



IPA Energy Consulting

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

This newsletter provides a brief update on the key electricity market design changes currently being progressed within Great Britain, focusing on October 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. A number of other consultations / decisions that may be relevant are also noted.

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

- The regulations giving effect to the “Linking Directive” and allowing use of CDM credits (under Phase I and II) and JI credits (under Phase II) of the EU ETS have been laid before UK Parliament and come into effect on 13 November. There are to be no limits on the use of credits under Phase 1.
- The UK’s legal challenge to the European Commission’s decision to reject the increase in the total number of allowances to be issued to UK operators, between the UK’s provisional and final National Allocation Plan, has been heard by the European Court in Luxembourg. A decision is due at the beginning of 2006.
- DTI is consulting on revisions to the Fuel Security Code to bring it in line with current market arrangements. DTI’s proposals are based on reliance on continuation of normal market mechanisms during Fuel Security Periods.
- NGET has published a consultation on possible charging arrangements for the new short term access products that could be introduced if CAP094 (Limited Duration Transmission Entry Capacity - LDTEC), or any of its variants, is approved.
- NGET has published its “Winter Outlook” report for winter 2005/6. It anticipates that the lights will stay on in Average Cold Spell (ACS) conditions and that the plant margin is sufficient in “1 in 50 Cold Winter Conditions” provided that there aren’t high levels of plant breakdown or unavailability of CCGT due to gas supply concerns.

- In these conditions, if instructed demand reductions are needed, NGET suggests this could be delivered by voltage reduction which should not be noticeable by the end customer. NGET’s base case assumes, amongst other things, that 2.1GW of mothballed plant will return for the winter peak and the French interconnector will be importing 2GW over the peak.

- Ofgem has advised the industry that, on Friday 28 October, the High Court rejected Scottish Power’s legal challenge to Ofgem’s decision to approve the transmission charging methodologies introduced with BETTA.

Ofgem Issues and Consultations

Options for energy buyers this winter: An Ofgem Seminar

Invitation issued: 7 October

Respond to: wholesale.markets@ofgem.gov.uk.

Ofgem is hosting a seminar for energy buyers on 7 November. Ofgem suggest that the seminar would therefore be of particular interest to those customers and customer representatives responsible for making energy purchasing decisions for this winter.

Issue: Mergers of Distribution businesses – regulatory policy

Title: Electricity Distribution Mergers: clarification of existing policy

Issued: 5 October

Responses due: n/a

Link:

<http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/12504 Elec Dist Mergers 061005.pdf>

Ofgem has published an open letter providing clarification of its policy on the treatment of distribution business mergers. The letter refers to the policy statement, published in May 2002, “Mergers in the electricity distribution sector – Policy statement” and covers the treatment of the cost



attributable to the loss of a comparator business and the treatment of efficiency savings/improvements resulting from a merger in a subsequent price control review. The letter also refers to statements made as part of DPCR4 (distribution price control review 4 – the most recent price control review) relating to the possible impact of mergers.

Issue: Transmission – proposal to change the date for publishing the Seven Year Statement to the end of May each year.

Title: National Grid Electricity Transmission plc's request for a change to the publication date of the GB transmission system Seven Year Statement under standard condition C11 (Production of information about the GB transmission system) of its transmission licence

Issued: 6 October
Responses due: **20 October**

Link:
http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/12526_217_05.pdf

NGET has asked Ofgem for a licence modification to allow it to publish the Seven Year Statement by 31 May of each year rather than 31 March as currently required for 2006 onwards. The Ofgem open letter sought participants' views on the proposed change.

Issue: The GB Queue for connection offers – Ofgem's agreement to extend timescales for issuing certain offers

Title: Request for extension to timescales: Consent pursuant to SLC C8 (Requirement to offer terms)

Issued: 7 October
Responses due: n/a

Link:
http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/12543_218_05.pdf

Ofgem indicates that NGET has written to it requesting an extension to the timescales for issuing connection offers to certain applicants. The letter indicates that the Authority has agreed to extend the timescales but not by the amount proposed in NGET's original request.

Issue: statutory notice/consultation on changes to the transmission licence to deal with changes to the arrangements for recovering Ofgem's costs.

