



Consultation Report on the Public consultation on the joint proposal of Elia and Nemo Link Ltd for Compensation Rules between Elia and Nemo Link Ltd

ELIA

September 2018

INTRODUCTION

From 20th July until 20th August 2018 Elia organized a public consultation on a joint proposal of Elia and Nemo Link Ltd for the compensation mechanism to be applied in case of a reduction of commercial capacity of the Nemo Link Interconnector by Elia (the “Compensation Rules”).

This document consolidates the received comments and the answers of Elia on them. The details of the respective answers are elaborated further in this document.

Based on the analysis of the received comments it is Elia’s opinion that the received comments should not lead to a change of the content of the Compensation Rules.

RECEIVED RESPONSES

The consultation period was from 20th July until 20th August 2018. Elia received comments from following parties:

1. Febeliec
2. FEBEG

Elia did not receive any confidential comments.

The received comments are attached in Annex 1 and will be published on the website of Elia jointly with the consultation report.

Febeliec's comments to the consultation on the System Operating Policies on Compensation between Elia and Nemo Link

- Febeliec would like to thank Elia for this consultation on the System Operating Policies on Compensation between Elia and Nemo Link.
- Febeliec understands the purpose of the compensation policies, in order to isolate Nemo Link from the effects of a wide range of possible outcomes and could even accept such approach to a certain extent. However, for Febeliec the fact that Nemo Link is not within the regulated activities of the Belgian TSO has a major impact on the decision how to allocate the profits and costs of Nemo Link. It is very important to keep a clear balance between the advantages and disadvantages for the Belgian (regulated) consumers on the one hand and the shareholders of Nemo Link on the other hand. In any case it is unacceptable for Febeliec that all benefits would go to the shareholders whereas all risks would be put with the Belgian consumers, with the latter having no upside potential but only downside risks and no clear compensation therefor.

Answer :

- *Elia would like to remind that activities of Nemo Link are fully regulated through a specific regulatory regime determined by both national regulatory authorities of the connected countries.*
- *The potential risk identified by Febeliec that risks and benefits would not be adequately split between the market parties and Nemo Link is addressed by the characteristics of the regulatory regime in place, (called cap and floor mechanism) under strict regulatory supervision.*
- *The congestion revenue is the main income of the Nemo Link Interconnector. If constraints in the Elia grid, as specified in the Compensation Rules, lead to limit this activity (ex post or ex ante), it is considered adequate to compensate Nemo Link therefor.*
- *Elia would also like to highlight that the Nemo Link Interconnector increases the security of supply of Belgium, will generate social welfare and contributes to the further integration of the IEM.*
- Febeliec takes note of the split between the compensation for allocated and non-allocated capacity in case of curtailment. Whereas Febeliec could follow the reasoning for compensation of Nemo Link for the compensations Nemo Link has to pay to market parties in case of curtailment of allocated capacity (insofar not related to force majeure or other excluded causes such as planned maintenance and unavailability), Febeliec is not at all convinced of the pertinence to fully compensate Nemo Link for the loss of congestion income in case of reduction of capacity that *could* have been allocated to the day-ahead market coupling.

Answer:

- *CACM and FCA govern the compensation for allocated capacity (and do foresee a compensation of allocated capacity even in case of Force Majeure, Emergency or for respecting operational security limits). The submitted proposal just reflects the legal obligations of these European guidelines.*
- *As explained above, the rationale is that the allocation of commercial capacity is the main source of revenue for Nemo Link. Hence if this capacity is reduced by constraints in the Elia grid, it is considered adequate to compensate Nemo Link therefor.*
- The reasons therefore are twofold: first, Nemo Link is a non-regulated activity and it is part of the normal business operation of non-regulated activities (such as also the case for amongst others industrial consumers or generators) to be exposed to a certain extent of risk; this is inherent to any commercial enterprise and any such enterprise has the right to conclude insurance for such events at its own expense (and not at the expense of the Belgian regulated activities of Elia).

