



This newsletter provides a brief update on the key electricity market design changes currently being progressed within Great Britain, focusing on April 2005.

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.

This issue covers: Ofgem consultations; BETTA; publications/announcements by a number of government and other bodies; Transmission charging issues; and the BSC and CUSC Modifications and related matters.

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

HEADLINES

- BETTA went live, as planned, on 1 April 2005.
- From 1 April, the members of the new Energywatch Council are: Charles Coulthard (who will chair Energywatch's Scottish Committee); Julian Salisbury (who will chair Energywatch's Welsh Committee); Tim Cole (an existing Member); Sharon Darcy (an existing Member); Andrew Horsler (an existing Member and previous Chair); John Howard (a consumer broadcaster and journalist); and Brian Saunders.
- Energywatch has lodged a super-complaint, with Ofgem, alleging evidence that gas and electricity suppliers' billing processes are harming domestic customers' interests.
- The European Commission has published its decision rejecting the UK's proposed increase in the total number of emissions in its National Allocation Plan.
- Boaz Moselle is leaving Ofgem to head up the Brattle Group's new offices in Brussels. Sarah Harrison, Ofgem's Director of Communications since 1999, has been appointed as Ofgem's new Managing Director for Corporate Affairs.
- Ofgem is holding a seminar on the "Role of markets in delivering a sustainable energy policy" on 9 June. Catherine Day, Director General, DG Environment, European Commission, will be among the speakers. Ofgem also hope that the new Environment Minister will also attend.

Ofgem Issues and Consultations

The Electricity (Standards of Performance) Regulations 2005

On 1 April, Ofgem issued an open letter advising that the Electricity (Standards of Performance) Regulations 2005, that it had consulted on in January 2005, had come into effect (on 1 April) and would be available from the HMSO website. The letter also set out the changes that had been made to the draft 2005 regulations in the light of consultees' comments.

The letter can be found at:

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/10990_11005.pdf

The regulations can be found at:

http://www.legislation.hmso.gov.uk/cgi-bin/htm_hl.pl?DB=hmso-new&STEMMER=en&WORDS=electricity+standards+performance+regulations+2005+&COLOUR=Red&STYLE=s&URL=http://www.hmso.gov.uk/si/si2005/20051019.htm#muscat_highlighter_first_match

Approval of National Grid Company plc's Statement of the Use of System Charging Methodology, Statement of the Connection Charging Methodology and the form of the Statement of Use of System Charges 2005/6

On 6 April, Ofgem published an open letter indicating the Authority's approval of the charging methodologies and the form of the Statement of the Use of System Charges for 2005/6 that were submitted by NGC on 18 March 2005. The letter also includes an annex setting out some detailed points of clarification.

The letter can be found at:

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/11049_11305.pdf

The letter & statements can be found at:

http://www.nationalgridinfo.co.uk/charging/mn_charging.html



IPA Energy Consulting

IPA ENERGY CONSULTING MONTHLY BRIEFING THE PACE OF CHANGE IN GREAT BRITAIN

Recovering the costs of compensation for temporary physical disconnection (CAP 048)

On 7 April, Ofgem issued an open letter consulting on proposals for recovery of costs incurred by the GB SO in compensating generators for temporary disconnection from the transmission system under the arrangements introduced by CUSC Amendment Proposal CAP 048 (Recovering the costs of compensation for temporary physical disconnection), which was approved in March 2004.

The letter sets out a number of options for recovery of costs including: incentivised, or pass through, of costs via BSUoS (with the incentive being on the GB SO); and incentivised or pass through of costs via adjustment of the Transmission Owner (TO)'s price controls and recovery via TNUoS (with the incentive on the TOs).

Ofgem indicates that, given the uncertainty in likely outturn costs and limitations on the GB SO's ability to control some costs, particularly for compensation of Scottish generators, it prefers an initial arrangement where costs are recovered via BSUoS charges with full pass through of the costs of compensation to Scottish Generators. However, the GB SO will be incentivised to manage costs in England and Wales. Ofgem suggest a target cost for compensation of England and Wales generators in the region £50k - £100k.

The arrangements will be reviewed after one year. For the longer term, Ofgem indicate that it will consider TO incentives.

Comments are requested by **9 May**. The agreed recovery mechanism will be implemented retrospectively from 1 April 2005.