Title: Notice under section 11A (1) and (3) of the Electricity Act 1989 (Transmission)

Issued: 10 October
Responses due: **8 November**

Link:
http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/12550_221_05.pdf

The proposed changes to the licence deal with the recovery of Ofgem costs following BETTA, changes to the operation of Ofgem's own 5 year RPI-X control (to allow year on year flexibility) and updating of relevant sections of the text.

Issue: statutory notice/consultation on changes to the distribution licence to deal with changes to the arrangements for recovering Ofgem's costs.

Title: Notice under section 11A (1) and (3) of the Electricity Act 1989 (distribution)

Issued: 10 October
Responses due: **8 November**

Link:
http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/12549_220_05.pdf

Changes in line with those detailed above.

Issue: Transmission network charging - NGET's proposals for modifying the TNUoS charging methodology to eliminate negative charges for demand in the North of Scotland

Title: open letter in relation to Modification Proposal to the Use of System Charging Methodology GB ECM-02: Negative Demand Charges.

Issued: 14 October
Responses due: **26 October**

Link:
http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/12609_223_05.pdf

Ofgem has issued an open letter consulting on the issues raised in NGET's proposal to change the split in the recovery of TNUoS (Transmission Network Use of System) charges from demand and generation in order to prevent the occurrence of negative charges for demand in the North of Scotland.

NGET is proposing to change the split from the current 73:27 to 100:0, with effect from 1 April 2007



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The proposed change will not affect the differentials between charges in different locations but will affect the absolute level of charges for individual users of the network. The proposed modification would also remove the current restrictions that prevent negative demand charges by collaring (limiting) demand charges to £0/kW. NGET's conclusions report proposing the change was submitted to the Authority on 3 October (see below).

The Authority's open letter indicates that it does not consider it necessary to undertake an impact assessment on the proposed change and, as required, gives its reasons for this. One of the reasons is procedural and relates to the timescale under which the Authority is required to make a decision on the proposed modification. This is too short to allow it to complete the IA before a decision is required. If an IA were necessary then it would have no choice but to reject the proposal, leaving it in the position of undertaking an IA on a proposal it had rejected and NGET may not resubmit.

The remainder of the open letter summarises the issues and the process to date, sets out Ofgem's current thinking against the relevant objectives and the Authority's wider legal duties under European Law, and seeks views on the proposed changes.

Within the discussion, Ofgem appears to accept that the proposed change would lead to better cost reflectivity but identifies both benefits and concerns in relation to its impact on competition. On the issue of whether negative demand charges are appropriate Ofgem indicates that it is "*considering whether it is the wider charging arrangements, particularly in relation to distributed generation, as opposed to negative demand tariffs*" that is the problem and refers to its recent consultation/discussion document on this issue.

Further to the above, on 1 November, Ofgem rejected the proposed change (details to be reported in next month's summary).

Title: Social Action Strategy

Issued: 14 October
Responses due: n/a

Link:
http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/12605_222_05.pdf

Ofgem has published its Social Action Strategy covering Ofgem's approach to "fighting fuel poverty"; its work plan to tackle fuel poverty and the key deliverables for 2005 – 2006.

Issue: Network Charging – DUoS charging for EHV (extra high voltage) customers for 2006/07

Title: 2006-07 electricity distribution EHV use of system charges

Issued: 19 October
Responses due:

Link:
http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/12633_227_05.pdf

Ofgem has published an open letter on progress towards developing appropriate charges for certain EHV customers whose charges were capped after changes to the charging methodologies introduced for 1 April 2005 resulted in a substantial increase in their (uncapped) charges. The letter notes that Ofgem's agreement to the cap had been conditional on the affected Distribution Network Operators bringing forward proposals, by October 2005, for transitional arrangements to be introduced in April 2006 in anticipation of changes to the longer term charging methodologies.

The letter notes the progress that has been made on the longer term charging methodologies but indicates that this is not yet sufficient to allow robust views to be developed on the level of longer term charges. Given this, it suggests that EHV customers' charges should be increased in line with RPI and that it expects the affected companies to bring forward proposals along these lines. However, it also repeats the decision made in February 2005 that cost reflective charges should apply from April 2007 and notes that it expects real progress to be made on the longer term charging models in the coming months and that the lack of information on longer term charges should not be repeated for 2007.

