

# **CHARGING METHODOLOGY STATEMENT FOR THE ELECLINK INTERCONNECTOR**

**ISSUE 1.0**

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# 1. Introduction

- 1.1 ElecLink Limited (“ElecLink”) is developing a new 1000 MW interconnector (“ElecLink Interconnector”) through the Channel Tunnel connecting the 400 kV grids in England and France. This project is being developed as a “merchant” interconnector. ElecLink holds an Interconnector Licence (the “Licence”) to operate the ElecLink Interconnector.
- 1.2 ElecLink facilitates commercial access to the ElecLink Interconnector, whereby third parties are able to gain rights to transfer electricity across the interconnector, between the power markets of Great Britain (“GB”) and France. ElecLink’s Licence requires it to publish a Charging Methodology Statement which sets out the terms under which commercial access to the ElecLink Interconnector is made available.
- 1.3 This document sets out the charging methodology which will be applied by ElecLink.
- 1.4 All further references to ElecLink in this document relate to its role and participation in the administration of the third party access arrangements for the ElecLink Interconnector and in relation to its obligations as an interconnector operator and licensee in GB.

## 2. Interconnector charging methodology

### 2.1 Introduction

- 2.1.1 Standard Licence Condition (SLC) 10 (Charging methodology to apply to third party access to the licensee’s interconnector) of the Licence requires ElecLink to establish a methodology showing the methods and principles on which charges for the use of the ElecLink Interconnector are based. This charging methodology is required to be approved by the Gas and Electricity Markets Authority (the “Authority”) before it takes effect.
- 2.1.2 SLC 10 (2) of the Licence requires ElecLink, in advance of the new interconnector capacity becoming operational, to prepare and submit for approval by the Authority, a charging methodology for access to (including use of) the ElecLink Interconnector. SLC 10 (2) provides for ElecLink to submit a statement which includes both the Access Rules and the charging methodology. ElecLink has submitted at the same time, both the Access Rules and the charging methodology for approval. Subsequent to this, the charging methodology may be modified from time to time in accordance with SLC 10 (11) – (14) of the Licence.
- 2.1.3 This publication sets out the use of interconnector charges which apply to the ElecLink Interconnector as required by SLC 10 of the Licence.

### 2.2 Objectives of the Charging Methodology

- 2.2.1 As a minimum the interconnector charging methodology has to 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 Regulation<sup>1</sup> and any relevant and legally binding decision of the European Commission and/or the Agency<sup>2</sup>.

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<sup>1</sup> 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).

<sup>2</sup> 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.

- 2.2.2 SLC 10 (3) provides that the charging methodology must set out the methodologies for the calculation of any charges imposed for access to (including use of) the interconnector and/or the provision of ancillary services, and any payments made for access to (including use of), the interconnector, including:
- a) charges levied by the licensee for the allocation of interconnector capacity, including but not limited to:
    - i. any charges for congestion management purposes, such as the non-use of nominated interconnector capacity; and
    - ii. any charges for the provision (including the provision to any relevant system operator) of ancillary services, including but not limited to balancing services;
  - b) payments made by the licensee for the provision of ancillary services provided by users or relevant system operators; and
  - c) payments made by the licensee to users for the loss of capacity in the event of being unable to make available interconnector capacity.
- 2.2.3 Prior to submitting the charging methodology to the Authority for approval, SLC 10 (5) provides that ElecLink must ensure that it takes all reasonable steps to ensure that all persons including those in other Member States who 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.
- 2.2.4 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.
- 2.2.5 ElecLink considers that the methodology it has prescribed for charges for using the ElecLink Interconnector facilitates all objectives as described above.

### **3. Explicit and implicit auction principles**

- 3.1 It is necessary to distinguish between implicit and explicit auctions of capacity. From the effective date of this statement, capacity rights will be made available via an explicit auction mechanism in Open Season (“OS”), Medium Term (“MT”) and Intraday timescales. In the case of Daily Auctions, an implicit auction mechanism will apply; however, by exception, explicit auctions for Daily capacity may be invoked as a fallback facility in the event that Implicit Daily Auctions are not available.
- 3.2 The explicit auction mechanism relates to auctions where participants may gain rights to nominate transfers specifically on the ElecLink Interconnector, 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.
- 3.3 In contrast, the implicit auction mechanism is designed to enable available capacity to be used in order to integrate the respective spot markets in France and GB with the flow on the ElecLink Interconnector set in accordance with the energy prices in the respective power exchanges (“PXs”). 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”.