The letter can be found at:
http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/11102_11505.pdf

Gas and Electricity Domestic Billing Super-Complaint

On 8 April, Ofgem issued an open letter noting energywatch's super-complaint alleging evidence that gas and electricity suppliers billing processes are harming domestic customers' interests. The letter gives a link to the complaint on energywatch's website and seeks comments by **3 May**.

The letter can be found at:
http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/11101_11605.pdf

Further Details of the RPZ Scheme Guidance Document

On 14 April, Ofgem published a guidance document giving further details of the Registered Power Zone scheme under the new distribution price control (the details of the RPZ mechanism are set out in Special Licence Condition D2 of the distribution licence and the RPZ Regulatory Instructions and Guidance (RIGs)). The guidance also includes an application proforma.

The guidance can be found at:
http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/11146_11805.pdf

Energy Efficiency Commitment 2005-2008 Innovative Action

On 15 April, Ofgem issued a consultation document on "innovative action" by a supplier under the Electricity and Gas (Energy Efficiency Obligations) Order 2004 that came into effect in December 2004. Comments are requested by **31 May**; Ofgem aims to publish guidelines for innovative action under the Order by 31 July 2005.

The consultation can be found at:
http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/11159_12005.pdf

Electricity and Gas Interconnector Licences Guidance Document

Also on 15 April, Ofgem published a guidance document on the requirements of the new gas and electricity interconnector licences. The guidance note can be found at:
http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/11162_12105.pdf

The regulatory implications of domestic-scale microgeneration

On 20 April, Ofgem published a consultation document on the regulatory issues associated with domestic-scale microgeneration (Ofgem's proposed definition of domestic-scale microgeneration is, broadly, 16 Amps per phase or less). The consultation covers a range of regulatory issues including connection, metering and registration of domestic-scale microgeneration; the supply to, and purchase from, consumers with microgeneration; the interaction with the energy efficiency codes of practice; and some aspects of the supply and metering requirements for ROCs (Renewable Obligation Certificates).



Comments are requested by **15 July**; Ofgem hopes to publish a summary of responses in summer 2005 and to publish a decision document in December 2005 at the same time as the DTI publishes its microgeneration strategy.

The consultation can be found at:
http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/11267_12305.pdf

Directions pursuant to sub-paragraph 7(a) of standard licence condition C18 (Requirement to offer terms for connection or use of the GB transmission system during the transition period) of the transmission licence

On 25 April, Ofgem published a further letter in the series of letters relating to extending the timescales for issuing terms for connection and/or use of system due to the volume of applications in the run up to the introduction of BETTA. This letter indicates that the Authority has received a request from NGC to extend the timescales for issuing offers to 31 May 2005, for 36 sites that had an agreement in place on 1 September 2004, but who were not connected to or using the system as at BETTA go-live. The letter includes the Authority's decision to agree to the request, its reasons, and directions to NGC that give effect to the change.

The letter can be found at:
http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/11321_12805.pdf

Electricity Distribution – Annual Cost Reporting

The Final Cost Reporting Rules for the Distribution Price Control were published on 29 April on the Distribution Price Control section of Ofgem's website at:

<http://www.ofgem.gov.uk/ofgem/work/index.jsp?section=/areasofwork/distpricecontrol>

Government Bodies & Other Bodies

Competition Commission – Delay in implementation of Code Appeals

On 31 March, the competition commission published a note on its website, alongside consultations relating to the new right of Appeal against Ofgem's decisions on code modifications, stating...

“The implementation timetable has been delayed and we will provide a summary and publish the rules and guidance as soon as possible. When we do so we will

post an alert on the home page of the [Competition Commission] web site”.

The note can be found at: http://www.competition-commission.org.uk/rep_pub/consultations/current/index.htm

EU Emissions Trading Scheme

EU Emissions Trading Scheme Proposed auction or sale methods for use in the EU Emissions Trading Scheme

On 1 April, DEFRA launched a public consultation on the procedures for disposing of any allowances from the New Entrants Reserve, that prove to be surplus to requirements, via auctions or sales. The consultation will also be used to inform thinking about the use of auctions or sales under Phase 2 as auctions/sales could be a feature of Member States' allocation arrangements under Phase 2.