Issue: The GB Queue for connection offers – NGET's failure to make certain offers in required timescales

Title: Issuance of GB offers to certain users in timescales later than as directed by the Gas and Electricity Markets Authority pursuant to subparagraph 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

Issued: 25 October
Responses due: n/a



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Link:

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsatta/ch/12665_229_05.pdf

Ofgem has published an open letter giving background to the timetable under which NGET was required to make connection offers to certain applicants and indicating that the timescales had not been met in all cases. The letter notes the reasons given for the delay and the revised timetable for making the remaining outstanding offers and states that it will not take enforcement action in this case.

Issue: Network regulation - incentives under the price control for Distribution Network Operators to improve services to customers

Title: Open letter on Ofgem's Electricity Distribution Customer Service Reward Scheme

Published: 26 October

Responses due: 9 December 2005

Link:

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsatta/ch/12667_230_05.pdf

Ofgem has published an open letter consulting on the proposed format of the “discretionary award scheme” introduced under the latest price control to reward distribution network operators providing high standards of service to customers in three areas, not easily amenable to reward via mechanistic incentives, described by Ofgem as:

- Priority customer care initiatives;
- Initiatives relating to corporate social responsibility (CSR); and
- Wider communication strategies implemented by distribution companies.

Issue: Distribution connection services - Ofgem's decision (and Manweb's commitments) following Ofgem's investigation/consultation into Manweb's provision of non contestable connection services following a complaint by an independent connection provider that Manweb had engaged in anti-competitive behaviour when providing these services.

Titles:

Decision of the Gas and Electricity Markets Authority to accept commitments pursuant to section 31A(2) of the Competition Act 1998

Commitments offered by SP Manweb plc (Company Number 02366937) (“SP Manweb”) to the Gas and Electricity Markets Authority

(the “Authority”) pursuant to Section 31A of the Competition Act 1998.

Issued: 27 October

Responses due: n/a

Links:

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsatta/ch/12675_234_05a.pdf

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsatta/ch/12675_234_05b.pdf

Ofgem has published its decision following its investigation into allegations that Manweb had engaged in anti-competitive behaviour when providing non-contestable electricity connection services. Ofgem has accepted Manweb's commitments.

Issue: The decision on Scottish Power's judicial review of the Authority's decision to approve National Grid's GB Transmission Use of System charging arrangements for BETTA

Title: Judicial Review on Transmission Charges Ofgem welcomes Judge's ruling

Issued: 28 October

Responses due: n/a

Link:

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsatta/ch/12716_44.pdf?wtfrom=/ofgem/press/pressrelease-list.jsp

Ofgem has issued a press release stating that the High Court has dismissed on all counts Scottish Power's legal challenge to its decision to approve National Grid's new charging arrangements, under BETTA, for using the high-voltage transmission network.

Issue: Recovery of additional revenue by the transmission licensees to fund TIRG (Transmission Investment for Renewable Generation) projects; the proposed licence changes and a draft guidance note on the cost recovery and incentive mechanism

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

Title: Notice under Section 11(2) of the Electricity Act 1989 (National Grid Electricity Transmission plc)

Title: Notice under Section 11(2) of the Electricity Act 1989 (Scottish Hydro-Electric Transmission Ltd)



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Title: Cost recovery and incentive mechanism for transmission investment for renewable generation baseline projects

Issued: 28 October

Responses due: **25 November**

Links:

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/12698_235_05a.pdf

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/12697_235_05c.pdf

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/12695_235_05b.pdf

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/12694_235_05d.pdf

Ofgem has published statutory notices to amend special licence conditions in the licences of Scottish Power Transmission Limited, National Grid Electricity Limited, and Scottish Hydro-Electric Transmission Ltd to allow them to recover additional revenue to fund investments in specified transmission infrastructure projects to support renewable generation projects under the TIRG proposals.

The licence change consultations are accompanied by a draft guidance note that describes, without fettering the Authority's discretion, the Authority's approach under the proposed licence conditions. The proposals relate to four transmission investment projects described as: Beaulieu-Denny; Scotland England interconnector (see below); Sloy reinforcement; and South West Scotland.

Issue: Treatment of TIRG proposals for the Scotland/England upgrade

Title: Transmission Investment for Renewable Generation - Scottish Power Transmission Limited's Submission to Ofgem to Upgrade the Scotland / England Interconnector

Issued: 31 October

Responses due: **18 November**

Link:

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/12722_238_05.pdf

Under the new revenue recovery arrangements for TIRG projects, referred to above, the allowance for the Scotland/England interconnector project is more restrictive than for the other three projects unless one of two preconditions is satisfied.

