

Charging Methodology Statement



For BritNed's Customers

Effective From
March 2011

Version Control

Version	Final
Issue	1
Date of Issue	15th February 2011
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1 PURPOSE AND SCOPE

- 1.1 This document sets out the charging methodology which will be applied by BritNed Development Limited to the use of the BritNed Interconnector. It details the charges, including pass through charges from National Grid and TenneT, which Interconnector Participants will be liable for through the Explicit Auction mechanism*. There are no BritNed charges for Participants associated with implicit auctions as these are held by APX. Any charges between APX and BritNed are not within the scope of this document.
- 1.2 The following list details charges that may be liable to Participants for the use of the BritNed Interconnector:

Capacity Charge	The charge payable to BritNed on result of an explicit auction based on the Unit Price and Unit Quantity. Further details can be found in paragraph 3.11.
Balancing Services Use of System Charge	BSUoS charges are levied on Participants directly by National Grid with no requirement for pass through by BritNed. These charges relate to the services National Grid need to procure in order to balance the transmission system. The charges are calculated retrospectively on a half hour basis and reflect the adjustment for transmission losses under the balancing and settlement code by virtue of the Transmission Loss Multiplier. Further information can be found in National Grid's 'The Statement of the Use of System Charging Methodology' available from www.nationalgrid.com . As these charges are levied directly to Participants by National Grid they are not detailed within this document.
Elexon Charges	Details of any charges levied by Elexon should be obtained directly from Elexon Ltd. Elexon's website can be found at www.elexon.co.uk .
Dutch Imbalance Charge	Explicit capacity is sold on a non-firm basis. As such, any costs levied on BritNed resulting from an imbalance of energy through capacity nominated explicitly, will be passed through on a cost neutral basis to Participants. NB: This imbalance cost is passed through from the Dutch side only as Participants are directly liable via Elexon in the GB market.

- 1.3 An electronic version of this document can be obtained by visiting the BritNed website at: www.britned.com.
- 1.4 Further information on BritNed's activities and the information contained within this document can be obtained by contacting us by telephone, email or in writing:

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* BritNed will absorb the pass through charges associated with the Implicit Auction mechanism

- 1.5 All further references to BritNed in this document relate to its role and participation in the administration of the third party access regime for the Interconnector and in relation to its obligations as an Interconnector operator and licensee in Great Britain.

2 INTRODUCTION

Objectives of the charging methodology

2.1 The objectives set out in Standard Licence Condition 10 (3) of the Interconnector Licence (“relevant objectives”) require that the Charges and their underlying methodology are:

- (a) Objective;
- (b) Transparent; and
- (c) Non-discriminatory.

On the 11th July 2007, OfGEM* granted BritNed an exemption order for a period of 25 years from the start of commercial operations. The exemption is from standard licence conditions 9, 10 and 11 and Article 6(6) of EC Regulation.

2.2 BritNed has an Exemption from the way it uses its revenue which has been approved by the EU Commission and in more particular is exempt from Standard Licence Condition 10 “Regulation of charging Methodology”. In order to be more transparent and to act in a non-discriminatory way BritNed has published this document to clearly demonstrate the charging methodology it will use.

Capacity bid acceptance

2.3 BritNed will accept bids in strict accordance with the criteria set out in the BritNed Access Rules.

2.4 As such this methodology should be read in conjunction with the BritNed Access Rules. In the event of any ambiguity or inconsistency between this document and the BritNed Access Rules, the BritNed Access Rules will take precedence.

Capacity release

2.5 BritNed will make available capacity rights for any given day up to the maximum physical capability via auctions for that day. The available capacity will take into account planned and extended unplanned outages on the Interconnector or local transmission systems plus any limitations imposed by the local Transmission System Operators due to system security considerations.

2.6 Capacity rights offered but unsold in medium term auctions shall be re-offered by BritNed during auctions closer to the day. This is inline with the principles and the criterion described in the BritNed Access Rules and ensures that all possible capacity remains available to the market.

Use of Interconnector charges

2.7 The Explicit auction mechanism will operate on a “Clearing (Marginal) Price” basis with capacity allocated to Participants with successful bids. Participants have the option to nominate all or part of their allocated capacity for physical energy transfer.

