

System Operating Policies on Compensation between Elia and Nemo Link

WHEREAS

Elia and Nemo Link have entered into the Joint Operation Agreement (“JOA”) on the 25th of February 2015 for the purpose of setting out the framework in which the Parties will jointly operate the Interconnector Circuits.

The definitions of the JOA are also applicable for this System Operating Policy.

As stated in the scope of the JOA the parties (Elia and Nemo Link) shall (amongst others);

- i. work together honestly and fairly to jointly operate the Interconnector Circuits as further described in, and in accordance with, the terms of the JOA and;
- ii. use their best endeavours to maximize the level of availability of the Interconnector Circuits and otherwise act in accordance with the best interests of the Interconnector Circuits.

Clause 5.3.1 of the JOA states that *“The System Operating Policies relating to capacity calculation methods should be aimed at setting the NTC to the Connection Power under normal conditions and subject to applicable Laws and network codes and the conditions stated in clause 19 of the Interface Agreement.”*

Clause 5.3.2 of the JOA provides the contractual basis and corresponding principles for a compensation related to reduction of capacity of the Interconnector between Nemo Link and Elia, which are further elaborated by means of this System Operating Policy on Compensation.

Elia and Nemo Link have entered into an Interface Agreement (“IA”) on the 27th of February 2015, which governs the Connection to the Elia Grid, and the Facilities of the Nemo Link that may influence the security, reliability and/or efficiency of the Elia Grid, describes the metering equipment, and determines the Connection Power and the property rights as well as the rights of use of Nemo Link and Elia.

Article 19 of the IA states that *“[...] The Parties shall coordinate their planning for the maintenance and works so as to limit the unavailability’s of the grid elements and the risk of interruption of the supply of transmission services to the Nemo Link to a reasonable minimum [...] Nemo Link will ensure that Elia is entitled and has the possibility to carry out works and/or maintenance, if necessary. In case the planned maintenance works induces a connection capacity restriction ex-ante for the Nemo Link, Elia will not compensate the Nemo Link for the loss of profit during this restriction period.”*

1 Purpose of this document

This System Operating Policy includes, amongst others:

- Applicable principles for the compensation
- The mechanism used for calculating the compensation
- Treatment of the financial aspects of the compensation

Parties acknowledge that the compensation scheme hereunder will only apply in case it is approved by the Belgian regulator CREG and only as long as the standard hybrid coupling¹ mechanism is implemented.

2 Principles:

In line with the provisions of the JOA related to compensation, the compensation mechanism agreed upon between Nemo Link and Elia for a reduction of commercial capacity shall be based on following principles:

- Compensation is only due in case of a reduction of the Net Transfer Capacity below the Connection Power due to constraints in the Elia grid in accordance with the JOA and under the conditions described in this System Operating Policy.
- Such reduction due to constraints in the Elia grid can only happen as a result of the application of a coordinated capacity calculation methodology on the BE-GB border or as result of a curtailment in accordance with the principles defined in Article 72 of CACM and/or Article 53 and 56 of FCA;
- No compensation shall be due if the capacity reduction is the result of factors outside the Elia grid (such as, but not limited to, reduced availability of the Interconnector Circuits or constraints in the NGET grid);
- Where compensation is due as a result of a reduction of capacity, Nemo Link will be kept whole (i.e. Nemo Link should not bear any financial loss nor gains) (i) for the compensation of market parties and/or shipping agents in case of curtailment of allocated capacity and (ii) for the loss of congestion income (opportunity cost) in case of reduction of the capacity that would have, in absence of reduction, been allocated through the day-ahead market coupling (see paragraphs 3.1 and 3.2);
- Compensation can be due by Elia to Nemo Link or by Nemo Link to Elia;
- In accordance with Article 19 of the Interface Agreement and clause 5.3.1 of the JOA, ex-ante capacity reductions resulting from planned maintenance or works in the Elia grid² shall not result in any compensation due between Elia and Nemo Link;
- A reduction of capacity can only be compensated once (see paragraph 3.2); and

A distinction is made between compensation for a reduction of allocated capacity and reduction of non-allocated capacity, which is further specified in the paragraphs 3.1 and 3.2 of this System Operating Policy. These principles shall be applicable on the Compensation Mechanisms described in paragraph 3 of this System Operating Policy.

¹ CNTC mechanism not linked to Flow-Based as opposed to Advanced Hybrid Coupling. For avoidance of doubt SHC implies an NTC-based capacity calculation for the Nemo Link Interconnector and its integration in the market coupling for day-ahead capacity allocation.

