

**CHARGING METHODOLOGY STATEMENT
FOR THE
IFA AND IFA2 INTERCONNECTORS**

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Document Location

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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 respectively, 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 NG IFA2'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 with effect from the date of implementation of the platforms described below, provided that GB is participating in Europe's Internal Energy Market (IEM) at that time. If as a result of the UK's BREXIT negotiations GB has ceased to participate in the IEM by the time of platform implementation, then an alternative Charging Methodology will apply.
- 1.5 The platforms to be implemented by NGIC and NGIFA2 on IFA and IFA2 respectively are as follows:
 - (i) the Single Allocation Platform (SAP), as required by Regulation 2016/1719 on Forwards Capacity Allocation, and operated by the Joint Allocation Office (JAO).
 - (ii) Regional Allocation Platform (RNP), required as part of the phasing out of IFA's DAMAS-based Capacity Management System.
 - (iii) Explicit auction platforms for Day Ahead fallback and Intraday, both also operated by JAO.

Note if all of the above platforms are not implemented at the same time, then this Charging Methodology shall take effect upon the first of the above platforms to be implemented.

- 1.6 Whilst some business processes and associated timings will change with the implementation of the above platforms (the details of which are contained in the associated Access Rules), the underlying commercial principles and charging mechanisms associated with interconnector capacity allocation will continue as before, and are described in this document.
- 1.7 The suite of documents which make up the Access Rules for IFA and IFA2 applicable for operation of the above platforms (hereinafter referred to as the “Access Rules”) are as follows:
- (i) Harmonised Allocation Rules (HAR), plus the GB-France Border-Specific Annex (BSA)
 - (ii) JAO Shadow Allocation Rules (for Day Ahead explicit auctions in the event of markets de-coupling)
 - (iii) Access Rules for Intraday Capacity Allocation
 - (iv) CHANNEL Region Nomination Rules for Long-term Physical Transmission Rights
 - (v) Explicit Day Ahead and Intraday Nomination Rules
- 1.8 An electronic version of all of the above documents can be obtained via the following link to NGIC’s website: <http://ifa1interconnector.com/notices/ifa-access-rules/> In the unlikely event of a discrepancy between this Charging Methodology Statement and the Access Rules, the terms of the Access Rules shall apply.
- 1.9 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
- 1.10 All further references to NGIC and NGIFA2 in this document relate to their respective 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 NGIC and NGIFA2 to establish a methodology showing the methods and principles on which charges for the use of IFA and 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 of implementation of the first of the platforms referred to in paragraph 1.5 above.

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;
- (c) Non-discriminatory; and
- (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 this methodology for each of IFA and IFA2 facilitates all objectives as described above.

Explicit and Implicit auction principles

- 2.6 It is necessary to distinguish between implicit and explicit auctions of capacity. Long term and Intraday capacities are allocated through an explicit allocation process. An Implicit auction mechanism applies for Daily Auctions; however by exception, explicit auctions for Daily Capacity may be invoked as a fallback in the event that Implicit Daily Auctions are not available.

- 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

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)

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 Based on the timescales contained within the approved all-TSOs’ proposal for the establishment of a Single Allocation Platform, as required by the EU Regulation 2017/1719 establishing a guideline on Forward Capacity Allocation, , HVDC Interconnectors are required to adopt the Single Allocation Platform for all Long Term capacity allocations by December 2019. The operator of this platform is referred to as the “SAP Operator”. NGIC and NGIFA2 will also use the SAP Operator for explicit Day Ahead fallback and Intraday auctions..
- 2.9 In contrast, the implicit auction mechanism is designed to enable available capacity to be used by integrating the respective spot markets in France and Great Britain (and other participating countries), with the flow on each of the IFA/IFA2 interconnectors resulting from the matching of energy Bids submitted by market participants to the respective Nominated Electricity Market Operators (NEMOs). The Congestion Rent receivable by the TSOs NGIC, NGIFA2 and RTE (respectively for each of IFA and IFA2) is derived from any surplus of receipts/payments to/from market participants in GB and France, and is a function of the price difference between these two energy markets. This process is termed to as Single Day Ahead Coupling (SDAC) within Regulation 2015/1222 on Capacity Allocation and Congestion Management (CACM)..

