

Official Report to the Authority on the Proposed Changes to the NTC Commercial Compensation Methodology

24 July 2026

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1. Executive summary

Net Transfer Capacity (NTC) is a value used by System Operators (SOs), including the National Energy System Operator (NESO), in order to set the maximum capacity that an Interconnector can import and/or export to that SO's grid for a given Market Time Unit (MTU). Commercial compensation is available for the NTC restrictions set by NESO, using calculations based on relevant and quantifiable data sources.

NTC restrictions are applied for system security reasons. Details of those system security reasons, and the process for the calculation of NTC restrictions, can be found in the separate "GB NTC Calculation Policy"¹ document.

NESO's current Methodology for GB Commercial Arrangements relating to Interconnector Capacity Calculation² ("the Compensation Methodology") contains a commitment to conduct a review of the Methodology by the end of 2025, unless there are prior material changes to market coupling or the submission of a capacity calculation technical procedure under the Trade and Cooperation Agreement (TCA). Ofgem also noted this in its derogation decision letter of 28 September 2023³.

NESO began its review of the Compensation Methodology, and accompanying external engagement, in 2025. This included both an informal call for input from 18 August to 19 September 2025, and an official consultation with industry from 6 March to 17 April 2026. NESO has also engaged via public forums and engaged bilaterally with interested stakeholders.

NESO is now submitting a summary of the feedback to those consultations and resulting proposed revisions to the Compensation Methodology to the Authority for approval.

The changes proposed in this review include removing duplicate content already covered in the GB NTC Calculation Policy ("the NTC Calculation Policy") updating branding, links and the explanation of the compensation process, and reordering the document to make it clearer and easier to use, including clearer routes for raising and resolving issues. Corrections have also been made to remove outdated references and improve clarity. The Compensation Methodology has also been updated to reflect current Interconnector arrangements and where calculations apply across day-ahead and intraday scenarios, with no change to the underlying NTC Calculation Policy.

¹ [GB NTC Calculation Policy](#)

² [Methodology for GB Commercial Arrangements relating to Interconnector Capacity Calculation](#)

³ [Decision to grant the Electricity System Operator an extension to derogation from Standard Licence Condition C28.4\(h\)\(i\) for Net Transfer Capacity](#)

The proposed changes were consulted upon, and the rationale for these changes are set out in the appendices to this document. Following feedback received from industry during the consultation, further changes were made to the Compensation Methodology.

Details of all the changes can be found in Appendix 1 and 2.

Several comments were made by respondents in relation to the NTC Calculation Policy, namely in relation to when, why and how NTC restrictions are applied. Whilst we welcome this feedback and note it for further consideration, it is out of scope of the Compensation Methodology which focuses on compensation for, rather than application of the NTC restriction itself.

NESO has set out its response to all comments raised in Annex 1 – NTC Compensation Methodology Consultation feedback and NESO responses, and this feedback will be considered as part of a separate review of the NTC Calculation Policy, including transparency and engagement regarding NTC use in due course.

We invite the Authority to review this report, the tracked change marked Compensation Methodology draft and the detailed industry feedback with NESO responses, with a view to approving the changes and providing feedback.

For transparency, this report plus the proposed change version of the Methodology and non-confidential consultation feedback featuring NESO's responses will be published on our NTC Webpage⁴ following a formal response from the Authority.

If you have any questions about this document, please contact:

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Yours faithfully,

Penny Garner

Head of Market Frameworks

⁴ [What is an NTC? | National Energy System Operator](#)

2. NTC Compensation Methodology review process overview

The review

The review of the Compensation Methodology aims to improve the overall usability and transparency of the document for all interested stakeholders⁵. The review also contributes to NESO complying with the Authority's direction as part of the 2023 C28 derogation⁶ to regularly and proactively engage with stakeholders to ensure processes are working effectively.

The 2023 C28 derogation relates to NTC procurement through non-market-based procedures and encompasses NESO's use of the Methodology.

Call for input

An informal 'call for input' was published on the NESO website on 18 August 2025, running until 19 September 2025. This call for input allowed stakeholders to provide early feedback on the current Compensation Methodology and settlement process.

This was promoted via industry forums and NESO's corporate communications.