2.8 If the Participant does not nominate part or all of their allocated capacity rights, they may subsequently be purchased by another (or the same) eligible Participant in accordance with the principles and criteria of use it or sell it (“UloSI”) or use it or lose it (“UloLI”) as described in the BritNed Access Rules.

Dutch Imbalance Charge

2.9 In the event of Capacity Shortage, BritNed will Curtail Interconnector Capacity Entitlements and if necessary Mid North Sea Nominations within the affected Settlement Periods in accordance with the BritNed Access Rules.

* OfGEM – Office of Gas and Electricity Markets in the UK.

- 2.10 In the case of Curtailment of Nominations, Unit Holders' nominated position will be amended by the level of the Curtailment. In the Dutch market this will be completed as soon as reasonably possible, taking into account the operational constraints for which the nominated position cannot be changed. The imbalance liability for any period for which the nominated position can not be changed will be initially absorbed by BritNed, and passed through to Participants.
- 2.11 Imbalance liabilities applicable to the Implicit Auction mechanism will be absorbed by BritNed.

3 INTERCONNECTOR CHARGES

Units

3.1 Access (Capacity) charges are expressed in €/MW/hour.

Interconnector Capacity Entitlements (ICE)

3.2 Participants of BritNed can acquire Interconnector capacity in accordance with the BritNed Access Rules. Obtaining ICE gives the Participant the right to nominate a transfer of electricity from one end of the BritNed Interconnector to the other in either direction.

3.3 All access rights (capacity) relate to a particular period and to each hour within that period.

3.4 Advance purchase of capacity is available in a series of explicit capacity auctions on a unidirectional basis ranging from up to one year ahead to Intraday.

Secondary trading

3.5 A Participant that holds capacity may relinquish this capacity for use by other eligible Participants. There are two mechanisms to achieve this. The first is a Transfer and the second is a Resale.

3.6 A Transfer involves the bilateral transfer of capacity to another eligible Participant where the original Participant retains the obligation to pay BritNed for that capacity. Any payments between participants for a transfer are not passed through BritNed.

3.7 A Resale of capacity is facilitated via BritNed's Medium Term auction process. A Participant can request BritNed to offer the capacity for resale in an upcoming auction (target auction). The marginal clearing price of the target auction will then be made to the original unit holder in accordance with the BritNed Access Rules.

3.8 BritNed facilitates complimentary Resale and Transfer services via the Kingdom Auction Platform.

Use it or sell it ("UloSI")/Use it or lose it ("UloLI")

3.9 The BritNed Access Rules contain automated UloSI/UloLI provisions where any portion of medium term capacity that is not nominated for use by the Participant is deducted from their allocated capacity and made available to the Implicit Auction process. The remuneration for this is defined in the BritNed Access Rules and a portion of proceeds (if any) are returned to the original Participant in line with section D.6 of the BritNed Access Rules (UloSI).

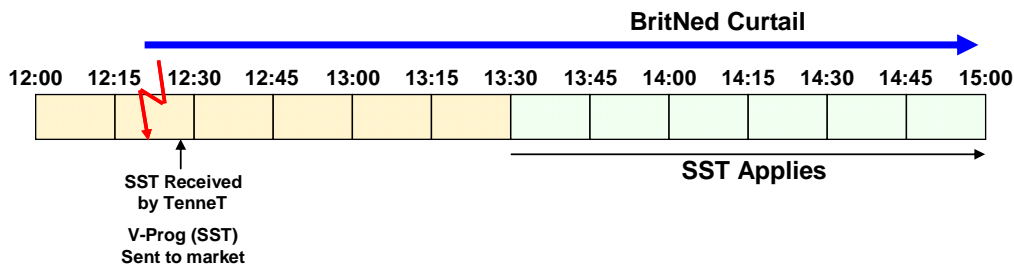
3.10 Any Medium Term or Explicitly sold Daily Capacity which has not been nominated is deducted from a Participants entitlement and made available to the Intraday Explicit auction process. The proceeds (if any) are not returned to the original Participant (UloLI). As referenced in Section D.6 of the BritNed Access Rules further examples of how this works will be available to all participants prior to Go Live

Capacity Charge

3.11 The charge payable to BritNed on result of an explicit auction will be the Unit Price, derived from that auction, multiplied by Unit Quantity of the Participant.

