Making a positive difference for energy consumers

Interconnector TSOs,
Nominated Electricity Market Operators and other interested parties

Date: 30 August 2019

Dear colleagues,

Decision on approach to cost sharing and cost recovery under the Capacity Allocation and Congestion Management (CACM) Regulation

In June 2018, we consulted on our updated minded-to position[1] regarding our proposed approach to cost recovery in relation to Commission Regulation (EU) 2015/1222 on capacity allocation and congestion management (the "CACM Regulation"). We set out below our decision with respect to how costs related to the CACM Regulation should be shared between interconnector Transmission System Operators ("TSOs")[2] and Nominated Electricity Market Operators ("NEMOs"), and the appropriate mechanism for recovery of such costs in Great Britain (GB).

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[3]. 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 and more efficient capacity allocation and congestion management system in both the Single Day Ahead Coupling ("SDAC") and Single Intraday Coupling ("SIDC") timeframes. Market coupling should ensure that power is produced where it is most efficient and transported to areas of consumption where it is most valued.

We received six responses to our June 2018 consultation (the "June 2018 Consultation"), two of which were marked confidential and one marked partially confidential. All non-confidential responses have been published alongside this decision. We have taken all responses into account in reaching our decision.

---

[1] Updated minded-to position on approach to cost sharing and cost recovery under the Capacity Allocation and Congestion Management (CACM) Regulation, June 2018: https://www.ofgem.gov.uk/system/files/docs/2018/06/cacm_updated_minded-to_final_final_1.pdf. The consultation provided an updated view on our proposed approach to that previously set out in our in initial consultation in March 2017: https://www.ofgem.gov.uk/system/files/docs/2017/03/consultation_on_cacm_cost_recovery_20170228.pdf.

[2] The term 'interconnector' and 'TSO' are used interchangeably in this document. For the avoidance of doubt, any reference to TSOs in this letter is a reference to the GB interconnectors which are a sub group of TSOs as described in our decision on assignment of TSO obligations under the CACM Regulation: https://www.ofgem.gov.uk/ofgem-publications/97111/mtsodecisionletterandannex1finalclean-pdf.

[3] The most relevant EU Third Energy Package instruments in this context are Directive 2009/72/EC and Regulation (EC) 714/2009.

1. Decision summary

In summary, the key aspects of our decision on how costs in relation to the CACM Regulation should be shared, and the appropriate mechanism for their recovery in GB, are as follows:

Cost Recovery

CACM pilot projects

We have decided to allow the recovery of efficiently incurred, reasonable and proportionate development and operational costs that were incurred before 14 February 2017 or that were contractually committed to before this date, for both pilot projects (the North West Europe ("NWE") price coupling and Cross Border Intraday ("XBID")). These costs can be recovered from Transmission Network Use of System ("TNUoS") charges.

Enduring arrangements

Our decision with respect to enduring arrangements for cost sharing and cost recovery under the CACM Regulation is presented in the table below.

Party	Development costs	Operational costs
TSOs	• To be borne by GB interconnector TSOs from their congestion income.	• To be borne by GB interconnector TSOs from their congestion income.
NEMOs	• Allowed to recover their share of efficiently incurred, reasonable and proportionate common, regional and national enduring development costs from the GB interconnector TSOs.	• Costs (including clearing and settlement costs) are allowed to be recovered through fees charged by NEMOs to users of that service (e.g. traders); and • Efficiently incurred, reasonable and proportionate costs, associated with the circumstances where a NEMO is providing a service to the TSO, are to be recovered by the relevant NEMO from the relevant TSO.

Interim period

For the reasons detailed in our letter, we have decided to permit cost recovery for the short period between the end of pilot project phase (14 February 2017) and the date of this decision (the "Interim period"). This means that efficiently incurred, reasonable and proportionate development and operational costs incurred during this period may also be recovered through TNUoS charges.

Cost sharing (initial cost allocation)

As illustrated in Figure 1 below in our letter, costs are to be initially allocated to NEMOs and TSOs according to a purely functional split, with joint NEMO-TSO costs shared between parties on a 50:50 basis.

2. CACM pilot projects

Our proposed approach to arrangements for the CACM pilot projects, namely the NWE price coupling and XBID pilot projects, as set out in the June 2018 Consultation were as follows:

- To align the pilot phase end dates for both pilot projects with the date of 14 February 2017[4];

- To allow for efficiently incurred, reasonable and proportionate development and operational costs before 14 February 2017 for both pilot projects to be recovered from Transmission Network Use of System ("TNUoS") charges.

