

# NTC Commercial Compensation Methodology Consultation Cover Note

## Executive Summary

NGESO are seeking views from across industry on the commercial compensation methodology for interconnector capacity management. The commercial compensation methodology has been developed in collaboration with, and is intended to be implemented for, all GB interconnectors. The commercial compensation methodology is independent of the capacity calculation process and seeks to ensure the correct commercial arrangements for interconnectors when NGESO limits capacity to ensure system security.

## Context/Background

The consultation focuses on the commercial compensation methodology only. However, as part of the discussions with GB interconnectors over the past year, there have been clarifications on how interconnector capacity is managed, and the regulatory documents that underpin it. The following section outlines the regulatory changes and obligations that are now in place.

The tool for managing interconnector capacity is called Net Transfer Capacity (NTC) restriction which covers intraday and day ahead timescales for both allocated and unallocated capacity. NTC restrictions are used to secure operation of the system when there are RoCoF issues resulting from inertia; it is therefore classed as a non-frequency ancillary service as it's a service used predominantly for managing inertia for local grid stability. Licence condition C28<sup>1</sup> dictates that non-frequency ancillary services must be market-based unless covered by a derogation. The NTC restriction process is not market-based as there is not a tender process to manage interconnector capacity rather it is an input to subsequent market processes. Therefore, a derogation will be needed if NGESO are to use NTC restrictions. The derogation will allow for the development of the capacity calculation methodology which will determine the amount of interconnector capacity that can be made available to the market. This is being developed by UK and EU transmission system operators (TSOs) as set out in the EU-UK Trade and Cooperation Agreement. A derogation is currently being developed and will be submitted to Ofgem along with a C16 submission, following this public consultation.

Previously the NTC restriction process was captured under CACM<sup>2</sup>. The capacity calculation methodology under CACM determined the amount of interconnector capacity that could be made available to the market. In addition, CACM set out a limited number of exceptional circumstances when allocated interconnector capacity can be curtailed, such as CACM Article 23. CACM has been revoked in the Statutory Instruments and is no longer in GB law. The capacity calculation process is now covered by the Trade and Cooperation Agreement (TCA)<sup>3</sup> and will be developed as a Technical Working Procedure (TWP). In addition the TCA sets out the limited number of circumstances in which allocated capacity can be curtailed, such as TCA ENER 13. (C).

## Current ways of working

NGESO currently use Intraday Trading Limits (ITLs) to limit unallocated interconnector capacity to manage system issues such as Rate of Change of Frequency (RoCoF), thermal constraints or margin, where market actions are not tenable. ITLs are one aspect of the NTC restriction process (unallocated capacity that is limited at intraday timescales). These actions currently have no direct commercial payment attached. Cross border trades are used by NGESO to manage allocated flow on interconnectors. Once a trade is placed on an interconnector, NGESO may also place an ITL on that interconnector to ensure the trade will not be reversed by subsequent market activities. The other areas of the NTC restriction process are covered within the

<sup>1</sup> [Decision on the proposed modifications to the RIIO-2 Transmission, Gas Distribution and Electricity System Operator licences | Ofgem](#)

<sup>2</sup> [Commission Regulation \(EU\) 2015/1222 – Capacity Allocation and Congestion Management](#)

<sup>3</sup> [Trade and Co-operation Agreement](#)

Commercial Compensation Methodology in detail and encompass restricting unallocated and allocated capacity at both day ahead and intraday timescales.

Prior to the application of an ITL, alternative actions will have been considered as part of the process for alleviating the RoCoF risk, thermal issues or margin. During the evaluation process, if alternatives are either not available or are not sufficient to solve the system issue, NGENSO will consider application of an ITL. For example; in the case of managing a RoCoF risk possible alternative actions include:

- Reduce size of largest credible losses – this can be done through Balancing Mechanism actions, trading, contractual options (e.g. de-loading) or emergency actions.
- Hold more/enough response – this is often infeasible currently with traditional dynamic response as system frequency can react quicker than response can deliver. This would mean that frequency response services would not be able to contain a large loss if used on their own.
- Increase system inertia – this is not always feasible, as this involves synchronising multiple CCGTs in a short amount of time and when it is feasible, it is often significantly uneconomic.

## Implementation of the commercial compensation methodology

Given the changes in market conditions and lack of data to support some aspects of the NTC restriction process, it has been agreed that the NTC restriction tool will apply to;

- 1) Intraday, unallocated capacity for Channel Interconnectors (table 1/box 4 within the Commercial Compensation Methodology) and Irish Interconnectors (table 2/box 2). Note the difference in tables is due to the different types of auctions that take place (explicit vs. implicit).
- 2) Day ahead, unallocated capacity for NSL (table 3, box 2 within the Commercial Compensation Methodology)

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. It is the intention that once this analysis can be conducted, that the commercial compensation methodology will also apply to (very rare) situations where allocated capacity is restricted in an emergency (i.e. the emergency situations outlined in the TCA).

NSL is due to go live in Oct 2021 with a day ahead only auction, and therefore is subject to a slightly different implementation plan.

The commercial compensation methodology will be implemented via the Interconnector Operating Protocols (IOPs). The commercial compensation methodology will be used once it has been approved through a C16 process, a derogation under License Condition C28 has been approved and the methodology has been incorporated into IOPs.

Once further data is available and a full Cost-Benefit Analysis can be developed, the remaining part of the NTC process may be considered.

## Development of enduring arrangements

Capacity Calculation and Congestion Management Methodologies are being developed under the TCA, and the commercial compensation methodology will be adapted to any processes that will be developed e.g. as new market coupling arrangements are brought online. This may mean that if compensation rules change through the access rules, the commercial compensation methodology may also need to be updated. However the principles of the methodology will remain the same e.g. interconnectors will be kept cost-neutral. The commercial compensation methodology should therefore be viewed as separate to any capacity calculation methodology that is developed. Whilst these methodologies are developed, we will continue to use the existing capacity calculation process.

NGESO recently submitted the Frequency Risk and Control Report (FRCR) to OFGEM. This policy will fundamentally change how frequency is managed in GB. It is forecasted that NTC reductions will happen much less frequently as the Accelerated Loss of Mains Programme (ALoMP) and Dynamic Containment will reduce the need for NTC reductions to be put in place. When NTCs are used, it will be used predominantly for managing unallocated capacity. Allocated capacity will only be curtailed in a small number of exceptional circumstances as outlined in the TCA e.g. in emergency situations.

It is our intention to manage interconnector capacity in line with the TCA obligations of maximising capacity subject to system security.