



Charging Methodology Statement for Nemo Link

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1. INTERCONNECTOR CHARGING METHODOLOGY

Standard Licence Condition (SLC) 10 of the Transmission Licence requires Nemo Link (NLL) to establish a methodology showing the methods and principles on which charges for the use of Nemo Link are based. Nemo Link's first Charging Methodology was approved by Ofgem in January 2019. This updated version includes the development of an intraday product and how the methodology would apply in the event the United Kingdom leaves the EU Internal Energy Market after December 2020 in accordance with SLC 10(11) – (14) of the Licence.

2. OBJECTIVES OF THE CHARGING METHODOLOGY

The interconnector charging methodology must comply with the objectives set out in SLC 10(4) of the Licence ("relevant 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.

NLL also aims to promote the efficient use of the interconnector within the context of the differing market structures to which it connects.

3. EXPLICIT AND IMPLICIT AUCTION PRINCIPLES

It is necessary to distinguish between explicit (capacity only) and implicit (capacity and energy) interconnector auctions.

The explicit auction mechanism describes auctions where participants may gain Physical Transmission Rights (PTRs) to nominate transfers specifically on Nemo Link, with such nomination to be made in a subsequent step. In the explicit auction process, participants declare how much they are willing to pay for 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 successful bidders is set to the bid price of the lowest allocated bid. This methodology both reflects and applies the widely-recognised principle typically characterised as "clearing" or "marginal pricing". Rules associated with Long Term auctions are described in the Forward Capacity Allocation (FCA) Guideline³.

In contrast, the implicit auction mechanism is designed to enable available capacity to be used in order to integrate the respective spot markets in Belgium and Great Britain with the flow on Nemo Link set in accordance with the market prices set by the market coupling algorithm. Thus, the auctioning of capacity is included (implicitly) in the power exchange auctions of electrical energy. As the capacity is made available to the spot price mechanism, rather than to individual users, the price for capacity is derived from the price difference between the two energy markets. This implicit auction methodology is known as "market coupling". Rules associated with Short Term (Day Ahead) auctions are described in the Capacity Allocation and Congestion Management (CACM) Guideline⁴.

– 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

– 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)

– ³ See Commission Regulation (EU) 2016/1719 of 26 September 2016 establishing a Guideline on forward capacity allocation

– ⁴ See Commission Regulation (EU) 2015/1222 of 24 July 2015 establishing a Guideline on Capacity Allocation and Congestion Management

For Nemo Link:

- a) For Long Term timescales, capacity rights are made available via explicit auctions, the timings for which can be found in Nemo Link's auction calendar on its website⁵; and
- b) For Short Term timescales (day ahead) and while Nemo Link remains within the Internal Energy Market, capacity rights are made available via implicit auctions. By exception, and in the event that market coupling is unable to produce results, capacity rights will be made available via an explicit auction mechanism for daily capacity as a fallback facility; and
- c) For Intraday timescales, capacity rights will be made available via explicit auctions until such time as Nemo Link joins the implicit XBID arrangements.

4. ELIGIBILITY AND USE OF THE INTERCONNECTOR

Nemo Link has a maximum physical capacity of 1013MW (and up to 1033MW for 5 hours per day through an overload capability) in each direction, measured at mid-Channel. The Joint Allocation Office (JAO) will allocate explicit cross border long term and intraday transmission capacity on Nemo Link. As a minimum, customers wishing to trade on Nemo Link are required to sign the JAO Participation Agreement, available on the JAO website⁶. The charge payable to JAO 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. Where the United Kingdom remains within the Internal Energy Market, signature of the JAO Participation Agreement also entitles customers to receive the Loss Adjusted Day Ahead Market Spread (LADAMS), under Use-It-Or-Sell-It (UIOSI) provisions, in the event customers opt not to nominate capacity. Signature of the JAO Participation Agreement requires users to abide by the Harmonised Allocation Rules (HARs), the Nemo Link Border Specific Annex⁷ (which sets out how HVDC transmission losses will be applied in settlement and some other minor exemptions to the HARs), and the Nemo Link Access Rules.

Customers with PTRs gained through explicit auctions wishing to nominate capacity are additionally required to sign the Nomination Participation Agreement with Nemo Link. Signature of this document allows customers to use the Regional Nomination Platform systems to nominate flows across the interconnector. It also requires:

- a) Accession to the Access Responsible Party (ARP) contract with Elia in Belgium; and
- b) In GB:
 - Accession to a Use of System Interconnector Agreement with National Grid Electricity plc and the Framework Agreement established under the Connection and Use of System Code.
 - Accession to the Framework Agreement as defined in the Balancing and Settlement Code (BSC) together with full details of the Production and Consumption Interconnector Balancing Mechanism Units (BMUs) registered to the PTR holder under the BSC; and

5. CAPACITY RIGHTS

Rights relate to a particular period and direction and to each hour within that period. Advance purchase of such capacity rights will be available in a series of capacity product auctions on a directional basis ranging from up to one year ahead to a few hours ahead of real time in within day auctions. Capacity will be offered in multiples of 1MW per period). The range of products offered will be reviewed periodically and any changes notified to Users.

