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Dear Colleague,

Approval of the Channel TSOs's proposal for the Coordinated Net Transfer Capacity methodology

On 23 May, we¹ received a proposal from Channel Transmission System Operators (Channel TSOs) for the application of the coordinated net transfer capacity methodology within the Channel region for the day-ahead and intraday market timeframe in accordance with Article 20(7) of the guideline on Capacity Allocation and Congestion Management (the CACM Regulation).² The proposal was submitted to us by the relevant TSOs in line with our assignment of obligations.³

This letter sets out our decision to approve the Channel coordinated net transfer capacity methodology, hereinafter referred to as the "CNTC methodology". This letter then outlines the necessary next steps that must be taken.

Background

The CNTC methodology is a regional proposal developed by the relevant TSOs within each capacity calculation region (CCR).⁴

The CACM 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 an amended proposal by the last regulatory authority.⁵ The last Regulatory Authority received the CNTC methodology proposal on 23 May 2018. A decision on the proposal is therefore required by 23 November 2018.

The CNTC methodology requests the application of the CNTC approach to cross-zonal capacity calculations for the Channel Region. The CNTC is one of two permissible

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 \(EU\) 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 See mTSO 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>.

⁴ As per Article 2(3) of the CACM Regulation: A capacity calculation region means the geographic area in which coordinated capacity calculation is applied.

⁵ Article 9(10) of the CACM Regulation.

approaches that can be used to calculate cross-zonal capacity for the day-ahead and intraday markets. It is defined within the CACM Regulation as “the capacity calculation method based on the principle of assessing and defining ex ante a maximum energy exchange between adjacent bidding zones”.⁶ The alternative permissible approach is the flow-based approach. The flow-based approach is defined within the CACM Regulation as “a capacity calculation method in which energy exchanges between bidding zones are limited by power transfer distribution factors and available margins on critical network elements”.⁷

According to Article 20(7) of the CACM Regulation, TSOs may jointly request the competent regulatory authorities to apply the CNTC approach if the TSOs concerned are able to demonstrate that the application of the capacity calculation methodology using the flow-based approach would not yet be more efficient compared to the CNTC and assuming the same level of operational security in the concerned region.

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) No 714/2009⁸, and our statutory duties and obligations.

As required by Article 9(10) of the CACM Regulation, we have consulted, and closely cooperated and coordinated with the Channel Regulatory Authorities in order to reach an agreement on this proposal. The Regulatory Authority agreement for the CNTC methodology was reached on 27 November 2018. The agreement is attached as an annex to this decision letter and constitutes the reasons for our decision.

In line with the Regional Regulatory Authority agreements, we hereby approve the Channel CNTC methodology proposed by the relevant TSOs.

Decision not to undertake an Impact Assessment

We have not undertaken an Impact Assessment for this proposal. This is because the proposal does not constitute a significant change to existing GB requirements and arrangements. The adoption of the CNTC methodology is furthermore a requirement of the CACM Regulation, which has already been subject to an impact assessment. Accordingly, we consider that an impact assessment is unnecessary.

Next steps

In accordance with Article 9(14) of the CACM Regulation, the relevant TSOs must publish the CNTC methodology on the internet and meet the implementation deadlines required by Article 6 of the Channel CNTC methodology, following the approval by the last competent Regulatory Authority.

If you have any queries regarding the information contained within this letter, or the Regulatory Authority agreement in the annex, please contact Kevin Hughes at kevin.hughes@ofgem.gov.uk.

Yours faithfully,

Michael Wagner
Deputy Director, Wholesale Markets & Commercial

⁶ Article 2(8) of the CACM Regulation

⁷ Article 2(9) of the CACM Regulation

⁸ Regulation (EC) No 714/2009 here: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2009:211:0015:0035:EN:PDF>