



The Pace of Change in Great Britain

AN UPDATE FROM IPA ENERGY CONSULTING

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This newsletter provides a brief update of the key wholesale electricity market design changes currently being progressed within Great Britain, focusing on February 2006.

The newsletter aims to assist electricity market participants who already have a good broad understanding of the GB electricity trading arrangements, and the key documents that underpin them, to keep track of the major consultations that affect the development of the wholesale electricity market. A number of other consultations/decisions that may be relevant are also noted.

This issue covers: Ofgem consultations; publications/announcements by a number of government and other bodies; the EU Emissions Trading Scheme; consultations and reports by National Grid (NGET), and new BSC and CUSC Modifications, decisions, and related matters. This edition also identifies press releases from the EU that may be relevant to the British electricity wholesale sector.

If readers need further information on any of the issues raised in this briefing note, or would like advice on how these changes and other market developments might affect their company, please contact IPA Energy Consulting on 0131 240 0840.

HEADLINES

- Zest4 Electricity Limited and Greenwich Energy Trading Limited, both encountered financial difficulties in February. Zest4 Electricity Limited had its licence revoked with effect from 00:00 4 February and its customers transferred to British Gas Trading, for six months, under a Supplier of Last Resort Direction. On 13 February, the BSC panel announced that Greenwich Energy Trading Limited was in default under the BSC as an administrator had been appointed on 7 February.
- Willy Rickett will take over as DG Energy at the DTI from 6 March. He replaces Joan MacNaughton who will stay on until summer to lead work on international energy issues.
- The EU has announced that it has REJECTED the UK Government's request for the volume of emissions to be issued to UK installations, under Phase 1 of the EU ETS, to be increased to the level included in its revised final NAP. The EU indicates that it has refused this application because the revised NAP was notified after 30 September, the deadline by which Member States were required to take the final allocation decision.
- The EC has published its preliminary report into its inquiry into the European energy sector – comments are requested by 1 May. The report confirms the initial findings (published in November last year) of serious malfunctions and indicates that the EU intends to take serious actions to tackle them, including pursuing investigations under EC Treaty anti-trust rules.
- Ofgem has published its final proposals for NGET's SO incentives for 2006/07. Under its external cost incentive scheme, NGET is offered a choice between two options – both have very asymmetric sharing factors. Option 1 would allow NGET to earn 60% of any savings against the target (subject to a cap of £40m) and only exposes it to 10% of any loss (limited to -£10m); the second has a looser target but the sharing factors are reversed and the maximum profit is limited to £10m and the maximum loss to -£40m. The targets under the two options are £390m under option 1, and £410m under option 2. This compares with £378m for this financial year.

Issue: Use of "Smart" Meters

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/13745_2006.pdf

Title: Domestic Metering Innovation

Issued: 1 February
Response due: 15 March 2006.

Link:

Ofgem has launched a review of the role, costs & benefits, barriers to uptake, and options for promoting smart metering for domestic consumers. The consultation process is to include a series of seminars, the first of which will take place on **2 March**, and will be



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followed by a further paper in May which will set out an action plan and timetable.

The policy options being considered are:

- address barriers to innovation under the existing framework;
- enable customers to buy smart meters directly;
- impose an obligation on suppliers to install smart meters;
- re-bundle metering services into monopoly network operations;
- await further international evidence of the benefits and customer response to smart meters; and
- instigate a large-scale trial to increase understanding of benefits.

Issue: Consultation on proposed capital expenditure by transmission network companies in the period covered by the next price control 2007 - 2012

Title: Transmission Price Control Review (TPCR): Capital expenditure projections 2007 - 2012

Issued: 1 February
Response due: 1 March

Link:
http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/13744_2106.pdf

Ofgem has published an open letter that summarises the capital expenditure projections that have been provided by the transmission companies and the key points that the projections raise. The total proposed investments range between £7.1 billion to £9.2 billion. Ofgem is seeking views on the issues raised within the letter by 1 March.

Issue: Licence revocation and transfer of customers to British Gas Trading Limited following financial difficulties of Zest4 Electricity Limited

Title: Last Resort Supply Direction: Licence Revocation & Reasons for Licence Revocation

Issued: 3 February
Response due: licence revocation effective from 00:00 4 February
Supplier of last resort direction valid 00:00 4 February to 00:00 4 August 2006

Links:
(notice of licence revocation)
http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/13803_Z4licencerevocation.pdf
(notice of reasons for revocation)
http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/13804_Z4reasonsforrevocation.pdf
(supplier of last resort direction)
http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/13805_SOLRdirection.pdf

Ofgem has revoked the licence of Zest4 Electricity Limited and directed the transfer of its customers to British Gas Trading for six months following the announcement that Zest4 had been unable to meet its debts and was subject to an administration order under the Insolvency Act.

Issue: Ofgem reports on the state of competition in domestic retail markets

Title: Domestic Retail Market Reports June 2005 and September 2005

Issued: 6 & 7 February
Response due: n/a

Link (September update):
http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/13816_2306.pdf
Link (June report):
http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/13824_2406.pdf

Ofgem has published updates on indicators it uses to monitor the state of competition in the domestic retail markets. The broad conclusion is that, in general, the indicators show "continued evidence of effective competition between domestic energy suppliers" and that Ofgem believes that a competitive retail energy market continues to bring benefits to domestic consumers.

Issue: Monitoring of the Energy Efficiency



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Commitment

Title: EEC Update (15)

Issued: 7 February
Response due: n/a

Link:

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/13826_eecfeb06.pdf?wtfrom=/ofgem/work/index.jsp§ion=/areasofwork/energyefficiency

Ofgem has published an update on suppliers performance under the current EEC (which runs from 2005 – 2008). To date, suppliers have introduced measures which save 61TWh of energy savings (some of which is carry over from the previous EEC commitment where suppliers outperformed their targets).