    - Including efficient, reasonable and proportionate costs that were contractually committed to prior to 14 February 2017 but not actually incurred by this date, where supporting documents[5] can be provided in evidence.

We note that five of the six respondents broadly supported the above approach. We note that one respondent, whilst welcoming our updated position, recommended that we consider amending the proposed pilot phase end dates to better reflect the difference in progress made with respect to implementing SDAC and SIDC. Specifically, the respondent considered that the pilot phase should end on the respective go-live dates for SDAC and SIDC.

We do not consider extending the pilot phase end date for SDAC and SIDC to the respective go-live dates to be in line with the CACM Regulation[6]. We further note that doing so would not be consistent with the all National Regulatory Authorities ("NRA") agreed position, set out in our decision to request an amendment to the Market Coupling Operator ("MCO") plan[7], which states: "*NRAs consider that all costs incurred from the date of the MCO Plan approval (and from 14 February 2017 at the latest) shall be treated in accordance with the Regulation 2015/1222*".

Following consideration of responses, we continue to consider that our minded-to position regarding arrangements for the CACM pilot projects is appropriate. We therefore confirm our minded-to position, as set out in the June 2018 Consultation, with respect to arrangements for the CACM pilot projects.

3. Enduring arrangements

In the June 2018 Consultation, we set out our proposed enduring framework for cost sharing and cost recovery under the CACM Regulation (intended to apply from 14 February 2017[8] onwards). We also noted that we expected the same principles to apply for common, regional and national costs.

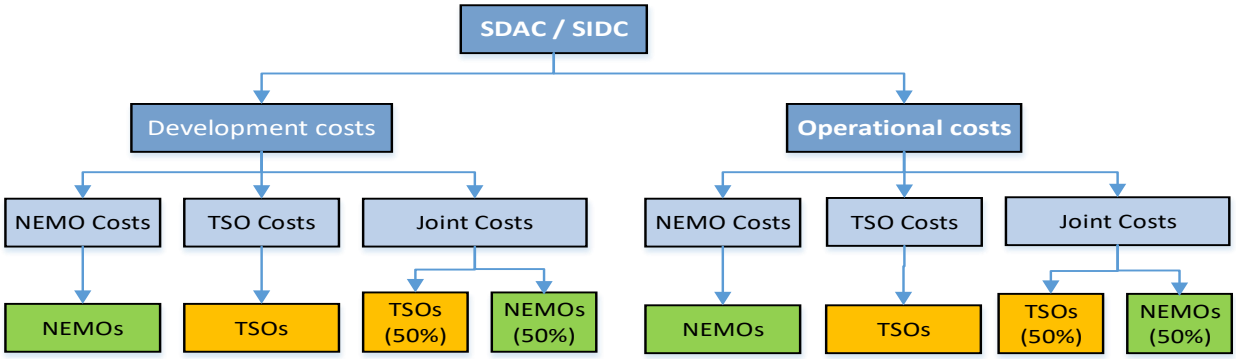
Our proposed approach to enduring arrangements was as follows:

Cost sharing (initial cost allocation)

We proposed to initially allocate NEMO and TSO costs according to a purely functional split, with joint NEMO-TSO costs shared between parties on a 50:50 basis, as shown in Figure 1 below.

[4] 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".
[5] This may be in the form of copies of contracts and milestone payment schedules.
[6] Article 80(5) of the CACM Regulation.
[7] The Market Coupling Operator plan can be found here: https://www.ofgem.gov.uk/system/files/docs/2016/10/all_nra_position_paper_mco_plan_final_2.pdf
[8] Following the end of the NWE price coupling and XBID pilot project phases on 13 February 2017.

Figure 1: Cost sharing prior to introduction of cost recovery



We also noted that the diagram above illustrates how costs are shared and borne in the first instance, **before** any element of cost recovery is introduced, and that introduction of appropriate mechanisms for cost recovery for certain categories of cost alters[9] who ultimately bears that particular category of cost, which can differ from the approach shown above.

We note that respondents who addressed this specific aspect of the June 2018 Consultation supported our proposed approach to initial cost allocation. We continue to consider this the most appropriate approach to initial costs allocation for the reasons set out in the June Consultation.

We therefore confirm our minded-to position, as set out above and in the June Consultation, with respect to cost sharing (initial cost allocation) for enduring CACM related costs.

