

Public

Consultation overview for the 'Methodology for GB Commercial Arrangements relating to Interconnector Capacity Calculation'

06 February – 17 April 2026

Public

Contents

Executive summary	3
NTC Compensation Methodology review process overview	5
The review.....	5
Call for input.....	5
The proposed changes	5
The consultation	6
Submission to the Authority	6
Proposals for changes to the Methodology	7
Overview of the proposed changes.....	7
Call for input feedback and NESO responses.....	14
How to respond.....	18

Public

Executive summary

This consultation welcomes industry and stakeholder feedback on proposed changes to the 'Methodology for GB Commercial Arrangements relating to Interconnector Capacity Calculation'¹ (which relates to compensation for Net Transfer Capacity (NTC) restrictions and is referred to in this document as 'the Methodology').

NTC restrictions are set by NESO to manage the risk of in-secureable flows on several interconnectors. NESO compensates interconnector owners for potential loss of revenue resulting from these restrictions, using the Methodology for the relevant calculations.

The purpose of this review is to update the Methodology to better reflect the existing settlement processes and current market arrangements. It also seeks to comply with the Authority's² request for such a review as part of the 2023 C28 derogation³ for NTC procurement. The Methodology will continue to be reviewed periodically, e.g., to reflect market developments within Great Britain, or between the United Kingdom and Europe⁴.

The proposed updates are intended to enhance accuracy, clarity, and transparency. An overview of proposed changes to the Methodology, with point-by-point rationales, can be found below in the 'Proposed changes' section of this consultation document, including:

- Updates to branding, data source links and explanation of the current compensation process.

¹ The current Methodology can be found on the NESO website:

<https://www.neso.energy/document/362376/download>

² References to the Authority throughout this document are to the Office of Gas and Electricity Markets (Ofgem)

³ 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 procure NTC and apply the current Methodology. Since the NESO Licence update in 2025, C28.4 (h)(i) is now covered by C1.5 (a)(i).

⁴ In December 2025, the United Kingdom (UK) Government and the European Union (EU) jointly published conclusions of exploratory discussions into working towards the UK's participation in the European Union's internal electricity market, by way of an EU-UK Electricity Agreement.

The terms of such an Agreement are subject to future negotiation, and as a result, the implications for this proposed Methodology are currently unknown. This Methodology may therefore be subject to review in light of any future EU-UK Electricity Agreement.

Public

- Deduplication of content from the 'GB NTC Calculation Policy'⁵, referred to in this document as 'the Policy'.

NESO encourages interested parties to share their views on the proposed changes outlined. Responses are required **by 5pm GMT on 17 April 2026** and details on how to respond can be found in the "How to Respond" section of this document. After the consultation closes, NESO will assess the responses and finalise the proposed changes for submission to the Authority for approval. Feedback received from the formal consultation process, and NESO's responses to that, will be submitted to the Authority along with the final proposed changes to the Methodology. Non-confidential responses shall be shared on the NESO website which will feature NESO's responses to the comments received.

The current version of the NTC Compensation Methodology is available on the NTC webpage: [What is an NTC? | National Energy System Operator](#).

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

Elana Byrne - Markets, National Energy System Operator

Email: box.EFTConsultations@neso.energy

Penny Garner

Head of Market Frameworks

⁵ The existing [GB NTC Calculation Policy](#) is unchanged by this review but comments will be noted for further consideration.

Public

NTC Compensation Methodology review process overview

The review

The review of the Methodology aims to improve the overall usability and transparency of the document for all interested stakeholders⁶. The review also complies with the Authority’s direction as part of the 2023 C28 derogation⁷ 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 in Q3 2025 for stakeholders to provide early feedback on the current 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 has been considered and has informed the proposed changes to the Methodology which are now being consulted upon. The feedback and suggestions have been reviewed by internal expert subject matter leads from across the NESO’s Trading, Settlements, Cross Border and Legal teams.

Several comments were made by respondents in relation to NESO’s policy on 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 this Methodology which focuses on *compensation for*, rather than *application of* the NTC restriction itself.

The proposed changes

The changes that NESO are proposing to the Methodology are detailed in the section below called ‘Proposals for changes to the Methodology’. An overview of the changes is

⁶ 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>

⁷ 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).