Issue: Ofgem and Ofwat have produced a joint discussion paper on issues associated with the capital structure and concern about high gearing of network companies.

Title: Financing Networks: A Discussion Paper

Issued: 8 February
Response due: 5 May

Link:

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/13842_FinancingNetworks080206.pdf

Ofgem and Ofwat have published a joint discussion paper on financial issues surrounding concerns about high gearing in network companies and “financeability”. The “key issues for discussion” identified in the document are reproduced below.

Key issue for discussion (1). Should financial ring fencing arrangements be extended to cover all monopoly businesses and modified so that they all include cash lock-up provisions? How might the introduction of cash lock-up provisions affect existing financial structures including holding company debt? Are the current ring fencing provisions sufficient to allow the activities of the licensed

undertaker to be fully separated from other group entities? If not, what additional ring fencing provisions might be appropriate and what might be the costs and benefits of these?

Key issue for discussion (2). Would the separation of past and future capital investment improve the incentives for investment, lower the overall risk of regulated businesses and reduce the cost of finance? Are there any practical implications if such an approach was adopted?

Key issue for discussion (3). Is there any evidence of a lack of regulatory commitment to regulatory asset values or equity funding and if so how might this be best rectified?

Key issue for consideration (4). Should regulators assume that a proportion of debt is index-linked when setting price controls? Is access to the index-linked debt markets (or related instruments) available to all companies regardless of their specific financial/corporate structure? Are there longer term implications for the companies’ financial stability of adopting a significant proportion of index-linked debt? What is the demand for corporate index-linked debt and are there constraints on investors portfolios? Would it be more expensive?

Key Issue for discussion (5). Are there any changes that would be required to the regulatory regime in order to facilitate equity injections? What would be the implications for the highly geared companies?

Key Issue for discussion (6). Would it be reasonable for regulators to be more flexible in their approach to modelling dividends as a method for stabilising gearing and easing any financing constraints? Would such an approach require changes to the regulatory regime in order to increase certainty and if so what sort of changes would be most appropriate?

Key Issue for discussion (7). Should regulators adopt pragmatic definitions of ratios used by the credit rating agencies? Is the specific level of any particular ratios critical to credit worthiness? Is it the overall level and trend of ratios that is important? Would there be



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significant difficulties for companies if the majority of ratings were BBB?

Key Issue for discussion (8). If there are remaining issues of financeability what are the advantages and disadvantages of (a) revenue uplift (and should this be PV neutral) (b) accelerated depreciation (c) profiling returns on a nominal basis?

Issue: Formal notification of changes to the system security standard and quality of service provisions in the three transmission licences and consultation on the revised format of reports to be produced under the revised conditions.

Title: Section 11A and Section 49a(1)(b) of the Electricity Act 1989 modification of standard condition C17 in the transmission licences treated as granted by the gas and electricity markets authority under Section 6(1)(b) of the Electricity Act 1989; and notice of the reasons for the decision to modify the licences

Title: Section 11A and Section 49a(1)(b) of the Electricity Act 1989 modification of standard condition D3 in the transmission licences treated as granted by the gas and electricity markets authority under Section 6(1)(b) of the Electricity Act 1989; and notice of the reasons for the decision to modify the licences

Title of consultation: Consultation on the proposed statement to satisfy amended standard condition C17 of the transmission licence

Issued: 13 & 14 February
Response to open letter due: 7 March

Link to licence change C17:
http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/13869_2506.pdf

Link to licence change D3:

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/13870_2606.pdf

Link to open letter:

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/13898_2906.pdf

Ofgem has given formal notification of modifications it has made to C17 and D3 (Transmission system security standard and quality of service) of the transmission licences of National Grid Electricity Transmission plc; SP Transmission Ltd; and Scottish Hydro Electric Transmission Ltd. The changes were consulted on in December 2005/January 2006. The changes came into effect on 13 February 2006.

Subsequently, on 14 February, Ofgem issued an open letter inviting comments on the proposed format of the reports to be produced under the revised licence condition C17.

Issue: Formal notification of changes to the provisions of Special Condition C1 (Calculation of charge restriction adjustments arising from the distribution losses incentive scheme) in the licences of Scottish Power's two distribution licences.

Title: Section 11A and Section 49a(1)(b) of the Electricity Act 1989 modification of standard condition D3 in the distribution licence treated as granted by the gas and electricity markets authority to SP Manweb PLC under Section 6(1)(c) of the Electricity Act 1989; and notice of the reasons for the decision to modify the licences

Title: Section 11A and Section 49a(1)(b) of the Electricity Act 1989 modification of standard condition D3 in the distribution licence treated as granted by the gas and electricity markets authority to SP Distribution PLC under Section 6(1)(c) of the Electricity Act 1989; and notice of the reasons for the decision to modify the licences

Issued: 14 February
Response due: n/a



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Link SP Manweb notice:

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/13897_2806.pdf

Link to SP Distribution notice:

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/13896_2706.pdf

Ofgem has issued statutory notices of changes to Special Condition C1 (Calculation of charge restriction adjustments arising from the distribution losses incentive scheme) of the distribution licences of SP Manweb and SP Distribution. The changes came into effect on 13 February.

Issue: The EC's preliminary report into European energy markets, which outlines the impact of, and sets out possible solutions to clear away the barriers to, the establishment of a competitive energy market in Europe.