Cost recovery

As noted in the June 2018 Consultation, 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[10];
- The GB share of NEMOs' costs in respect of establishing, amending and operating market coupling (common and regional costs)[11];
- 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[12].

a) Recovery of enduring development costs

In the June 2018 Consultation, we proposed that:

- All enduring development costs are borne by interconnector TSOs – on the basis that market coupling capability forms an integral part of the interconnector TSOs' interaction with market participants, allowing for efficient allocation of their respective interconnector capacities; and

[9] Under our proposed enduring arrangements, NEMOs' enduring development costs are ultimately borne by (recovered from) TSOs.
[10] Articles 75(1) allows Ofgem to determine the appropriate mechanisms for TSO costs arising from Articles 8, 74 and 76 to 79 of the CACM Regulation.
[11] Article 76(3).
[12] Article 80, with the breakdown of the relevant costs set out in Article 80(2).

- NEMOs should therefore be allowed to recover their share of common, regional and national enduring development costs from interconnector TSOs.

We also stressed that recovery of enduring development costs by NEMOs from interconnector TSOs must be limited to efficiently incurred, reasonable and proportionate costs that are intrinsically linked to enabling or facilitating the development of the SDAC and SIDC functionality. The June 2018 Consultation also made clear this means that enduring development costs:

- related to any NEMO-specific or otherwise bespoke functionality or service(s) [13]; and
- 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 interconnector TSOs.

In the June 2018 Consultation we also made clear that we would expect to play a limited role in determining whether particular enduring development cost items are recoverable under the parameters outlined above[14]. One respondent commented that, on the contrary, it expects there to be a need for significant and routine regulatory intervention.

We remain of the view that the parameters outlined above with respect to what costs qualify as enduring development cost items should be sufficient for parties to reach agreement as to whether a particular cost item is recoverable or not. We therefore continue to expect to only play a facilitating role when parties have not been able to reach agreement on the eligibility of costs for recovery.

We will however, in line with Article 75 of the CACM Regulation, assess whether costs incurred are reasonable, efficient and proportionate.

We note that the responses to our proposals, as set out in the June 2018 Consultation, for recovery of enduring development costs, were quite polarised; with some respondents supporting our proposed approach and other respondents being against our proposed approach.

The respondents who oppose our proposed approach consider it to be inconsistent with the CACM Regulation. One of the respondents states that Article 76(1) of the CACM Regulation expressly provides for the costs of establishing, amending and operating single day-ahead and intraday coupling to be borne by NEMOs and for interconnector TSOs to only make a contribution to these costs to the extent that they voluntarily agree to do so in accordance with Article 76(2)[15] of the CACM Regulation.

Another respondent disagreed with our rationale that such costs should be borne by interconnector TSOs on the basis that market coupling capability forms an integral part of interconnector TSOs' interaction with market participants, allowing for efficient allocation of their respective interconnector capacities. In the respondent's view, consumers are the intended beneficiaries of market coupling and so should bear the associated costs.

Two of the interconnector operators further stated that they considered the appropriate route for the two GB NEMOs to recover their share of enduring development costs (as envisaged by the CACM Regulation) to be from GB consumers via TNUoS charges.

[13] 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.
[14] Only in instances where NEMO and TSOs cannot, after constructive engagement, reach agreement on whether particular enduring development cost items are recoverable.
[15] On the basis of a proposal submitted by the TSO interconnectors and agreed by the National Regulatory Authority.

We also note that some respondents consider our approach to enduring development costs to be inconsistent with how such costs are handled in other Member States.

We acknowledge that our proposed arrangements for enduring development costs may be different to those adopted in other Member States. However, we note that the CACM Regulation delegates the determination of the "appropriate mechanism" to relevant competent authorities rather than itself prescribing the mechanism that should be applied. This would seem to recognise that circumstances, and thereby the appropriate mechanisms for cost recovery, may vary between Member States and are therefore more appropriately determined at a national level.

Therefore, in order for Ofgem (as the GB NRA) to determine the "appropriate mechanism" for cost recovery in GB, we need to consider the costs recovery provisions in the CACM Regulation in the specific context of the GB energy system.

One respondent commented that in the June 2018 Consultation we stated that profits from interconnector TSOs are not shared with GB consumers. The respondent points out that the IFA interconnector and interconnectors operating under cap and floor regime are obliged to share revenues above their respective revenue caps. We consider the June 2018 Consultation is sufficiently clear that whilst revenues earned by GB interconnectors are not ordinarily shared with GB consumers, revenues may be shared with GB consumers under certain specific circumstances (i.e. where revenues exceed a specified cap).

