

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

Email: Natasha.Zoe.Smith@ofgem.gov.uk

Date: 22 July 2019

Dear colleague,

Approval of the Ireland-United Kingdom Methodology for Splitting Long-Term Cross-Zonal Capacity

On 23 January 2019, we¹ received a proposal from the Transmission System Operators (TSOs) of the Ireland-United Kingdom (IU) Capacity Calculation Region² (CCR) for a methodology for splitting long-term capacity (Splitting Rules methodology) in accordance with Article 16 of the guideline on Forward Capacity Allocation (the FCA Regulation³). The proposal was submitted to us by the relevant GB TSOs in line with our assignment of obligations.⁴

This letter sets out our decision, in line with the Regulatory Authority agreement reached by the IU Regulatory Authorities, to approve the Splitting Rules methodology. The letter concludes with an outline of the necessary next steps.

Background

The proposals for the Splitting Rules methodology is a regional proposal developed by the relevant TSOs within each capacity calculation region.

The FCA Regulation requires the competent Regulatory Authorities to consult, closely cooperate, and coordinate with each other in order to reach an agreement and take decisions within six months following the receipt of a methodology by the last Regulatory Authority concerned.⁵ The Splitting Rules methodology proposal was received by the last IU Regulatory Authority on 23 January 2019. National decisions are therefore required for this proposal by 23 July 2019.

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

³ Commission Regulation (EU) 2016/1719 of 26 September establishing a guideline on forward capacity allocation. The FCA Regulation came into force in 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.

⁴ See TSO 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>

⁵ Article 4(9) of the FCA Regulation.

The Splitting Rules methodology establishes a coordinated approach for the splitting of long-term capacity across different timeframes in the IU region. It ensures that a mix of products are made available to market participants via the use of maximum and minimum Splitting Ranges⁶. At the same time, the Splitting Rules methodology aims to retain flexibility in allocating long-term capacity across timeframes, so that hedging opportunities meet market requirements.

Our Decision

We have reviewed the proposal submitted to us in line with the requirements of the FCA Regulation, the wider objectives of the Regulation (EC) No 714/2009⁷ and our statutory duties and obligations.

As required by Article 4(9) of the FCA Regulation, we have consulted, closely cooperated and coordinated with the IU Regulatory Authorities in order to reach an agreement on the proposal. The Regulatory Authority agreement for the proposal was reached on 19 July 2019. This agreement is attached as an annex to this decision letter and constitutes the reasons for our decision. In line with the all Regulatory Authority agreement, we hereby approve the Splitting Rules methodology.

Next Steps

In accordance with Article 4(13) of the FCA Regulation, the IU TSOs must publish the Splitting Rules methodology on the internet. The IU TSOs must meet the implementation deadlines required by Article 7 of the Splitting Rules methodology, following the approval by the last competent regulator.

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

Yours faithfully,

Natasha Zoe Smith
Head of European Wholesale Markets

⁶ As per Article 4(1) of the proposed IU Splitting Rules methodology, Splitting Ranges must state the maximum and minimum percentage of an interconnector's long term cross-zonal capacity that must be allocated in each Long-Term timeframe, for each interconnector.

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