Methodology for GB Commercial Arrangements relating to Interconnector Capacity Calculation - Response Proforma

NGESO invites responses to this consultation by **17:00 Tuesday 2nd June 2021**. The responses to the specific consultation questions (below) or any other aspect of this consultation can be provided by completing the following form. Please note that responses submitted after this time may not be counted.

Please complete this form regarding the proposal titled: “**Methodology for GB Commercial Arrangements relating to Interconnector Capacity Calculation**”.

Please return the completed form (word version) to: [box.europeancodes.electricity@nationalgrideso.com](mailto:box.europeancodes.electricity@nationalgrideso.com)

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| Respondent | Paul McGuckin |
| Company Name | Moyle Interconnector Ltd |
| |  | | --- | | **Does this response contain confidential information? If yes, please specify.** | | No |

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| Number | Question | Response |
| 1. | Do you agree with the commercial compensation methodology? | We agree with aspects of the commercial compensation methodology and recognise that it has been improved through engagement with interconnector TSOs over the last year. We wish to again highlight several deficiencies which have not yet been addressed.  Coordinated capacity calculation  The methodology states that *“NTCs shall be used in parallel to the development of*  *the Capacity Calculations envisaged within the TCA”.* The implication here is that NTC restrictions will be applied before coordinated capacity calculations have been agreed and approved by regulators (noting that the previous approved day ahead and forwards methodologies developed pursuant to the CACM and FCA regulations no longer apply). Interconnector TSOs have been clear that all coordinated capacity calculations should be publicly described in a regulatory approved methodology before this methodology is applied. Without this, NGESO will be unilaterally applying restrictions on interconnector flows without proper oversight and in contravention of historical precedent whilst there is gap in the applicable law (CACM and FCA having fallen away and not yet been replaced in UK law - what is written in this document goes much further than any previous capacity calculation methodologies as it appears that capacity will not be firm at any point).  NGESO keeping interconnector owners whole may be an acceptable commercial outcome for those parties but this does not place any value on the consequences in the connecting system (e.g. higher prices, increased wind curtailment) – this is why use of this tool also requires oversight and agreement from regulators and SOs of the connecting jurisdiction.  Principles of use  Following on from the comments above, the principles of use on page 3 of the methodology are not clear. Is the opening paragraph implying that this is an emergency tool or will it be used to avoid using emergency tools? Article ENER.13.1.c of the TCA states that interconnector capacity may only be curtailed in emergency situations and this methodology is proposing to curtail interconnector capacity in various timeframes that are not consistent with an emergency. I note the methodology also includes a novel definition of curtailment referring to the final round of market activity that is not consistent with established practice and understanding of the term in our industry (e.g. the ENTSOE definition of curtailment is “curtailment means a reduction in the scheduled capacity or energy delivery” i.e. at any time). Interconnector flows had a degree of priority under EU regulation and the TCA retains this principle – proper controls are necessary to ensure NTC restriction is only used when other market-based options are not available.  Paragraph 1(b) of this section refers to “the best view of credible alternative actions that ***will*** be available”. The emphasis on the absolute term ‘will’ here raises concern around conservatism in the application of what is likely to be a relatively cheap tool for NGESO. It is our understanding that more actions regularly become available closer to real time - NGESO should therefore use its judgement as to what actions are likely to be available to avoid unnecessary restriction of interconnector capacities (such a requirement should be part of an approved CCM).  Paragraph 2 states that NGESO will not use DA NTC restrictions where ID options exist [with reasonable availability and firmness]. In the case of SEM, the IDA1 auction is effectively DA for the interconnectors as it is currently the first opportunity to determine an interconnector schedule. These principles should be applied with respect to IDA1 to avoid significant socioeconomic welfare impact that other borders will have protection from since NGESO will not restrict nominated long-term capacity. SO-SO trading arrangements are in place on the SEM-GB border which present an alternative existing ID option.  Paragraph 5 states “where multiple ICs jointly contribute/exacerbate a particular constraint the available capacity will be shared equally as far as is practicable”. We suggest a more equitable approach would be to share any restriction pro-rata based on the unrestricted capacity of the involved interconnectors.  With reference to the definition of firmness deadline, this could be better defined here as "the point in time after which cross-zonal capacity becomes firm" with detail in implementing agreements. In the case of the SEM, when this point has passed the CZC made available to the market cannot be updated (and this detail is included in market rules rather than interconnector access rules). If there is a subsequent trip (or NTC restriction under this process) the costs would be incurred at imbalance prices.  GB Commercial Methodology  Table 2 could be futureproofed by including "see relevant access rules" in the centre left quadrant with the centre right hand quadrant being the same as the bottom right to cover the future reintroduction of long term transmission rights (“LTTRs”. I have provided this feedback previously, but it has not been incorporated - at a minimum the document should be clear that the current “N/As” in this table are only there because no LTTRs are currently issued on the SEM-GB interconnectors, in case of any future misalignment.  As NGESO will be aware, Moyle and other interconnector owners are extremely uncomfortable with the use of a ‘correction factor’ in the calculation of the compensation to be paid by NGESO. No detail has been provided in the methodology on how the discount factor would be calculated and greater transparency on this aspect is required before the approach can be agreed.    NGESO has previously stated that the NTC restriction will only be used sparingly. If that indeed is the case, it seems like an excessive effort to obtain all the data required to re-run the coupling algorithm and/or delay the introduction of the tool because the correction factor cannot be agreed. We note that the intention is to not apply a correction factor initially but believe this commitment should be extended. If the volumes really are going to be small, a sensible and pragmatic approach would be to simply pay the relevant auction price or market spread until such time as it can be demonstrated that a correction factor would increase overall socioeconomic welfare across both connected markets. |
| 2. | Any further comments relating to the commercial compensation methodology? | Settlement  We note that statement that “payments between the interconnectors and NGESO will only commence when there is an agreed bilateral agreement for this between the interconnector and NGESO, that is in line with the arrangements and principles within this document” – we would add that this should note that NTC restrictions will not be used until such an agreement is in place.  We would suggest Appendix 1 is removed or greatly simplified. Trying to include data and payment formulae for all interconnectors may lead to confusion where principles would be sufficient for detailed trilateral implementation. Some points of detail that are not captured by the appendix:   * The SEM-GB intraday auctions are priced in Euro in both markets, so no FX adjustment is required. * There is a single GB price for the SEM-GB intraday auctions. * Day ahead prices are not (currently) relevant for SEM-GB. * In implicit auctions losses appear in the scheduled volumes at either end of the interconnector, so there are two volumes, not one and prices do not need to be loss adjusted. * Where allocated capacity is restricted after FD, the binary ‘S’ value should reflect whether the interconnector was long or short in the market rather than the position of the system. * Where allocated capacity is restricted after the FD resulting in imbalance there are likely to be indirect costs to the interconnector owner, such as a short term need to increase collaterals or to settle the imbalance before receiving payment from NGESO. There is also a risk of suspension of interconnector units should the interconnector owner be unable to rectify the position in good time. The methodology should recognise such potential issues and NGESO indemnify interconnector owners from indirect losses in this scenario. |
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