Four separate options for disposal of any surplus New Entrant Reserve Allowances are proposed. The consultation also outlines five criteria considered to be the most important in determining the choice of disposal method. These are considered against the proposed options and DEFRA indicates that the final choice of option will depend on the market condition and volume of surplus allowances at the time of disposal. DEFRA note, in the consultation, that Government is prevented from making a free allocation of any surpluses.

The main features of the four options are summarised below together with the market conditions in which they are thought to be most appropriate.

Auctions

Uniform pricing sealed bid static auction – single sealed bid auction where bidders submit price volume curves. The market clears/payment is made at the price where the total volume of allocations is sold. *Considered to be appropriate for low volumes in an illiquid market.*

The consultation also considers, and dismisses, static auctions based on pay as bid or Vickrey auctions.

Dynamic ascending clock auction - multiple rounds where the auctioneer states a price and bidders submit volume bids for allowances at that price.



IPA Energy Consulting

IPA ENERGY CONSULTING MONTHLY BRIEFING THE PACE OF CHANGE IN GREAT BRITAIN

The bid price is increased until the total volume bid is equal to the volume available and the market settles at the prevailing bid price. Activity rules may be used to restrict bidders from increasing the volume of allowances they bid for as the prices rise. *Considered to be appropriate with high volumes of allowances or in an illiquid market with moderate volumes available.*

Sales

Market Order – an order to sell to one or more exchanges specifying the volume available and a lower bound price. *Considered to be appropriate for low volumes and high market liquidity.*

Sequenced Market Orders - a sequence of market orders where the available volume is split and sold via a sequence of Market Orders made over a period of time. *Considered to be appropriate for liquid markets with moderate availability.*

Two options are discussed and discarded, these are: *Commercial Sale* (where a trader develops a sales strategy appropriate to the market circumstances which may contain a mix of bilateral and exchange based sales); and *limit order* (an instruction to sell that specifies price, volume and time period in which the instruction is valid).

The deadline for comments is **24 June**. The documentation associated with the consultation (consultation paper, cover letter, response form, partial regulatory impact assessment, list of consultees and “frequently asked questions”) can be found at: <http://www.defra.gov.uk/corporate/consult/euets-salemethods/index.htm>

DTI/DEFRA are holding an open meeting on this consultation on the afternoon of **19th May**.

Amendments to UK Policy on New Entrants (covering partial and temporary closure)

On 6 April, DTI/DEFRA announced proposals to make a number of changes to Appendix C of the UK NAP (‘Decisions on New Entrants, Closures and Auctioning (NECA) Policy’) which affect the rules covering temporary and partial closure of installations. The changes are being proposed following the Commission’s request for amendments to the Appendix. However, the notice of amendment stresses that the new Appendix C to the NAP is subject to Commission approval and that the changes represent proposals rather than definitive approved decisions.

The notice of amendments can be found at:

http://www.dti.gov.uk/energy/sepn/neca_amendments_notice5.pdf

The revised Appendix C can be found at:

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

Emissions trading: Commission formally rejects UK request to increase emissions allowances

On 12 April, the Commission issued a press release confirming, formally, that it has rejected the UK’s request to increase the total volume of allowances in its National Allocation Plan. The press release states that...

“The Commission declares the request inadmissible as it falls outside the scope for amendments allowed by its decision of last July.”

The press release can be found at:

<http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/05/424&format=HTML&aged=0&language=EN&guiLanguage=en>

The full decisions can be found at:

http://europa.eu.int/comm/environment/climat/pdf/uk_bis_final_en.pdf

The Greenhouse Gas Emissions Trading Scheme Regulations 2005 (SI 925)

The “2005 ETS Regulations” came into force on **21 April 2005**, replacing the existing Greenhouse Gas Emissions Trading Scheme Regulations 2003 and the Greenhouse Gas Emissions Trading Scheme (Amendment) Regulations 2004.

An announcement about the new regulations, and further information, can be found at:

<http://www.defra.gov.uk/environment/climatechange/trading/eu/documents.htm#regs>

The regulations can be found at:

<http://www.legislation.hmso.gov.uk/si/si2005/20050925.htm>

energywatch

Super Complaint referral by the Gas and Electricity Consumer Council to the Gas and Electricity Markets Authority pursuant to section 11 of the Enterprise Act 2002

**Bad Billing: the costs
Better Billing: the benefits
Energy Billing**

On 6 April, energywatch (the Gas and Electricity Consumer Council of the Gas and Electricity Markets Authority) lodged a super-complaint with Ofgem on the impact of suppliers' billing practices on domestic consumers' interests. Ofgem has 90 days in which to respond and has invited comments by 3 May (see above).

