

To all holders of an electricity interconnector licence, National Grid Interconnectors Limited, National Grid Electricity System Operator Limited and any other interested parties

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Date: 3 July 2020

Dear stakeholders,

Statutory consultation on proposed modifications to the standard conditions of the electricity interconnector licence and to the special conditions of the electricity interconnector licence held by NGIL and the electricity transmission licence held by NGESO

This statutory consultation sets out the modifications we¹ propose to make to the standard conditions of the electricity interconnector licence and the special conditions of the electricity interconnector licence held by National Grid Interconnectors Limited (NGIL) and the electricity transmission licence held by National Grid Electricity System Operator Limited (NGESO). The proposed licence changes are required in order to:

- (a) align the standard conditions of the electricity interconnector licence with the Regulation (EU) 2019/943² on the internal market for electricity as part of the Clean Energy for all Europeans Package (the CEP Electricity Regulation); and
- (b) implement our decision³ on the approach to cost sharing and cost recovery under Regulation (EU) 2015/1222⁴ establishing a guideline on Capacity Allocation and Congestion Management Regulation (the CACM Regulation).

¹ The terms “the Authority”, “we” and “us” are used interchangeably in this document.

² <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32019R0943>

³ <https://www.ofgem.gov.uk/publications-and-updates/decision-approach-cost-sharing-and-cost-recovery-under-capacity-allocation-and-congestion-management-cacm-regulation>

⁴ <https://eur-lex.europa.eu/eli/req/2015/1222/oj>

Proposed licence changes

The proposed licence modifications are categorised and specified below:

CEP Electricity Regulation related licence changes

The proposed licence changes aim to reflect the CEP Electricity Regulation, which has repealed the Third Package⁵ Electricity Regulation⁶. The majority of the changes reflect new obligations set around congestion income, which outlines how revenues generated from the allocation of an interconnector should be prioritised and used. Licensees are obligated to submit a Use of Revenues Statement to us at the start of a calendar year as well as to develop and to consult on their approach to the use of revenues. We are also making changes throughout the standard licence conditions to update any out of date references to the Third Package. The specific changes we propose to make are as follows:

1. Amend the following standard conditions of the electricity interconnector licence in order to align those conditions with the CEP Electricity Regulation:
 - Condition 1 (Definitions and Interpretation)
 - Condition 9 (Use of Revenues)
 - Condition 12 (Application of Licence Conditions 9, 10, and 11: Exemption Orders)
 - Condition 23 (Regional Cooperation); and

2. Amend the following special condition of the electricity interconnector licence held by NGIL with respect to the Interconnexion France Angleterre (IFA) interconnector to align it with the CEP Electricity Regulation and also make some minor changes for clarity:
 - Special condition 1: (Determination of the Interconnector Payment Term)

CACM Regulation related licence changes

The proposed licence changes aim to provide the necessary mechanism for costs determined by the Authority as being efficient, reasonable and proportionate costs related

⁵ The Third Package is a previous set of EU energy market legislation that applied from 2011, which has been repealed by the Clean Energy for all Europeans Package.

⁶ <https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A32009R0714>

to establishing, amending and operating Single Day-Ahead Coupling and Single Intraday Coupling to be recovered by relevant licensees. The specific changes we propose to make are as follows:

1. Introduce the following new standard conditions into the electricity interconnector licence in order to implement our decision on approach to cost sharing and cost recovery under the CACM Regulation:
 - Condition 1B (Application of Section H)
 - Two new standard conditions to be inserted into a new Section H:
 - Condition 27 (Determination of the Capacity Allocation and Congestion Management Cost Recovery Payment Term); and
 - Condition 28 (Provision of payments information to the GB System Operator); and
2. Make a minor consequential change to the following special condition of the electricity transmission licence held by NGESO to facilitate CACM-related payments to relevant interconnector licence holders:
 - Special condition 3B (Calculation of allowed pass-through items)

Background

The CEP Electricity Regulation and CACM are both Regulations that apply directly to all interconnector licensees. Following the UK's exit from the European Union, the UK remains in the transition period until 31 December 2020.⁷ During this time, we continue to work on the implementation of EU law that falls within the scope of the Withdrawal Agreement. This includes implementing the CACM Regulation, reflecting the CEP Electricity Regulation provisions across the relevant licences and assisting BEIS to implement the CEP Electricity Directive⁸ across the relevant licences.