² In such case, only planned maintenance or works on Belgian grid elements, which lead to a redistribution of flow that will significantly impact Belgian Critical Network Element and may then trigger the need for day-ahead capacity calculation on the GB-BE border, can dispense Elia from a compensation of Nemo Link. At the time of validation of this System Operating Policy, such elements are listed in the annex 1 to the Channel DA and ID Capacity Calculation Methodology submitted for regulatory approval and dated May 23rd, 2018.

3 Compensation Mechanism

The compensation mechanism is twofold. As stated in the principles of paragraph 2 there is a distinction between:

- a) the compensation applicable for the reduction of the already allocated capacity in accordance with Article 53 and 56 of FCA and 72 of CACM; and
- b) the compensation for the reduction of the non-allocated capacity (opportunity costs evaluated in the day-ahead timeframe) as a result of the application of a coordinated capacity calculation methodology on the BE-GB border.

3.1 Allocated capacity:

Capacity can be allocated in different timeframes:

- long term;
- day-ahead; and
- intraday

Capacity can be allocated in an explicit or implicit manner:

- Explicit allocation: the capacity is allocated in accordance with EU Harmonized Allocation Rules ("EU HAR") (for long term capacity allocation) or via the Shadow Allocation Rules (as fallback allocation in the day-ahead timeframe). Explicit capacity is allocated to market parties.
- Implicit allocation: the capacity is allocated in accordance with the market coupling mechanisms in day-ahead and/or intraday. Implicit capacity is allocated to shipping agents.
- In case of a reduction of allocated capacity, market parties and/or shipping agents must be compensated in accordance with the principles laid down in the applicable EU legislation (CACM and FCA GL) as further specified in Table 1.

Compensation Mechanism for allocated capacity

Taking into consideration the principles of paragraph 2, Nemo Link shall not be subject to financial damage or financial benefit resulting of a compensation to market parties or shipping agents under applicable European legislation as stated in table 1 in the event of allocated capacity reduction due to constraints in the Elia grid, subject to following conditions:

- Compensation for a reduction of already allocated capacity shall only be due in case the volume of allocated capacity was in accordance with the coordinated capacity calculation process applicable on the BE-GB border and, where relevant, with the application of commonly agreed splitting rules.
- For reduction of allocated capacity, Elia will pay Nemo Link (or vice versa) for the compensation that Nemo Link needs to pay to the market parties or shipping agents for such capacity reduction in accordance with the EU legislation.

Compensation for a reduction of allocated capacity can be either due by Elia to Nemo Link or vice versa:

1. where compensation is due by Nemo Link to market parties or shipping agents (cf. Table 1), Elia will hold Nemo Link harmless for the effective costs incurred;
2. where Nemo Link should receive a compensation from the market parties or shipping agents in accordance with the CACM guideline , Nemo Link will reimburse said compensation to Elia.

The compensation with respect to the allocated capacity for a market time unit (MTU) will be based on:

- The reduction of allocated capacity (expressed in MW) for the MTU;
- The corresponding price for the compensation of the capacity, in accordance with the CACM and FCA guidelines (including EU HAR and relevant Border Specific Annex, “BSA”), (expressed in €/MWh) and summarized in table 1 for that MTU;

Both Elia and Nemo Link commit to strive for having a monthly cap³ approved by their NRAs in accordance with Article 54 of FCA for the compensation due to market parties in case of the reduction of allocated capacity.

- Nemo Link will not compensate market parties beyond the applicable cap defined under EU HAR and as agreed by the NRAs pursuant art 54 of FCA;
- where curtailment occurred on request of at least two relevant TSOs (amongst Nemo Link, NGET and Elia) and the cap under EU HAR is reached for the concerned period, Elia will hold Nemo Link harmless for the final compensation that is due to market parties for the curtailment performed upon request by Elia (in line with the principles of EU HAR Art 59.4 for pro-rata compensation of LT rights holders where the cap is reached).

Table 1:

	Reason for reduction of allocated capacity		
	Operational security limits	Force Majeure	Emergency Situation
Before DAFD (Article 53 & 56 of FCA)	Day Ahead market spread ⁴	Initial price paid for the long term-transmission right during the forward allocation process	<i>Not applicable (situation not considered under FCA GL)</i>
After DAFD (Article 72.3 of CACM)	<i>Not applicable (situation not considered under CACM GL)</i>	<ul style="list-style-type: none"> - In case of allocated capacity via explicit allocation: initial price paid for the capacity during the explicit allocation process - In case of allocated capacity via implicit allocation: difference in imbalance prices between Belgium and GB 	Difference in imbalance prices between Belgium and GB

If Nemo Link reduces cross border flows as a result of a curtailment instruction of Elia without performing curtailment towards the shipping agents, Elia will compensate Nemo Link (or Nemo Link will compensate Elia) for the loss (or benefit) resulting from the corresponding imbalance charges (for the corresponding volumes) of Nemo Link in the Belgian and GB markets.