We would like to thank industry for their engagement with the informal 'call for input' and for the feedback provided.

Seven responses were received, with the majority being from Interconnector parties.

The feedback received was considered and informed the proposed changes to the Methodology which were then consulted upon. The feedback and suggestions have been reviewed by internal expert subject matter leads from across NESO's Trading, Settlements, Cross Border and Legal teams.

The consultation

Using the feedback from the call for input, NESO has developed proposed changes to the Compensation Methodology and launched the consultation on 6 March 2026.

The consultation ran for 42 days until 17 April 2026.

⁵ The current 'Methodology for GB Commercial Arrangements relating to Interconnector Capacity Calculation' available on the NESO website here: <https://www.neso.energy/document/362376/download>

⁶ The Authority's granted ESO (now NESO) an extension to derogation from Standard Licence Condition C28.4(h)(i) for Net Transfer Capacity on 23 September 2023. The extension allows NESO to continue to request NTC restrictions via the current process and apply the current Methodology. Since the NESO Licence update in 2025, C28.4 (h)(i) is now covered by C1.5 (a)(i).

The consultation included tracked changes to the Compensation Methodology and invited stakeholders to agree or disagree with the proposed changes and suggest further improvements. These changes are outlined in **Appendix 1**.

Engagement was supported through multiple channels, including the Joint European Stakeholder Group (JESG), the Great Britain Interconnector Forum (GBIF), the Operational Transparency Forum (OTF), and NESO communications.

In total, five participants responded to the consultation (including two confidential responses and one joint submission from four participants). NESO has reviewed all feedback and made further updates where appropriate. These final additional changes are in the **Appendix 2**.

Following the consultation, between 18 and 21 May 2026, NESO issued clarification response letters to some stakeholders either to further understand the feedback raised or to request further evidence – such as supporting data. Some feedback received was outside the immediate scope of the Methodology review and will instead be considered as part of future wider NTC policy work. Full details of responses, along with NESO's replies, are included in **Annex 1 – NTC Compensation Methodology Consultation feedback and NESO responses** and is published on the NESO website where non-confidential upon Ofgem's review of the methodology and of the Annex itself.

Alongside the formal consultation, NESO held bilateral discussions with market participants to explore feedback in more detail and provided regular updates through stakeholder forums. Key engagement milestones included presentations at JESG and the OTF. These updates took place between September 2025 and June 2026 and covered the consultation process to raise awareness and share emerging themes once consultation responses were received.

Submission to the Authority

The final and current stage of the process is the submission of the relevant documentation to the Authority for decision.

Included is NESO's final position on the proposed changes, including a tracked change version of the Methodology. Consultation responses are also presented in a clear and transparent way, accompanied by NESO's responses to the feedback in Annex 1. Any confidential feedback will only be shared with the Authority, not shared publicly. A copy of the submission to the Authority, featuring only non-confidential feedback from this formal consultation, will be made public on the NESO website⁷.

⁷ [What is an NTC? | National Energy System Operator](#)

We invite the Authority to review the proposed changes and supporting documentation. If the Authority has reservations about these proposed changes to the Methodology the existing version will remain in place. If no issues are raised, NESO will update the Methodology documentation on the NESO website*.

Please see the following documents which will be published on the NESO website when the Authority have shared their views. These will be found within the Current Commercial Compensation Methodology Consultation folder**:

NTC Commercial Compensation Methodology_CLEAN_proposed for Authority consideration July 2026

NTC Commercial Compensation Methodology_TRACKED_proposed for Authority consideration July 2026

Annex 1 – NTC Compensation Methodology Consultation feedback and NESO responses

Post-submission note – October 2026:

*In their consideration of the Methodology consultation report, the Authority consider the consulted upon amendments to the Methodology to be positive and note that Version 3.0 should be published on the NESO website. NESO have been directed to conduct further work on the Methodology, and this is outlined in a direction letter which can be found on the Ofgem website⁸.

**The documents named above refer to the post-consultation versions of the Methodology sent to the Authority, i.e. including non-material changes added to the document post-consultation based on stakeholder feedback. The documents are now available within the '*Previous consultation*' section of the NTC webpage on the NESO website⁹.