Energywatch's paper, setting out the basis of its complaint can be found at http://www.energywatch.org.uk/uploads/Super_Complaint.pdf

Energywatch's press releases can be found at: http://www.energywatch.org.uk/media/show_release.asp?article_id=877
http://www.energywatch.org.uk/media/show_release.asp?article_id=876

The BSC and CUSC

BSC New Modifications

On 4 April, British Gas Trading raised Modification Proposal **P187** (Introducing the ability for a BSC Party to request urgent status and for it to be considered by the Authority). Currently, ELEXON and/or NGC must recommend to the Panel Chairman that the modification proposal is treated as urgent before the Chairman seeks the views of Panel Members (if he is able to contact them) and the approval of the Authority.

The Modification proposes giving every BSC Party the right to request that the Authority grant urgent status to a Modification proposal. The Modification also proposes that a Party's request for urgent status be passed to the BSC Panel who would make a recommendation to the Authority to grant or reject urgent status.

Authority Decisions

On 19 April, the Authority APPROVED Modification proposal **P174** (Provision for Users of an Interconnector with a single Boundary Point connection to form a Trading Unit amongst themselves and with other BM Units at the same site), for implementation on 2 November 2005. The Modification will allow Interconnector BM Units that are associated with an Interconnector with a single boundary point connection to form multi-party Trading Units with other Interconnector BM Units on the same Interconnector and/or other non-BM Units linked by contiguous or dedicated assets.

On 22 April, the Authority REJECTED **P178** (Reduction in the BSC withdrawal timescale for parties who have settled the vast majority of their trading debts). The Modification had sought to allow Non-Supplier Trading Parties to withdraw from the BSC after the second reconciliation run (rather than wait until after the final reconciliation run (RF)), where they met all the criteria for withdrawal except timescales, and provide a refundable cash "withdrawal deposit" to cover any subsequent liabilities that may arise up until the final reconciliation run.

BSC Issues

Three new BSC issues were raised in April.

Issue 14 (Vacant and Shut Down Meters, raised on 4 April), considers the over-accounting for energy within settlement that may arise from use of non zero estimates of consumption at vacant but energised sites where Data Collectors are unable to gain access and suppliers are unable to obtain customer reads. The issue is being considered by the VASMG (Volume Allocation Standing Modification Group).

Issue 15 (Review of Trading Query Deadlines, raised on 19 April) considers issues for suppliers where HH data errors become apparent outside Settlement timescales. According to the Issues Register, this issue is being considered by the SSMG (Settlement Standing Modification Group).

Issue 16 (Credit Default and the Default provisions in Section H of the BSC', raised on 20 April) considers whether the provisions for persistent or recurring Level 1 and Level 2 Credit Default provide an appropriate level of protection. This issue is also being considered by the SSMG.

Further information can be found in the Issues Register at:

http://www.elexon.co.uk/documents/Change_and_Implementation/Modifications_Process_-_Standing_Modification_Group/Issues_Register_050422.pdf

& on the open issues section of ELEXON's website at:

<http://www.elexon.co.uk/changeimplementation/ModificationProcess/groups/issues/default.aspx>

BSC Consultations

Review of the BSC Audit Terms of Reference



IPA Energy Consulting

IPA ENERGY CONSULTING MONTHLY BRIEFING THE PACE OF CHANGE IN GREAT BRITAIN

On 25 April, ELEXON issued a consultation on the terms of reference for the BSC Auditor which follows a review undertaken by ELEXON in consultation with a working group comprising BSC Panel and Performance Assurance Board representation. The paper gives background to various aspects of the audit, including commentary and recommendations from the working group, and seeks views on proposals and issues. Comments are requested by **16 May**.

The consultation and various appendices can be found at:

<http://www.elexon.co.uk/consultations/default.aspx>

BSC Parties – joiners and leavers

In April, **Compagnie Nationale Du Rhone** (as a Non Physical Trader and Interconnector User) and **CRE Energy Limited** (as a Trading Party and Generator) acceded to the BSC.

