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Dear John,

Approval of modified Charging Methodology and modified Access Rules for the England-France interconnector (IFA) including directions to approve pursuant to Standard Licence Conditions 10 and 11A of the Electricity Interconnector Licence

On 21 July 2017 and 22 September respectively, National Grid Interconnectors Limited ("NGIL") submitted proposed modified Access Rules (the IFA Access Rules) and a proposed modified Charging Methodology (the IFA Charging Methodology) for the IFA interconnector¹ to the Authority² for approval. The Authority is the designated National Regulatory Authority (NRA) for Great Britain.

The IFA Access Rules were submitted pursuant to Standard Licence Condition (SLC) 11A of NGIL's electricity interconnector licence (the Licence)³. The IFA Access Rules set out the general terms and conditions a user must accept to obtain and use transmission capacity on the IFA interconnector and were most recently approved by the Authority on 18 October 2016⁴.

The IFA Charging Methodology was submitted pursuant to SLC 10 of the Licence. The IFA Charging Methodology sets out the methods and principles on which charges for the use of the IFA interconnector are based. The current charging methodology for the IFA interconnector was approved by the Authority on 26 May 2016⁵.

¹ IFA is a 2000MW high voltage direct current (HVDC) link, connecting the transmission systems of Great Britain (GB) and France. IFA is jointly owned and operated by National Grid Interconnectors Limited (NGIL) and Réseau de Transport d'Electricité (RTE) (the French transmission system operator).

² The Gas and Electricity Markets Authority. Ofgem is the Office of the Authority. The terms "Ofgem" and "the Authority," "we" and "us" are used interchangeably in this letter.

³ The electricity interconnector licence standard conditions can be found here: https://epr.ofgem.gov.uk//Content/Documents/Electricity_Interconnector_Standard%20Licence%20Conditions%20Consolidated%20-%20Current%20Version.pdf

⁴ October 2016 IFA Access Rules approval: <https://www.ofgem.gov.uk/publications-and-updates/approval-modified-access-rules-england-france-interconnector-2016>

⁵ May 2016 Charging Methodology Approval <https://www.ofgem.gov.uk/publications-and-updates/approval-modified-charging-methodology-interconnexion-france-angleterre-ifa-interconnector-including-direction-approve-pursuant-standard-licence-condition-10-electricity-interconnector-licence>

We have decided to approve the IFA Access Rules and IFA Charging Methodology proposed by NGIL on the basis that they better achieve the relevant access rules and charging methodology objectives⁶. This letter contains directions (attached as Annex 1 and Annex 2) approving the IFA Access Rules and IFA Charging Methodology. It also explains the reasons for our approval as required under section 49A of the Electricity Act 1989.

The proposed modifications to access rules and charging methodology

On 17th October 2016 European Commission Regulation (EU) No 2016/1719⁷ establishing a guideline on forward capacity allocation (the FCA Regulation) came into effect. Amongst other things, the FCA Regulation requires Transmission System Operators (TSOs) to develop a set of harmonised allocation rules (HAR) for the allocation of long-term capacity.

Several European transmission system operators (TSOs), including NGIL, chose to implement this requirement as a voluntary pilot project (the HAR Pilot Project) based on a draft version of the FCA Regulation. Accordingly, the European Network of Transmission System Operators (ENTSO-E) developed an early version of the HAR (HAR v1).

On 15 October 2015, the Authority approved modified Access Rules submitted by NGIL that aligned the IFA Access Rules with the HAR v1.⁸ The HAR v1 was subsequently updated by ENSTO-E to HAR v2 to further align it with the post-comitology version of the FCA Regulation⁹. On 18 October 2016, the Authority approved modified Access Rules submitted by NGIL that aligned the IFA Access Rules with the HAR v2.

Recent approval of HAR and regional annexes

In April this year, in line with FCA Regulation requirements¹⁰, the GB TSOs¹¹ (alongside TSOs from other Member States) submitted a number of proposals for approval by all NRAs. These proposals included the HAR and associated regional annexes.

