



Addressee:

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Enclosure(s): Draft Access Rules and Implicit Auction Paper.

Subject: Start of formal Consultation Process for BritNed Access Rules

Dear Sir / Madam,

In compliance with the Exemption decision of the BritNed Interconnector adopted in application of Article 6(1)(b) of the Council Regulation (EC) No. 139/2004 BritNed attaches a draft of the BritNed Access Rules which sets out but not limited to the allocation of interconnector capacity, the use of interconnector capacity and the provision of information relating to the BritNed Interconnector.

BritNed makes this application in order that the formal consultation can begin. If you require further information then please don't hesitate to contact us.

As you know we have been in contact with potential customers and have been keen to seek their views albeit on an informal basis by way of the BritNed presentations held in London and Amsterdam and by way of separate meetings. The two way discussions and feedback we have received has proved to be extremely useful. We have, in the time permitted, amended the draft BritNed Access Rules to cater for some of the potential customers' views and some points remain open for further consultation under the formal process. We provide further details of these areas below;

Reserve Pricing

The main reason for reserve pricing was to allow BritNed a level of financial certainty at the early stage of use. The Exemption recognises BritNed as a Merchant Interconnector which means that the risk of investment lies entirely with the investors and that the revenue from

the Interconnector can be freely allocated. With this in mind BritNed has introduced the reserve price methodology and, following feedback, have considered carefully how this can be more transparent within the wording in the BritNed Access Rules.

The reserve price we have proposed is an undisclosed minimum price in an explicit auction for which capacity is being offered. Based on discussions with potential customers, BritNed has revised its reserve price methodology in that it is now proposed to be set in relation to costs and no longer in relation to market revenue predictions. Several steps of reserve prices within an explicit auction might be identified, ranging from the marginal cost to the full cost (potentially including a capital expenditure allowance) of running the BritNed Interconnector. BritNed now does not propose to set reserve prices for daily explicit auctions (if used) or intraday explicit auctions.

The real advantage of using stepped reserve prices within explicit auctions should ensure that capacity is sold in every auction and that potentially only some capacity is reserved and rolled over to subsequent auctions. The combination of the declining nature of reserve prices (as you move through auction product types), not applying a reserve price at the day-ahead stage and not reserving capacity for the intraday stages, should ensure that there are excellent opportunities in each of the capacity offerings.

There has been some confusion on reserve pricing in relation to the implicit daily auction. BritNed would like to make clear that it will not be using a reserve price for the daily auction but will however need to recover the GB charges and losses related to flows on the Interconnector to prevent BritNed from flowing at a loss. This means that BritNed will only flow if the spread between the day-ahead markets is sufficient to recover the flow related charges and losses.

BritNed Access Rules

There is a clear need for all parties involved to keep the BritNed Access Rules as simple but effective as possible. This has certainly been echoed by potential customers. It is important that the BritNed Access Rules cover all conceivable matters when dealing with the BritNed Interconnector and coupled with harmonisation with other rules keeping the BritNed Access Rules short has become a challenge. We think we have come to the right balance but will be happy to review different ways of simplifying the BritNed Access Rules throughout the formal Consultation process.

Charging Methodology

BritNed fully understands the need for transparency and therefore will include and communicate all related charges to its customers which will be produced in a separate charging methodology following agreement of the BritNed Access Rules. The BritNed Access Rules detail that each participant will in addition to the auction price for the capacity rights pay charges such as the transmission pass-through charges.

Types of Auctions

BritNed has listened and continues to listen to its potential customers to ascertain which auction product types they would prefer. At the moment we have entertained various types of auctions up to one year but will obviously extract certain types of auction should they be found to be of limited use to potential customers.

BritNed is now proposing that as a minimum to provide the following auction products: calendar annual, calendar monthly, daily and intra-day.