Dutch Imbalance Charge

3.12 In case of a Curtailment, Unit Holders' nominated position will be amended to the level of the Curtailment. In the Dutch market this will be achieved using a Single Sided Transaction (SST). Acceptance of the SST by TenneT will amend the Dutch nominations made to TenneT for the 5th FULL Programmed Time Unit (PTU) until the end of the Curtailed period. The following diagram illustrated this:



- 3.13 From the start of the Capacity Shortage until the first PTU for which the SST has been accepted by TenneT, any imbalance will be levied by TenneT on BritNed. This imbalance will be passed through by BritNed to relevant Participants on a pro-rata cost neutral basis. This is termed the Dutch Imbalance Charge (DIC) and can be either positive or negative.
- 3.14 From the start of the PTU for which an accepted SST is applicable, any imbalance liabilities will be charged directly to the Participant by TenneT.

$$DIC = \frac{\text{Total Imbalance Liability}}{\text{TCN}} \times \text{PCN}$$

- PCN** Participants Curtailed Capacity Nomination through explicit auctions
- TCN** Total Capacity Rights Nominated in the given time period through implicit and explicit auctions and in the direction of the Curtailment

Curtailment reconciliation and financial firmness

- 3.15 Details are contained in section D.9 of the BritNed Access Rules
- 3.16 A statement containing further detailed information will be issued to all participants by BritNed prior to Go Live

Invoicing

- 3.17 BritNed’s invoicing team produce and issue invoices that are derived from the use of BritNed charges levied in accordance with the BritNed Access Rules and this statement. All payments will be in Euros.

4 EXAMPLES

- 4.1 The following pages set out a series of examples on how to calculate the charges for the use of the BritNed interconnector.
- 4.2 Charges produced by BritNed's invoicing section are definitive and the examples produced here are purely illustrative. The price of capacity used in these examples in no way reflects the value a participant may place on that capacity in any particular auction. The price used in the examples is an arbitrary number to enable the example calculations to be followed more easily.

Example 1

A market participant has been allocated 200MW of capacity rights on the explicit auction mechanism with a clearing price of €7.50/MW/h.

The participant's capacity charge is calculated as follows:

$$7.50 \times 200 = \text{€}1500 \text{ (for the given hour)}$$

This is invoiced in €/MW/hour on a monthly basis.

Example 2

For a given hour 500MW of capacity is sold on explicit auctions and nominated in the direction of NL-GB. A further 300MW flows through the implicit mechanism in the direction of NL-GB. The total nominated capacity (TCN) in the direction of NL-GB for the hour is therefore 800MW (500MW+300MW). A market participant has been allocated and nominated 200MW of capacity rights (PCN). It should be noted that this example ignores the BritNed Loss Factor – in a normal scenario the Dutch Imbalance Charge would only be levied on the Dutch nominations not on the Mid North Sea nominations.

In case of a Curtailment to 0MW, BritNed will be liable for the imbalance charge for Total Capacity Rights Nominated in the given time period through implicit and explicit auctions and in the direction NL-GB (TCN) until the nominated positions are amended.

Let's assume an imbalance charge of € 100 / MWh and a time period of one hour until the nominated positions of the explicit auctions have been amended. BritNed will then be liable to an imbalance charge for the period which could not be amended and would be invoiced by the Dutch Transmission System Operator:

$$\text{TCN} \times \text{Imbalance charge} = 800 \times 100 = \text{€}80,000$$

BritNed will pass this liability through to Participants for capacity that has been nominated through the explicit auction mechanism as defined in the Access Rules. The pass through liability is calculated as follows:

$$\text{DIC} = \frac{\text{Total Imbalance Liability}}{\text{TCN}} \times \text{PCN} = \frac{80,000}{800} \times 100 = \text{€}10,000$$

PCN Participants Curtailed Capacity Nomination through explicit auctions

TCN Total Capacity Rights Nominated in the given time period through implicit and explicit auctions and in the direction of the Curtailment