

# ElecLink's comments in response to the Methodology for GB Commercial Arrangements relating to Interconnector Capacity Calculation

1<sup>st</sup> June 2021

1. General. Almost all the comments contained within this document were addressed previously to NGESO through the NTC Methodology Working Group, and were shared by email on 17<sup>th</sup> September 2020, and further elaborated and shared by email on 26<sup>th</sup> March 2021. NGESO responded in writing on 9<sup>th</sup> and 24<sup>th</sup> April 2021. We have a concern that some of our comments are not being considered by NGESO (or have not resulted in updates to the methodology) and so would like to reiterate these through this formal consultation process.
2. General. **(comment reiterated – the issue remains throughout the methodology despite NGESO stating that they agree to our comment)**.  
Use of the term 'NTC' is not correctly applied consistently. It is standard ENTSO-E terminology to mean 'Net Transfer Capacity', which is the result of a capacity calculation, but should not be used to refer to the capacity that is removed from allocation processes, nor the process/service itself (e.g. 'NTCs are applied' should be 'NTC restrictions are applied'; 'NGESO will use a DA NTC' should be 'NGESO will apply a limit/restriction to the DA NTC' or 'NGESO will perform a DA capacity calculation'). For example, see the section "Future Developments" which states that *"the term ITL will be replaced as NTC"* – we believe this should be *"the term ITL will be replaced with Intraday NTC restriction (or Intraday capacity calculation)"*. We request consistency and accuracy of terminology in official methodologies and documents produced by NGESO to avoid misinterpretation later.
3. General. It is not clear whether NGESO intends to utilise the Day Ahead capacity calculation and/or the Intraday capacity calculation on a given border/interconnector from the documentation provided. The cover note clearly states that *"Day Ahead (both allocated and unallocated), and intraday allocated capacity for channel and Irish interconnectors will not be subject to NTC restrictions until further analysis can be provided on the socio-economic impact of such restrictions"*. However, within the methodology section "Principles of use" there is ambiguity – it is explained that NGESO could use *"DA NTC on a given IC where ID options do not exist"* and ID options are further clarified as meaning that the *"throughput of energy volumes in the connecting market meets or exceeds that requested by NGESO"*. This ambiguity is concerning, and it is not clear whether NGESO are proposing to develop and use both Day Ahead and Intraday restrictions. This lack of clarity is reinforced by the technical methodology that NGESO have proposed to ElecLink, which includes detailed processes for restricting Day Ahead allocated and unallocated, AND Intraday allocated and unallocated, capacity.
4. Principles of Use – 2a) **(comment reworded/reiterated – NGESO disagreed but we would still like to receive clarity on the assumptions that NGESO will use)**.  
It is clear from the principle in 2a) regarding "ID Options" needing to provide sufficient volumes that NGESO will take an assumption on the depth of the Intraday market before the Day Ahead stage and before the Intraday allocation stage. It would seem that if volumes are assumed to be insufficient then a Day Ahead NTC restriction may be requested. This is concerning, as it indicates that NGESO would decide on Day Ahead restrictions based on assumptions rather than actual market data, which could lead to a greater number of restrictions than necessary. This is also incompatible with the statement in the cover note about avoiding Day Ahead (allocated and unallocated) and Intraday (allocated) restrictions, as the Intraday allocation results would not be known at the time that a decision was taken on whether the Intraday market had sufficient capacity.

5. Principles of Use – 5. **(comment reiterated – NGESO agreed but clarification was not included in the methodology).**

This principle states that “where multiple ICs jointly contribute/exacerbate a particular constraint the available capacity will be shared equally as far as practicable”. “Shared equally” should be further explained within this paragraph, in our view, to reflect the answers given by NGESO in the working group. It should be explained whether ‘equally’ means sharing proportionally based on capacity (i.e. if ElecLink has a capacity of 1000MW, and IFA 2000MW, the restriction is shared 33.3% ElecLink; 66.6% IFA), evenly shared (restriction is shared 50%/50%), or another method.

6. GB Commercial Methodology. **(comment partly reiterated)**

Table 1 should include ElecLink:

*“For example, IFA, BritNed, NEMO, IFA2, **ElecLink**”*

7. Future Developments. **(comment reiterated – NGESO agreed but clarification was not included in the methodology)**

As stated by various parties in recent meetings, ahead of any correction factor being applied we believe that the analytical methodology should be made available for scrutiny and for the ultimate decision on such a mechanism to be subject to Ofgem’s oversight in case a voluntary agreement isn’t reached by the parties it applies to. Wording should be included in the methodology to reflect this.

8. Implementation Method. **(comment reworded/reiterated – NGESO disagreed but we would still like to receive some clarity around implementation).**

While the aim is to leave practical implementation to the trilateral OPs, we believe that there needs to be some further information here. This section should detail which borders will have which mechanisms applied (the information included in the cover note could be replicated here), in order to ensure equal treatment across interconnectors. It should also detail whether the implementation of such a methodology is a requirement for new interconnectors, as there is no clear legal obligation on interconnectors to implement this methodology elsewhere.