Timing of Auctions

Feedback from potential customers has varied from some requesting for there to be more co-ordination with IFA and some requesting that trader resources would be stretched if co-ordinated. BritNed is continually liaising with IFA as well as other Interconnector operators but currently it is not BritNed's intention to have auctions at similar times to IFA although BritNed would support further debate on co-ordination with other interconnectors within the FUI and CWE regions.

Allocation of capacity

The BritNed cable is 1000 MW in both directions and BritNed will need to decide how much of this capacity is to be made available in each auction. For the daily auction all remaining capacity will be made available and if this is not utilised, the residual will be placed into the intraday auctions. To determine the offered capacity in both directions at the daily stage, the netting principle will be applied using the medium term nominations of capacity rights to establish how much capacity can be offered in the direction counter to the prevailing nominations.

Any constraints caused by BritNed leading to a capacity shortage will be subject to the curtailment rules. In as far as possible, any planned outage will be included as a reduction in the offered capacity in advance of the auction.

It is still uncertain what capacity will be allocated into which auction but we continue to receive feedback from potential customers and the Regulators to ensure full benefit for all parties. BritNed would like to ensure that to each product a sufficient and appropriate proportion of capacity is allocated.

Secondary Market Charges

BritNed has listened carefully to potential customers and has decided to remove any administration charges for such services. You will see that this has been clearly reflected in the draft BritNed Access Rules.

UIOLI/UIOSI

There is a clear preference for UIoSI from potential customers and we have made changes to the draft BritNed Access Rules to this effect.

UIoSI will be applied on medium term capacity units that have not been nominated. The compensation for customers with unused medium term capacity rights will be derived from the daily auction and it is proposed that this will be capped at the weighted average price of the unused medium term units the customer has not nominated. In case of a capacity shortage leading to curtailment, it is proposed that unused medium term units will not be compensated.

The application of UIoLI/ UIoSI is not relevant to implicit daily auctions as there is a nomination obligation. In the case that an explicit daily auction is used, then it is proposed that any unused daily units will not be compensated and thus UIoLI will be applied. A similar approach is proposed for the intraday auctions.

Firmness

The view from some potential customers is that they are comfortable to have a non-firm position for medium term auctions, but the majority would like firm capacity after the nomination gate closure. Implicit auctions must be firm as the energy is traded anonymously as far as BritNed is concerned.

BritNed continues to review the extensive comments on this subject from potential customers on firmness ranging from firm at the annual stage to firmness after medium term nomination gate closure. BritNed's current proposal would be to reimburse the auction price initially paid for the capacity rights in case of curtailment.

Curtailments

For the non-Firm products, BritNed currently proposes the following order in case of curtailment of capacity:

1. Intraday capacity Rights
2. Daily Capacity Rights (only in case of daily explicit auctions)
3. Medium term Capacity Rights

As capacity associated with Daily implicit auctions will be firm these cannot be curtailed.

Intraday Products

BritNed's proposes explicit intraday auction model where auctions are carried out throughout the day with continuous transfer possibilities between the several nomination gate closures, whereas some potential customers have stated a preference for continuous implicit intraday auctions.

Although BritNed would welcome more feedback through this consultation, BritNed is not currently convinced that the interconnector capacity could be valued using a continuous implicit allocation on a first come first served basis.

Implicit Auctions

There has been some steer from potential customers to offer only explicit auctions until BritNed is more established. This is definitely not the view of all potential customers.

BritNed is considering very carefully the impact of the new Power exchange N2EX and will monitor the market. This is something raised by some of the potential customers and will be carefully reviewed over the coming months. BritNed together with IFA is also exploring if a CWE-Nordic extension solution is feasible before the start of BritNed commercial operations.

BritNed Interconnector DC losses

BritNed has received extensive comments from potential customers on the proposal of the treatment of DC losses (similar way as the IFA interconnector). Feedback has stated that it is complicated and administrative. Hence, BritNed is considering other approaches and welcome market parties views on other approaches to the treatment of DC losses. One option could be capacity allocation at the receiving end of the interconnector (rather than at Mid channel) and pass-through of the costs of losses to interconnector customers.