⁸ <https://www.ofgem.gov.uk/sites/default/files/2026-09/C9.5-direction-CCM.pdf>

⁹ [What is an NTC? | National Energy System Operator](#)

3. Customer feedback

Below is a summary of the key themes of feedback received following the consultation on the Compensation Methodology, and NESO's response.

It should be noted that across both the call for input and the consultation respondents shared feedback in relation to NESO's NTC Calculation Policy, concerning when, why and how NTC restrictions are applied. Whilst we welcome this feedback, and it is noted for further consideration, it is out of scope of the Compensation Methodology which focuses on compensation for, rather than application of the NTC restriction itself.

Key points from consultation feedback and NESO's response to these are shared for transparency in **Annex 1 – NTC Compensation Methodology Consultation feedback and NESO responses**. These include requests for detailed reasoning for NTC restrictions, requests for clearer governance, requests to improve transparency and for continued engagement. These concerns will be considered as part of a review of the NTC Calculation Policy in due course.

In addition, in many instances NESO has invited industry to provide data or further evidence to support claims made – for example in relation to what reference prices are used to determine the compensation amounts. Where these have been received following clarification requests, these are being assessed and discussed with stakeholders with a view to confirming next steps before the end of 2026. NESO remains open to data submission and suggestions at any time.

The Compensation Methodology must ensure cost neutrality

Concerns were expressed that the current compensation approach does not always fairly reflect the market value of restricted capacity. Respondents want assurance that parties are kept financially whole and that cost neutrality is genuinely achieved.

They also raised concerns that the Methodology may miss broader effects such as reduced liquidity, weaker auction participation and adverse impacts on Interconnector revenues. It was commented that poor cost reflectivity could create distortions and weaken confidence in the market. Respondents suggested these longer-term consequences still matter even if they are harder to quantify precisely.

The purpose of the Compensation Methodology is to endeavour to keep parties financially whole, but NESO does recognise that any NTC restriction (and therefore reduction in capacity released) will affect participants bidding behaviour to a degree. As such, the current Methodology aims to account for this in the calculation methods with the respective reference prices. In turn, to support wider transparency the

Compensation Methodology uses publicly available market data seeking to strike a balance between appropriate compensation and ensuring value for the GB consumer by not overcompensating.

NESO will continue engagement with industry on these concerns, in particular how to assess and evidence wider market impacts. NESO has welcomed subsequent data shared by a respondent after the consultation period which shall be assessed, albeit it was received too late for the conclusion of this review process. NESO is committed to assessing the data received and formulating a view on whether this data would require further updates to the NTC Compensation Methodology. Timelines are to be confirmed dependent upon resource and other priorities, but the expectation is to assess the data Q3-Q4 2026 to support a position being proposed in 2027.

NESO are mindful of there being consequential impacts on the Compensation Methodology from reviews of the Calculation Policy. Best endeavours will be used to align workstreams where possible to avoid undue burden on the stakeholders involved.

Greater transparency on NTC decision-making and information-sharing

There is a call for greater openness from NESO about why and how NTC and Intraday Transfer Limit (ITL) restrictions are applied. Respondents feel that the current explanations are too vague and do not provide enough detail for market participants to understand the reasoning. Respondents request that NESO provide more detailed information to market participants about NTC and ITL restrictions, including clearer reporting on when and why these tools are used.

NESO recognises this feedback from industry and the importance of ensuring transparency. NESO does share reason labels for all restrictions on the Data Portal¹⁰, which is publicly available, and criteria for NTC use are outlined in the NTC Calculation Policy document and demonstrated in the Order of Actions¹¹. Acknowledging that stakeholders would like access to more data/analysis, NESO must balance this with the responsibility it has for protecting operationally, and commercially, sensitive data and avoiding undue risk from sharing specific causal data which could have negative consequences. However, NESO is open to exploring ways to better inform stakeholders where possible.

¹⁰ NTC application data by Interconnector includes date of restriction, restriction timeframe (ID/DA auction), restricted flows and a high-level reason for the restriction. This is available publicly on the [NESO Data Portal](#).

¹¹ NESO annually publishes an [Order of Actions](#) with each Winter Outlook. The document outlines the to explain the order of NESO Control Room considerations and actions to resolve system challenges.