One interconnector respondent suggests that, where a interconnector holds an exemption from use of revenue requirements under Article 16(6) of Regulation (EC) No 714/2009, any revenues below the cap specified in its exemption decision 'belong' to the interconnector. In addition they suggested that our proposal does not represent 'cost recovery' or reflect the natural meaning of those words. However, we do not consider an exemption affords the holder some form of enduring protection of its congestion revenues against the costs associated with development and implementation of EU legislative requirements (such as SDAC and SIDC).

We continue to consider it appropriate, given the specific context of the GB energy market as outlined in the June 2018 Consultation, for interconnector TSOs to bear their own efficiently incurred, reasonable and proportionate enduring development costs as well as NEMO's share of the efficiently incurred, reasonable and proportionate development costs. In our view, this GB specific context needs to be taken into account when determining the "appropriate mechanism" for cost recovery in GB.

We therefore confirm our minded-to position with respect to enduring development costs, specifically that:

- **TSO enduring development costs are to be borne by GB interconnector TSOs from their congestion income; and**

- **NEMOs are to be allowed to recover their share of (efficiently incurred, reasonable and proportionate) common, regional and national enduring development costs from the GB interconnector TSOs.**

b) Recovery of enduring operational costs

In the June 2018 Consultation, our minded-to position was that the appropriate mechanism for the recovery of:

- TSOs' enduring operational costs is through their congestion revenue; and

- NEMOs' enduring operational costs is through fees charged by NEMOs to users of that service (e.g. traders), except where NEMOs offer a service to a TSO.

As with responses to our proposals for enduring development costs, the responses to our proposal with respect to enduring operational costs were polarised. The respondents who did not support our proposed approach argued that, according to the CACM Regulation, NEMOs should be entitled to recover all or part of the clearing and settlement costs through TNUoS charges.

We continue to be of the view that as a general principle NEMOs' enduring operational costs should be recovered through fees charged by NEMOs to users of their services. Recovering clearing and settlement costs fully or partly through TNUoS charges could indeed reduce the competitive pressure between NEMOs in the provision of their services. Such an approach would not facilitate the competitive NEMO[16] regime pursued in GB. In our view, competition between NEMOs over the provision of services such as clearing and settlement is essential for keeping the relevant costs at efficient levels.

Some respondents' views also diverged in relation to the nature of services that a NEMO may offer to a TSO. We consider that those services are limited in number. Among others, we believe that those services include congestion income management and the submission of notifications associated with transfer of cross-border capacity. In that case, NEMOs can recover the costs of providing those services from the relevant TSOs.

We will however, in line with Article 75 of the CACM Regulation, assess whether costs incurred are reasonable, efficient and proportionate.

For the avoidance of doubt, reference to clearing and settlement costs in this decision is limited to costs incurred by NEMOs as part of development and operation of the SDAC and SIDC.

We therefore confirm our minded-to position with respect to enduring operational costs, specifically that:

- **TSOs' enduring operational costs are to be recovered through their congestion revenues;**

- **NEMOs' enduring operational costs (including clearing and settlement costs) are to be recovered through fees charged by NEMOs to users of that service (e.g. traders); and**

- **The enduring operational costs, associated with the circumstances where a NEMO is providing a service to the TSO, are to be recovered by the relevant NEMO from the relevant TSO.**

Determination of costs as reasonable, efficient and proportionate

Article 9(8) of the CACM Regulation provides that Ofgem, as the relevant NRA, is responsible for approving capacity allocation and congestion management costs in accordance with Articles 75 to 79 of the CACM Regulation. Article 75 of the CACM Regulation provides that only those costs assessed as reasonable, efficient and proportionate by the competent regulatory authority can be recovered.

To facilitate such approval, NEMOs and TSOs are required to provide a yearly report, pursuant to Article 80, in which the costs of establishing, amending and operating SADC and SIDC are explained in detail. The costs which are directly related to SDAC and SIDC should be clearly

[16] As opposed to a monopoly-NEMO regime.

and separately identified and auditable. We expect such yearly costs reports to include sufficient detail (with supporting evidence where necessary) to demonstrate that the costs specified in them are reasonable, proportionate and have been efficiently incurred.

In March 2019, ACER published an all NEMOs' and all TSOs' report on the costs of establishing, amending and operating SDAC and SIDC for the year 2017.

We are participating through the relevant ACER Task Force that is seeking to formulate the methodology for assessing whether costs submitted by all NEMOs and all TSOs for 2017 are reasonable, efficient and proportionate. Going forward, we propose to follow a similar methodology to assess the national costs for SDAC and SIDC.