Title: Ofgem welcomes European Commission determination to create a competitive energy market

Issued: 16 February

Response due: n/a

Link to Ofgem press release:

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/13937_Ofgem11.pdf?wtfrom=/ofgem/press/pressrelease-list.jsp

Ofgem's press release summarises some possible solutions to a number of key barriers to competition identified in the EC's report as:

- *“breaking up large vertically integrated energy companies in all member states is seen as vital for competition in Europe to develop. For example, storage facilities and pipe and wire networks need to be unbundled from supply companies. This has already happened in Britain.*
- *access to capacity on the gas and electricity networks needs to be made easier and the process more transparent. This would help companies seeking to export gas to Britain; and*

- *the amount of information on the market needs to be increased to allow more robust competition. The Commission is proposing strengthening transparency obligations through regulation or competition law”.*

Further detail, and links to the report are given in the Section on the EU, below.

Issue: Restructuring of the standard licence conditions in the Distribution Licence.

Title: Modification of the Standard Conditions of Electricity Distribution Licences under Section 11 (A) of the Electricity Act 1989

Notice of reasons for the decision to modify the standard conditions of Electricity Distribution Licences under Condition 49A of the Electricity Act 1989

Issued: 22 February

Response due: effective from 22 February

Link:

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/13987_3206.pdf

Ofgem has published a statutory notice of changes it has made to the standard licence conditions in the distribution network operator licence and giving its reasons. The changes delete Conditions 34 (Compulsory Acquisition of land etc) and 35 (Other powers) from section C and insert similar provisions into Section B. The changes are being made because not all sections of the standard licence apply to all types of DNO.

Issue: Ofgem's annual report on the Renewables Obligation for the previous year (2004/05)

Title: renewables Obligation: Third Annual Report

Issued: 27 February

Response due: n/a

Link:



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http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/14024_3506.pdf

& appendices:

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/14023_3506b.pdf

Ofgem has published its third annual report on the Renewables Obligation. The report covers the period 1 April 2004 to 31 March 2005.

Issue: The establishment of an Ofgem chaired development group to work up models for access reform as part of the transmission price control review

Title: Transmission Price Control: Access Reform Options Development Group ("ARODG")

Issued: 27 February

Response due: not given but first meeting planned for 6 March

Link:

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/14029_3606.pdf

As part of the transmission price control review, Ofgem is establishing a new development group (the ARODG) to look at longer term access models that include "user commitment" models (where users commit to buying access in advance). The terms of reference include a requirement to draw up a range of "straw-men" identifying potential changes to the access arrangements. The first meeting is planned for **6 March**.

Issue: Replacement of Engineering Recommendation P2/5 with ER P2/6 (P2/6 allows the current forms of distributed generation to be taken into account when assessing supply security)

Title: Open letter consultation in relation to the modification of Standard Licence Condition 5 of the Distribution Licence

Issued: 28 February

Response due: 21 March

Link:

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/14035_3706.pdf

Ofgem has issued an open letter seeking views on a request from ex PES DNOs to replace references to Engineering Recommendation P2/5 in their Distribution Code with Engineering Recommendation P2/6.

Issue: Publication of Ofgem's Final proposals for the structure, form, and targets for NGET's System Operator Incentive Scheme for 2006/07

Title: National Grid Electricity Transmission's System Operator incentive schemes 2006/07 Final proposals and statutory licence consultation

Issued on: 28 February

Response due: 28 March

Link:

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/14038_NGET_SO_incentive_schemes_2006_07_FIN_AL.pdf

Ofgem has published its final proposals on the structure, form, and targets for NGET's SO Incentive Scheme for 2006/07 and the associated statutory consultation on the licence changes needed to give effect to these proposals.

Ofgem has proposed two options, which NGET can choose between, for the external SO Incentive Scheme which covers all the costs NGET incurs in balancing the system (other than its own internal costs which are covered by the internal SO incentive scheme) and the net cost of transmission losses.

The key elements of the scheme are summarised below (together with the equivalent values under this year's scheme, for comparison).



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	Target £m	Upside		Downside	
		share	cap £m	share	floor £m
2006/07					
Option 1	390	60%	40	10%	-10
Option 2	410	10%	10	60%	-40
2005/06	378	40%	40	20%	-20

This arrangement means that if NGET selects option 2 it would be able to retain 10% of any savings below the target cost of £410m subject to a cap on profits of £10m and it would be exposed to 60% of any costs in excess of the £410m target subject to a maximum loss of £40m.

The target volume of transmission losses is 5.2TWh (NGET benefits if losses are less than this and pays if losses are higher). Unlike in previous schemes the "value" of losses will be determined from a dynamic market price rather than a predetermined fixed price; the value of the incentive is set by the difference between the actual volume of losses and the target volume multiplied by the reference price. The sharing factors (what proportion of any savings or costs accrue to NGET) will be set to match the external scheme.

The internal scheme has a target of £107.9m and, again, sharing factors will match those selected for the external incentive.

Issue: Statutory consultation on the licence changes needed to extend NGET's current price control by one year

Title: Notice under Section 11(2) of the Electricity Act 1989

Issued: 28 February
Response due: 28 March

Link:
http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/14040_DOC027.pdf

Ofgem has issued a statutory consultation on proposed changes to NGET's transmission licence to implement its proposal to extend the current price control for one year to 31 March 2007. The notice incorporates the proposed licence amendments.

MISCELLANEOUS

NFPA

Scottish Renewables Obligation - SRO Auctions

Press release issued: 10 February

The results of the first on-line auction of electricity from renewable generating stations with SRO contracts were announced on 10 February 2006. The average price, for electricity generated in the first six months of this financial year, was 8.27p/kWh.

NFPA Green Power Auction results

Press release issued: 20 February

The results of the NFPA on-line auction of green electricity from NFFO contracts were announced on 20 February 2006. 791 MW of green electricity were auctioned, with an average price of 8.55p/kWh for electricity to be generated between 1 April 2006 and 30 September 2006.

The average price for green energy auctioned last February, for summer 2005, was 6.68p/kWh.