Public

provided, along with a more detailed table outlining the reasoning and rationale for the key changes (Table 1). A second table summarises additional non-confidential comments received from the informal 'call for input' and includes NESO's responses to this feedback (Table 2). The NESO responses provide further information on how the feedback has been taken on board in the Methodology, or where NESO has considered this feedback but it has not resulted in a change to the Methodology.

The consultation

We now invite all interested parties to respond to this consultation on the Methodology and share their feedback on the proposed changes via the consultation proforma.

Responses can be marked 'confidential' or 'non-confidential' as explained on the response proforma, dependent on the respondents' consent for their feedback to be shared/not shared publicly.

Submission to the Authority

At the conclusion of the consultation period, NESO will prepare the documentation to be submitted to the Authority for approval. Included in this documentation will be NESO's final position on the proposed changes, including a tracked change version of the Methodology. Consultation responses will also be presented in a clear and transparent way, accompanied by NESO's responses to the feedback. 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 website.

The Authority will review all the documents submitted to them by NESO for a decision on whether proposed changes are approved or not. If approved, NESO would implement any updated documentation in-line with directions from the Authority.

Public

Proposals for changes to the Methodology

This section includes a summary of the key proposed changes to the Methodology, and a detailed table of the changes, with rationale, to help with clarity and referencing for consultation responses.

Overview of the proposed changes

- The Methodology relates solely to compensation for NTC restrictions. The calculation and application of restrictions is outlined separately in [the Policy](#) which is not the subject of this consultation. It is proposed that content relating to the Policy, and currently duplicated in both documents, will be exclusively retained in the Policy and will therefore be removed from the Methodology. It is proposed that the Policy will be also available on the same NESO webpage as the Methodology, for ease of reference, when any new version of the Methodology is implemented.
- The Methodology requires branding updates from 'ESO' to 'NESO' along with other 'housekeeping' changes such as updated external links, grammar and formatting.
- Changes have been made to support easier use of the Methodology, including: the re-ordering of content to follow a more chronological process, 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 have been proposed to the order of content, a highlighted note has been added to that section (the highlighted text is not to appear in any implemented version). This is to make tracked changes in the text easier to identify.
- Corrections have been made 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').
- Proposed changes have been made to reflect the current interconnector arrangements and, where applicable, 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).

The key amendments proposed to the Methodology are summarised below. Please note, quoted page numbers within the draft Methodology are linked to the **tracked change** version.

Public

Table 1. References for proposed changes in the Methodology

Change ID	Page #	Change summary	Rationale
CM.01	All	General housekeeping updates to NESO branding, version control, formatting, spelling, grammar and link updates. Text reviewed for brevity/clearer phrasing	Enhance clarity, accuracy and readability throughout the Methodology
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	Added to give more clarity and understanding for those less familiar with NTC restrictions, and to point to the information available separately in the NTC Calculation Policy (not the subject of this consultation)
CM.03	3,4	Introduction/Purpose: Wording added under 'Purpose' to specify 'cross-border' market coupling and an update to the next review period	For accuracy and updated timeframes, due to an awareness of potential consequences on timeframes from Internal Energy Market (IEM) negotiations
CM.04	3	Introduction/Purpose: Wording added to paragraph one to highlight the role of the document.	For clarity and assurance of what the document is to be used for.
CM.05	5	'Overview of Net Transfer Capacity (NTC) section' (including 'What is an NTC' section removed)	Duplication of content from the Policy (section 2). It's proposed that the 'Capacity Calculation vs. Compensation Calculation' section of the Methodology contains a link to the Policy, and the Policy will be accessible from the NTC page on neso.energy for easier referencing
CM.06	5	'Commercial Principles' section: Text removed from the second paragraph relating to circumstances where	This information is moved to Part (C) in this section as a more appropriate location, with further changes to that text at CM.08