Ofgem has issued an open letter indicating that Scottish Power Transmission Limited (SPTL) has submitted its views on a number of issues concerning how the Scotland/England upgrade should be treated under TIRG, and seeking views on SPTL's submission and whether either of the specified preconditions have been met.

GOVERNMENT AND OTHER BODIES

DTI

Issue: Retail - Fuel labeling on customers' bills

Title: Customers See Green on Fuel Bills

Issued: 1 October

Responses due: n/a

Links: <http://www.gnn.gov.uk/environment/detail.asp?ReleaseID=171578&NewsAreaID=2&NavigatedFromDepartment=False>

The DTI has issued a press release on the requirement for suppliers to provide a fuel label on information provided to customers so they can identify the fuel used to produce the electricity they have consumed. Suppliers are also required to provide information on the CO₂ and radioactive emissions.

Issue: Security of Supply/fuel shortages - DTI is consulting on updating the provisions of the Fuel Security Code.

Title: Draft Fuel Security Code

Issued: 5 October

Responses due: **18 November**

Links (Draft Code & policy document):

http://www.dti.gov.uk/energy/domestic_markets/security_of_supply/draft_rev_fuel_security_code.pdf

&

http://www.dti.gov.uk/energy/domestic_markets/security_of_supply/draft_rev_fuel_security_code_support.pdf

The DTI has issued a policy document/consultation on updating the provisions of the Fuel Security Code in light of current market arrangements. The FSC is the Code that sets out the arrangements that apply when/if the Secretary of State calls a "Fuel Security Period" (FSP) under the provisions of Sections 34 and 35 of the Electricity Act. It is suggested that the type of fuel management directions that might be given include (but are not limited to):



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- *“To Generators; to procure or burn particular fuels, or to make plant available.*
- *To Suppliers; to seek additional demand management.*
- *To Transmission Owners and Distribution Network Operators; to amend line outages.*
- *To the System Operator; to procure increases or decreases in generation and demand, based on fuel management considerations, using tools such as, for example, the Balancing Mechanism or Balancing Services.”*

The original Code was drafted in 1990 to operate under the Pool arrangements when generating stations were subject to central dispatch and only minor changes were made at the point that NETA was introduced. In revising the Code, the DTI's core principles are; that market mechanism should be retained within an FSP, there should be minimal intervention from Government, and there will be no market distortion.

The policy document is accompanied by a draft of the 2005 Fuel Security Code (the 2005 FSC) and refers back to its May 2003 consultation on this issue.

Key policy decisions/proposals within the policy document include:

- market mechanisms are to be retained and parties will continue to contract to minimise any imbalance exposure during an FSP, NGET will then use the Balancing Mechanism and Balancing Services “and other tools” to constrain parties on and off in line with the Secretary of State's directions;
- new balancing services, and changes to the Procurement Guidelines, may be required to accommodate some of the services that NGET may need to procure during a fuel security period (for example to specify the use of a particular fuel);
- the approach envisages that the additional cost of an FSP will therefore feed through into higher BSUoS charges (Balancing Services Use of System charges);
- capacity payments will not be introduced as part of the 2005 FSC;
- there will be no change to the applicability of the FSC which will continue to apply solely to licensed parties;
- the main provisions of Section G of the BSC (which provides for different price setting mechanisms in fuel security and other emergencies) will be unchanged but other provisions may be required to deal with exceptional costs;

- NGET is to retain responsibility for gathering and collating information with obligations set out in the Grid Code – data would be passed to the DTI and National Energy Emergency Committee and published by the committee;
- consequential breach of emissions limits, by generators, in providing services in a FSP, may be reviewed by the National Energy Emergency Committee;
- a post event mechanism is proposed to allow generators to recover costs that cannot be recovered through the normal market mechanisms (based on modified BSC cost recovery mechanisms);
- the System Operator may be able to protect itself from the impact of excess costs on its performance under the SO incentive scheme by triggering an Income Adjusting Event;
- adjustments to price controls will be used to protect Transmission and Distribution Owners from any excess costs they may be exposed to through, for example, delays in outages;
- no special provisions to protect suppliers from high costs are proposed, instead DTI relies on the retention of market mechanisms and equitable treatment of all suppliers through spreading additional balancing services costs via BSUoS; and
- it is suggested that the interaction between the BSC, FSC and Grid Code implies a need for the FSC to become a “core industry document” and for the BSC to be modified to reflect this.