Exploration of alternative market-based solutions

There is support for NESO to investigate and develop new market-based approaches to managing Interconnector flows, reducing the need for non-market interventions like NTC and ITL restrictions.

NESO has strived to find viable options to pursue for market-based approaches to reduce the need for non-market-based interventions. This has included the commissioning of a report¹² by FTI Consulting in January 2025 to explore an independent view of possible routes and inviting feedback on this from industry participants via the Joint European Stakeholder Group. Although this engagement with industry did not produce details of other substantive options, NESO is welcoming of suggestions to explore feasible options and collaboration with interested parties.

Industry's need for more engagement, co-ordination and consultation from NESO

Respondents want NESO to engage more actively with industry stakeholders and co-ordinate with cross-border counterparts, and there were calls for alignment on governance and consultation for the Compensation Methodology and Calculation Policy.

Respondents believe ongoing dialogue is needed to improve transparency and to develop alternative solutions that reduce reliance on non-market-based balancing options.

NESO recognises this feedback from industry and the importance of working with them to ensure appropriate solutions. Whilst out of scope of the Compensation Methodology NESO is considering how to take this forward in a wider review including looking at governance and engagement more broadly. NESO expects to share a plan for this with industry in Q1 2027.

We would also like to be clear that where prospective changes to a process or relevant document would impact parties there will be suitable engagement and/or consultation for awareness and input.

¹² [Assessment of Alternative Approaches to setting NTCs | ENA Innovation Portal](#)

4. Overview of the proposed changes to the Compensation Methodology

This section includes a summary of the key proposed changes to the Compensation Methodology. The key amendments proposed to the Methodology are detailed in **Appendix 1**. Further changes made to the Compensation Methodology following the consultation, and in response to feedback from industry, are in **Appendix 2**. For full detail of the changes please see the tracked changes document for the Compensation Methodology.

Changes proposed in this review consist of:

- Deduplication of content from the NTC Calculation Policy.
- Updates to branding, data source links and explanation of the current compensation process.
- Re-ordering of content to follow a more chronological process to support easier use of the Methodology, including: more clarity on routes to raise issues/disputes, clarity on the settlement and dispute processes themselves and the framework agreements through which the Methodology is implemented.
- Where changes were proposed to the order of content, a yellow highlighted note has been added to that section in the tracked change version of the methodology (the highlighted text is not to appear in any implemented version). This was to make tracked changes in the text easier to identify.
- Corrections where legacy references remained from previous iterations of the Methodology, such as the reference to 'scarcity adjustment' being removed (the existing process instead compensates at unrestricted prices), removal of reference to the 'mean' value in Calculation Method 4b (median value is the more representative value used by NESO) and clarity on intraday auction data sources (removal of reference to a 'volume-weighted average of two hubs').
- Updates to reflect the current Interconnector arrangements and, where applicable, clarification of calculations show where they can apply to intraday or day ahead scenarios (Note: there is no change to the current policy for NTC use across these timeframes).

As noted earlier in the document, feedback gathered during the call for input helped to shape the consultation and the draft methodology for the consultation.

5. Conclusions and continued review of NTC frameworks and policies

The review has sought to improve the usability, transparency and accessibility of the Compensation Methodology whilst maintaining the existing principles underpinning compensation arrangements. The proposed changes do not alter the underlying NTC Calculation Policy or the circumstances in which NTC restrictions may be applied, but instead aim to provide greater clarity, remove outdated content and better reflect current arrangements.

In parallel, NESO has submitted a separate request to Ofgem seeking an extension to the current derogation relating to the use of NTC restrictions. That submission sets out the continued operational need for NTC as a system security tool and explains why, at present, no effective market-based alternative is available for procuring NTC restrictions.

Subject to Ofgem decisions, NESO will continue to review the NTC Calculation Policy and the Compensation Methodology and engage openly with stakeholders should material changes be required. NESO will also continue to monitor wider industry developments that may influence the future use of NTC and will continue to explore potential alternative approaches to capacity management where these are considered viable.

Timelines are being confirmed but NESO expects to assess the additional evidence submitted following the conclusion of the consultation in Q3-Q4 2026 dependent on resource and other priorities for NTC work. This would support a position being proposed in 2027. Considering the planned reviews to the policy documentation, best endeavours will be used to align workstreams where possible to limit requests on the stakeholders involved.

