

CHARGING METHODOLOGY STATEMENT FOR THE IFA AND IFA2 INTERCONNECTORS FOR NON-IEM OPERATION

**[EFFECTIVE DATE TO BE ENTERED POST-APPROVAL TO CORRESPOND WITH
THE DATE THAT THE GB-FR BORDER NO LONGER HAS ACCESS TO THE EU
INTERNAL ENERGY MARKET]**

Document Location

National Grid Interconnectors website:

<http://ifa1interconnector.com/>

Contents

1	INTRODUCTION.....	1
2	INTERCONNECTOR CHARGING METHODOLOGY	2
	<i>Introduction</i>	<i>2</i>
	<i>Objectives of the charging methodology</i>	<i>3</i>
	<i>Explicit auction principles</i>	<i>3</i>
3	ACCESS RULES AND USE OF INTERCONNECTOR	4
	<i>Introduction</i>	<i>4</i>
	<i>Eligibility to use the Interconnector.....</i>	<i>4</i>
	<i>Interconnector access rights.....</i>	<i>4</i>
	<i>Transmission rights</i>	<i>5</i>
4	EXPLICIT AUCTIONS.....	5
	<i>Access (capacity) charges</i>	<i>5</i>
	<i>Secondary trading.....</i>	<i>6</i>
	<i>Non-nominated transmission rights</i>	<i>6</i>
	<i>Curtailment</i>	<i>7</i>
5	ANCILLARY SERVICES.....	7

1 INTRODUCTION

- 1.1 National Grid Interconnectors Limited (NGIC) and Réseau de Transport d'Électricité (RTE) are jointly responsible for the transmission of electricity across the Anglo-French Interconnector known as "Interconnexion France Angleterre" (IFA). This interconnector connects the national electricity transmission systems of France (owned and operated by RTE) and Great Britain (owned by three companies but operated by National Grid Electricity System Operator (NGESO)). NGIC is a wholly-owned subsidiary of National Grid Plc holding an Interconnector Licence to operate IFA, and designated as a Transmission System Operator (TSO) under the European Third Package.
- 1.2 National Grid IFA2 Limited (NGIFA2) and RTE are jointly responsible for the transmission of electricity across the Anglo-French Interconnector known as IFA2, which is currently in development and planned to enter into commercial operation in summer 2020. IFA2 also connects the national electricity transmissions systems of France and Great Britain. NGIFA2 is a wholly-owned subsidiary of National Grid Plc holding an Interconnector Licence to operate IFA2, and is designated as a Transmission System Operator (TSO) under the European Third Package.
- 1.3 NGIC and NGIFA2 (and RTE) facilitate commercial access to IFA and IFA2, whereby third parties are able to gain rights to transfer electricity across these interconnectors, between the power markets of GB and France. Each of NGIC's and NGIFA2's Licences requires them to each publish a Charging Methodology Statement to set out the terms under which commercial access to each of IFA and IFA2 is made available.
- 1.4 This document sets out the charging methodology which will be applied by NGIC and NGIFA2 in the event of GB ceasing to have access to Europe's Internal Energy Market (IEM), following the UK's withdrawal from the European Union.
- 1.5 For IFA, it is NGIC's (and RTE's) intention to migrate away from the DAMAS-based Capacity Management System (CMS), and different Access Rules will apply prior to, and upon implementation of the replacement platforms (these new platforms being the JAO-operated platform for all explicit auctions (long-term, day-ahead and intra-day), and the Regional Nomination Platform). This Charging Methodology Statement will apply in the event of non-IEM operation, both before and after the platforms change as necessary.
- 1.6 The material changes between the predecessor Charging Methodology and this version are as follows:

	IEM operation	Non-IEM operation
Day Ahead auction	Implicit / market coupling	Explicit auction
Use it Or Sell It payment price	Day Ahead Market Spread (loss adjusted)	Explicit Day Ahead auction clearing price.
Compensation price for Long Term capacity rights curtailment	Day Ahead market spread (as adjusted by revenue cap set out in HAR and GB-Fr Annex)	Under CMS operation: - Initial LT capacity auction price. Under JAO/RNP operation

		In the first instance Day Ahead market spread (as adjusted for losses and by application of a revenue cap), If relevant price data is available, otherwise Initial LT capacity auction price.
--	--	--

1.7 Access Rules in force will be published on the NGIC website. In the unlikely event of a discrepancy between this Charging Methodology Statement and the Access Rules in force, the terms of the relevant Access Rules shall apply.

1.8 Further information on NGIC's and NGIFA2's activities and the information contained within this document can be obtained by contacting us by email or in writing:

E-mail: ifa.customerenquiries@nationalgrid.com

Post: National Grid Interconnectors Limited, 35 Homer Road, Solihull,
West Midlands, B91 3QJ

1.9 All references to NGIC and NGIFA2 in this document relate to their respective roles and participation in the administration of the third-party access arrangements for the IFA and IFA2 interconnectors and in relation to their obligations as independent Interconnector Licensees for interconnector operation in Great Britain.