9. Appendix 1 – The Calculation Process – Allocated Capacity restricted before FD **(comment reiterated and table removed. NGESO stated that they were awaiting Ofgem’s feedback but this has not been reflected in drafting)**

Section C.(1) states a simple calculation for how capacity holders are remunerated, however this is an oversimplification of the calculation. The rules for curtailment compensation are complicated, are driven by the relevant Access Rules, and should not be summarised into a single formula.

What is currently drafted does not go into detail on the different compensation levels that are possible depending on reason for curtailment (operational security, force majeure, emergency situation) or type of capacity (Long Term, Day Ahead or Intraday). ElecLink has previously provided a table outlining the various compensation levels and can do so again on request.

To resolve this issue, we believe it would be best to state that the value paid for allocated capacity compensation will be the calculated value based on the relevant interconnector’s Access Rules rather than including a calculation here. If curtailment is possible (e.g. for Operational Security reasons ahead of the FD), then the compensation level is that level specified in the Access Rules. If curtailment is not possible (e.g. for Operational Security reasons after the FD), then the compensation level is the imbalance exposure in each market (calculated as C.(3)). This would achieve Principle (B) and would mean the methodology remains valid even if the Access Rules compensation principles change.

10. **Appendix 1 – The Calculation Process – Unallocated Capacity C.(4)a. (comment partly reiterated and updated. This was subject to a lengthy discussion in the working group but the methodology still has outstanding points)**

We still have some concerns with this method of determining the value of capacity.

a) The first concern is about bidding behaviour. When a restriction is made to NTC, this translates into a lower 'Offered Capacity' value in the capacity auction. The traders then take this Offered Capacity value into account when determining how to participate in auctions. In the situation where one interconnector on a border is restricted and another is not, it is likely that the traders will adjust their bids to participate on the less restricted interconnector (to try and obtain capacity for a lower price, avoiding the supply-constrained interconnector). The result is that the bid curves are not the same as they would have been had there been no restriction, and the bids are (and therefore capacity value is) skewed away from the interconnector with the restriction. This may be less applicable for single interconnector borders (although a similar situation could occur between different borders), but we can imagine this situation occurring on GB-FR border with three separate allocations taking place at around the same time (ElecLink, IFA and IFA2). This issue is still open, in our view, and the working group was not able to finalise a way forward.

b) Previous comment: The calculation of V\_WITHOUT\_NTC does not seem correct in all cases. V\_WITH\_NTC is the volume **sold**, which may be less than the volume **offered** if demand is low. Adding the full value of the NTC restricted to this value to obtain V\_WITHOUT\_NTC is incorrect, as it doesn't take into account this factor (that **offered** capacity may not be **sold**). This will be important as there are two auctions, one per direction, and one is likely to have a lower demand than offered capacity. We think that if an auction doesn't clear a volume equal to offered capacity, there could be no settlement calculation required.

Updated comment: Following our previous comment, NGESO has amended the definitions by inserting the word "Offered" but this does not resolve all the issues, and in fact introduces new issues. The point raised was that if Offered Capacity is not fully sold (i.e. the Requested Capacity is lower than the unrestricted Offered Capacity), the restriction may not actually affect the outcome of the auction, and in this situation no payment should be made by anyone. As drafted, this could result in an incorrect calculation and a payment where none was due. Please see the examples in the spreadsheet attached to this response to illustrate the issue.

To correct this issue, a reference should be made to the Requested Capacity (which is available publicly for each auction held by JAO). Please note that this proposed change is assuming that the Requested Capacity would remain the same for a given auction, regardless of NTC restriction. This is an assertion that we do not necessarily agree with (see (a)) but it is assumed in the methodology.

The definitions should be changed to:

- *V\_WITH\_NTC = The volume of capacity allocated in the auction with the NTC restriction applied.*
- *V\_WITHOUT\_NTC = The volume of capacity that would have been allocated if the NTC restriction had not been applied. This can be calculated as:  
=MINIMUM((Requested Capacity), (V\_WITH\_NTC+NTC Restriction))*

The settlement formula should remain as:

$$(V\_WITH\_NTC * P\_WITH\_NTC) - (V\_WITHOUT\_NTC * P\_WITHOUT\_NTC)$$

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This will yield a correct result for payments in the situations where the restriction does impact the capacity that would have been allocated, while not providing any payment in case of an auction that remains unaffected by a restriction. Please see the examples in the spreadsheet attached to this response.

c) As there are auctions in two directions, this calculation should be run twice, once for each direction, as the impact could be felt in two separate auctions if the restriction is bidirectional. This should be mentioned here.

11. Invoicing. **(comment reiterated as no feedback was given)**

This information is very specific, is there the potential for this to differ party to party depending on the specifics (netting with other payments, payment terms, invoicing specifics) already in place in bilateral or trilateral settlement agreements?