4. Interim period arrangements

Consultation responses looked for clarity on the cost recovery arrangements and implementation timescales. A number of stakeholders considered the enduring arrangements should not come into effect until after Ofgem's final decision. We note the time that has passed since the end date of the pilot phase (14 February 2017) and today's decision (i.e. the Interim Period)[17]. We are also mindful of the uncertainty that the absence of an approved approach to cost sharing and cost recovery under the CACM Regulation during this Interim Period may have caused, particularly with respect to arrangements for enduring costs.

We have taken these concerns into account, and have chosen to permit recovery of efficiently incurred, reasonable and proportionate costs during this short Interim Period through TNUoS.

For the purposes of cost sharing, the cost sharing (initial cost allocation) for enduring CACM related costs will apply during the Interim Period.

5. Cost sharing keys

c) Common and regional costs

In the June 2018 Consultation, we stated that we will use the sharing key prescribed in Article 80(3) of the CACM Regulation to calculate how common costs should be shared among the interconnector TSOs and NEMOs in Member States and third countries participating in SDAC and SIDC. The sharing key prescribed in Article 80(3) determines the bill for each Member State (the "Member State Bill").

For the sharing of regional costs we also indicated that, in the absence of a jointly agreed NEMO/interconnector TSO proposal for the sharing of regional costs[18], we would also use the sharing key prescribed in Article 80(3). To date we have not received a proposal from the interconnector TSOs and NEMOs regarding the sharing of regional costs and no such proposal was submitted as part of a response to the June 2018 Consultation.

As stated in the June 2018 Consultation, we do not see a need for a specific sharing key for national costs other than the intra-TSO and intra-NEMO keys described below.

d) Intra-TSO and Intra-NEMO sharing key

In the June 2018 Consultation we set out our proposals (as described below) for how the share of costs attributable to GB interconnector TSOs and GB NEMOs, respectively, should be split between GB interconnector TSOs and GB NEMOs.

[17] From 14 February 2017 to 30 August 2019.
[18] Which must then be individually approved by the competent national authorities of each Member State in the region.

We also noted that our proposals for both the Intra-TSO split and the Intra-NEMO split envisaged a dynamic sharing key that adapts to account for new parties entering and other parties exiting the GB energy market.

(i) Intra-TSO split

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

- One third of the total cost should be split equally between interconnector TSOs; and
- The remaining two thirds of the cost should be shared between interconnector TSOs according to the rated capacity[19] of their respective interconnectors.

We considered this to be a more proportionate approach to splitting such costs than a simple equal split which would not factor in the different capacities of the interconnectors. Therefore splitting costs equally between TSOs would potentially have a disproportionate impact on TSOs that operate interconnectors of a lower capacity, although all interconnectors benefit from gaining access to the relevant trade platforms. We did not receive any specific comments from respondents with respect to the manner of the proposed Intra-TSO spilt.

In the June 2018 Consultation we proposed that new interconnectors should bear costs from the date that they become operational and commence participation in SDAC and SIDC.

Two respondents sought further clarity about the date from which we expect new interconnectors to start bearing relevant enduring costs. Both respondents state that new interconnectors should bear a proportionate share of relevant enduring costs from 14 February 2017 in order to avoid existing operational interconnectors' cross-subsidising new interconnectors.

New interconnector projects planned for GB are at different stages of development, with some projects not planned to become operational until after 2020. We do not consider it appropriate for new interconnector projects to bear enduring development costs dating back to 14 February 2017 given that in some cases, this would be several years before the interconnector becomes operational.

On balance, we continue to consider it appropriate for new interconnectors to start bearing relevant enduring development costs from the point that they become operational and commence participation in SDAC and/or SIDC.

One respondent also sought clarity as to the date from which we expect enduring development costs to apply to the two existing interconnectors connecting GB with Northern Ireland and Ireland[20].

We expect the EWIC and Moyle interconnectors to start sharing their apportioned development costs from 1 January 2018 (noting the Interim period arrangements), which is the day after the transitional CACM provisions[21] for Ireland and Northern Ireland came to a close.

[19] Rated capacity being the maximum capacity of the relevant interconnector or where the relevant interconnector is constrained to their Transmission Entry Capacity (TEC) value, the alternative lower firm capacity value stated in the connection agreement between an interconnector TSO and connecting NGESO.
[20] The Moyle interconnector to Northern Ireland and the East-West interconnector to Ireland.
[21] Article 83 of the CACM Regulation provides for transitional provisions to apply in Ireland and Northern Ireland until 31 December 2017.