NRAs could not reach agreement on the proposals submitted for the HAR. In such an event, the FCA Regulation provides for the Agency for the Cooperation of Energy Regulators (ACER) to adopt a decision on submitted proposals. Accordingly, the HAR was submitted to ACER for decision on 16 August 2017. ACER adopted a decision on the HAR on 2 October 2017¹².

On 13 October 2017, we approved the regional annexes for the Ireland-United Kingdom (IU) region and the Channel region. Further information on these approvals can be found on our website.¹³

NGIL's proposed modifications to the IFA Access Rules and the IFA Charging Methodology seek to align its access rules and charging methodology with the approved HAR and approved regional annex. This requires some changes to the following:

⁶ The relevant access rules objectives are set out SLC 10 and SLC11A respectively and state that access rules and charging methodology shall be transparent, objective, non-discriminatory and compliant with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency.

⁷ Regulation (EU) No 2016/1719 establishing a guideline on forward capacity allocation:

<http://eur-lex.europa.eu/legalcontent/EN/TXT/PDF/?uri=CELEX:32016R1719&qid=1475008140812&from=EN>

⁸ October 2015 approval of IFA Access Rules:

https://www.ofgem.gov.uk/sites/default/files/docs/2015/10/ifa_decision_letter.pdf

⁹ Following the successful adoption of the FCA at comitology on 30 October 2015

¹⁰ In accordance with Article 31 and 49-52 of the FCA Regulation

¹¹ The relevant GB TSOs are NGIL, BritNed Development Limited, EirGrid Interconnector Designated Activity Company (EIDAC), and Moyle Interconnector Ltd.

¹² ACER's decision can be found on its website here:

http://www.acer.europa.eu/Official_documents/Acts_of_the_Agency/Pages/Individual-decision.aspx

¹³ This can be found on our website here:

https://www.ofgem.gov.uk/system/files/docs/2017/10/batch_9_decision_letter_har_sap_ltrns_final.pdf

IFA Access Rules

- The IFA Access Rules (version 11) – to reflect changes that have been made to the HAR and regional annex, particularly with respect to rules relating to curtailment of capacity, as well other well minor consequential housekeeping changes ; and
- The IFA Participation Agreement – amendments that, consistent with the FCA Regulation, will make certain requirements¹⁴ optional for participants wishing to participate in auctions only.

IFA Charging Methodology

- Changes to the current version of the charging methodology statement - to align the statement with new firmness arrangements envisaged by the HAR and regional annex

Consultation and responses

In accordance with 11A, NGIL consulted on the proposed changes to its access rules between 24 May and 21 June 2017 on the proposed changes to its Access Rules that are required to adopt the HAR. NGIL received two responses to the IFA Consultation and made some clarificatory amendments to the proposed modified Access Rules to take account of the responses received.

In accordance with SLC 10, NGIL consultation on proposed changes to its charging methodology between 26 July and 8 September 2017 on the proposed changes to its charging methodology to reflect the HAR and regional annex. NGIL received no responses to this consultation.

Submission of proposed modified access rules and charging methodology

Following the respective consultations and pursuant to SLC 10 and SLC 11A, NGIL submitted its proposed modified IFA Access Rules and IFA Charging Methodology for Authority approval.

We note that NGIL considers the proposed amendments satisfy the 'relevant access rules and charging methodology objectives' (in particular the requirement to be 'compliant with Regulation 2009/714/EC (on cross border exchanges) and any relevant legally binding decision of the Commission'), by aligning the IFA Access Rules IFA Charging Methodology with the HAR and regional annex.

NGIL anticipates the proposed modified IFA Access Rules and IFA Charging Methodology entering into force at same time as the HAR and regional annex. In accordance with its Licence, NGIL also proposes to publish a notice to users on its website 28 calendar days prior to the implementation date¹⁵.

Notes and considerations

We note that the objectives of allocation of forward capacity as specified in the FCA Regulation broadly overlap with the relevant access rules and charging methodology objectives.¹⁶

The objectives require that access rules and charging Methodologies shall be "compliant with the Regulation and any relevant legally binding decision of the European Commission and/or Agency".