Subsequently, Gaz de France raised a BSC “Issue” (Issue - 20 Fuel Security Code) to allow BSC Parties to consider what changes may be needed to the BSC to reflect the changes in the FSC (see below under BSC Issues).

EU Emissions Trading Scheme (EU ETS)

Issue: UK emissions allowances - the UK's legal challenge of the EU's rejection of the number of emissions allowances in the UK's final National Allocation Plan

Title: European Court to hear UK's case against the Commission on EU Emissions Trading

Issued: 18 October
Responses due: n/a

Link:

<http://www.defra.gov.uk/news/2005/051018b.htm>



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DEFRA has issued a press release announcing that the hearing, by the European Court of First Instance in Luxembourg, of the UK's legal challenge against the Commission's decision to reject the ~ 20 million increase in allowances between the UK's provisional and final NAP took place on 18 October. Judgement is due at the beginning of 2006.

Issue: EU ETS compliance - the ability to use CDM (Clean Development Mechanism) and JI (Joint Implementation) credits to meet obligations under the EU ETS

Title: 19 October 2005 - Linking Directive Regulations laid before Parliament

Issued: 19 October
Responses due: Comments on the accompanying guidance (NOT the regulations) is requested by 31 January 2006
Regulations effective from: **13 November 2005**

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

DEFRA has indicated that the regulations that give effect to EU's Linking Directive have been laid before parliament and will come into effect on 13 November. DEFRA has also published guidance on the regulations. The regulations will allow operators to use CERs (Certified Emissions Reduction credits - issued under the Clean Development Mechanism) under Phase I of the EU ETS (2005 - 2007) and CERs and ERUs (Emission Reduction Units - credits issued under JI) to be used in Phase II (2008 - 2012). The UK is not imposing limits on the use of credits under Phase I.

Issue: Emissions Trading - changes to the UK regulations giving effect to the EU emissions trading scheme.

Title: Consultation on the first amendment to the Greenhouse Gas Emissions Trading Scheme Regulations 2005

Issued: 24 October
Responses due: **16 January 2006**

Link:
<http://www.defra.gov.uk/corporate/consult/etsregs05-amend1/index.htm>

DEFRA has issued a consultation on changes to the regulations governing the operation of the EU emissions trading scheme. The changes cover:

- Missing and late installations;
- Surrender of permits;
- Powers to delay the issues of allowances;
- Registry charges; and
- Access to information available under the EU ETS for the national emissions inventory.

DEFRA

Title: Biomass Task Force - final report to Government, October 2005

Published: 25 October
Responses due: n/a

Link (report):
<http://www.defra.gov.uk/farm/acu/energy/biomass-taskforce/>
Press release:
<http://www.defra.gov.uk/news/2005/051025a.htm>

The Biomass task force was appointed by Government to undertake a study, commencing in October 2004, to:

"To assist Government and the biomass industry in optimising the contribution of biomass energy to renewable energy targets and to sustainable farming and forestry and rural economy objectives."

The report covers the Task Force's findings and final recommendations to Government. The accompanying press release states that *"biomass could reduce the nation's carbon emissions by almost three million tonnes a year if used to provide heating. The resultant carbon saving would be the equivalent of taking 3.25 million cars off the road"*.

Competition Commission

Energy Code Modification Appeals

Issued: 4 October
Responses due: n/a

Link: <http://www.competition-commission.org.uk/appeals/>

The Commission has created a new section on its website that provides information about energy code modification appeals for the public and for parties to appeals. The site also includes links to the various electronic templates to be used by parties as part of the appeal process.



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NFPA

Issue: latest ROC auction prices

Published: 21 October

Responses due: n/a

Link: <http://www.nfpa.co.uk/>

NFPA issued a press release indicating that over 216,000 ROCs (Renewables Obligation Certificates) were purchased at its NFPAS auction on 20 October at an average price of £39.17. The average price at the previous auction, in July, was £45.73.