Throughout the review process, stakeholders have raised broader comments relating to the application of NTC restrictions, market impacts, governance arrangements and transparency. Whilst these matters fall largely outside the scope of this Compensation Methodology review, NESO welcomes the continued engagement and evidence provided by stakeholders and will consider this feedback as part of wider policy discussions and future reviews.

NESO intends to set up a dedicated workstream to explore options to clarify engagement routes as well as further transparency on NTC processes. Timelines for such review are to be confirmed but will look to align with other reviews to reduce any burden on industry. NESO also expects to share a more formal response to the FTI report on a market-based solution following conclusion of the derogation extension request to Ofgem.

NESO remains open to receiving additional evidence, exploring opportunities to improve information sharing where appropriate, and working collaboratively with interested parties to identify practical improvements and potential future solutions.

6. Appendix 1

The following table presents an overview of all the changes proposed in the consultation. This includes a change ID, page number (in the document titled ‘NTC Commercial Compensation Methodology_TRACKED_proposed for Authority approval July 2026’) and justification. These changes were informed through the industry feedback received to the call for input.

Question number	Change ID	Page number	Change summary
1	CM.01	All	General housekeeping updates to NESO branding, version control, formatting, spelling, grammar and link updates. Text reviewed for brevity/clearer phrasing
2	CM.02	3	Introduction/Context: New section with wording added to introduce the concept of NTCs, the commercial arrangements for restrictions and the distinction between the Methodology and the Policy documents
3	CM.03	3,4	Introduction/Purpose: Wording added under ‘Purpose’ to specify ‘cross-border’ market coupling and an update to the next review period
4	CM.04	3	Introduction/Purpose: Wording added to paragraph one to highlight the role of the document.
5	CM.05	4,5	‘Overview of Net Transfer Capacity (NTC) section’ (including ‘What is an NTC’ section) removed
6	CM.06	5	‘Commercial Principles’ section: Text removed from the second paragraph relating to circumstances where payments are required from Interconnectors to NESO. (Further changes at CM.08)
7	CM.07	5	Commercial Principles Part (B): Wording added to reference that issues with cost impacts can be raised and

			evidenced via Interconnector Operating Panel meetings
8	CM.08	6	Referenced in change CM.06. Commercial Principles Part (C): Wording added to explain the circumstance where Interconnectors would make payments to NESO (i.e. congestion revenue exceeding compensation). Reference also included for how such payments are returned to the consumer via Balancing Services Use of System charges
9	CM.09	6	Commercial Principles Part (F): Wording added to reference co-ordination of capacity restriction between SOs
10	CM.10	7	Commercial Principles Part (H): Amended wording to refer to agreement documents where the Methodology is implemented
11	CM.11	7,8	'Principles of use' section removed.
12	CM.12	9	Methodology for GB Commercial Arrangements/Applicable Terminology/definition of 'UNALLOCATED' capacity: Updated to remove the phrase 'Use it or lose It'
13	CM.13	10	Methodology for GB Commercial Arrangements/Applicable Terminology/definition of 'CURTAILMENT' capacity: Update to remove the text referring to when this type of capacity is restricted.
14	CM.14	10	GB Commercial Arrangements: Opening paragraph: Re-wording to reflect the Methodology containing calculations for explicit and implicit auctions across intraday and day ahead, and removing references to 'bidding zone border'

15	CM.15	10	GB Commercial Arrangements: Wording for 'Coupling' arrangements replaced with 'Trading' arrangements
16	CM.16	10	GB Commercial Arrangements: Removal of 'over time or as new Interconnectors connect'
17	CM.17	12,13	GB Commercial Arrangements/Table 2: NSL included in the Interconnector list, Table 3 removed and content incorporated into Table 2 for UNALLOCATED capacity at day ahead
18	CM.18	12	GB Commercial Arrangements/Table 2/ ALLOCATED capacity column: (row 1) Reference to relevant Access Rules added to Calculation Method 1
19	CM.19	12	GB Commercial Arrangements/Table 2/ UNALLOCATED capacity column (row 2): '(intraday)' added
20	CM.20	13-21	Order of content: Several sections of existing text have been re-ordered in the Methodology (sections are marked with highlighted text rather than tracked changes so adjustments to content are easier to identify)
21	CM.21	13	Future Developments (ITL Transition): 'Existing' switched to 'remaining' for Interconnector arrangements
22	CM.22	13,14	Future Developments: 'Loose volume coupling' paragraph replaced with 'Market coupling' paragraph
23	CM.23	15	The Calculation Process: Wording added to second paragraph, clarifying the variance in specific data sources for use with the generic formulae in the document, and removed the term 'trilateral'