New Party Agents

The Performance Assurance Board approved the Accreditation and Certification of **BGlobal Metering Limited** (Non Half Hourly Data Collector (NHHDC) and Non Half Hourly Data Aggregator (NHHDA)) and **Laing Energy Limited** (for Supplier Meter Registration Service (SMRS)) on 20 April.

CUSC Amendment Proposals

CAP085 (Revised Treatment of Housekeeping Amendments), which was submitted by NGC, seeks to introduce a new process for progressing “Housekeeping Mods”. Under the proposed process, where NGC and the CUSC Panel consider that an Amendment meets the criteria for being a Housekeeping Amendment NGC would publish it on its website for 5 business days and would then submit it to the Authority for approval in the normal way.

The Authority would also be able to ask NGC to reprocess any such amendments in the normal way if it considers that they do not meet the “Housekeeping criteria”.

An outline definition of what constitutes a Housekeeping Amendment is included in the report but is subject to further work.

CAP086 (Proposal for Earlier Consideration of Implementation Dates) was raised by E.ON UK plc. It seeks to change the CUSC to require amendment

proposal consultations to include consultation on the implementation date and, where the working group considering an amendment recommends a different implementation date to that proposed by NGC, to place an obligation on NGC to include both the recommended dates and suggestions from consultees in the Amendment report to the Authority.

CAP087 (Revisions to Request for Urgency Process), which was raised by British Gas Trading, seeks to change the CUSC so that all requests from parties requesting that an amendment proposal is treated as Urgent are passed to the Authority for decision.

CUSC joiners and leavers

On 15 April, NGC published an open letter giving the details of six new CUSC Parties who acceded to the CUSC between 31 January 2005 and 15 April. The letter can be found at:

http://www.nationalgrid.com/uk/indinfo/cusc/pdfs/Sc_h_1_050415%20CUSC%20New%20Parties.pdf

NGT Interconnectors Ltd

Charging Methodologies Consultation

On 18 April, NGT Interconnectors Ltd (a new, wholly owned subsidiary, established to comply with the requirement for legal separation of the interconnector and transmission business under the new licensing regime for interconnectors) issued a consultation on a charging methodology for use of the England France Interconnector. The methodology is being produced/consulted on to allow NGT Interconnectors to comply with Condition 10 of its new Interconnector Licence when it is granted. Comments are requested by **16 May**.

The cover letter and consultation can be found at:

<http://www.ngtgroup.com/interconnectors/index.asp>

GB SO Issues

Timing of 12 monthly Procurement Guidelines Review and subsequent Procurement Guidelines Report

In March, NGC wrote to Ofgem seeking agreement to change the timing of the 12 monthly PG Review and report. On 11 April Ofgem replied agreeing NGC’s request for an 11 month extension which would bring the reporting period in line with the



IPA Energy Consulting

IPA ENERGY CONSULTING MONTHLY BRIEFING THE PACE OF CHANGE IN GREAT BRITAIN

financial year going forward. In the meantime NGC has committed to an informal review of the Guidelines and to provide a report covering the material that would have been reported in the Procurement Guidelines Report.

The letters can be found at:

http://www.nationalgrid.com/uk/indinfo/balancing/pdfs/C16_PGs_Report_Ofgem_Letter.pdf

&

http://www.nationalgrid.com/uk/indinfo/balancing/pdfs/C16_PGs_Report_Ofgem_Letter_response_to_NGC_vFINAL1.pdf

IPA News

Two new staff have recently joined the IPA Consulting Team

Sean McComish joined the Regulation Team at the end of March. Prior to this he worked as an economist for the Office of Utility Regulation in Guernsey for three and a half years developing the regulatory regime for telecommunications, post and electricity. He has also been involved in regulating the commercial television sector and was a consultant at the Commodities Research Unit for approximately five years.

Nicholas Jupe has recently joined the Trading Risk and Analysis Team at IPA. Nick joined from the Bank of Scotland Credit Risk department. Nick has an MSc in Operational Research and a BSc in Actuarial Science. He has experience in mathematical programming, financial analysis and cashflow modelling.

DISCLAIMER

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.

IPA Energy Consulting, 41 Manor Place, Edinburgh, EH3 7EB
Tel : +44 (0) 131 240 0840 Fax : +44 (0) 131 220 6440
Email : contact@ipaenergy.co.uk