Energy Networks Association

Issue: Development of charging methodologies for distribution use of system charges

Title: Structure of distribution charges

Initial joint DNO consultation on the longer term framework

Issued: February
Response due: 31 March

Link: http://www.energynetworks.org/reg_cog.asp

The ENA has issued a consultation document on behalf of a number of DNOs (CE Electric UK, SP Transmission and Distribution, Central Networks, EDF Energy PLC, SSE Power Distribution, United Utilities PLC, Western Power Distribution) on the longer term framework for the structure of distribution charges.



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The DNOs are proposing a three stage model to developing use of system charges:

- Stage 1 – Establish and attribute costs
- Stage 2 – Charging structure
- Stage 3 – Revenue balancing (i.e. ensure to charges recovered will equal allowed revenue)

The consultation also sets out the framework a fairly heavy workload of future consultations and workshops as follows:

25 January	Initial stakeholder workshop
February	first consultation
26 April	second workshop
May	second consultation
July	third workshop
August	third consultation
October	fourth workshop
November	fourth consultation
Early 2007	Individual DNOs start formal modification process

The consultation includes a summary of responses to a stakeholder survey conducted in December/January and invites further comments and then sets out some quite general statements on DNOs' initial views.

GOVERNMENT AND OTHER BODIES

DTI

Issue: Revised licence modifications to implement the new “cost recovery mechanism” for networks providers that go into administration.

Title: A Cost Recovery Mechanism for Protected Energy Companies in Energy Administration – Supplementary Consultation

Issued: 3 February
Response due: 3 March

Link:
http://www.dti.gov.uk/energy/consultations/supplementary_cost_recovery.pdf

The DTI has issued a follow up consultation, to its

August 2005 consultation, on a support mechanism for “protected energy companies” that go into administration (this covers companies carrying out monopoly functions involving the transmission or distribution of electricity, or the transportation of gas using the various national and regional energy networks). As recommended by a number of respondents to the August consultation, DTI has decided to adopt a simpler approach under which National Grid would be responsible for raising the required sums to cover a shortfall by increasing the charges it levies on gas and electricity companies.

The consultation seeks views on supplementary modifications to electricity suppliers' licence, gas shippers' licence, and National Grid's gas transportation and electricity transmission licences, that would enable National Grid (in response to directions from the Secretary of State) to raise funds to cover an energy administration shortfall by raising the level of charges to gas shippers, or the charge it can impose on electricity suppliers to protect against high distribution costs in the North of Scotland.

Issue: concern that the energy review is focused on mechanism to support nuclear power

Title: Wicks waves away doubts over government support for renewables

Issued: 8 February
Responses due: n/a

Link to press release:
<http://www.gnn.gov.uk/Content/Detail.asp?ReleaseID=186974&NewsAreaID=2>

In his keynote address to the BWEA's wave and tidal conference in Gateshead Malcolm Wicks reaffirmed his belief that these technologies can play a significant role in the UK's future energy mix. The press release quotes some of his comments including “I may be nuclear neutral but I am not renewables neutral”.

Issue: The appointment of a Willy Rickett as the new Director General of Energy at the DTI

Title: New Director General for Energy at DTI



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Issued: 20 February
Responses due: n/a

Link to press release:
[http://www.wired-gov.net/EDP8203R7W/WGArticle.aspx?WCI=htmArticleView&WCU=ARTCL_PKEY%3d37304%2cALERT_TTYPE%3d15](http://www.wired-gov.net/EDP8203R7W/WGArticle.aspx?WCI=htmArticleView&WCU=ARTCL_PKEY%3d37304%2cALERT_TYPE%3d15)

The DTI has announced that Willy Rickett will take over from Joan MacNaughton as DG Energy at the DTI from 6 March. The press release indicates that Ms MacNaughton will stay on until summer to lead work on international energy issues.

Issue: The establishment of a DTI Project to review and simplify energy regulations

Title: Energy Better Regulation Project

Issued: 21 February
Responses due: no response date specified

Link:
http://www.dti.gov.uk/energy/energy_better_regulation.pdf

DTI has issued a one page consultation announcing that "a small team within Energy Group has begun a better regulation project focusing on energy regulations". The project is to run through 2006 and will be working in parallel with the Energy Review; it aims to review all energy regulations that the DTI is responsible for.

TRADE AND INDUSTRY SELECT COMMITTEE

Issue: The TIC has announced an inquiry into key aspects of energy policy arising from the terms of the Government's Energy Review

Title: The Government's Energy Review

Issued: 1 February 2006
Response due: 17 March for written evidence

Link:
http://www.parliament.uk/parliamentary_committees/tra

[de_and_industry/tisc_pn23_0506.cfm](http://www.dti.gov.uk/de_and_industry/tisc_pn23_0506.cfm)

The TIC has announced the first of several inquiries into key aspects of energy policy raised by the Government's review. The press release states that the questions that it will concentrate on initially are:

- "the "particular considerations that should apply to nuclear" new build (Question 3 of the review);
- "the implications of increasing dependence on gas imports" (Question 2 of the review); and
- the capacity of microgeneration to meet a substantial proportion of UK electricity demand in the medium and long-term".

The TIC requests written submissions by 17 March with a view to producing a report in summer. However, it also asks for copies of any formal submissions made to the review.

The EU ETS

Issue: The requirements of annual verification of emissions

Title: Frequently asked questions on annual verification No. 1

Issued: 6 February
Response: n/a

Link:
<http://www.defra.gov.uk/environment/climatechange/trading/eu/permits/pdf/faq-annualverify.pdf>

DEFRA has published a document summarising the responses to a number of "frequently asked questions" concerning annual verification of emissions under the requirements of the EUETS.

Issue: Assistance for Operators complying with the requirements of the EU ETS

Title: An Operator's guide to the EU emissions trading scheme - The steps to compliance

Issued: 8 February
Response: n/a

Link:



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<http://www.defra.gov.uk/environment/climatechange/trading/eu/intro/index.htm>

DEFRA has published a guide on the steps for compliance, by Operators, with the EU ETS.