The Clean Energy Package (CEP)

The CEP is a comprehensive update of the EU's energy policy framework, comprising of eight legislative texts, and it repeals the previous Third Package. The CEP Electricity Regulation, the regulation for the internal market for electricity, came into force on 4 July 2019 - all provisions are applicable from 1 January 2020 and it applies directly to GB

⁷ The UK government has stated its intention not to extend the transition period, and has now passed the deadline (30 June 2020) within the Withdrawal Agreement by which an extension must be requested.

⁸ <https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A32019L0944>

without being transposed into national laws or regulatory frameworks. The CEP Electricity Regulation establishes principles for an efficient electricity market, supports decarbonisation of the EU's energy sector and removes barriers to cross-border trade in electricity.⁹

The CACM Regulation

The CACM Regulation, which came into force on 14 August 2015, is a central component of the EU energy market. It aims to maximise the efficient use of interconnection and facilitate greater cross-border electricity trade.

In August 2019, we made a decision¹⁰ on our approach to cost sharing and cost recovery under the CACM Regulation. The decision set out how costs related to the CACM Regulation should be shared between relevant parties and the appropriate mechanism for recovery of such costs in GB.

We noted at the time that licence changes would be required to implement our decision. In particular, in order to provide a mechanism for costs determined by the Authority as being efficient, reasonable and proportionate costs related to establishing, amending and operating Single Day-Ahead Coupling and Single Intraday Coupling to be recovered by relevant licensees.

Given that the required licence changes are identical for each of the relevant interconnector licence holders, we consider making the required changes by way of modifications to the standard conditions is preferable to the alternative approach of inserting special conditions into each of the relevant interconnector licences.

Statutory consultation

Statutory consultation notices together with relevant schedules have been published alongside this letter as follows:

Appendix 1 – Notice of proposed modifications to the standard conditions of the electricity interconnector licence	Schedule 1 – Proposed modifications to the electricity interconnector licence standard conditions Schedule 4
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⁹ <https://www.europarl.europa.eu/factsheets/en/sheet/45/internal-energy-market>

¹⁰ <https://www.ofgem.gov.uk/publications-and-updates/decision-approach-cost-sharing-and-cost-recovery-under-capacity-allocation-and-congestion-management-cacm-regulation>

	<ul style="list-style-type: none"> • Part A – Reasons and effects of proposed CEP Electricity Regulation related modifications • Part B – Reasons and effects of proposed modification related to our decision on costs sharing and cost recovery under the CACM Regulation
Appendix 2 - Notice of proposed modifications to the special conditions of the electricity interconnector licence held by NGIL	<p>Schedule 2 - Proposed modification to special condition 1 of the electricity interconnector licence held by NGIL</p> <p>Schedule 4, Part C – Reasons and effects of proposed modifications to special condition 1 of NGIL’s licence</p>
Appendix 3 - Notice of proposed modifications to the special conditions of the electricity transmission licence held by NGESO	<p>Schedule 3 - Proposed modifications to special condition 3B of the electricity transmission licence held by NGESO</p> <p>Schedule 4, Part D – Reasons and effects of proposed modifications to special condition 3B of the transmission licence held by NGESO</p>
Appendix 4 – Reasons and effects of proposed licence modifications	

For ease of reference, please use the response template (in Microsoft Word format, published as a subsidiary document alongside this consultation) to provide your specific comments on the proposed licence text and/or to suggest any alternative wording.

Please send responses by 31 July 2020 to: Ikbal.Hussain@ofgem.gov.uk

Unless marked confidential, all responses will be put in Ofgem’s library and on our website, www.ofgem.gov.uk. You can ask for your response to be kept confidential and we will respect this, subject to any obligations to disclose information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004. If you would like your responses to be kept confidential, clearly mark the document/s to that effect and include the reasons for confidentiality.

If you have any questions in relation to this letter, please contact Ikbal Hussain by email (Ikbal.Hussain@ofgem.gov.uk).

Yours sincerely,

Tom Corcut
Deputy Director, Wholesale Markets