GB SO REPORTS AND CONSULTATIONS

Issue: Security of supply - National Grid's annual forecast of the availability of gas and electricity to meet GB demand for the coming winter

Title: National Grid's Winter Outlook Report 2005/06

Issued: 5 October

Responses due: n/a

Links (report & Ofgem's cover letter):

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/12493_214_05.pdf

&

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/12495_215_05.pdf

National Grid (NG) has published its forecast of the supply and demand for gas and electricity over the 2005/06 Winter Peak following responses to its Preliminary Outlook, published in May and, for gas, data collected during the "Transporting Britain's Energy" consultation process. The Outlook provides the outlook for gas and electricity separately and then looks at the interaction between the two sectors. It also reviews current proposals for market changes that may affect the supply demand balance.

Some of the main, high level, findings from the assessment of the electricity supply demand balance are summarised below.

- NG presents a single base case which it considers represents a "balanced view", despite uncertainty around the winter supply conditions. The key assumptions are summarised in the table below (which reproduces Table 7 in the document).

- NGET's current forecast of the amount of generation it anticipates will be available over the winter peak is 72.6GW (which includes 2GW import from France). NG also indicates that 2.1GW of mothballed plant could be returned to service before the winter, 0.7GW of which has acquired Transmission Entry Capacity (TEC).
- Forecast peak demand for GB is 61.5GW; forecast export to Northern Ireland adds another 0.4GW. The one in 20 peak day forecast is 64.9GW.
- Overall the latest forecast plant margin for 2005/06 is marginally worse (~ 1GW) than the position forecast in May.
- Under average winter conditions NG indicates that there should be more than enough plant to meet demand and scope for the electricity sector to reduce gas demand to provide limited demand-side response required by the gas sector.
- In 1 in 50 Cold Winter Conditions (using the 1946/47 weather as representative of these conditions) NG indicates that the electricity margin is sufficient provided that there aren't high levels of plant breakdown or unavailability of CCGT due gas supply concerns. In these circumstances, if high prices do not deliver additional demand reduction, instructed demand reductions would be needed to deliver security of supply. The Outlook suggests this could be delivered by voltage reduction which should not be discernable by the end customer.

<i>Reproduction of Table 7 from Winter Outlook</i>	Base Case
GB Plant availability, GW	70.6
Availability from France, GW	2.0
Return of mothballed plant, GW	2.1
Total availability (100%)	74.7
Average assumed availability, %	91%
Assumed availability, GW	68.1

Under the section on gas – electricity interactions, National Grid analyses the potential gas demand response available from the electricity power sector under a range of winter scenarios.

For a one in 50 winter, the analysis suggests a potential response of 1.8bcm (5GW less CCGT than assumed in the gas forecast demand) assuming, amongst other things, fuel switching at distillate CCGTs, and high coal and oil burn. However, NGET is very cautious as to whether this would actually emerge, noting that it is far in excess of anything seen or needed to date and that, while the potential level of response is feasible,



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, “it is towards the upper end of possibilities”. SO₂ limits are identified as a potentially limiting factor that may restrict the amount of coal and oil that can be used to displace gas.

For a one in 10 winter (similar to 1985/86) NGET’s simulation suggests 1.3bcm of gas demand reduction could be delivered.

The Winter Outlook is published together with a letter from Ofgem’s Chief Executive which indicates that the purpose of the outlook is to inform the market of potential supply demand operational issues, particularly in severe winters, in the gas and electricity market. The letter also indicates that the primary responsibility for balancing supply and demand lies with the market and that all market participants share responsibility to work to enhance the arrangements so that “appropriate commercial incentives exist to deliver security of supply”.

Issue: Transmission network charging - Charging for short term access to the transmission network.

**Title: Introducing a New Charge for Limited Duration TEC
Initial Thoughts Consultation**

Issued: 5 October
Responses due: **5 November**

Link:
<http://www.nationalgrid.com/uk/Electricity/Charges/modifications/>

NGET has issued a consultation setting out its initial thoughts on the charging principles to apply to new access products being developed under CAP094 (Limited Duration Transmission Entry Capacity - LDTEC). A number of options have been developed for the design of a new “LDTEC” product, under CAP094, and are subject to consultation. NGET indicate that it would not be appropriate to initiate a formal charging consultation until the final proposals are submitted to the Authority for approval.

