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6 July 2018

Dear Ikbal,

Consultation on Ofgem's updated minded-to position on approach to cost sharing and cost recovery under the Capacity Allocation and Congestion Management (CACM) Regulation

Thank you for the opportunity to provide our comments on Ofgem's consultation for the updated minded to position on the approach to cost sharing and cost recovery under the Capacity Allocation and Congestion Management Regulation (CACM) Regulation within GB.

This response is provided on behalf of National Grid Electricity Transmission plc (NGET) as System Operator and it is not confidential. NGET owns and operates the high voltage electricity transmission system in England and Wales and, as National Electricity Transmission System Operator for Great Britain, also operates the Scottish and offshore high voltage transmission systems.

CACM lays down the rules for operating pan-European day ahead and intraday markets. The introduction of pan-European intraday markets should increase intraday market liquidity, facilitating the rising proportion of intermittent renewables in the electricity generation mix. Increased cross border intraday trading should introduce greater competition amongst market participants, driving down prices for consumers. It should also result in the diversification of supply, increasing the security of supply and contributing to the safe and stable provision of electricity to consumers.

We agree that parties responsible for the implementation of the EU network codes should be able to recover efficiently incurred costs. The cost recovery principles set out (both development and operational costs) appear sensible and we agree with Ofgem's proposed approach. These principles should help to provide certainty to interconnector owners and Nominated Electricity Market Operators (NEMOs) and therefore support market coupling implementation in GB.

We do have concerns regarding the proposed route for cost recovery (via Transmission Network Use of System (TNUoS) charges) as set out below. We welcome further discussion with Ofgem and affected parties to better understand how these adjustments might be made in practice before any decision is made.

Impacts on TNUoS charges

NGET understands that these costs relate to the development and operation of market coupling processes as set out in CACM. These costs are fundamentally software costs rather than transmission network costs. We would therefore like to discuss with Ofgem and affected parties whether TNUoS is the appropriate recovery route in GB.

The introduction of new costs to TNUoS will have an impact on those parties subject to TNUoS charges. We would expect such costs to be transparently set out so that it is possible to understand the basis and materiality of these costs. To reduce the impact, care should be taken to introduce these new costs in a predictable manner which does not increase the volatility of TNUoS charges.

Mechanism for payment

NGET understands that shortly after the publication of the final decision Ofgem would expect to consult on the licence changes necessary to implement the revised proposals. NGET welcomes further discussion on the planned changes as we understand changes to both NGET's licence and interconnector licences would be required.

NGET understands 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. This could potentially include costs borne by Power Exchanges (designated as NEMOs under CACM). Currently NGET has no contractual relationship with Power Exchanges/NEMOs as they are not signatories to the CUSC or STC. This could require new bilateral agreements to be developed, and this may cause concern for generators and suppliers regarding the transparency of such arrangements.

CUSC modification proposal, CMP283, was raised by NGET to facilitate the Interconnector Cap and Floor regime through creating the process for data provision between Interconnectors and National Grid within the CUSC. The legal text agreed under CMP283 limits the "Interconnector Adjustment Payments" to only include interconnector cap and floor revenues. Therefore the proposed mechanism would require a CUSC modification to update the CUSC to include cost recovery for interconnectors. As Power Exchanges/NEMOs are not CUSC parties, this CUSC modification would not in itself resolve the issue outlined above.

Implementation timescales

NGET has various TNUoS forecasting obligations, which help to ensure TNUoS charges are predictable for generators and suppliers. Early sight of the timescales that these costs will be included in TNUoS is therefore important to NGET, generators and suppliers. Additionally, as set out above, NGET understands that implementation of the proposed mechanism will require modification of the CUSC as well as NGET and interconnector licence changes. As such, we would appreciate clarity on the implementation timescales to help NGET and affected parties plan appropriately.

In summary, whilst we welcome Ofgem's minded-to position on approach to cost sharing and cost recovery under CACM we have concerns regarding the implementation of this proposal in GB. We look forward to continuing our work with you in exploring and developing the points we have highlighted within our letter.

If you have any queries regarding this response, please contact Robert Selbie on Robert.Selbie@nationalgrid.com

Yours sincerely,

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