

NTC Commercial Compensation Methodology: Post-C1.17 Derogation Decision Update and Next Steps

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Background

Ofgem have granted NESO successive derogations from ESO Licence C1.28¹/C1.17² that permits procurement of Net Transfer Capacity restrictions via non-market-based mechanisms. An associated part of this derogation is the NTC Commercial Compensation Methodology (CCM) that outlines compensation for interconnector owners when restrictions are set.

Across 2025 and 2026, NESO reviewed the CCM and proposed updates to this document. Following stakeholder engagement on these updates, which included an informal call for input and formal consultation, NESO submitted the outcome of the review to Ofgem in July 2026.

Ofgem has subsequently published its decision to grant NESO an extension to the derogation from 1 October 2026 to 30 September 2030. Accompanying Ofgem's decision was a direction for NESO to undertake a further comprehensive review and consultation of the NTC Commercial Compensation Methodology by **30 September 2027**³.

As stated in the derogation decision, Ofgem has confirmed that the revised CCM (Version 3.0) should be implemented. Ofgem's direction letter on the CCM stated that "we do not conclude the current CCM is necessarily inappropriate", while identifying the need for further evidence and consideration of the matters raised by stakeholders through the previous consultation. The direction requires NESO to consider stakeholder feedback and evidence and provide clear reasoning for why particular approaches are accepted, modified or rejected.

NESO's position

NESO welcomes Ofgem's direction and is committed to undertaking a further comprehensive review and consultation of the CCM.

As acknowledged in our report to the Authority, NESO identified the need for further work on the CCM following the previous review. This included assessing additional evidence received from stakeholders, continuing engagement with industry on the concerns raised and considering whether further updates to the CCM may be required. NESO also committed to remaining open to additional evidence and suggestions from stakeholders.

The upcoming review provides an opportunity to build on this work by considering the evidence and data already received, seeking further evidence and views from stakeholders, and assessing the existing methodologies and potential alternative approaches.

NESO remains open to receiving additional evidence, exploring opportunities to improve information sharing where appropriate, and working collaboratively with interested parties to

¹ Decision to grant the Electricity System Operator an extension to derogation from Standard Licence Condition C28.4(h)(i) for Net Transfer Capacity

² Decision to grant NESO a derogation for Net Transfer Capacity restrictions under Licence Condition C9.6 | Ofgem

³ <https://www.ofgem.gov.uk/sites/default/files/2026-09/C9.5-direction-CCM.pdf>

identify practical improvements and potential future solutions. This continues the position set out in our July report.

Next steps

As part of the further review, NESO intends to:

- Immediately commence the comprehensive review of the NTC Commercial Compensation Methodology, considering the areas identified in Ofgem's direction and the issues raised through the previous consultation.
- Share timings for the process with industry as soon as possible for sight of the key engagement opportunities being planned.
- Review and analyse relevant evidence and data, including feedback received through the previous consultation, and undertake further analysis where appropriate.
- Consider the existing methodologies and alternative approaches and assess these against the objectives and commercial principles of the CCM and applicable regulatory requirements.
- Continue to engage with stakeholders throughout the review, providing opportunities to submit further evidence, views and potential alternatives, including responding directly to confidential respondents from the previous consultation and continuing relevant bilateral engagement as the further review progresses.
- Undertake formal consultation as part of the upcoming review.
- Consider the alignment between the upcoming review of the NTC Calculation Policy, as directed by Ofgem, and the review of the CCM, as well as opportunities to improve the clarity and transparency of the CCM.

Continued review of the NTC framework

NESO will continue to review the NTC Calculation Policy and CCM beyond the completion of the directed reviews and engage openly with stakeholders where material changes may be required.

NESO will continue to monitor wider industry developments that may influence the future use of NTC and explore potential alternative approaches to capacity management where these are considered viable.