2 INTERCONNECTOR CHARGING METHODOLOGY

Introduction

2.1 Standard Licence Condition (SLC) 10 of each of the Licences requires each of NGIC and NGIFA2 to establish a methodology showing the methods and principles on which charges for the use of IFA / IFA2 are based. This charging methodology is required to be approved by the Gas and Electricity Markets Authority (Authority) before it takes effect. Subsequent to this it may be modified from time to time in accordance with SLC 10(11) – (14) of the Licences.

2.2 This publication sets out the use of interconnector charges which apply from the date that GB ceases to participate in the IEM, and as notified to market participants.

Objectives of the charging methodology

- 2.3 As a minimum the interconnector charging methodology has to comply with the objectives set out in SLC 10(4) of the Licences (“relevant charging methodology objectives”) which require that the charges and their underlying methodology are:
- (a) Objective;
 - (b) Transparent; and
 - (c) Non-discriminatory.
 - (d) Compliant with the Regulation¹ and any relevant and legally binding decision of the European Commission and/or the Agency²
- 2.4 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.
- 2.5 NGIC and NGIFA2 consider that the methodology it has prescribed for charges for using either of the interconnectors facilitates all objectives as described above.

Explicit auction principles

- 2.6 From the time at which GB ceases to participate in the IEM, all of IFA and IFA2 capacity allocation (ie in Long Term, Day Ahead and Intraday timescales) will be via explicit auction.
- 2.7 Under IFA’s and IFA2’s separate explicit auctions, participants may gain rights to nominate power transfers on IFA/IFA2, with such nomination to be made in a subsequent step. In the explicit auction, participants declare how much they are willing to pay for IFA/IFA2 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 thereby applies the widely-recognised principle of “marginal” pricing.
- 2.8 For a limited period NGIC (and RTE), may conduct IFA explicit auctions via the DAMAS-based CMS. NGIC (and RTE) plan to migrate processes onto to JAO and RNP, the date for implementation of which will be notified beforehand.
- 2.9 Upon its entry into commercial operation, IFA2 capacity allocation processes will be conducted on JAO and RNP, the date of which will be notified beforehand.

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 and repealing Regulation 2003/1228/EC(12)

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)

3 ACCESS RULES AND USE OF INTERCONNECTOR

Introduction

- 3.1 This Charging Methodology should be read in conjunction with the suite of documents which comprise the IFA/IFA2 Access Rules, which set out the conditions and processes for allocation and use of IFA and IFA2 capacity.
- 3.2 To the extent that changes in the Access Rules documents result in a requirement to modify this Charging Methodology Statement then this shall be carried out in accordance with SLC 10(11) – (14) of the Licences.

Eligibility to use the Interconnector

- 3.3 A summary of the registration and third party access regime applicable to IFA/IFA2 in accordance with SLC 11 can be found via the following link:
<http://ifa1interconnector.com/trade-with-us/register/>
- 3.4 A market participant wishing to become a Registered Participant on IFA or IFA2, and thus be able to participate in explicit auctions, can apply via a non-discriminatory eligibility process administered jointly by the auction platform operator, and respectively NGIC and NGIFA2. The eligibility requirements are set out in the relevant sections of the relevant Access Rules.
- 3.5 Parties are required to accede to the Access Rules via separate Participation Agreements for IFA and IFA2 as follows:
 - i) IFA Participation Agreement, for access via the DAMAS-based Capacity Management System for all auctions and nominations;
 - ii) JAO Participation Agreement for access via JAO auction platforms;
 - iii) RNP Nomination Agreement for access to the Regional Nominations Platform (following migration away from the DAMAS-based CMS).
- 3.6 In order to nominate explicit capacity either via CMS or RNP, participants are required to accede to the relevant market codes in GB and France including the Balancing & Settlement Code and Connection & Use of System Code in GB, and Accord de Participation in France.

Interconnector access rights

- 3.7 IFA and IFA2 have the following maximum physical capabilities, measured at mid-CHANNEL:
 - (i) IFA 2000MW
 - (ii) IFA2: 1000MW.

- 3.8 NGIC and NGIFA2, in conjunction with the French transmission system operator RTE, instruct their auction platform operators to conduct explicit interconnector capacity Auctions on a non-discriminatory basis.
- 3.9 Registered Participants may acquire explicit interconnector capacity in accordance with the Access Rules. Obtaining explicit capacity permits the Registered Participant the right to nominate a transfer of electricity from one end of IFA/IFA2 to the other (“the transmission right”).