Pursuant to the HARs, Nemo Link will always make annual and monthly products available. The LT capacity offered will be a function of the Long Term Capacity Calculation, market splitting rules, any planned outages, and Nemo Link's commercial considerations. A timetable for Long Term Auctions is available on the Nemo Link website and details of planned outages will be provided ahead of any auction.

– ⁵ <https://www.nemolink.co.uk/wp-content/uploads/2019/11/NEMO-LINK-2020-AUCTION-CALENDAR-251119.pdf>

– ⁶ <http://www.jao.eu/support/resourcecenter/overview>

– ⁷ <https://www.nemolink.co.uk/wp-content/uploads/2019/09/GB-Belgium-Border-Specific-Annex.pdf>

Capacity rights unsold in longer term auctions may be offered for sale again in auctions closer to the time in which the capacity right applies, subject to the DA/ID Capacity Calculation Methodology or unplanned outages. This ensures that all possible capacity remains available to the market up to and on the day of use.

6. SECONDARY TRADING

A customer holding explicit capacity may relinquish this capacity for use by other eligible Users. The process for the return of such capacity is defined in Articles 38 and 39 of the Harmonised Access Rules.

A customer holding explicit capacity may wish to transfer this capacity for use by other eligible Users. The process for the transfer of such capacity is defined in Chapter 6 of the Harmonised Access Rules.

7. USE OF CAPACITY

A customer holding explicit capacity is entitled to use such capacity by nominating a cross-border transfer between Belgium and GB 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. In accordance with its entitlement a customer may nominate capacity in one or both direction(s) as required. Nominations are conducted on the Regional Nomination Platform (RNP) separately for each of the following timescales.

- a) Long Term; and
- b) Daily (fallback only); and
- c) Intraday

8. UNUSED CAPACITY

Unused Long Term (LT) capacity rights (rights that are not nominated) cease to be reflected in the participant's entitlement and are made available to the implicit auction mechanism (or to the explicit daily mechanism in the event of fallback) with the proceeds (if any) being returned to the original capacity holder in accordance with either Nemo Link's IEM⁸ or Non-IEM Access Rules⁹.

If participants do not exercise their DA capacity rights (in the fallback scenario), UIOLI principles will be applied as described in the Nemo Link Access Rules. 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 participant's rights documents and is made available to the Intraday auction process, with the proceeds (if any) not being returned to the original capacity holder.

If participants do not exercise their intraday capacity rights, UIOLI principles will be applied as described in the Nemo Link Access Rules. The UIOLI principles for intraday mean an automatic application by which the underlying cross zonal capacity of the non-nominated PTRs are not available for further capacity allocation and the PTR holders that do not nominate, also do not have rights to receive a pay-out.

9. CURTAILMENT

In situations where more capacity rights have been sold than can be physically 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. This process is known as "Curtailement". Participants will be compensated for purchased capacity which Nemo Link has not been able to deliver in accordance with the applicable Nemo Link Access Rules.

– ⁸ https://www.nemolink.co.uk/wp-content/uploads/2019/10/191025_Nemo-Link-IEM-Access-Rules_v2.pdf

– ⁹ https://www.nemolink.co.uk/wp-content/uploads/2019/10/191018_Nemo-Link-Non-IEM-Access-Rules-v2.pdf

10. ANCILLARY SERVICES AND COOPERATION BETWEEN TSOs

The interconnector circuits can provide ancillary services to the national network TSOs Elia and NGET and/or facilitate the exchange of energy between them as part of trilateral operational agreements. The facility and terms of such services or operational cooperation may be agreed from time to time between NLL, NGESO and/ or Elia.

11. POSSIBLE BREXIT IMPACTS

Depending on the outcome of the negotiations between the UK Government and the European Commission during the Transition Period following UK's exit from the EU, the charging arrangements on Nemo Link may change from January 2021.

In the event that the UK is no longer able to participate in the European Internal Energy Market, then Nemo Link would no longer be able to participate in Multi-Regional Coupling. This would mean that the Day Ahead Implicit Auctions would be replaced by Day Ahead Explicit Auctions. The access and nomination rules for this scenario have already been through the regulatory approval process and are available on the Nemo Link website¹⁰.

– ¹⁰ https://www.nemolink.co.uk/wp-content/uploads/2019/10/191018_Nemo-Link-Non-IEM-Access-Rules-v2.pdf
