

NGESO Response to SEM-23-024: Consultation on Compensation Arrangements for Net Transfer Capacity Reductions

Context

A consultation was published by the SEM committee on the 15th March 2023 until 5th May 2023.

“This consultation addresses the compensation arrangements in the SEM for reductions in Net Transfer Capacity (NTC) on SEM-GB interconnectors. Ahead of the integration of the Greenlink Interconnector into the SEM, the Transmission System Operators (TSOs) have recommended that the Interim Cross-Zonal Arrangements (ICZAs) should be applied to Greenlink, and to any future SEM-GB interconnectors. However, this recommendation excluded the provisions within the ICZAs that relate to compensation arrangements in the case of a reduction in NTC, which the TSOs maintain are unclear. To ensure clarity for all parties, the SEM Regulatory Authorities (RAs) are consulting on this issue.”

NGESO Response to Consultation Questions One and Two

“1. Please set out your view on the appropriate arrangements for NTC reduction compensation going forward in the SEM, given the current arrangements for crossborder trading. Would this be impacted if cross-border forward hedging instruments were introduced in advance of MRLVC and, if so, in what way?”

“2. This paper references various principles that underpin different approaches to compensation arrangements for NTC reduction (i.e. ‘causer pays’, ‘cost neutrality’, ‘different compensation arrangements for allocated and unallocated capacity’). In your view, what principles should underpin compensation arrangements for NTC reduction going forward in the SEM?”

The Electricity System Operator has a **Methodology for GB Commercial Arrangements relating to Interconnector Capacity Calculation** that was consulted upon with industry and approved by OFGEM. The principles of the commercial methodology should be consistent across borders, TSOs and different coupling arrangements.

NGESO Response to Consultation Question Three

“3. Are there any other factors, not covered in this paper, which should be considered by the RAs ahead of a decision? If providing, please explain relevance.”

The Electricity System Operator recently requested a derogation extension from Standard Licence Condition C28.4(h)(i) for Net Transfer Capacity to allow procurement of a non-frequency balancing service, Net Transfer Capacity (“NTC”), following non-market-based procedures. The original derogation was due to expire in May 2023. On the 26th of April OFGEM published their decision to grant an extension to the derogation until September 2023.

NGESO plans to revisit and consult on the GB Commercial Compensation Methodology for NTCs this summer as per the requirements of the C28 decision letter.

The ESO is continuing to focus on reducing the use of NTCs. We are committed to working with the IE TSOs to develop market arrangements and tools to further reduce NTC use.