Public

		payments are required from interconnectors to NESO	
CM.07	5	Commercial Principles Part (B): Wording added to reference that issues with cost impacts can be raised and evidenced via IOP meetings	Included for clarity of where evidenced suggestions for other cost impacts can be raised (separate to the Settlements disputes process for invoice queries)
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 BSUoS	Information located in a more relevant position and to clarify the situation for such a payment and how such a payment would return to the consumer
CM.09	6	Commercial Principles Part (F): Wording added to reference co-ordination of capacity restriction between SOs	To provide additional clarity and reassurance of the process to avoid double-accounting
CM.10	7	Commercial Principles Part (H): Amended wording to refer to agreement documents where the Methodology is implemented	For clarity and transparency
CM.11	7,8	'Principles of use' section removed.	Removed to focus the Methodology on compensation. The content on operational decisions was a direct duplication from the Policy
CM.12	9	Methodology for GB Commercial Arrangements/Applicable Terminology/definition of 'UNALLOCATED' capacity: Updated to remove the phrase 'Use it or lose It'	Wording not required (the definition encompasses 'Use it or Lose It' and 'Use it or Sell It' without this text)
CM.13	9,10	Methodology for GB Commercial	This text refers to the Policy and when this type of capacity may be

Public

		Arrangements/Applicable Terminology/definition of 'CURTAILMENT' capacity: Update to remove the text referring to when this type of capacity is restricted.	restricted rather than compensation calculation
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'	To more accurately reflect the information shown in Table 1 and Table 2 in the Methodology
CM.15	10	GB Commercial Arrangements: Wording for 'Coupling' arrangements replaced with 'Trading' arrangements	To more accurately reflect the calculation methods using more appropriate terminology
CM.16	10	GB Commercial Arrangements: Removal of 'over time or as new interconnectors connect'	Remaining wording covers this so it is not necessary to state
CM.17	11, 12	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	To better reflect the current arrangements
CM.18	11	GB Commercial Arrangements/Table 2/ALLOCATED capacity column: (row 1) Reference to relevant Access Rules added to Calculation Method 1	For consistency with changes made to Calculation Method 1 (see CM.32)
CM.19	11	GB Commercial Arrangements/Table 2/UNALLOCATED capacity column (row 2): '(intraday)' added	For clarity and consistency

Public

CM.20	12-18	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)	To present the process in a chronological approach for ease of use, with the Annex containing details of the Calculation Formulae
CM.21	13	Future Developments (ITL Transition): 'Existing' switched to 'remaining' for interconnector arrangements	To better reflect the current status of ITL-NTC agreements
CM.22	13	Future Developments: 'Loose volume coupling' paragraph replaced with 'Market coupling' paragraph	To better reflect potential developments for coupling
CM.23	14	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 remove the term 'trilateral'	To support understanding and use of the process. The term 'trilateral' is not required
CM.24	15	The Calculation Process (Outages/Commercial Availability section): 'initial approach' to using Elexon data changed to 'NESO utilises Elexon's...'	To reflect the process used
CM.25	15	The Calculation Process (Interconnector Nominated Flow section): Change to reflect that ALLOCATED but un-nominated capacity for DA would be assessed as the difference between the capacity volume sold from Long Term auctions and the nominated capacity	To more accurately reflect the current process used

Public

CM.26	15	The Calculation Process/Interconnector Nominated Flow: Reference to ENTSO-E's transparency platform added for ID auction data (for nominations at different timeframes)	To more accurately reflect the current process used
CM.27	16	Sections B 'Gather Commercial data' and Section C 'Apply the Settlement Calculation Formulae': References added to calculations now appearing in Appendix 1	For the Annex to just contain the details of calculations
CM.28	17	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	For transparency as to the timeframes needed for new calculations to be created prior to settlement
CM.29	17	Currency: Expanded wording on application of the exchange rate and information on invoices deleted (covered in the 'Invoicing process' section)	For additional transparency and clarity on the current process
CM.30	17,18	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.	For additional transparency and clarity on the current process
CM.31	18	Disputes: Updated wording to note when issues can be formally raised, including reference to the BASA/SOA terms on dispute resolution	For additional transparency and clarity on the current process
APPENDIX:			