The consultation summarises the main elements of the various approaches that have been suggested and concludes that there are similarities between the LDTEC proposals and the STTEC access product, introduced in September 2004, as both provide access to the transmission network for less than a year and neither guarantees access rights for the following year. STTEC is Short Term TEC; a four, five or six week duration access rights (one of the proposed approaches for the LDTEC is based on purchase of Multiple Contiguous Blocks of STTEC – (MCB SSTECC)).

Given the similarities between SSTECC and LDTEC, NGET suggest it would be appropriate to adopt the following, similar, charging principles.

- That the charges should not undermine the main access product – TEC. NGET’s concern is that if charges for the LDTEC are too low parties may seek to contract for multiple LDTEC products rather than contracting for annual TEC (Transmission Entry Capacity – which provides access to the network for the whole financial year and provides a right to an identical amount of access capacity in the following year). NGET set out the relative merits of TEC and LDTEC and suggest that the differences should be used to determine the extent of any premium, compared to the annual cost of TEC, for extended use of LDTEC. Views are sought on this and the level/justification for any premium to protect TEC.
- That charges should be locational. NGET suggest that the charge for LDTEC in positive charging zones should be a multiple of the TNUoS charge. However it suggests that generators should not be paid in negative charging zones and proposes no charge in these zones.

The consultation also considers charging issues relating to:

- temporal variations in charges - NGET suggests there is merit in an approach which front loads charges into the initial period covered by the LDTEC so the charges for this period converge towards those for STTECC;
- the situation where the amount of access provided under the LDTEC varies over its duration (an average or weekly charge is considered to be most appropriate);
- arrangements where LDTEC and TEC are purchased in the same year; and
- the application fee.

Issue: Balancing Services - Tendering for Fast Reserve

**Title: Fast Reserve Tender Process
Communication Regarding Changes to the Tender Process**

Issued: 13 October
Responses due: n/a

Link:
http://www.nationalgrid.com/NR/rdonlyres/8E15785F-B9D1-4A6A-9415-944ED5ED59D0/4296/2005_FastReserve_Terms_Memo.pdf



IPA Energy Consulting

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

NGET has published a memo advising on two changes that have been made to the fast reserve contract.

Issue: Transmission network charging (connection) – proposed changes to the Connection Charging methodology to accommodate changes to the treatment of generator intertripping schemes following approval of CAP076 (Treatment of Generator Intertripping Schemes)

Title: Conclusions Report Modification Proposal to the Connection Charging Methodology GB ECM-01 One-off Charges for System to Generator Intertripping Schemes

Issued: 14 October

Responses due: Authority decision required within 28 days

Link:

<http://www.nationalgrid.com/uk/Electricity/Charges/modifications/>

NGET has submitted its conclusions report to the Authority seeking a decision on the implementation of its proposed changes to its connection charging methodology to cover one-off charges for certain categories of generator intertripping schemes. This follows changes introduced into the CUSC that categorise different forms of scheme according to why they are required. If approved, the change would come into effect on 1 December 2005.

THE BSC AND CUSC

The BSC

New Modification proposals

P195 (Neutrality for CCGT BMUs Switching Between Gas and Distillate) was raised, by Scottish and Southern Energy plc, on 3 October. The Authority agreed with Scottish and Southern Energy plc's request that the Modification should be progressed as an URGENT Modification.

The Modification proposes changes to the BSC to insulate parties with CCGT plant capable of burning distillate from the effect of imbalance if they trip, or fail to deliver notified output, in specified circumstances as a result of switching fuels.

Under the urgent procedure the Modification was processed under a highly compressed timetable and was submitted to the BSC Panel on 28 October with the final report being submitted to the Authority later the same day. The BSC Panel recommended that the Modification should be REJECTED.

The Modification report specifies that, if the Modification is approved, it should be implemented 2 working days after the Authority gives its approval.

BSC – joiners and leavers

Citadel Commodity Products Limited acceded to the Balancing and Settlement Code and **Killinghome Power Ltd** has left.

BSC Miscellaneous

BSC Issue 20 (Fuel Security Code) was raised by Gaz de France following the DTI's publication of its consultation on a revised draft Fuel Security Code. The issue has been raised to allow the industry to consider the changes that may be required to the BSC in the light of the new Fuel Security Code, and any potential drafting issues, before a modification is raised. The first meeting is scheduled for **3 November**.