³ In case a monthly cap is not approved, the parties will strive for a yearly cap.

⁴ Corrected for losses if applicable, as specified in the BSA

3.2 Non-allocated capacity

In accordance with the JOA, any ex-ante reduction (i.e. reduction of non-allocated capacity) of the capacity that can be allocated by Nemo Link in the day-ahead stage, due to constraints in the Elia grid and except for planned maintenance or works, shall trigger a compensation between Elia and Nemo Link.

Taking into consideration the principles of paragraph 2, compensation shall only be due for a reduction of non-allocated capacity due to constraints in the Elia grid as indicated in Figure 1 (red block – “Reduction due to constraint in Elia grid”):

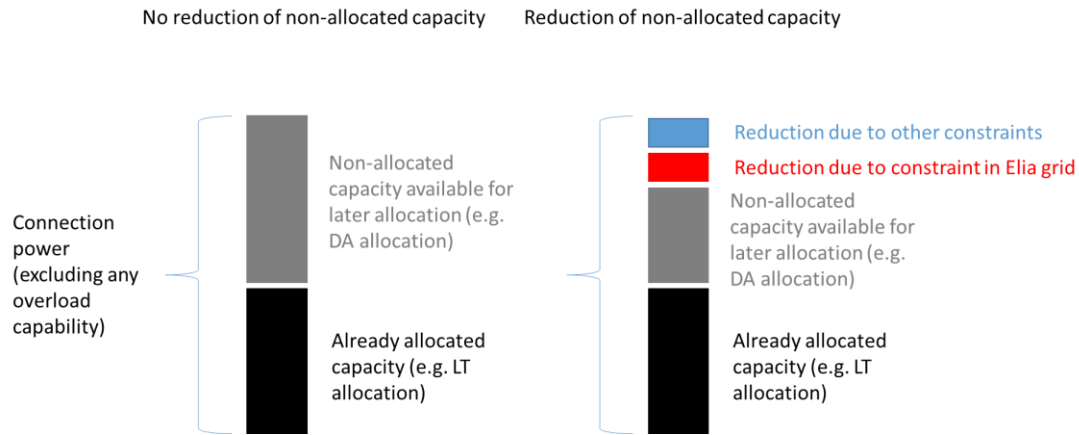


Figure 1 Reduction of non-allocated capacity

In accordance with the principles of paragraph 2, capacity shall only be compensated once. Hence, any reduced amount of allocated capacity (which triggered compensation between Elia and Nemo Link) shall, for compensation purposes, not be considered as “non-allocated” capacity for allocation in later timeframes.

- For the sake of clarity, suppose that Nemo Link allocated 800 MW of LT rights, which were reduced to 600 MW upon request of Elia due to constraints in the Elia grid (triggering a compensation), then compensation for a reduction of non-allocated capacity in the day-ahead stage will only be due in case the capacity that can be allocated in the day-ahead stage is reduced below 200 MW.
- This is further explained in Figure 2, in which case the reduction for non-allocated capacity will only apply to the red block (“Reduction due to constraint in Elia grid”).

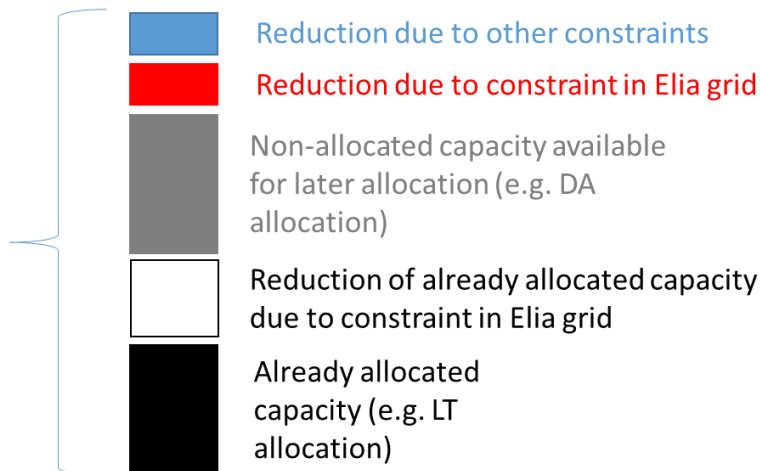


Figure 2 Capacity shall only be compensated once

The limitation due to constraints in the Elia grid of the volume of non-allocated capacity that is available for the day-ahead allocation process (reduction of non-allocated capacity) could lead to opportunity loss (or revenues) for Nemo Link that can be subject to compensation.

