO 'passports' to GB, the relevant starting date should be date the passporting NEMO commences

[28] Unlike typical arrangements in continental Europe, GB interconnectors are not part of the national TSO. As such revenues earned by GB interconnectors are not, subject to certain exceptions intended to curb excessive returns, ordinarily shared with GB consumers.

operation in SDAC and/or SIDC. The Intra-NEMO sharing key should take account of whether the relevant NEMOs are designated for SADC, SIDC or both.

(a) Intra-TSO split

We propose that the total share of costs attributable to the TSOs is split between TSOs as follows:

- one third of the total cost should be split equally between TSOs; and
- the remaining two thirds of the cost should be shared between TSOs according to the rated capacity29 of their respective interconnectors.

We consider this to be a more proportionate approach to splitting such costs than a simple equal split. We note that splitting costs equally between TSOs would potentially have a disproportionate impact on TSOs that operate interconnectors of a lower capacity. For example, under an equal share arrangement, the share of costs attributed to a TSOs operating a 1GW interconnector would be the same as that attributed to a TSO operating an interconnector of twice the capacity, which could be regarded as disproportionate.

(b) Intra-Nemo split

We propose that the total share of costs attributable to NEMOs is split between NEMOs as follows:

- one third of the total cost should be split equally between NEMOs; and the
- remaining two thirds of the cost should be shared between NEMOs according to their respective traded volumes.

We consider this to be a more proportionate approach to splitting costs between NEMOs than a simple equal split, or a split according to traded volumes only. We consider an equal split could potentially unduly favour larger NEMOs and may have a disproportionate impact on smaller NEMOs. It could also potentially have an undue impact on potential new entrants. Similarly, we consider that a split according to trading volumes only may result in new NEMOs bearing zero or very low amount of costs (until they have recorded significant traded volumes), while they would be offering full access to SADC and/or SIDC facilities. This could be seen as an unfair advantage from the point of view of the parties that would be bearing the vast majority of the relevant costs.

(d) Impact of our proposed enduring framework on TSOs and NEMOs

Our assessment of the impacts on NEMOs indicates that the overall financial impact on NEMOs of our proposed revised proposals, as set out in this consultation, is likely to be lower compared to the potential financial impact of the First Consultation proposals. This is largely due to our revised proposals resulting in a more equitable distribution of enduring operational costs compared to the First Consultation position, coupled with our proposal to allow for NEMOs to recover their share of enduring development costs from TSOs.

We also note that the impact on NEMOs is further decreased by our revised proposals extending the end date of the NWE pilot project by 18 months[30] and also by our proposals allowing the operational costs for the pilot phases[31] of both CACM projects to be recoverable via TNUoS charges, rather than borne by NEMOs.

[29] The maximum capacity of the relevant interconnector.
[30] From before 14 August 2015 to before 14 February 2017.
[31] Operational costs incurred or contractually committed prior to 14 February 2017.

We expect that the likely reduced impact on NEMOs of our revised proposals should, in turn, also reduce the overall impact on the NEMOs' customers (i.e. traders), compared to the First Consultation. This is because we would expect the lower overall impact on NEMOs to translate into lower increases of their fees to trading participants.

Our assessment of the impact on TSOs indicates that our proposed enduring framework is likely to increase the overall financial impact on TSOs compared to the proposals set out in the First Consultation. This is likely to be largely due to our revised proposals setting out that TSOs must bear their share of enduring operational developments costs.[32]

However, we also note that the impact on the relevant TSOs[33] is likely to be reduced by our proposal to extend the end date of the NWE pilot project by 18 months, meaning that developments costs for this 18 month period will be recoverable from TNUoS charges rather than borne by the relevant TSOs as was previously proposed in the First Consultation.

3. Responding to this consultation and next steps

We welcome the views of interested parties in relation to the revised proposals set out in this consultation. Please send responses by 6 July 2018 to:

Ikbal Hussain
Systems & Networks
10 South Colonnade
Canary Wharf
London
E14 4PU

Or by email to: Ikbal.hussain@ofgem.gov.uk

Unless marked confidential, all responses will be put in Ofgem's library and on our website, www.ofgem.gov.uk. You can ask for your response to be kept confidential and we will respect this, subject to any obligations to disclose information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004.

If you would like your responses to be kept confidential, clearly mark the document/s to that effect and include the reasons for confidentiality.

Following consideration of responses to this consultation we will publish our final decision. If you have any questions in relation to this consultation, please contact Ikbal Hussain (Ikbal.hussain@ofgem.gov.uk) or on 0207 901 7049.