Public

CM.32	20	Calculation Method 1: Previous illustrative example removed.	Not relevant and referencing specific Access Rules is more appropriate for the user
CM.33	21	Calculation Method 2: First paragraph updated to remove reference to being 'scarcity corrected'	This was a legacy error as a scarcity factor has not been used in calculations (market conditions being too unpredictable for a reliable value)
CM.34	21	Calculation Method 2: First paragraph updated to be relevant to Intraday as well as day ahead auctions	To more accurately reflect that some implicit auctions can be Intraday
CM.35	21	Calculation Method 2: Second paragraph adjusted to explain how Option 1 could be used (i.e. with access to relevant order books)	For transparency and clarity
CM.36	21,22	Calculation Method 2/Option 1 & 2: References to the 'DA/day ahead' prices in the calculations changed to 'clearing' prices (CP)	To more accurately reflect that some implicit auctions can be Intraday
CM.38	21	Calculation Method 2/Option 1: Legacy formula removed	Irrelevant to the calculation
CM.37	21	Calculation Method 2/Option 1: Notation added to the ' <i>R_{GBP_EUR}</i> ' definition to refer to the updated Currency section (CM.29)	For transparency and clarity of the existing process
CM.39	22	Calculation Method 2/Option 2: Reference added to losses being applied from the 'high price zone'	For additional clarity of the current process
CM.40	22,23	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)	To accommodate intraday and day ahead options and better reflect the current process in practice (previous reference to an average of two hubs stood in principle but not in practice so is removed)

Public

CM.41	23	Calculation Method 3: Updated from 'Settlement' to 'Net Imbalance Settlement'	For a more accurate description of the existing calculation
CM.42	26	Calculation Method 4a: Updated version of the auction chart included (for illustrative purposes)	To provide a more up-to-date example
CM.43	26	Calculation Method 4b/OMW auctions: Last sentence removed to reflect that the median clearing price will be used, not the mean	To reflect the process used by the NESO Settlements team. The median is a more representative value as the value is less affected by extreme prices
CM.44	26	Calculation Method 4b/OMW auctions: Additional explanation added to the PCLEAR definition.	For additional clarity of the existing process
CM.45	27	Calculation Method 4b/Data Sources Required: DA prices subsection removed	Not required. Relevant information features within the Methodology

Call for input feedback and NESO responses

The informal 'call for input' produced several comments which are out of scope for this review of the Methodology, e.g., they relate to policy for the calculation/application of NTCs rather than the compensation post-application. While the Policy is not the focus of this consultation, these comments have been noted for consideration.

Several comments from the 'call for input' responses have resulted in changes noted in the table above. Several comments also related to compensation but at this stage, following review and assessment, are proposing not to make these changes. Please see below a summary of the feedback received from the 'call for input', and NESO's response.

Public

Table 2. Key points of non-confidential feedback and NESO's response/explanation

Comment ID	'Call for input' comment or question	NESO response
CM.46	In case of [implicit] unallocated capacity restriction, the loss adjusted market spread should be applied ideally for a more transparent outcome than re-running without restriction	The loss adjusted market spread is a named option, but re-running without restriction is the preferred option for calculations where practicable. This is as this calculation would more accurately account for the differences in clearing prices associated with different levels of capacity being made available. In the case of explicit arrangements, the intraday market spread would not be a reliable data source for intraday auctions as the price varies too much
CM.47	NESO are rewarded for NTCs being applied	This is not the case. NTCs are a tool for securing the GB system at a critical stage and are set to minimise financial impact for interconnectors wherever possible. At the point when NTCs are set the final cost is not known and is not factored into the decision-making process. In cases where congestion revenue outweighs compensation, and payment is required from interconnectors to NESO, the Methodology notes that those funds are fed back to the consumer via the Balancing Services Use of System (BSUoS) process
CM.48	The effect of scarcity is seen to be overstated for value creation	<p>Calculations use unrestricted clearing prices to establish the value of compensation due, in comparison to the restricted clearing price. This has been addressed in the Methodology with:</p> <ul style="list-style-type: none"> • Scarcity adjustment removed as a consideration for unallocated restrictions in implicit auctions • An expanded explanation added under Calculation Method 4 for unallocated restriction in explicit auctions <p>A known shortcoming of the approach is that it cannot account for human factors but the effect of this on bidding price has</p>