## **4. Access Rules and use of the ElecLink Interconnector**

### **4.1 Introduction**

- 4.1.1 This document should be read in conjunction with the ElecLink Access Rules which set out the conditions of access for use of the ElecLink Interconnector including the process by which access (capacity) rights are secured.
- 4.1.2 To the extent that changes to the ElecLink Access Rules require this Charging Methodology Statement to be modified, modification of this Charging Methodology Statement will be undertaken in accordance with SLC 10 (11) – (14) of the Licence.

### **4.2 Eligibility to use the Interconnector**

- 4.2.1 Customers wishing to become an ElecLink User, and thus be able to participate in all explicit auctions, can apply via a non-discriminatory eligibility process administered by ElecLink. The eligibility requirements are set out in Rule B2 of the ElecLink Access Rules and include the requirement for parties to be signatories to the ElecLink Access Rules. In order for a Unit Holder to make use of its capacity on the ElecLink Interconnector, it must also be a signatory to the relevant market codes in GB and France. These codes include, but are not restricted to, the Balancing & Settlement Code and Connection & Use of System Code in GB and the Accord de Participation in France.

### **4.3 Interconnector access rights**

- 4.3.1 ElecLink has a maximum physical capability of 1000MW in each direction (France to GB and GB to France) measured at Mid Point.
- 4.3.2 ElecLink conducts explicit interconnector capacity Auctions on a non-discriminatory basis for the right to flow electricity in a specific direction (“the capacity right”).
- 4.3.3 Users of the ElecLink Interconnector may acquire explicit interconnector capacity in accordance with the ElecLink Access Rules. Obtaining explicit capacity permits the User the right to nominate a transfer of electricity from one end of the ElecLink Interconnector to the other or make use of the UIOSI mechanism in accordance with paragraph 5.5.2.

### **4.4 Capacity rights**

- 4.4.1 All access rights (explicit capacity) relate to a particular period and direction and to each hour within that period. Advance purchase of such capacity rights is available in a series of capacity product Auctions on a directional basis. The product periods are as follows:
  - a) Open Season timescale: more than one year but less than or equal to ten years;
  - b) Medium Term timescale: more than one day but less than or equal to one year;
  - c) Daily timescale; and
  - d) Intraday timescale.

Note the implicit format for the day ahead auction and further criteria as described below in sections 5 and 6.

- 4.4.2 The range of products available is reviewed periodically and changes may be made by providing notice to Users accordingly.
- 4.4.3 The capacity offered will be 100% of the physical ElecLink Interconnector capability in all hours for any given day after taking into account any outage requirements, comprising both planned and forced outages. Details of planned outages are published and can be found at [www.eleclink.co.uk](http://www.eleclink.co.uk).

- 4.4.4 In the event of a forced outage, curtailment will be applied where necessary in accordance with the ElecLink Access Rules.
- 4.4.5 A timetable for the Open Season and Medium Term Auctions is published in advance in accordance with Rules D1.2.12 and D2.3 of the ElecLink Access Rules respectively. Details of the timetable can be found at [www.eleclink.co.uk](http://www.eleclink.co.uk).
- 4.4.6 Capacity rights unsold in Open Season and Medium Term Auctions may be offered for sale again into auctions closer to the day/hours to which the capacity right applies as per the principles defined within the ElecLink Access Rules, including, for the avoidance of doubt, the Daily and Intraday Auctions. This ensures that all possible capacity remains available to the market up to and on the day of use.

## **5. Explicit Auctions**

### **5.1 Access (capacity) charges**

- 5.1.1 The explicit auction rules are set out in the ElecLink Access Rules which describe the basis on which capacity rights are offered, allocated to and may be utilised by eligible Users. Bids will be accepted by ElecLink in strict accordance with the criteria set out in the ElecLink Access Rules.
- 5.1.2 In Open Season auctions the price successful Users will pay for each capacity right in a given Auction is the price bid for the last accepted unit in descending order of price.
- 5.1.3 In Medium Term, Daily explicit and Intraday auctions the price which all successful Users will pay for each capacity right in a given Auction is the price bid for the last accepted unit in descending order of price.
- 5.1.4 The charge payable to ElecLink will be a unit price of capacity (expressed in €/MW/hour) multiplied by the number of units of capacity (MW) multiplied by the hours within the product as provided in Rule C2 of the ElecLink Access Rules.
- 5.1.5 Users who acquire explicit capacity will receive invoices which are derived from the capacity charges levied in accordance with the ElecLink Access Rules and this statement. Payment for capacity will be in Euros only.