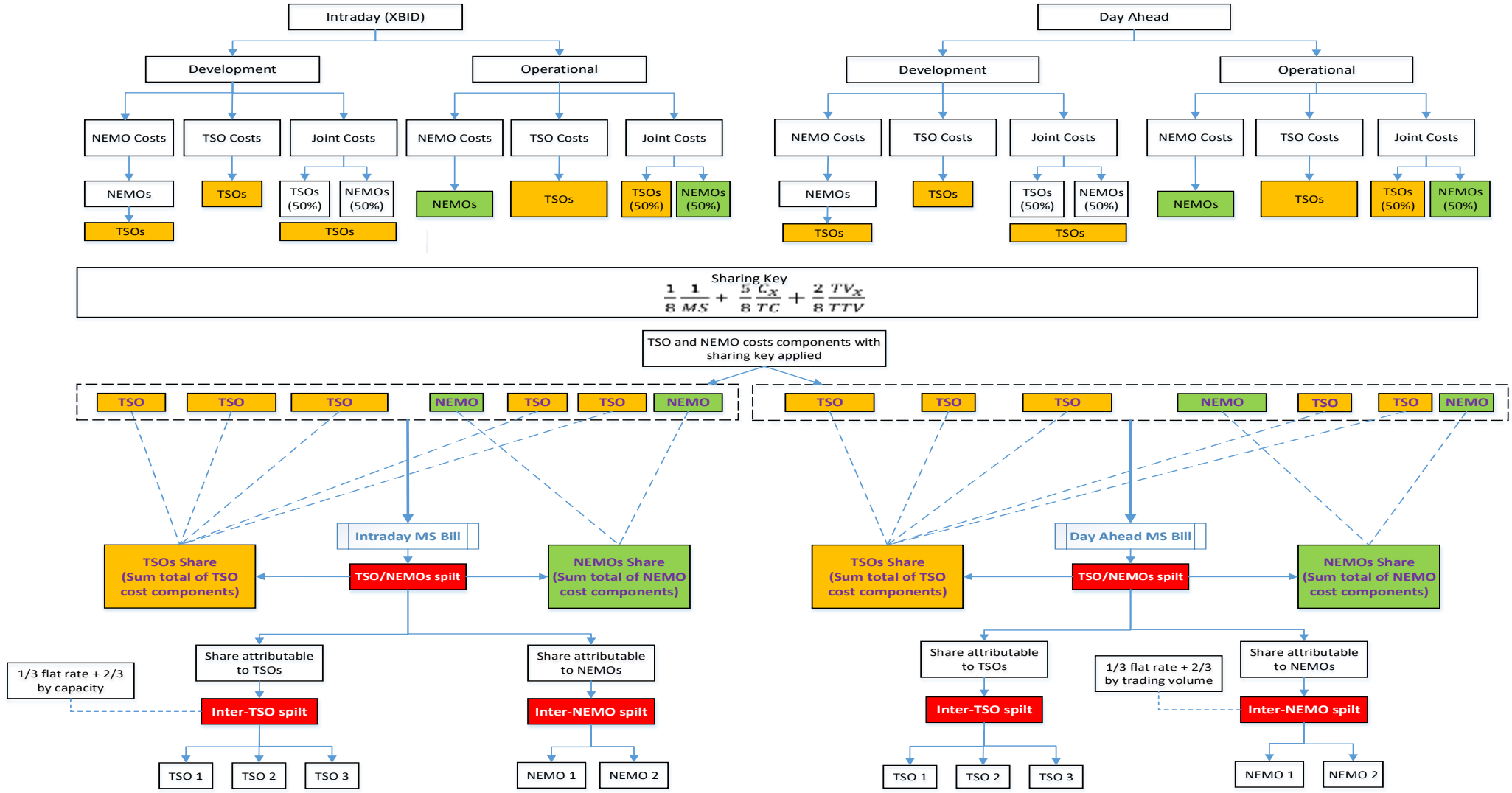
Shortly after the publication our final decision we expect to consult on the licence changes necessary to implement our revised proposals with respect to the recovery of the CACM pilot project costs from TNUoS charges.

Yours faithfully,

Mark Copley
Deputy Director, Wholesale Markets and Commercial

[32] Whereas the March 2017 proposals suggested enduring operational costs be borne by the NEMOs only.
[33] Relevant TSOs being the two interconnectors that participated in the CACM pilot projects – IFA and BritNed.

Appendix 1 - Overview of our proposed enduring framework



= Costs borne by / recovered from TSOs
= Costs borne by NEMOs

MS = Total number of Member States and third countries
TTV = Total traded volume in all MS and third countries
TC = Total consumption in all MS and third countries

TVx = Traded volume in MSx
Cx = Consumption in MSx

Note: This diagram is for illustrative purposes and only and reflects the enduring framework at pan-EU level. It is also not intended to be a precise reflection of the number of interconnectors or NEMOs in GB.