¹⁴ Including requirements for participants to accede to the Framework Agreements under Connection and Use of System Code (CUSEC) and the Balancing and Settlement Code (BSC)

¹⁵ SLC 10 and SLC 11A(14)

¹⁶ Article 3 of the FCA Regulation

We consider that the proposed modified IFA Access Rules and modified IFA Charging Methodology are objective and non-discriminatory as the changes will apply equally to, and will facilitate trade for, all market participants. We also consider the proposed modified IFA Access Rules IFA Charging Methodology to meet the relevant objective of being transparent. The introduction of harmonised allocation rules for long-term capacity is intended to make it easier for users to trade across interconnectors between GB and other markets.

The Authority's decision

We have decided to approve the proposed modified IFA Charging Methodology and IFA Access Rules. It is our view that the proposed modified IFA Charging Methodology and IFA Access Rules better meet the relevant charging methodology and access rules objectives.

A direction to this effect, issued in accordance with SLC 10 and SLC 11A of the Licence, can be found in attached Annex 1 and 2 to this letter.

Next steps

NGIL has confirmed that it will arrange for the proposed modified IFA Access Rules and modified IFA Charging Methodology to be implemented on 1 January 2018. NGIL has also confirmed that it will publish an informational notice to users on its website no fewer than 28 calendar days ahead of the go-live date.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Akshay Kaul', with a stylized flourish at the end.

Akshay Kaul
Partner, Networks

ANNEX 1

Direction issued to National Grid Interconnectors Limited pursuant to paragraph 13 of Standard Licence Condition 11A (Approval of terms for access to the licensee's interconnector) of its Electricity Interconnector Licence

1. This Direction is issued by the Gas and Electricity Markets Authority (the "Authority") pursuant to paragraph 13 of Standard Licence Condition 11A of the electricity interconnector licence (the "Licence") granted or treated as granted under section 6(1)(e) of the Electricity Act 1989 (the "Act") to National Grid Interconnectors Limited (the "Licensee") in relation to the England-France interconnector (IFA).
2. Standard Licence Condition 11A of the Licence provides that the Licensee shall prepare and submit for approval by the Authority a statement setting out the Access Rules, being the methodologies used to establish terms and conditions for access to and use of IFA (but not including those related to charges).
3. Standard Licence Condition 11A, paragraph 4, requires that the Access Rules must be transparent, objective, non-discriminatory and compliant with the Regulation (Regulation (EC) No 714/2009 on conditions for access to the network for cross border exchanges in electricity) and any relevant legally binding decision of the European Commission and/or Agency for the Co-operation of Energy Regulators (collectively the "relevant access rules objectives").
4. Standard Licence Condition 11A, paragraph 8, requires that the Licensee reviews its Access Rules at least once in each calendar year and make such modifications to the Access Rules as may be requisite for the purpose of ensuring that the Access Rules better achieve the relevant access rules objectives.
5. Standard Licence Condition 11A, paragraph 10, requires the Licensee to take all reasonable steps to ensure that all persons, including those in other Member States that may have a direct interest in the Access Rules, are consulted and allow them a period of not less than 28 days within which to make written representations. The Licensee must also furnish to the Authority a report setting out the terms originally proposed for the modification, the representations, if any, made by interested persons and any change in the terms of the modification intended as a consequence of such representations.
6. In accordance with Standard Licence Condition 11A, paragraph 10, on 21 July 2017 the Licensee furnished the Authority with a report setting out the Licensee's proposed modifications to the Access Rules. The proposed modifications relate to introduction of the Harmonised Allocation Rules as required under Commission Regulation (EU) No 2016/1719 establishing a guideline on Forward Capacity Allocation.
7. The Authority has decided that the Licensee's proposed modified Access Rules meet the relevant access rules objectives for the reasons set out in the letter notifying approval to the Licensee dated 20 October 2017.
8. The Access Rules approved on 18 October 2016 will remain in force until the modified IFA Access Rules approved on the date of this Direction are implemented. The Licensee will implement the modified IFA Access Rules on 1 January 2018. In line with Standard Licence Condition 11A, paragraph 14, the Licensee will publish the modified IFA Access Rules as soon as practicable after they have been approved by the Authority and, at a minimum, 28 days prior to them coming into effect.
9. Pursuant to Standard Licence Condition 11A, paragraph 13, of the Licence the Licensee's proposed modified access rules are approved by the Authority. This Direction shall have immediate effect and shall remain in effect until such time as the Authority may revoke or vary the Direction in writing upon reasonable notice.