DTI / DEFRA Information Note & Consultation

Title: Government's projections for energy and carbon emissions

Title: EU ETS Phase II CO₂ emissions projections

Issued: 16 February

Responses to consultation requested by: 13 March

Link to press release:

[http://www.wired-gov.net/EDP8203R7W/WGArticle.aspx?WCI=htmArticleView&WCU=ARTCL_PKEY%3d37259%2cALERT_TTYPE%3d15](http://www.wired-gov.net/EDP8203R7W/WGArticle.aspx?WCI=htmArticleView&WCU=ARTCL_PKEY%3d37259%2cALERT_TYPE%3d15)

Link to updated projections:

http://www.dti.gov.uk/energy/sepn/uep_feb2006.pdf

Link to the consultation (and other supporting information):

<http://www.dti.gov.uk/energy/consultations/index.shtml>

DTI/DEFRA have published revised energy and carbon projections for the UK to 2020. The revised figures indicate that in 2010, under existing policies but excluding the impact of the EUETS, UK emissions of CO₂ will be about 10.6% below 1990 level – i.e. ~ 9.4 percentage points away from the domestic goal of a reduction of 20%. The press release states that the projections will be used to form the baseline for the new Climate Change Programme and will feed into the Energy Review.

A Stakeholder event will take place at 2:00pm on 6 March.

The projections are accompanied by a consultation document which seeks views on the energy and carbon dioxide emissions projections and detailed CO₂ emissions projections for industrial sectors covered by the EU Emissions Trading Scheme (EU ETS). A separate consultation, which will include policy issues, will take place in the spring on the UK's Phase II National Allocation Plan.

Issue: The Commission's decision on whether the UK can increase the total number of allowances it can issue, by approximately 20 million, in line with the numbers it included in its final National Allocation Plan submitted to the EC for approval in November 2004

Title: Commission rejects changes to UK NAP for CO₂ allowances

Issued: 22 February

Link (about half way down):

<http://europa.eu.int/rapid/middayExpressAction.do?date=23/02/2006&direction=0&guiLanguage=en>

The EU has announced that it has **rejected** the UK Government's request to increase the number of allowances within the UK's National Allocation Plan for Phase 1 of the EU ETS to the number included in its final National Allocation Plan which was submitted to the EC in November 2004. The EU states that it has rejected this request because it is required to consider amendments that are notified prior to the deadline by which Member States must take the final allocation decision (30 September) and the UK's request was made after this deadline had passed.

The European Union

Issue: Publication and consultation on the EU's preliminary report on its Inquiry into the Energy Sector that was launched in June 2005.

Title: Competition: energy sector inquiry confirms serious problems and sets out way forward

Issued: 16 February

Response: 1 May 2006

Link to press release:

<http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/06/174&format=HTML&aged=0&language=EN&guiLanguage=en>

Link to frequently asked questions:

<http://europa.eu.int/rapid/pressReleasesAction.do?refer>



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Link to report:

http://europa.eu.int/comm/competition/antitrust/others/sector_inquiries/energy/

Link to Executive summary of the Report:

http://europa.eu.int/comm/competition/antitrust/others/sector_inquiries/energy/execsum.pdf

The EU has published its preliminary report on its inquiry into the European energy sector. The report indicates that the EU has found a number of serious malfunctions and intends to take serious actions to tackle them, including pursuing investigations under EC Treaty anti-trust rules into specific cases of closing off gas and electricity markets by means of long-term downstream contracts and of restricting access to gas and electricity transport infrastructure and storage capacity.

The report confirmed the five main areas of electricity and gas market malfunctioning that were highlighted in the initial findings (published in November last year). The press release summary of these findings is reproduced below:

- “Wholesale markets generally maintain the **high level of concentration** of the pre-liberalisation period, creating scope for incumbent operators to raise prices.
- **Consumers are denied choice** due to the difficulties for new suppliers to enter the markets. Insufficient separation of infrastructure and supply functions prevents new entrants from reaching the final consumer.
- There is **no significant cross-border competition**. New entrants in gas are unable to secure transit capacity on key routes and integration in electricity is hampered by insufficient inter-connector capacity and long-term capacity reservations.
- New entrants cannot get the information they need to compete effectively. This **lack of transparency** benefits incumbents and undermines new entrants.
- **Prices are often not determined on the basis of effective competition** and many electricity users distrust the way prices are set and this requires careful attention.”

The European Union - Electricity industry related press releases (titles & links)

Title: The Kyoto Protocol

Memo 15 February

Link:

<http://europa.eu.int/rapid/pressReleasesAction.do?reference=MEMO/06/74&format=HTML&aged=0&language=EN&guiLanguage=en>

Title: Why are Competitive Electricity and Gas Markets Good for Environment?

Speech: Stavros Dimas (Member of the European Commission, Responsible for Environment) 16 February

Link:

<http://europa.eu.int/rapid/pressReleasesAction.do?reference=SPEECH/06/97&format=HTML&aged=0&language=EN&guiLanguage=en>

The situation of Internal Markets in Gas and Electricity - Speech: Andris Piebalgs (Energy Commissioner) 16 February

Link:

<http://europa.eu.int/rapid/pressReleasesAction.do?reference=SPEECH/06/94&format=HTML&aged=0&language=EN&guiLanguage=en>

Title: Energy, environment, competitiveness: Commission launches high level group - Press release: Brussels, 24 February 2005

Link:

<http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/06/226&format=HTML&aged=0&language=EN&guiLanguage=en>

GB SO REPORTS AND CONSULTATIONS

Issue: Consultation on (relatively minor) changes to the Procurement Guidelines and Balancing Principles Statement

Title: Proposed revisions to the Procurement Guidelines and Balancing Principles Statement



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Date issued: 6 February
Response due: 1 March

National Grid (NGET) is consulting on changes it is proposing to the Procurement Guidelines and Balancing Principles Statement following its annual review of these statements. The proposed changes are all described as being relatively minor in nature.