Answer :

- *Elia reminds that Nemo Link is part of the regulated business of Elia with a regulated regime based on a cap and floor mechanism defined by the concerned national regulatory authorities.*
- *As all regulatory regimes, the cap and floor mechanism includes however various risks (e.a. related to availability of the cable, evolution of the costs,...). Elia invites Febeliec to go through the Annex 3 of the Tariff Methodology to appreciate risks related to the characteristics of the cap & floor mechanism.*
- *Generally, this regulatory regime aims at segregating the risks related to the interconnector operations from other operational risks of the TSO. The submitted proposal aims at doing so and does impose risks on Nemo Link (e.g. during planned outages or maintenance where no compensation is due, or for any costs resulting from a problem on the interconnector).*
- Second, any such compensation would be based on a theoretical calculation of opportunity costs, removing all impacts from operational issues that can be the result of actions from Nemo Link itself, thus pushing again all operational risk towards Elia and the Belgian consumers and none to the commercial Nemo Link enterprise.

Answer:

- *The compensation will only be due to reductions upon request of Elia for issues in the Elia grid. The calculation of the opportunity costs to be compensated will be performed by re-running the market coupling algorithm, but with capacity that would have been placed into the day ahead market if it were not for the restriction on the interconnector (and as such provides realistic and correct results).*
- *The compensation of the opportunity costs does not remove the impact for operational issues. Nemo Link does support the industrial risk related to the operation of the interconnector circuits, and any costs related to an outage or capacity reduction due to operational issues on the interconnector (for example imbalance costs as BRP in BE and GB, ...).*

Received Comments from FEBEG

Introduction

On the 20th of July, 2018 Elia launched a consultation on the compensation rules between Elia and Nemo Link Ltd. Elia has invited all stakeholders to submit comments and suggestions by the 20th of August, 2018 at the latest.

FEBEG would like to thank Elia for creating this opportunity for all stakeholders to express their comments and suggestions. The comments and suggestions of FEBEG are not confidential.

FEBEG questions for clarification with regard to the compensation rules

Symmetric approach for the compensation rules for reduction of capacity

Reading the proposed rules for compensation between Elia and Nemo Link Ltd, the question raises why there only is a compensation if the capacity reduction is triggered by a constraint at Elia side. Is it because there's no compensation foreseen when the capacity reduction is triggered by a constraint at NGET? Or is it because this document focusses solely on the rules between Elia and Nemo Link Ltd, and because there's another document describing the rules between Nemo Link Ltd and NGET?

FEBEG would welcome further clarification in this respect as it is not clear for Belgian market participants what will happen in case of capacity reduction triggered by a constraint at NGET. In order to ensure a level playing field between Belgium and the UK, FEBEG would expect the rules and principles to be symmetric.

Answer :

- *Given different regulatory schemes in place in the different countries, compensation schemes are to be discussed locally between Interconnectors, onshore TSOs and the respective NRA. Thus, the scope of this consultation focusses only on the compensation rules between Elia and Nemo Link in case of a capacity reduction triggered by a constraint at Elia side. Similar discussions are ongoing on UK side and Nemo Link strives to have similar compensation schemes in place on both sides of the interconnector.*

Nemo participation in the UK capacity remuneration mechanism

FEBEG would also like to know if it is foreseen to compensate in any way the Belgian market participants in case Nemo Link would participate – and be selected – in the UK capacity remuneration mechanism.

In other words, FEBEG would like to understand the impact on the Belgian market of the potential participation of Nemo Link in the UK capacity remuneration mechanism: given that the capacity remuneration mechanism in the UK is a delivery model, Nemo Link either takes the risk that no (or insufficient) power is flowing or has to contract it (not sure if allowed). In that perspective, Belgian market participants wonder whether, in times of activation of the capacity remuneration mechanism in the UK, those delivering to the UK are not also entitled to some additional compensation from the capacity remuneration that Nemo Link receives as these market participants fulfill also part of the commitment that Nemo Link took onto itself.

Answer:

- *This question is not in scope of the public consultation which deals with compensation mechanisms for capacity reductions only.*
- *For the avoidance of doubt, Elia will not compensate Nemo Link for any foregone losses in the framework of a participation of Nemo Link in the UK capacity remuneration mechanism.*

ANNEX 1

REACTION OF FEBELIEC

REACTION OF FEBEG

Subject: Elia public consultation on compensation rules between Elia and Nemo Link Ltd.
Date: 20 August 2018

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