24	CM.24	16	The Calculation Process (Outages/Commercial Availability section): 'initial approach' to using Elexon data changed to 'NESO utilises Elexon's...'
25	CM.25	16	The Calculation Process (Interconnector Nominated Flow section): Change to reflect that ALLOCATED but unnominated capacity for DA would be assessed as the difference between the capacity volume sold from Long Term auctions and the nominated capacity
26	CM.26	16	The Calculation Process/Interconnector Nominated Flow: Reference to ENTSO-E's transparency platform added for ID auction data (for nominations at different timeframes)
27	CM.27	17	Sections B 'Gather Commercial data' and Section C 'Apply the Settlement Calculation Formulae': References added to calculations now appearing in Appendix 1
28	CM.28	18	Settlement: Wording adjusted for brevity in point i) and in point ii) to reflect the time needed for a new calculation to be built and tested by NESO
29	CM.29	18	Currency: Expanded wording on application of the exchange rate and information on invoices deleted (covered in the 'Invoicing process' section)
30	CM.30	19	Invoicing process: Revised and expanded wording on the process (statements, invoices, format), updated dates in the example timeline and reference to the standard payment calendar on the NESO website.
31	CM.31	20	Disputes:

			Updated wording to note when issues can be formally raised, including reference to the Balancing Services Agreement/System Operator Agreement terms on dispute resolution
APPENDIX:			
32	CM.32	21	Calculation Method 1: Previous illustrative example removed.
33	CM.33	22	Calculation Method 2: First paragraph updated to remove reference to being 'scarcity corrected'
34	CM.34	22	Calculation Method 2: First paragraph updated to be relevant to Intraday as well as day ahead auctions
35	CM.35	22	Calculation Method 2: Second paragraph adjusted to explain how Option 1 could be used (i.e. with access to relevant order books)
36	CM.36	22,23	Calculation Method 2/Option 1 & 2: References to the 'DA/day ahead' prices in the calculations changed to 'clearing' prices (CP)
38	CM.38	22	Calculation Method 2/Option 1: Legacy formula removed
37	CM.37	22	Calculation Method 2/Option 1: Notation added to the ' <i>R_{GBP_EUR}</i> ' definition to refer to the updated Currency section (CM.29)
39	CM.39	23	Calculation Method 2/Option 2: Reference added to losses being applied from the 'high price zone'
40	CM.40	24	Calculation Method 2/Data Sources Required: Changes to reflect use for intraday as well as day ahead data, including the use of relevant auction platforms and links to these (DA/ID)
41	CM.41	24	Calculation Method 3: Updated from 'Settlement' to 'Net Imbalance Settlement'
42	CM.42	27	Calculation Method 4a:

			Updated version of the auction chart included (for illustrative purposes)
43	CM.43	28	Calculation Method 4b/0 MW auctions: Last sentence removed to reflect that the median clearing price will be used, not the mean
44	CM.44	28	Calculation Method 4b/0 MW auctions: Additional explanation added to the P^{CLEAR} definition.
45	CM.45	28	Calculation Method 4b/Data Sources Required: DA Prices subsection removed

7. Appendix 2

The table below outlines where further changes have been made due to industry feedback following the consultation process.

Changes following consultation			
46	CM.46	17	Settlement: Clarification point added that there is no set cap to compensation values settled by NESO as compensation is based on the restrictions applied and calculation methods outlined in the Methodology
47	CM.47	17	Currency: Physical link added for clarity for the GBP: EUR Exchange rate.
48	CM.48	22	Calculation Method 2: Unallocated Capacity on an implicit auction. Clarification point added that losses are applied to the respective high price zone only