Issue: National Grid's Reports to Ofgem proposing changes to the Use of System Charging Methodology to introduce charging arrangements for the two new short term access products proposed under CAP094

Title: Conclusions Reports for GB ECM-03 (LDTEC Charges) & GB ECM-04 (Multiple STTEC Charges)

Issued on: 6 February
Response due (from Ofgem): within 28 days

NGET has submitted a conclusions report to Ofgem, for decision, on the form of charges to be used if new access products are introduced via CUSC Amendment proposal CAP094 (Limited Duration Transmission Entry Capacity). Proposals developed under CAP094 cover two forms of new access products, LDTEC (Limited Duration Transmission Entry Capacity) and Multiple STTEC (Multiple Short Term Transmission Entry Capacity) with various variations. The proposed charging changes are contingent on approval of CAP094 (or one of the alternative amendments); an alternative amendment was on 22 February – see below.

NGET is proposing an implementation date of 1 April 2006, to align with the earliest possible implementation date of CAP094 which implies a short notice period and which also requires the Authority's consent. NGET requests that if the shorter notice period is not agreed the implementation date should be of 8 May, in which case they request that the Authority's decision on CAP094 is delayed to allow the implementation date for both sets of changes to be aligned.

For products based on both **LDTEC** and **Multiple STTEC**, there are two rates, in positive charging zones, a high rate charge which applies for the first 17 weeks and a low rate charge for subsequent periods. The net effect of the charging structure is that the charge for

purchasing LDTEC and/or Multiple STTEC for a 45-week period would be the same as the annual charge for an equivalent volume of TEC (the annual access product). The charge in negative charging zones is set to zero. There will also be an application fee. In both cases, the charging arrangements described in the conclusions document mirror those in the proposals consulted on in December with a small change to the algebra that results in slightly higher charges in the low rate periods.

The appendices to the reports include tables setting out indicative tariffs for each zone and the level of the proposed application fees.

THE BSC AND CUSC

The BSC

BSC – joiners and leavers

Norweb Energi Ltd withdrew from the BSC in February and **AEP Energy Services UK Generation** will withdraw on 01 March 2006.

CUSC

CUSC Amendment Proposals

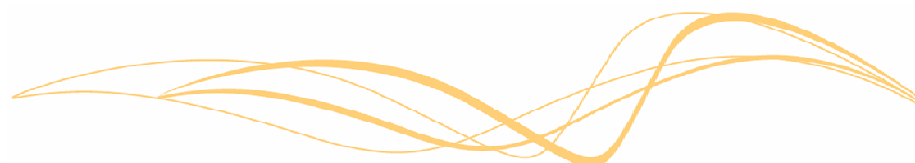
Authority Decisions – Rejected Amendments

CAP092 (Consistent Generation Use of System Charge Liability Provisions for Transmission Access Products) was rejected on 13 February.

Authority Decisions – APPROVED Amendments

CAP108-112 (Housekeeping Modifications) were approved on 31 January and implemented on 14th February.

CAP104 (Amendments to System to Generator Intertrip related terms concurrently defined in the Grid Code and the CUSC) was approved on 1 February. The CAP, which deletes the definition of system to generator inter-trip categories and associated terms from Section 11 (Interpretation and Definitions) of the CUSC and replaces them with a reference to the Grid Code where they are currently defined, was



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implemented on 15 February.

CAP106 (Amendment to Revised Paragraph 4.5.1 (Indexation - Application) of the CUSC). The Authority approved the Amendment on 9 February. The changes, which seek to make it clear that the Indexation provisions in paragraph 4.5.1 are mandatory for System to Generator Intertripping Agreements but optional (to be agreed between the User and National Grid) for any other Balancing Services Agreements, were implemented on 24 February.

CAP094 (Limited Duration Transmission Entry Capacity). The Authority approved one of the Working Group's alternative amendments, Alternative Amendment 5, on 22 February. The changes will take effect on 1st April 2006 subject to changes to the charging arrangements to accommodate the new access products also being implemented (see Conclusions Reports for GB ECM-03 (LDTEC Charges) & GB ECM-04 (Multiple STTEC Charges), above).

The changes will introduce two new forms of short term access products – PB LDTEC (Profiled Block Limited Duration Transmission Entry Capacity) and IPB LDTEC (Indicative Profiled Block Limited Duration Transmission Entry Capacity). Both products provide access for part of an access year and do not confer any rights to access in subsequent years.

For PB LDTEC a user can request access for a specified period between a maximum and minimum range; NGET would then make a profiled offer based on available capacity which users can accept or reject. If they accept they can specify a maximum cap on the amount they wish to accept.

IPB LDTEC is a slightly more complex version of PB TEC - only the first seven weeks of any offer is made available on a "firm" basis. Access for the subsequent period is available on an indicative basis only with NGET providing weekly notification, eight weeks in advance, of the actual amount of access available in the week eight weeks ahead.

IPA Energy cannot be held accountable for the accuracy of the information nor can IPA be held responsible for the consequences of any actions or decisions taken on the basis of the information published here. Parties must refer to the formal documents to confirm the official position.

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DISCLAIMER



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SUMMARY OF FEBRUARY 2006 CONSULTATIONS & NEW BSC AND CUSC MODS AND DECISIONS

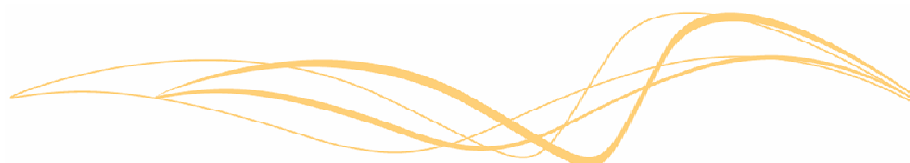
Please note that whilst considerable effort is made to keep this up to date some, possibly important, consultations and announcements will inevitably have been missed. Readers should also refer to the relevant documents to confirm response dates.

