



Charging Methodology Statement for Nemo Link Anglo-Belgian Interconnector

This Statement will become effective from the Nemo Link Commercial Go-Live date

[Q1 2019]

INTERCONNECTOR CHARGING METHODOLOGY

- 1 Standard Licence Condition (SLC) 10 of the Transmission Licence requires Nemo Link to establish a methodology showing the methods and principles on which charges for the use of Nemo Link are based. This charging methodology is required to be approved by the Gas and Electricity Markets Authority (Authority) before it takes effect. Subsequent modification may be made from time to time in accordance with SLC 10(11) – (14) of the Licence.
- 2 This document sets out the use of interconnector charges which apply from Q1 2019 as required by SLC 10 of the Licence, assuming GB remains part of the European Internal Energy Market.

OBJECTIVES OF THE CHARGING METHODOLOGY

- 3 The interconnector charging methodology must comply with the objectives set out in SLC 10(4) of the Licence (“relevant objectives”) which require that the charges and their underlying methodology are:
 - (a) Objective;
 - (b) Transparent;
 - (c) Non-discriminatory; and
 - (d) Compliant with the Regulation¹ and any relevant and legally binding decision of the European Commission and/ or the Agency².
- 4 In addition to this minimum set of relevant objectives NLL has its own objectives for the charging regime. These are that the use of interconnector charges should:
 - (a) Be simple to understand and implement; and
 - (b) Promote efficient use of the interconnector within the context of the differing market structures which it connects.
- 5 Where changes are proposed to this charging methodology these will be consulted upon with the industry in accordance with SLC 10(11). The Authority has the right to amend any proposed changes to the methodology before the changes would otherwise take effect.
- 6 NLL believes that the methodology it has prescribed for charges for using its interconnector facilitates all the objectives described above.

¹ Regulation 2009/714/EC of the European Parliament and of the Council of 13 July 2009 on conditions for access to the network for cross-border exchanges in electricity

² The Agency for the Cooperation of Energy Regulators established by Regulation 2009/713/EC of the European Parliament and of the Council of 13 July 2009 (10)

EXPLICIT AND IMPLICIT AUCTION PRINCIPLES

- 7 It is necessary to distinguish between explicit (capacity only) and implicit (capacity and energy) interconnector auctions.
- 8 The explicit auction mechanism describes auctions where participants may gain Physical Transmission Rights (PTRs) to nominate transfers specifically on Nemo Link, with such nomination to be made in a subsequent step. In the explicit auction process, participants declare how much they are willing to pay for capacity and place bids accordingly. These bids are then ordered by price and, starting from the highest one, allocated until all the available capacity is accounted for, whereupon the price for the capacity payable by all successful bidders is set to the bid price of the lowest allocated bid. This methodology both reflects and applies the widely-recognised principle typically characterised as “clearing” or “marginal pricing”. Rules associated with Long Term auctions are described in the Forward Capacity Allocation (FCA) Guideline³.
- 9 In contrast, the implicit auction mechanism is designed to enable available capacity to be used in order to integrate the respective spot markets in Belgium and Great Britain with the flow on Nemo Link set in accordance with the energy prices in the respective power exchanges (PXs). Thus the auctioning of capacity is included (implicitly) in the power exchange auctions of electrical energy. As the capacity is made available to the spot price mechanism, rather than to individual users, the price for capacity is derived from the price difference between the two energy markets. This implicit auction methodology is known as “market coupling”. Rules associated with Short Term auctions are described in the Capacity Allocation and Congestion Management (CACM) Guideline⁴.
- 10 For Nemo Link:
 - (a) Capacity rights will be made available via an explicit auction mechanism in Long Term timescales (initially annual, quarterly and monthly products, and in a second phase in addition, seasonal(6m) and weekly and weekend products).
 - (b) Capacity rights will be made available via an implicit auction mechanism in Short Term (day ahead and intraday) timescales. In the case of intraday capacity rights, Nemo Link expects to participate in Wave 3 of the XBRID project, meaning intraday capacity is expected to be available in 2020.
 - (c) By exception, and in the event that market coupling is unable to produce results, capacity rights will be made available via an explicit auction mechanism for daily capacity as a fallback facility.

³ See Commission Regulation (EU) 2016/1719 of 26 September 2016 establishing a Guideline on forward capacity allocation

⁴ See Commission Regulation (EU) 2015/1222 of 24 July 2015 establishing a Guideline on capacity allocation and congestion management