Compensation mechanism of non-allocated capacity

Taking into consideration the principles of paragraph 2, Nemo Link shall not be subject to any financial damage or financial benefit for a reduction of non-allocated capacity calculated at 11:00 CET day-ahead⁵ and due to constraints in the Elia grid (except in case of planned maintenance or works), subject to following conditions:

- The compensation/remuneration will be based on the difference between the “reference revenue” and the “effective revenue” in the day-ahead timeframe.
- The reference revenue will correspond to the revenue Nemo Link would have had if the reduction of non-allocated capacity wouldn’t have taken place. It will be calculated based upon the difference in day-ahead market prices of the GB Bidding Zone and Belgian Bidding Zone that would have been observed in absence of such reduction of non-allocated capacity. These prices will be simulated by Elia and/or Nemo Link using the MRC simulation facility and the relevant order books.
- The effective revenue is the revenue of Nemo Link in the situation where the reduction of the capacity effectively took place, not taking into account the compensation due.
- If the reduction of the non-allocated capacity is due to a Force Majeure, or an N-2 situation in the Elia grid, then no compensation will be due from Elia to Nemo Link.

⁵When pricing of intraday capacity becomes applicable in accordance with article 55 of the CACM Guideline, a reduction of the NTC during the intraday timeframe may also lead to opportunity costs or revenues for Nemo Link. The Parties will discuss in good faith whether compensation should apply for such reduction subject to CREG approval.

The compensation between Elia and Nemo Link for non-allocated capacity is applied as follows:

1. If the reference revenue > the effective revenue, then compensation is due from Elia to Nemo Link.
2. If the reference revenue < the effective revenue, then compensation is due from Nemo Link to Elia

4 Settlement & Payment

This paragraph assumes that Nemo Link, or an entity appointed by Nemo Link, settles the respective amounts towards market parties and/or shipping agents. In case Elia would directly compensate market parties and/or shipping agents, no compensation for reduction of allocated capacity will be due towards Nemo Link.

An Invoice will be issued in the event of compensation due by one party to the other party, for the reduction of allocated and/or non-allocated capacity.

The principles for invoicing will be as follows:

- Monthly invoicing will apply;
- An invoice will include all the compensation events for the respective month;
- The different events and the related compensation amounts that occurred within the respective month must be mentioned separately on the invoice;
- The invoice must take into account the respective compensation cap for the concerned period

The invoice process will have following steps:

- Nemo Link will prepare a pro-forma invoice which will be provided to Elia within a maximum of 2 months after the respective month of the invoice itself
- Elia will verify this pro-forma invoice within 1 month
- When both parties have confirmed the amount of the invoice, the party to which compensation is due shall prepare the final invoice and will submit this invoice to the members of the Operating Committee.
- The invoice shall be approved by the members of the OC within a timeframe of two weeks
- Invoices shall be payable within thirty (30) days after the end of the month during which the invoice has been approved by the OC.

Invoice details are included in Annex 1

Annex 1 Invoice & Settlement contacts

Financial contact data of Elia

Company:	Elia System Operator
Address (1):	Boulevard de l'Empereur 20
ZIP code:	1000
Town:	Brussels
Country:	Belgium
VAT Number:	BE 0476.388.378

Contact persons

Department:		Department:	
Contact person:		Contact person:	
		phone nr.:	
		fax nr.:	
		e-mail:	

Bank account details

Company:	
Account nr.:	
Bank:	
IBAN	
Swift code:	
Tax/ VAT number	

Financial contact data of Nemo Link

Company:	Nemo Link Limited
Address (1):	1-3 Strand, London WC2N 5EH, United Kingdom
VAT Number:	

Contact persons

Department:		Department:	
Contact person:		Contact person:	
phone nr.:		phone nr.:	
fax nr.:		fax nr.:	
e-mail:		e-mail:	

Bank account details

Company:	
Account nr.:	
Bank:	
IBAN	
Swift code:	
Tax/ VAT number	