CARRIED FORWARD FROM LAST EDITION...		Issued	Response Due
OPDM	<p>Title: Proposals for introducing a Code for Sustainable Homes</p> <p>Link: http://www.odpm.gov.uk/embedded_object.asp?id=1162095</p>	1 Dec	6 March
Ofgem	<p>Title: Electricity Distribution Cost Review 2004/05</p> <p>Link: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/13123_263_05.pdf?wtfrom=/ofgem/whats-new/archive.jsp</p>	6 Dec	comments are requested by the end of April 2006
DTI	<p>Title: Measuring Instruments Directive: Implementation – Gas & Electricity Meters Consultation on proposed regulations</p> <p>Link: http://www.dti.gov.uk/energy/consultations/measuring_instruments.pdf</p>	14 Dec	10 March
DTI	<p>Title: Commencement of section 179 of the Energy Act: Amending the definition of electricity supply</p>		Commences 1 April
DTI	<p>Title: Our Energy Challenge Securing clean, affordable energy for the long-term</p> <p>Link to energy review site: http://www.dti.gov.uk/energy/review/ Link to press release: http://www.gnn.gov.uk/content/detail.asp?NewsAreaID=2&ReleaseID=184911</p>	24 Jan	14 April



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Ofgem	<p>Title: BSC modification proposal P194 'Revised Derivation of the Main Energy Imbalance Price' Impact assessment</p> <p>Link: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/13685_1706.pdf?wfrom=/ofgem/whats-new/archive.jsp</p>	26 Jan	<p>Response due: 23 February</p> <p>Ofgem decision promised for 23 March (the latest date that would allow the mod to be implemented for winter 2006/07).</p>
New in February.....			
TIC	<p>Title: The Government's Energy Review</p> <p>Issued: 1 February 2006 Response due: 17 March for written evidence</p> <p>Link: http://www.parliament.uk/parliamentary_committees/trade_and_industry/tisc_pn23_0506.cfm</p>		
Ofgem	<p>Title: Domestic Metering Innovation</p> <p>Link: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/13745_2006.pdf</p>	1 Feb	15 March
Ofgem	<p>Transmission Price Control Review (TPCR): Capital expenditure projections 2007 - 2012</p> <p>Link: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/13744_2106.pdf</p>	1 Feb	1 March
Ofgem	<p>Title: Last Resort Supply Direction: Licence Revocation & Reasons for Licence Revocation</p> <p>Links: (notice of licence revocation) http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/13803_Z4licencerevocation.pdf (notice of reasons for revocation) http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/13804_Z4reasonsforrevocation.pdf (supplier of last resort direction) http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/13805_SOLRdirection.pdf</p>	3 Feb	<p>licence revocation effective from 00:00 4 February Supplier of last resort direction valid 00:00 4 February to 00:00 4 August 2006</p>



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DTI	<p>Title: A Cost Recovery Mechanism for Protected Energy Companies in Energy Administration – Supplementary Consultation</p> <p>Link: http://www.dti.gov.uk/energy/consultations/supplementary_cost_recovery.pdf</p>	3 Feb	3 March
DEFRA	<p>Title: Frequently asked questions on annual verification No. 1</p> <p>Link: http://www.defra.gov.uk/environment/climatechange/trading/eu/permits/pdf/faq-annualverify.pdf</p>	6 Feb	
NGET	<p>Principles Statement.</p>	6 Feb	1 March
NGET	<p>Title: Conclusions Reports for GB ECM-03 (LDTEC Charges) & GB ECM-04 (Multiple STTEC Charges).</p>	6 Feb	Response due (from Ofgem): within 28 days
Ofgem	<p>Title: Domestic Retail Market Reports June 2005 and September 2005</p> <p>Link (September update): http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/13816_2306.pdf Link (June report): http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/13824_2406.pdf</p>	6 & 7 Feb	
Ofgem	<p>Title: EEC Update (15)</p> <p>Link: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/13826_eecfeb06.pdf?wtfrom=/ofgem/work/index.jsp&section=/areasofwork/energyefficiency</p>	7 Feb	
DEFRA	<p>Title: An Operator's guide to the EU emissions trading scheme The steps to compliance</p> <p>Link: http://www.defra.gov.uk/environment/climatechange/trading/eu/intro/index.htm</p>	8 Feb	
DTI	<p>Title: Wicks waves away doubts over government support for renewables</p> <p>Link to press release: http://www.gnn.gov.uk/Content/Detail.asp?ReleaseID=186974&NewsAreaID=2</p>	8 Feb	



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Ofgem	<p>Title: Financing Networks: A Discussion Paper</p> <p>Link: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/13842_FinancingNetworks080206.pdf</p>	8 Feb	5 May
Ofgem	<p>Title: Section 11A and Section 49a(1)(b) of the Electricity Act 1989 modification of standard condition C17 in the transmission licences treated as granted by the gas and electricity markets authority under Section 6(1)(b) of the Electricity Act 1989; and notice of the reasons for the decision to modify the licences</p> <p>Title: Section 11A and Section 49a(1)(b) of the Electricity Act 1989 modification of standard condition D3 in the transmission licences treated as granted by the gas and electricity markets authority under Section 6(1)(b) of the Electricity Act 1989; and notice of the reasons for the decision to modify the licences</p> <p>Title of consultation: Consultation on the proposed statement to satisfy amended standard condition C17 of the transmission licence</p> <p>Link to licence change C17: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/13869_2506.pdf</p> <p>Link to licence change D3: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/13870_2606.pdf</p> <p>Link to open letter: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/13898_2906.pdf</p>	13 & 14 Feb	Response to open letter due: 7 March