ELIGIBILITY AND USE OF THE INTERCONNECTOR

- 11 Nemo Link has a maximum physical capacity of 1000MW in each direction, measured at mid-Channel.
- 12 The allocation of explicit cross border transmission capacity across Europe is managed by an organisation called the “Joint Allocation Office” (JAO). As a minimum, customers wishing to trade on Nemo Link are required to sign the JAO Participation Agreement, available on its website⁵. This enables customers to participate in explicit auctions of Long Term Physical Transmission Rights on the Single Allocation Platform (SAP). The charge payable to JAO will be a unit price of capacity expressed in €/MW/hour multiplied by the number of units of capacity (MW) multiplied by hours within the product. Signature of the JAO Participation Agreement also entitles customers to receive the Loss Adjusted Day Ahead Market Spread, under Use-It-Or-Sell-It provisions, in the event customers opt not to nominate capacity. Signature of the JAO Participation Agreement requires users to abide by the Harmonised Allocation Rules (HARs) to which Nemo Link, following regulatory approval, will be adding a “Border Specific Annex”, principally setting out how HVDC transmission losses will be applied in settlement and some other minor exemptions to the HARs.
- 13 Customers with PTRs gained through explicit auctions wishing to nominate capacity are additionally required to sign the Nomination Participation Agreement with Nemo Link. Signature of this document allows customers to use the Regional Nomination Platform systems to nominate flows across the interconnector. It also requires:
 - (a) Accession to the Access Responsible Party (ARP) contract with Elia in Belgium; and
 - (b) In GB,
 - (i) Accession to a Use of System Interconnector Agreement with National Grid Electricity plc and the Framework Agreement established under the Connection and Use of System Code
 - (ii) Accession to the Framework Agreement as defined in the Balancing and Settlement Code (BSC) together with full details of the Production and Consumption Interconnector Balancing Mechanism Units (BMUs) registered to the PTR holder under the BSC

CAPACITY RIGHTS

- 14 Rights relate to a particular period and direction and to each hour within that period. Advance purchase of such capacity rights will be available in a series of capacity product Auctions on a directional basis ranging from up to one year ahead to day ahead (and intraday from 2020). Capacity will be offered in units (multiples of 1MW/period), where the period is per hour for Daily/ Intraday Auctions, and per month, quarter, season, year (as the case may be) in Long Term Auctions. The range of products offered will be reviewed periodically and notified to Users.

⁵ <http://www.jao.eu/support/resourcecenter/overview>

- 15 The capacity offered will be 100% of physical Nemo Link capacity in all hours for any given day after taking account of any planned or unplanned outage requirements, or other restrictions pursuant to Market Splitting Rules, the Day Ahead/ Intraday Capacity Calculation, or the Long Term Capacity Calculation and may result in less than 100% capacity being made available. A timetable for Long Term Auctions will be published in advance and be available on the Nemo Link website. Details of planned outages will be provided ahead of any auction and any curtailment resulting from unplanned restrictions will be compensated in accordance with the FCA (subject to any deviations set out in the BSA) or CACM provisions.
- 16 Capacity rights unsold in longer term auctions may be offered for sale again in auctions closer to the time in which the capacity right applies. This ensures that all possible capacity remains available to the market up to and on the day of use.

SECONDARY TRADING

- 17 A customer holding explicit capacity may relinquish this capacity for use by other eligible Users. The process for the return of such capacity is defined in Articles 38 and 39 of the Harmonised Allocation Rules.
- 18 A customer holding explicit capacity may wish to transfer this capacity for use by other eligible Users. The process for the transfer of such capacity is defined in Chapter 6 of the Harmonised Allocation Rules.

USE OF CAPACITY

- 19 A customer holding explicit capacity is entitled to use such capacity by nominating a cross-border transfer between Belgium and GB of one or more unit(s) up to the maximum amount which is available to it i.e. those units which it has secured by successfully participating in Auctions and/or via the process of transfer referred to in paragraph 17 above. In accordance with its entitlement a customer may nominate capacity in one or both direction(s) as required. Nominations are divided into hourly blocks and the process is conducted on RNP separately for each of the following timescales:
 - (a) Long Term
 - (b) Daily (fallback only)

UNUSED CAPACITY

- 20 If the customer does not exercise its capacity rights, Use It Or Sell It (UIOSI) principles as described in the Harmonized Access Rules⁶ will apply.
- 21 The UIOSI provisions are designed in such a way that any portion of LT capacity which is not nominated for an hour ceases to be reflected in the User's entitlement and is made available to the implicit auction mechanism (or to the Explicit Daily mechanism in the event of fallback) with the proceeds (if any) being returned to the original User.

⁶ ENTSOE, Allocation Rules for Forward Capacity Allocation, as amended by ACER decision 03/2017 of 02 October 2017

CURTAILMENT

- 22 In situations where more capacity rights have been sold than can be physically delivered, typically in the event of an unplanned outage, a process will be applied whereby the explicit capacity rights and/or nominations are reduced to limit the surplus. This process is known as “Curtailment” and is set out in Chapter 9 of the Harmonized Allocation Rules.
- 23 In summary, there will be no curtailment of Long Term capacity post Day Ahead Firmness Deadline (except under emergency or force majeure scenarios), and any curtailment pre Day Ahead Firmness Deadline will be compensated at the Loss Adjusted Day Ahead Market spread (subject to a monthly cap).

IMPLICIT DAILY AUCTIONS

- 24 NLL’s implicit auction mechanism will be facilitated as part of MRC market coupling arrangements. Where Implicit Daily Auctions are in operation, no price is payable by Users to NLL for capacity allocated via this mechanism. Where capacity is so allocated, the value attached to it will be based on the Loss Adjusted Day Ahead Market Spread (LADAMS) between GB and Belgium and the scheduled flow determined by the Implicit Allocation Algorithm. This information will be passed through to NLL by the power exchange clearing houses.
- 25 Implicit nominations on behalf of the power exchanges and/or clearing houses will be physically firm, and hence will not be subject to curtailment.

ANCILLARY SERVICES AND COOPERATION BETWEEN TSOS

- 26 The interconnector circuits can provide ancillary services to the national network TSOs Elia and NGET and/or facilitate the exchange of energy between them as part of trilateral operational agreements. The facility and terms of such services or operational cooperation may be agreed from time to time between NLL, NGET and/ or Elia.