### **5.2 Secondary trading**

- 5.2.1 A User which holds explicit capacity may relinquish this capacity for use by other eligible Users. There are two mechanisms for achieving this, namely Capacity Transfer and Resale, both of which are described in the ElecLink Access Rules under Rule E4.
- 5.2.2 Explicit Capacity Transfer involves the bilateral transfer to another eligible User of explicitly sold capacity. This transfer is conducted outside of ElecLink's systems.

For Medium Term capacity, on the bilateral transfer of capacity, the original User retains the obligation to pay ElecLink for the transferred capacity.

For Open Season capacity:

- a) where the new User acquiring the capacity meets the credit worthiness requirements described in the ElecLink Access Rules under Rule E4, the payment obligation can, upon the request of both the original and the new User, be transferred to the new User;
- or
- b) where the new User acquiring the capacity does not meet the credit worthiness requirements described in the ElecLink Access Rules under Rule E4, the original User retains the obligation to pay ElecLink for the transferred capacity.

- 5.2.3 Explicitly sold capacity may be offered for Resale via a subsequent Medium Term Auction, and where that capacity is Resold, ElecLink will pass through the proceeds to the Party who made the Resale. The original User retains the obligation to pay ElecLink for the original capacity purchase. There is no charge for the Resale service provided via the Capacity Management System (CMS – the IT system used for conducting the Medium Term, Daily explicit and Intraday Auctions and other associated ElecLink Interconnector Capacity activities).

### **5.3 Limits on Open Season products held by a User**

- 5.3.1 For multi-year products allocated through an Open Season Auction, the capacity owned by an entity, understood as an undertaking or undertakings that are Related Undertakings, is limited as follows:
- a) at any time, no entity holds more than 40% (400 MW) of the total capacity of the ElecLink Interconnector in either direction; and
  - b) if an entity (including all of its Related Undertaking) holds a Market Share of more than 40% in the French and/or GB market, it shall not hold, at any time, more than 20% (200 MW) of the total capacity of the ElecLink Interconnector in the direction of import to this market.

### **5.4 Use of Capacity**

- 5.4.1 A User which holds explicit capacity is entitled to use such capacity subject to the conditions imposed by the application of the process described in the ElecLink Access Rules under Rule E7. In order to exercise its entitlement to use this capacity, a User may nominate a cross-border transfer between France 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 Capacity Transfer referred to above.
- 5.4.2 In accordance with its entitlement as noted above, a User may nominate capacity in one or both direction(s) (as required). Nominations are divided into hourly blocks and the process is conducted on the CMS separately for each of the following timescales: Open Season and Medium Term, Daily and Intraday.

### **5.5 Unused capacity**

- 5.5.1 Capacity rights which are not nominated by the User are subject to the Use It or Sell It (“UIOSI”) or Use It or Lose It (“UIOLI”) mechanisms as described in the ElecLink Access Rules under Rule E5.
- 5.5.2 The UIOSI provisions are designed in such a way that any portion of Open Season or Medium Term capacity which is not nominated for an hour ceases to be reflected in a User’s entitlement 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 User.
- 5.5.3 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 User’s entitlement and is made available to the Intraday auction process, with the proceeds (if any) not being returned to the original User.

### **5.6 Curtailment**

- 5.6.1 In situations where ElecLink has sold more capacity rights than it can deliver, typically in the event of a forced outage, a process will be applied whereby the explicit capacity rights and/or nominations are reduced to limit the surplus of Capacity/Nominations over ElecLink Interconnector capability. This process known as “Curtailment” is set out in the ElecLink Access Rules under Rule E7.

5.6.2 Users will be compensated for purchased capacity which ElecLink have not been able to deliver in accordance with Rule E8 in the ElecLink Access Rules. The compensation mechanism operates on the basis of the following principles:

- a) Unit Holders will be credited in full for the unit price of the curtailed units except in the circumstances set out in points (b) to (e) below which are set out in detail in Rules E8.5 to E8.10 in the ElecLink Access Rules;
- b) If there is a capacity shortage in any Settlement Period in a given direction leading to the Curtailment of the Nominations of a Unit Holder, the Unit Holder will be compensated by ElecLink for the corresponding curtailed units on the basis of the following valuation principles:
  - 1) The greater of:
    - (a) 0 €/MWh; and
    - (b) the lesser of:
      - (i) the Mid Point Day Ahead Market Spread in the direction of the curtailed units for the relevant hour(s); and
      - (ii) the Mid Point Day Ahead Market Spread Cap in the direction of the curtailed units for the relevant hour(s), calculated in accordance with Schedule 7 of the ElecLink Access Rules;
  - 2) When the Daily Offered Capacity for the Implicit Daily Auction is not fully allocated for a specific hour by the Implicit Allocation Algorithm (i.e. the ElecLink Interconnector is uncongested) in the direction of the curtailed units then there will be no payment from ElecLink to the Unit Holder for this specific hour;
  - 3) Subject to the Monthly Compensation Cap calculated in accordance with Rule E8.4 in the ElecLink Access Rules;
- c) If there is a capacity shortage in any Settlement Period in a given direction, leading to the Curtailment of unused units or when an Implicit Daily Auction is cancelled and the associated fallback Explicit Daily Auction is also cancelled leading to the Curtailment of all unused Units, the Unit Holder will be compensated by ElecLink for the corresponding curtailed units on the basis of the following valuation principles:
  - 1) The greater of:
    - (a) 0€/MWh; and
    - (b) the lesser of:
      - (i) the Mid Point Day Ahead Market Spread in the direction of the Curtailed Units for the relevant hour(s); and
      - (ii) the Mid Point Day Ahead Market Spread Cap in the direction of the Curtailed Units for the relevant hour(s) calculated in accordance with Schedule 7 of the ElecLink Access Rules;
  - 2) When the Daily Offered Capacity for the Implicit Daily Auction is not fully allocated for a specific hour by the Implicit Allocation Algorithm (i.e. the ElecLink Interconnector is uncongested) in the direction of the curtailed units then there will be no payment from ElecLink to the Unit Holder for this specific hour;
  - 3) Subject to the Monthly Compensation Cap calculated in accordance with Rule E8.4 in the ElecLink Access Rules;
- d) Where Explicit Daily Auctions have been invoked, if there is a capacity shortage in any Settlement Period in a given direction leading to the Curtailment of the Daily Nominations of a Unit Holder, the corresponding curtailed Units will be credited to the Unit Holder at

the price of the Units within its Daily Interconnector Capacity Entitlement for that Settlement Period; or

- e) If there is a capacity shortage in any Settlement Period in a given direction leading to the potential Curtailment of Units notified for Resale by a User to ElecLink (but not already Resold) and/or Units notified for Capacity Transfer by a User to ElecLink, Unit Holders will be compensated in accordance with Rules E8.7 and E8.8 in the ElecLink Access Rules respectively.

## **6. Implicit Daily Auction**

### **6.1 Introduction**

- 6.1.1 The implicit auction mechanism will be facilitated as part of the north-west Europe day ahead market coupling arrangements.
- 6.1.2 Where Implicit Daily Auctions are in operation, no price is payable by Users to ElecLink for capacity allocated via this mechanism. Where capacity is so allocated, the value attached to it will be based on the loss adjusted price differential between GB and France and the scheduled flow will be determined by the Implicit Allocation Algorithm, and this will be passed through to ElecLink by the power exchange clearing houses.

### **6.2 Unused capacity**

- 6.2.1 The remuneration (if any) from the implicit auction mechanism for unused Open Season and Medium Term units is based on the implicit auction loss-adjusted price differential between GB and France and is returned to the original User in accordance with Rule E5.2.2 in the ElecLink Access Rules.

### **6.3 Curtailment**

- 6.3.1 Implicit Nominations on behalf of the PXs and/or clearing houses will be physically firm, and hence will not be subject to curtailment.

## **7. Ancillary Services**

- 7.1 The interconnector circuits support ancillary services that can be exchanged between the national transmission system operators (“TSOs”), NGET and RTE, and which include: emergency assistance, constraint management and intertripping. The facility to exchange other ancillary services may be agreed from time to time between ElecLink, NGET and RTE.
- 7.2 Should any TSO-TSO ancillary service be exchanged operationally then a volume-related charge (£/MWh) will be applied to NGET and RTE. This charge will be applied on a contractual basis between ElecLink, NGET and RTE.