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Ofgem	<p>Title: Section 11A and Section 49a(1)(b) of the Electricity Act 1989 modification of standard condition D3 in the distribution licence treated as granted by the gas and electricity markets authority to SP Manweb PLC under Section 6(1)(c) of the Electricity Act 1989; and notice of the reasons for the decision to modify the licences</p> <p>Title: Section 11A and Section 49a(1)(b) of the Electricity Act 1989 modification of standard condition D3 in the distribution licence treated as granted by the gas and electricity markets authority to SP Distribution PLC under Section 6(1)(c) of the Electricity Act 1989; and notice of the reasons for the decision to modify the licences</p> <p>Link SP Manweb notice: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/13897_2806.pdf</p> <p>Link to SP Distribution notice: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/13896_2706.pdf</p>	14 Feb	
DTI	<p>Title: Government's projections for energy and carbon emissions</p> <p>Title: EU ETS Phase II CO₂ emissions projections</p> <p>Link to press release: http://www.wired.gov.net/EDP8203R7W/WGArticle.aspx?WCI=htmArticleView&WCU=ARTCL_PKEY%3d37259%2cALERT_TYPE%3d15</p> <p>Link to updated projections: http://www.dti.gov.uk/energy/sepn/uep_feb2006.pdf</p> <p>Link to the consultation (and other supporting information): http://www.dti.gov.uk/energy/consultations/index.shtml</p>	16 Feb	Responses to consultation requested by: 13 March
Ofgem	<p>Title: Ofgem welcomes European Commission determination to create a competitive energy market</p> <p>Link to Ofgem press release: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/13937_Ofgem11.pdf?wtfrom=/ofgem/press/pressrelease-list.jsp</p>	16 Feb	



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EU	<p>Title: Competition: energy sector inquiry confirms serious problems and sets out way forward</p> <p>Link to press release: http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/06/174&format=HTML&aged=0&language=EN&guiLanguage=en</p> <p>Link to frequently asked questions: http://europa.eu.int/rapid/pressReleasesAction.do?reference=MEMO/06/78&format=HTML&aged=0&language=EN&guiLanguage=fr</p> <p>Link to report: http://europa.eu.int/comm/competition/antitrust/others/sector_inquiries/energy/</p> <p>Link to Executive summary of the Report: http://europa.eu.int/comm/competition/antitrust/others/sector_inquiries/energy/execsum.pdf</p>	16 Feb	1 May
DTI	<p>Title: New Director General for Energy at DTI</p> <p>Link to press release: http://www.wired-gov.net/EDP8203R7W/WGArticle.aspx?WCI=htmArticleView&WCU=ARTCL_PKEY%3d37304%2cALERT_TYPE%3d15</p>	20 Feb	
DTI	<p>Title: Energy Better Regulation Project</p> <p>Link: http://www.dti.gov.uk/energy/energy_better_regulation.pdf</p>	21 Feb	Not specified
EC	<p>Title: Commission rejects changes to UK NAP for CO₂ allowances</p> <p>Link (about half way down): http://europa.eu.int/rapid/middayExpressAction.do?date=23/02/2006&direction=0&guiLanguage=en</p>	22 Feb	
Ofgem	<p>Title: Modification of the Standard Conditions of Electricity Distribution Licences under Section 11 (A) of the Electricity Act 1989</p> <p>Notice of reasons for the decision to modify the standard conditions of Electricity Distribution Licences under Condition 49A of the Electricity Act 1989</p> <p>Link: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/13987_3206.pdf</p>	22 Feb	effective from 22 February



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Ofgem	<p>Title: Renewables Obligation: Third Annual Report</p> <p>Link: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/14024_3506.pdf & appendices: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/14023_3506b.pdf</p>	27 Feb	
Ofgem	<p>Title: Transmission Price Control: Access reform Options Development Group (“ARODG”)</p> <p>Link: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/14029_3606.pdf</p>	27 Feb	first meeting planned for 6 March
Ofgem	<p>Title: Open letter consultation in relation to the modification of Standard Licence Condition 5 of the Distribution Licence</p> <p>Link: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/14035_3706.pdf</p>	28 Feb	21 March
Ofgem	<p>Title: National Grid Electricity Transmission's System Operator incentive schemes 2006/07 Final proposals and statutory licence consultation</p> <p>Link: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/14038_NGET_SO_incentive_schemes_2006_07_FINAL.pdf</p>	28 Feb	28 March
Ofgem	<p>Title: Notice under Section 11(2) of the Electricity Act 1989</p> <p>Link: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/14040_DOC027.pdf</p>	28 Feb	28 March
ENA	<p>Title: Structure of distribution charges</p> <p>Initial joint DNO consultation on the longer term framework</p> <p>Link: http://www.energynetworks.org/reg_cog.asp</p>	Feb	31 March

BSC and CUSC Mods & Decisions February 2006



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CAP Decisions...			
CAP108-112	Housekeeping Amendments – The Authority approved all five of the Housekeeping amendments	APPROVED on 31 January	10 BDs after approval
CAP104	Amendments to System to Generator Intertrip related terms concurrently defined in the Grid Code and the CUSC	APPROVED 1 Feb	Implemented 15 Feb
CAP106	Amendment to Revised Paragraph 4.5.1 (Indexation - Application) of the CUSC	APPROVED 9 Feb	Implemented 24 Feb
CAP092	Consistent Generation Use of System Charge Liability Provisions for Transmission Access Products	REJECTED 13 Feb	
CAP094	Limited Duration Transmission Entry Capacity	APPROVED Alternative 5 22 Feb	Implement 1 April

