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Date: 1 October 2013

Dear Andrew

Approval of the charging methodology for the England-France interconnector (IFA) including a direction to approve pursuant to Standard Licence Condition 10 paragraph 7 of IFA's electricity interconnector licence

On 2 July 2013, National Grid Interconnectors Limited (NGIC) submitted its proposed charging methodology (the "proposed charging methodology") to the Authority¹ for approval. This was submitted pursuant to Standard Licence Condition (SLC) 10 of IFA's electricity interconnector licence. The proposed charging methodology explains the charges that will be applied by IFA to users for access to (including use of) the IFA interconnector².

This letter contains a direction to approve the proposed charging methodology and sets out the background and reasons for our approval under section 49A of the Electricity Act 1989.

Background

On 10 November 2011, the Third Package³ was transposed into GB legislation resulting in amendments to the standard conditions of the electricity interconnector licence. This included changes to SLC 10 on the approval by the Authority of the charging methodology to apply to third party access to the licensee's interconnector⁴. In particular, the relevant charging methodology objectives were amended, against which the Authority will assess the charging methodology and proposed amendments.

The relevant charging methodology objectives are that the charges and the application of the underlying charging methodology shall be transparent, objective, non-discriminatory and compliant with the Electricity Regulation⁵ and any relevant legally binding decision of the European Commission and/or the Agency⁶.

NGIC's proposed charging methodology

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 IFA is a 2000MW high voltage direct current (HVDC) link, connecting the transmission systems of Great Britain (GB) and France. IFA is jointly owned and operated by National Grid Interconnectors Limited (NGIC) and Réseau de Transport d'Électricité (RTE) (the French transmission system operator).

³ The term "Third Package" in this letter refers to the Electricity Regulation (Regulation (EC) No 714/2009 and to the Electricity Directive (Directive 2009/72/EC).

⁴ The revised electricity interconnector licence standard conditions can be found here: https://epr.ofgem.gov.uk//Content/Documents/Electricity_Interconnector_Standard%20Licence%20Conditions%20Consolidated%20-%20Current%20Version.pdf

⁵ Regulation (EC) No 714/2009 on conditions for access to the network for cross-border exchanges in electricity.

⁶ Agency for the Cooperation of Energy Regulators (ACER).

NGIC issued its proposed charging methodology statement for consultation on 9 May 2013 until 6 June 2013. This consultation was run in parallel with IFA's consultation on its proposed access rules⁷. In the covering letter accompanying the charging methodology consultation, NGIC's recommendation to market participants was that they considered the two consultations in conjunction with each other.

The focus of both consultations was on changes required to be made in order to introduce implicit auctions for day-ahead capacity allocation (market coupling) on IFA. This is in accordance with work being pursued under the North West Europe (NWE) electricity initiative⁸. We understand that the expected go-live date for the NWE day-ahead market coupling project is November 2013. The implementation of market coupling on IFA will be a significant step towards the completion of the European internal energy market.

NGIC received in total eight responses to both consultations. No specific comments relating to the proposed charging methodology were made. Only one respondent noted that the proposed charging methodology was suitable for implementing the NWE day-ahead market coupling project on IFA.

On 2 July 2013, NGIC submitted its proposed charging methodology, the consultation responses⁹ and a covering letter which explained the proposed changes to Ofgem. The proposed charging methodology also included an explanation of ancillary services arrangements, as required by SLC 10 of the electricity interconnector licence.

Approval of the IFA proposed charging methodology

The Authority has decided to approve NGIC's proposed charging methodology on the basis that it meets the relevant charging methodology objectives. The approved charging methodology statement will take effect to coincide with the go-live date of the NWE day-ahead market coupling project. A direction issued in accordance with paragraph 7 of SLC 10 of IFA's electricity interconnector licence to this effect can be found in the Annex to this letter.

Yours sincerely,

Rachel Fletcher,
Interim Senior Partner, Markets

⁷ NGIC and RTE issued a joint consultation on proposed changes to the IFA access rules on 7 May 2013 until 5 June. Links to both consultations can be found on National Grid's website:

<http://www.nationalgrid.com/uk/Interconnectors/France/consultations/>

⁸ The European Target Model requires that the Transmission System Operators (TSOs) allocate all cross border capacity in the day-ahead timeframe using implicit auctions by 2014. The North West European (NWE) Regional Initiative (RI) is a TSO led project to introduce single price coupling in the region. NWE comprises Central West Europe (CWE), North Europe and GB (IFA and BritNed interconnectors). A form of market coupling already covers the NWE area, with the exception of the IFA interconnector.

⁹ The consultation responses submitted applied to both the proposed charging methodology and the proposed access rules consultations. NGIC's recommendation to Ofgem in their submission covering letter was that, given that the changes to both the proposed charging methodology and the proposed access rules were for a common purpose (day-ahead market coupling) the responses received can be construed as applying to both consultations.

ANNEX

Direction issued to National Grid Interconnectors Limited (NGIC) pursuant to paragraph 7 of Standard Licence Condition 10 (Charging Methodology to apply to third party access to the licensee's interconnector) of its electricity interconnector licence

1. This Direction is issued by the Gas and Electricity Markets Authority (the "Authority") pursuant to paragraph 7 of Standard Licence Condition 10 of the electricity interconnector licence ("the Licence") granted or treated as granted under section 6(1)(e) of the Electricity Act 1989 ("the Act") to NGIC ("the Licensee").
2. Paragraph 2 of Standard Condition 10 of the Licence provides that the Licensee shall prepare and submit for approval by the Authority a charging methodology for access to (including use of) the Licensee's interconnector.
3. Paragraph 4 of Standard Condition 10 requires that the charges and the application of the underlying charging methodology shall be transparent, objective, non-discriminatory and compliant with Regulation (EC) No 714/2009 and any relevant legally binding decision of the European Commission and/or Agency for the Co-operation of Energy Regulators (collectively the 'relevant charging methodology objectives').
4. Paragraph 5 of Standard Condition 10 of the Licence requires the Licensee to take all reasonable steps prior to submitting the charging methodology to the Authority to ensure that all persons, including those in other Member States who may have a direct interest in the charging methodology, are consulted and allow them a period of not less than 28 days within which to make written representations. The Licensee must also furnish to the Authority a report setting out the terms originally proposed in the charging methodology, the representations, if any, made by interested persons and any change in the terms of the charging methodology intended as a consequence of such representations.
5. In accordance with paragraph 5 of Standard Condition 10 of the Licence, on 2 July 2013 the Licensee furnished the Authority with a report setting out the terms originally proposed in its charging methodology including any changes as result of the public consultation.
6. Having regard to the relevant access rules objectives set out in SLC 10 paragraph 4 and to our principle objective and statutory duties, the Authority has decided to approve the Licensee's charging methodology on the basis that it meets the relevant charging methodology objectives.
7. The Authority hereby directs, pursuant to paragraph 7 of Standard Condition 10 of the Licence, that the Licensee's charging methodology is approved.
8. This Direction shall have immediate effect and shall remain in effect until such time as the Authority may revoke or vary the Direction in writing upon reasonable notice.
9. This direction constitutes notice of the Authority's reasons for the decision pursuant to section 49A of the Act.

Dated: 1 October 2013

Rachel Fletcher
Interim Senior Partner, Markets
Duly authorised on behalf of the Authority