## Schedule 1: Acronyms and Definition

Expression	Acronym	Definition
Access Rules		The methodologies used to establish terms and conditions for access including use of the ElecLink Interconnector but not including those related to charges. As defined in Standard Condition 1 of the Interconnector Licence (Definitions and interpretation).
Auction		As defined in the ElecLink Access Rules, Schedule 1: Definitions and Interpretation.
Capacity Management System	CMS	The IT system used for conducting the Medium Term, Daily explicit and Intraday Auctions and other associated Interconnector Capacity activities. As defined in the ElecLink Access Rules, Schedule 1: Definitions and Interpretation.
Capacity Transfer		As defined in the ElecLink Access Rules, Schedule 1: Definitions and Interpretation.
Charging Methodology Statement		The methodologies used to establish terms and conditions for third party access to the ElecLink Interconnector as required under standard licence condition 10 of the Interconnector Licence.
Daily Offered Capacity		The capacity offered by ElecLink in a Daily Auction. As defined in the ElecLink Access Rules, Schedule 1: Definitions and Interpretation.
Explicit Daily Auctions		As defined in the ElecLink Access Rules, Schedule 1: Definitions and Interpretation.
Implicit Allocation Algorithm		The price coupling algorithm referred to in the Framework Guidelines on Capacity Allocation and Congestion Management for Electricity published by the Agency for the Cooperation of Energy Regulators (FG-2011-E-002, 29 July 2011); As defined in the ElecLink Access Rules, Schedule 1: Definitions and Interpretation.
Implicit Daily Auction		The process whereby ElecLink at day-ahead stage allocates the Daily Offered Capacity via the Implicit Allocation Algorithm. As defined in the ElecLink Access Rules, Schedule 1: Definitions and Interpretation.
Interconnector Capacity Entitlement	ICE	As defined in the ElecLink Access Rules, Schedule 1: Definitions and Interpretation.
Interconnector Licence		Means a licence granted or treated granted under section 6 of the Electricity Act 1989.

Expression	Acronym	Definition
Intraday Auction		The process whereby ElecLink at intraday stage allocates the Intraday Offered Capacity.  As defined in the ElecLink Access Rules, Schedule 1: Definitions and Interpretation.
Market Share		Means in relation to an Open Season User or an Open Season Unit Holder the market share of the Open Season User or Open Season Unit Holder and all its Related Undertakings with reference to its generation interests in France or GB.  As defined in the ElecLink Access Rules, Schedule 1: Definitions and Interpretation.
Medium Term	MT	Processes relating to Auctions with product periods greater than 1 Contract Day and less than or equal to one year, and associated interconnector capacity activities, the business process for which is described in Schedule 4 of the ElecLink Access Rules.  As defined in the ElecLink Access Rules, Schedule 1: Definitions and Interpretation.
Mid Point		As defined in the ElecLink Access Rules, Schedule 1: Definitions and Interpretation.
Mid Point Day Ahead Market Spread		As defined in the ElecLink Access Rules, Schedule 1: Definitions and Interpretation.
Mid Point Day Ahead Market Spread Cap		As defined in the ElecLink Access Rules, Schedule 1: Definitions and Interpretation.
Monthly Compensation Cap		As defined in the ElecLink Access Rules, Schedule 1: Definitions and Interpretation.
NGET		National Grid Electricity Transmission plc.
Nomination		The action, in relation to a User, to submit a Mid Point Nomination to ElecLink.  As defined in the ElecLink Access Rules, Schedule 1: Definitions and Interpretation.
Open Season	OS	Processes relating to Auctions with product periods greater than one year and less than or equal to ten years and associated interconnector capacity activities.  As defined in the ElecLink Access Rules, Schedule 1: Definitions and Interpretation.
Related Undertaking		Related Undertaking has the meaning given in paragraph 22 of Article 2 of the Directive 2009/72/EC concerning common rules for the internal market in electricity and repealing Directive 2003/54/EC.  As defined in the ElecLink Access Rules, Schedule 1: Definitions and Interpretation.

<b>Expression</b>	<b>Acronym</b>	<b>Definition</b>
Resale		As defined in the ElecLink Access Rules, Schedule 1: Definitions and Interpretation.
RTE		Réseau de Transport d'Electricité.
Settlement Period		Each half-hour period coinciding with settlement periods as defined in the Balancing and Settlement Code. As defined in the ElecLink Access Rules, Schedule 1: Definitions and Interpretation.
Unit Holder		A User who has been allocated the right to use interconnector capacity. As defined in the ElecLink Access Rules, Schedule 1: Definitions and Interpretation.
Use It or Lose It	UIOLI	As defined in the ElecLink Access Rules, Schedule 1: Definitions and Interpretation.
Use It or Sell It	UIOSI	As defined in the ElecLink Access Rules, Schedule 1: Definitions and Interpretation.
User		A person other than ElecLink who is party to an ElecLink User Agreement for Medium Term, Daily and Intraday Interconnector Capacity or an ElecLink Open Season User Agreement. As defined in the ElecLink Access Rules, Schedule 1: Definitions and Interpretation.