Public

		not been established and so cannot reasonably be accounted for
CM.49	Commercial principles not accounting for impact on NTC on interconnector revenue beyond congestion (e.g. for reduced revenue from provision of frequency response services or exposure to penalties for non-delivery in capacity markets)	Participants should note the risk of System Operator (SO) action as inherent when electing to participate in capacity auctions. An inherent risk of trading in the capacity auctions will be the need for SOs to apply capacity restrictions for the purpose of system security (at either end of the interconnector). Consequences of NTC restriction on capacity auction participation cannot be feasibly accounted for in the Methodology
CM.50	Could the Methodology include a link to the Interconnector Operating Protocol rules?	The Operating Protocols are individual to respective interconnectors so this is not a practical option. If relating to Access Rules being included, any changes to Access Rules or their online locations, require updates to the Methodology each time
CM.51	The Methodology doesn't cover changes to market behaviour as a result of NTC or quantify the impact to long-term revenue from NTC restrictions	The impact of NTC restrictions on market behaviour cannot feasibly and accurately be calculated with the available data. NTCs are a late-stage capacity management tool, used after other options have been assessed (see the published Order of Actions). NESO is open to working with interconnectors should reliable data be available to improve the compensation process. The document notes that such conversations can be managed through the Interconnector Operating Protocol Panel (IOP) meetings and/or relevant account managers
CM.52	The commercial principles do not account for the impact of NTC in interconnector revenue beyond congestion, such as reduced revenue from frequency response services or penalties for non-delivery in the capacity market	Participation in capacity auctions, frequency services etc. carry an inherent risk of system operators needing to apply restrictions to secure the system. It has also not been demonstrated if and/or how NTC restrictions have impacted on these services

Public

<p>CM.53</p>	<p>The Methodology doesn't adequately differentiate between time periods</p>	<p>NESO believes there is sufficient differentiation. The value of day ahead capacity is recognised by the policy for not setting day ahead NTCs if there are intraday options, and by compensating for day ahead restrictions at market spread. Alternatively for explicit intraday capacity the restrictions are paid according to the auction prices directly rather than a 'market spread'</p>
<p>CM.54</p>	<p>Reference made by an interconnector owner to under-compensation for NTC restrictions</p>	<p>NESO welcomes the receipt of specific data to support any proposed amendments to the compensation methodology. NESO are confident in the methodology used and will continue to engage with the interconnector owner and review the impact of any proposed amendment</p>
<p>CM.55</p>	<p>A view that the use of an unrestricted marginal price for ID Unallocated Capacity is not always cost neutral and users' bidding behaviour cannot be assumed to be the same if a different volume of capacity is available to purchase (so the Methodology can't be relied upon for a fair price). A suggestion made to use the actual auction clearing price for accuracy, transparency and comparison of costs vs alternative actions</p>	<p>NESO acknowledge the point made about bidding behaviour changing in response to available capacity and recognise that this cannot be accounted for in the current (or indeed any) formula. The data presented and discussed in the past showed correlation between volume of capacity bid for, against volume of capacity available. However, no data was presented on the impact of bid price from bidding behaviour. Therefore, the current proposal is deemed the closest we can realistically calculate. Alternatively, the proposal to pay out at the clearing price would always overstate the true value of the capacity as the interconnector would in effect be 'paid twice' which would not be in the best interests of the GB consumer</p>
<p>CM.56</p>	<p>Compensation does not cover losses sufficiently if DA trading on explicitly allocated capacity forces users to trade out at prevailing market prices versus originally secured prices</p>	<p>Table 1 in this document references interconnector's specific Access Rules which details the firmness of capacity holders' rights and remuneration. The Methodology is to cover potential loss of revenue resulting from restrictions limiting the capacity that can be sold, rather than</p>

Public

for managing trading behaviour or
compensating traders

How to respond

The following suite of documents can be located on the NESO website:

- 'NTC Commercial Compensation Methodology Consultation Overview 2026 - Open until 17 April 2026' (this file)
- 'NESO Commercial Compensation Methodology Draft for Consultation - Open until 17 April 2026' – clean and tracked change versions
- The 'NTC Compensation Methodology Consultation Response Proforma 2026'

We invite all interested parties to provide feedback on the changes proposed via the 'NTC Compensation Methodology Consultation Response Proforma 2026'.

Responses should be submitted via the 'NTC Compensation Methodology Consultation Response Proforma' (available [here](#) on the NESO website) and emailed to box.EFTConsultations@neso.energy.

Responses should be returned no later than **5pm GMT on 17 April 2026**. If you do not wish any elements of your response to be made publicly available, please clearly mark these as confidential, as explained on the proforma.

For any questions, please contact box.EFTConsultations@neso.energy