Paragraph 5.6 of the NL Grid Code

One of the conditions of the Exemption decision is that BritNed will indicate the extent to which the methods and conditions it proposes deviate from the relevant provisions included in section 5.6 of the Dutch Grid Code as BritNed is exempt from article 31 (1), part a, of the Electricity Act inasmuch as it refers to the application of parts 5.6.5, 5.6.6, 5.6.8, 5.6.9, 5.6.10, 5.6.11, 5.6.12, 5.6.13, 5.6.14 and 5.6.15 of section 5.6 of the Grid Code:

- Article 5.6.5 Grid Code: BritNed is exempt from this article as BritNed as the operator will determine the available transmission capacity of the interconnector;
- Article 5.6.6.1 Grid Code: Under the exemption decision it is at BritNed's discretion to decide on the different auction product categories, although BritNed will facilitate the auction categories as listed under this article of the Grid Code.
- Article 5.6.6.2 Grid Code: BritNed has not allocated a fixed number of MW's to each auction product type, but would like to ensure that to each product a sufficient proportion of capacity is allocated. The dates of the medium term auctions will be published in advance (end of year Y-1 for Medium Term Auctions taking place in year Y) by BritNed including the initial available transmission capacity. The offered capacity for an medium term auction will be available well in advance of an auction through the auction specification;

- Article 5.6.6.3 and 5.6.6.4 Grid Code: BritNed will take into account the possibilities for netting imports and exports of nominated transactions;
- 5.6.8 Grid Code: The publication of the available transmission capacity for the day-ahead market will be done according to the business rules as defined in Schedule 4 of the Access Rules. BritNed will publish the information regarding the available interconnector capacity, the allocation mechanism used and allocation results on a website that is publicly accessible.
- 5.6.9 Grid Code: The structure of the explicit auctions will be as specified in the Access Rules and more specifically in Sections C and D of these Rules.
- 5.6.10 Grid Code: The procedure for the explicit auctions will be as specified in the Access Rules and more specifically in Sections C and D of these Rules.
- 5.6.11 Grid Code: The Nominations for explicit auctions are defined in Section D of the Access Rules.
- 5.6.12 Grid Code: BritNed's proposal is to implement an implicit daily auction. In case the explicit daily auction is used as a fall back, the obligation under the Grid Code to bid in import capacity of the explicit daily auction at the Dutch day-ahead market should be respected by market parties.
- 5.6.13 Grid Code: Unforeseen transmission limitations for implicit and explicit auctions will be dealt with as detailed in the Access Rules as summarised in this letter under the paragraph on curtailment of capacity.
- 5.6.14 Grid Code: BritNed will offer its customers the opportunity to transfer and resell its explicit capacity rights as specified in Rules D3, D4 and D5 of the Access Rules.
- 5.6.15 Grid Code: As a non-socialised interconnector operator BritNed is exempt from this article on the use of the implicit and explicit auction revenues.

Conclusions

BritNed is proposing business rules to enable it to comply with its Exemption to offer both explicit and implicit auction products.

There are other areas that BritNed has discussed with potential customers and will continue to do so throughout the formal consultation process.

BritNed is sure that it has reflected the views of both Regulators and potential customers in the draft BritNed Access Rules but appreciate that there are some areas referred to above which will need further discussion during the formal consultation process.

BritNed welcomes this formal consultation process and will continue to work with both the NMa and Ofgem to ensure that the mechanisms relating to the management and allocation of capacity are reflected accurately and transparently in the BritNed Access Rules to the benefit of all parties.

BritNed will continue to work with the Regulators and potential Customers to be in a position to publish a clear explanation of the operation of the allocation method for both its explicit and implicit auctions.

Yours faithfully,



BRITNED DEVELOPMENT LIMITED

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