(ii) Intra-NEMO split

We proposed 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 continue to consider this to be a more proportionate approach 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.

We received one specific comment on the proposed Intra-NEMO spilt in a consultation response marked as confidential. Having considered that response, we continue to consider our proposed approach to be appropriate and proportionate.

We therefore confirm our minded-to position with respect to the Intra-TSO and Intra-NEMO split, specifically:

Intra-TSO spilt

- **One third of the total cost is to be split equally between interconnector TSOs; and**
- **The remaining two thirds of the cost are to be shared between interconnector TSOs according to the rated capacity of their respective interconnectors.**

The above Intra-TSO split for enduring costs is to apply to relevant parties from the dates specified below:

Party	**To apply from**
IFA and BritNed interconnectors	14 February 2017 onwards
Moyle and EWIC interconnectors	1 January 2018, which is the day after the transitional CACM provisions came to an end in Ireland and Northern Ireland
New interconnectors	From the point that the interconnector becomes operational and commences participation in SDAC and/or SIDC onwards

Intra-NEMO split

- **One third of the total cost is to be split equally between NEMOs; and**
- **The remaining two thirds of the cost are to be shared between NEMOs according to their respective traded volumes.**

The above Intra-NEMO split for enduring costs is to apply to relevant parties from the dates specified below:

Party	To apply from
The two currently designated GB NEMOs	14 February 2017 onwards
New NEMOs	From the date their designation takes effect. Where a NEMO 'passports' its services to GB, the relevant starting date should be the date when that NEMO commences operation in SDAC and/or SIDC in GB.[22]

Proposed licence modifications

In the June 2018 Consultation, we indicated that licence modifications will be required to implement our decision to allow for recovery of costs specified above through TNUoS charges.

Given that the GB NEMOs are not licensed entities or signatories to the Connections and Use of System Code ("CUSC"), we consider the most appropriate route for implementing our decision with respect to the recovery of pilot project and Interim Period costs is by proposing modifications to relevant electricity interconnector licence and National Grid Electricity System Operator's ("NGESO") electricity transmission licence.

The proposed licence modifications would then provide the necessary mechanism for efficiently incurred, reasonable and proportionate pilot project and Interim Period development and operational costs to be recovered via TNUoS charges.

Comments received on proposed licence modifications

We note and agree with NGESO's comment that, following any licence modifications that are made to put in place such a payment mechanism, modifications will likely be required to the CUSC in order to give practical effect to the licence changes once they come into force. We expect the necessary modifications to the CUSC to be made through the industry-led code modification process, once the proposed licence changes have been made.

We also note and agree with NGESO's comments concerning the importance of market participants having early sight of any changes to TNUoS charges. In line with similar requirements in circumstances where payments are required to be made to interconnectors from TNUoS charges[23] we anticipate any licence changes to include a requirement for relevant interconnector TSOs to liaise with NGESO and provide it with specified information that feeds into the TNUoS charge setting process.

This should ensure that NGESO, as the GB National Electricity System Operator, has available the necessary information required to facilitate its forecasting and setting of TNUoS charges.

6. Next steps

Licence changes - Mechanism for recovery of pilot project and Interim Period costs

We expect to commence the development of the required licence changes in the autumn with a view to making the necessary modifications to relevant licences as soon as reasonably practicable (noting that licence changes are subject to statutory consultation). As noted above, we would then expect the changes to be given practical effect by NGESO raising necessary modifications to the CUSC.

[22] The Intra-NEMO sharing key should take account of whether the relevant NEMOs are designated for SADC, SIDC or both.
[23] See for example, Standard Condition 26 of the interconnector licence.

Cost Assessment

CACM pilot project costs

We expect to commence our assessment of whether pilot project costs are efficient, reasonable and proportionate in the autumn. In reaching our decision we intend to engage with the relevant NRAs of the pilot projects.

Interim Period Costs and Enduring arrangements

Article 75 of the CACM Regulation requires costs to be assessed as reasonable, efficient and proportionate by the competent regulatory authority before being recovered.

The assessment process must be coordinated for pan-European and Regional Costs, which is a European process that is ongoing at present. Ofgem is closely cooperating and coordinating with other European Regulatory Authorities through the relevant ACER Task Force to develop a methodology for the assessment of these costs. We will look to engage with parties on the submission and assessment of costs for GB in the coming months.

Yours faithfully,

Tom Corcut
Deputy Director, Wholesale Markets