10. This Direction constitutes notice of the Authority's reasons for the decision pursuant to section 49A of the Act.



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Akshay Kaul

Partner, Networks

**Signed on behalf of the Authority and authorised for that purpose by the Authority
on 20 October 2017**

ANNEX 2

Direction issued to National Grid Interconnectors Limited pursuant to paragraph 14 of Standard Licence Condition 10 (Charging methodology to apply to third party access to the licensee's interconnector) of its Electricity Interconnector Licence

1. This Direction is issued by the Gas and Electricity Markets Authority (the "Authority") pursuant to Standard Licence Condition 10(14) of the electricity interconnector licence (the "Licence") granted or treated as granted under section 6(1)(e) of the Electricity Act 1989 (the "Act") to National Grid Interconnectors Limited (the "Licensee") in respect of the Interconnexion France-Angleterre (IFA) interconnector, an electricity interconnector between Sellindge in England and Les Mandarins in France (the "Licensee's Interconnector").

2. Standard Licence Condition 10(2) provides that the Licensee shall prepare and submit for approval by the Authority a statement setting out the charging methodology for access to (including use of) the Licensee's Interconnector.

3. Standard Licence Condition 10(4) requires the Charging Methodology to be transparent, objective, non-discriminatory and compliant with the Regulation (Regulation (EC) No 714/2009 on conditions for access to the network for cross border exchanges in electricity) and any relevant legally binding decision of the European Commission and/or Agency for the Co-operation of Energy Regulators (the "relevant charging methodology objectives").

4. Standard Licence Condition 10(9) provides that the Licensee shall review its charging methodology at least once in each calendar year and make such modifications to the charging methodology as may be requisite for the purpose of ensuring that the charging methodology better achieves the relevant charging methodology objectives.

5. Standard Licence Condition 10(11) requires the Licensee to take all reasonable steps to ensure that all persons, including those in other Member States that may have a direct interest in the Charging Methodology are consulted and allow them a period of not less than 28 days within which to make written representations. The Licensee must also furnish to the Authority a report setting out the terms originally proposed in the Charging Methodology, the representations, if any, made by interested persons and any change in the terms of the Charging Methodology intended as a consequence of such representations.

6. In accordance with Standard Licence Condition 10(11), on 22 September 2017 the Licensee furnished the Authority with a report setting out the Licensee's proposed modified Charging Methodology.

7. The Authority has decided to approve the Licensee's proposed modified IFA Charging Methodology on the basis that it meets the relevant charging methodology objectives.

8. In accordance with SLC 10(15), the Licensee will publish the proposed modified IFA Charging Methodology as soon as practicable after it has been approved by the Authority and, at a minimum, 28 days prior to it coming into effect. The effective date of the proposed modified IFA Charging Methodology shall be the date that the Licensee's Access Rules approved by the Authority on 20 October 2017 come into effect.

9. THE AUTHORITY HEREBY DIRECTS, pursuant to paragraph 14 of Standard Licence Condition 10 of the Licence, that the Licensee's proposed modified IFA Charging Methodology is approved. This Direction shall have immediate effect and shall remain in

effect until such time as the Authority may revoke or vary the Direction in writing upon reasonable notice.

10. This Direction constitutes notice of the Authority's reasons for the decision pursuant to section 49A of the Act.



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Akshay Kaul

Partner, Networks

**Signed on behalf of the Authority and authorised for that purpose by the Authority
on 20 October 2017**