Transmission rights

- 3.10 All access rights (explicit capacity) relate to a particular product period and direction and to each hour within that period. Advance purchase of such transmission rights is available in a series of capacity product Auctions on a directional basis ranging currently from up to one year ahead to intraday. As such, capacity is offered in units (multiples of 1MW/period, where the period is per hour for Day Ahead and Intraday Auctions, and per weekend, month, quarter, season, year (as the case may be) in LT Auctions). Note the further criteria as described below in section 4.
- 3.11 The range of products available is reviewed periodically and changes may be made by providing notice to Registered Participants accordingly.
- 3.12 The capacities offered respectively on IFA/IFA2 will be 100% (subject to any legitimate restriction of the interconnector(s) by the ESO in order to preserve system security) of the physical IFA/IFA2 capabilities in all hours for any given day after taking into account any outage requirements, comprising both planned and unplanned outages. Details of planned outages are published and can be found via the following link: <http://ifa1interconnector.com/notices/auctions/>
- 3.13 In the event of an unplanned outage, curtailment will be applied where necessary in accordance with the Access Rules.
- 3.14 A timetable for LT Auctions is published in advance and can also be found via the following link: <http://ifa1interconnector.com/notices/auctions/>
- 3.15 Transmission rights unsold in longer term auctions may be offered for sale again into auctions closer to the day/hours to which the transmission right applies as per the principles defined within the Access Rules, including, for the avoidance of doubt, the Day Ahead and Intraday Auctions. This ensures that the highest possible amount of capacity remains available to the market up to and on the day of use.

4 EXPLICIT AUCTIONS

Access (capacity) charges

- 4.1 The relevant Access Rules describe the basis on which transmission rights are offered, allocated to and may be utilised by eligible Registered Participants, in each timescale. Bids will be accepted by the auction operator in strict accordance with the criteria set out in the Access Rules.

- 4.2 The price which all successful Registered Participants will pay for each transmission right in a given Auction is the price bid for the last accepted unit in descending order of price.
- 4.3 The charge payable by a market participant successful in an explicit auction 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.
- 4.4 Registered Participants who acquire explicit capacity will receive invoices from the relevant auction platform operator. Payment for capacity will be in Euros only.

Secondary trading

- 4.5 A Registered Participant which holds Long Term transmission rights may relinquish its transmission rights for use by other eligible Registered Participants. There are two mechanisms for achieving this, namely Transfer of Transmission Rights and Return of Transmission Rights, both of which are described in the Access Rules.
- 4.6 Transfer of Transmission Rights involves the bilateral transfer of explicitly sold transmission rights to another eligible Registered Participant the financial transaction for which is conducted outside of the auction platforms. The involved market Participants will reflect the MW transfer and change of ownership in the auction platform, however the original Registered Participant retains the obligation to pay the auction platform operator for the originally acquired capacity.
- 4.7 Explicitly sold Long Term capacity may also be offered for Return via a subsequent Auction, and where that capacity is resold, the auction operator will pass through the proceeds to the Registered Participant who made the Return, whilst retaining the obligation to pay for the original capacity purchase. There is no charge for this Return facility.

Use of Transmission Rights

- 4.8 A Registered Participant which holds explicit transmission rights on IFA or IFA2 is entitled to use such transmission rights provided it has entered into a relevant Participation Agreement for the relevant interconnector, and has acceded to the GB and France market codes as described in Paragraph 3.6 and, and subject to any curtailment as described in the Access Rules. In order to exercise its entitlement to use transmission rights, a Registered Participant may nominate a cross-border transfer 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 of Transmission Rights referred to above in 4.6.
- 4.9 In accordance with its entitlement as noted above, a Registered Participant shall nominate transmission rights separately on each of IFA/IFA2, in one or both direction(s). Nominations are divided into hourly blocks and the process is conducted on CMS or RNP (as the case may be) separately for each of the following timescales: Long Term, Daily and Intraday.

Non-nominated transmission rights

- 4.10 If the Registered Participant does not exercise its transmission rights, they may subsequently be purchased by another (or the same) Registered Participant in

accordance with the principles and criteria of Use It or Sell It ("UIOSI")/Use It or Lose It ("UIOLI") as described in the Access Rules.

- 4.11 The UIOSI provisions are designed in such a way that any portion of LT transmission rights which is not nominated for an hour ceases to be reflected in a Registered Participant's Rights Documents and is made available to the Explicit Daily Auctions with the proceeds (if any) being returned to the original Registered Participant.
- 4.12 The UIOLI provisions are designed in such a way that any capacity sold as part of the Explicit Daily Auction which is unused in any hour ceases to be reflected in a Registered Participant's Rights Documents and is made available to the Intraday auction process, with the proceeds (if any) not being returned to the original Registered Participant.

Curtailment

- 4.13 In situations where more capacity rights have been sold than can be 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 of Capacity/Nominations over interconnector capability. This process known as "Curtailment" is set out in the Access Rules.
- 4.14 Registered Participants will be compensated for purchased capacity which NGIC and RTE, or NGIFA2 and RTE as the case may be, have not been able to deliver in accordance with the Access Rules. The compensation mechanism operates as described in the relevant Access Rules.

5 ANCILLARY SERVICES

- 5.1 The interconnector circuits support agreement of ancillary services that may be exchanged between the national network operator TSOs RTE and NGESO, and which may include Emergency assistance, Constraint management, Intertripping. The facility to exchange other ancillary services may be agreed from time to time.
- 5.2 Should any TSO-TSO ancillary service be exchanged operationally then a charge is applied to NGESO. This charge is applied on a contractual basis between NGIC/NGIFA2 (as the case may be) and NGESO, reflecting the Licence separation between the interconnectors and transmission companies and pricing for equivalent services available elsewhere on the market.