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 SAP Operator, and respectively NGIC and NGIFA2. The eligibility requirements are set out in:
- (a) Harmonised Allocation Rules - Chapter 2, and
 - (b) Shadow Allocation Rules – Chapter 2, and
 - (c) Access Rules for Intraday Capacity Allocation – Chapter 2, and

- (d) CHANNEL Rules for Long Term PTR Nominations – Article 3, and
- (e) Day Ahead and Intraday Nomination Rules – Article 3.

3.5 These documents include the requirements for parties to accede to the Access Rules via separate Participation Agreements for IFA and IFA2 as follows:

- i) JAO Participation Agreement for access to Long Term, fallback Day Ahead and Intraday auctions;
- ii) RNP Nomination Agreement for access to the Regional Nominations Platform.

3.6 In addition, in order to nominate explicit capacity 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:

IFA: 2000MW

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 gives 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 explicit capacity rights 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, and in due course in accordance with the CHANNEL methodology on the Design of Long Term Transmission Rights.

- 3.12 The capacities offered respectively on IFA/IFA2 will be 100% (subject to any legitimate restriction of the interconnector(s) by the System Operators in GB and France 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. Details of planned outages are published and can be found via the following link:
<http://ifa1interconnector.com/notices/outages/>
- 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 Long term explicit auction rules are set out in the HARs and BSA, which describe the basis on which Long term transmission rights are offered, allocated to and may be utilised by eligible Registered Participants. Bids will be accepted by the SAP operator in strict accordance with the criteria set out in the HARs and BSA.
- 4.2 The Intraday and Daily (where applicable) explicit auction rules are set out in the Access Rules for Intraday Capacity Allocation Rules and Shadow Allocation Rules, respectively.
- 4.3 The price which all successful Registered Participants will pay for each transmission right in a given Auction is the bid price for the last accepted unit in descending order of price.
- 4.4 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.
- 4.5 Registered Participants who acquire explicit capacity will receive invoices from JAO. Payment for capacity will be in Euros only.

Secondary trading

- 4.6 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 HAR.

- 4.7 Transfer of Transmission Rights involves the bilateral transfer of explicit transmission rights to another eligible Registered Participant, the financial transaction for which is conducted outside of the auction platform. 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.
- 4.8 Explicit Long Term capacity may also be offered for Return via a subsequent LT Auction, and where that capacity is resold, the SAP 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

- 4.9 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 Nomination Participation Agreement for the relevant interconnector, and has acceded to the GB and France market codes as described in Paragraph 3.3 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.
- 4.10 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 the RNP separately for each of the following timescales: Long Term, Daily and Intraday.

Non-nominated transmission rights

- 4.11 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 of Use It or Sell It ("UIOSI")/Use It or Lose It ("UIOLI") as described in the Access Rules.
- 4.12 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 implicit auction mechanism (or to the Explicit Daily Auctions in the event that Implicit Daily Auctions are unavailable) with the proceeds (if any) being returned to the original Registered Participant.
- 4.13 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

- 4.14 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.
- 4.15 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 IMPLICIT DAILY AUCTION

Introduction

- 5.1 The implicit auction mechanism is facilitated as part of the SDAC arrangements.
- 5.2 Where Implicit Daily Auctions are in operation, the resultant payments from/to market participants are handled in the first instance by the NEMOs.

Non-nominated transmission rights

- 5.3 The remuneration for an interconnector from the implicit auction mechanism for non-nominated Long Term transmission rights is based on the implicit auction loss-adjusted price differential between France and Great Britain and is returned to the original Registered Participant by the SAP Operator in accordance with HARs (as amended where applicable by the relevant Border Specific Annex)..

Firmness

- 5.4 Implicit Nominations on behalf of the NEMO and/or clearing houses are physically firm, and hence are not subject to curtailment.

6 ANCILLARY SERVICES

- 6.1 The interconnector circuits support the agreement of ancillary services that may be exchanged between the national System Operators in GB and France, and which may include Emergency assistance, Constraint management, Intertripping. The facility to exchange other ancillary services may be agreed from time to time.
- 6.2 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.

- 6.3 In addition to the above Ancillary Services, NGESO is implementing TERRE and MARI projects, as required by Regulation 2017/2195 on Electricity Balancing, for which local settlement arrangements will be established prior to implementation.