BSC Panel membership - Abid Sheikh has been appointed, by energywatch, to become a Consumer Member of the BSC Panel.

Update on Marketing in Financial Instruments Directive (MiFID) – for those following the implications of the MiFID, there is a further update in issue 68 of ELEXON's Newscast (<http://www.elexon.co.uk/Publications/newscast/default.aspx?year=2005>).

CUSC

CUSC Amendment Proposals

Authority Decisions

The Authority has APPROVED **CAP095 (Removal of Operational Day Reference from Ex Post Publication of Response Information)**. The change, which took effect on 28 October 2005, removes an inconsistency in the ex ante and ex post reporting of frequency response data – following the change, both will be reported on a calendar day/month basis.



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New CAPs

CAP106 (Amendment to revise Paragraph 4.5.1 (Indexation - Application) of the CUSC), was raised by NGET. The Amendment proposes changes to the CUSC to correct inconsistencies in the paragraph 4.5.1 (Indexation – Application) created following implementation of the legal text giving effect to CAP076 (**Treatment of System to Generator Intertripping Schemes**) and CAP047 (**Introduction of a competitive process for the provision of Mandatory Frequency Response**). The change would also make it explicit that indexation arrangements are mandatory (as opposed to negotiable as in other Balancing Services Agreements) in respect of System to Generator Operational Inter-tripping Agreements.

Withdrawn CAPs

Notice: 3 October
Response: n/a

NGET has confirmed that no CUSC Parties came forward by the deadline of 30 September to sponsor **CAP 098 (Reassessment of Suppliers Value at Risk)**, originally raised by BizzEnergy; and

CAP096 (Revisions Resulting from Interconnector Separation) and **CAP102 (Revision of CUSC Amendment Provisions)**, originally raised by NGET. All three CAPs have now been withdrawn.

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.

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Summary of October 2005 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
DTI/Ofgem	Regulation of offshore electricity transmission The consultation can be found at: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/11963_17805.pdf	27 July	19 October
DTI	Adjusting transmission charges for renewable generators in the North of Scotland The document can be found at: http://www.dti.gov.uk/energy/consultations/s_185_consultation.pdf Illustrative Transmission Charges for Scottish Islands (by NGT) http://www.dti.gov.uk/energy/consultations/island_charges.pdf Impact of GB Transmission Charging on Renewable Electricity Generation http://www.dti.gov.uk/energy/consultations/seef_report.pdf	27 July	19 October
DTI	Consultation on the use of net and gross calorific values for calculating energy balances The consultation can be found at: http://www.dti.gov.uk/energy/consultations/net_gross_cv.pdf	31 July	31 October
DTI	A cost recovery mechanism for protected energy companies in energy administration Consultation on proposed licence modifications Link: http://www.dti.gov.uk/energy/consultations/cost_recovery.pdf	4 August	27 October
DTI	Consultation on the sourcing of industrial energy pricing data in the Quarterly Energy Prices publication Link: http://www.dti.gov.uk/energy/consultations/qficonsult2.pdf	15 August	11 November
NG	National Grid Reserve Review Reserve Review Conclusions and Consultation on Potential Developments Link: http://www.nationalgrid.com/uk/indinfo/balancing/pdfs/0905_ReserveReviewConclusions.pdf	9 Sept	5 October
Ofgem	Proposed licence modifications required as a consequence of the introduction of interconnector licences Statement of reasons and statutory notices under	12 September	7 October

	section 11 and section 11A of the Electricity Act 1989 Link: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/1230_2_19905.pdf		
DTI & Scottish Executive	The Review of the Renewables Obligation in England & Wales and in Scotland: Statutory Consultations Link to E&W documents: http://www.dti.gov.uk/renewables/renew_2.2.5b.htm Link to Scot Exec documents: http://www.scotland.gov.uk/Publications/2005/09/13105127/51293	16 Sept	1 Dec (Scot Exec) 9 December (DTI)
Ofgem	Notice under section 11A(3) of the Electricity Act (1989) Link: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/1241_2_20705.pdf	27 Sept	26 Oct
Ofgem	Extending National Grid Electricity Transmission Ltd's Transmission Owner Price Control for 2006/07 Initial proposals Link: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/1240_5_20605.pdf	27 Sept	25 October
Ofgem	Enduring transmission charging arrangements for distributed generation A discussion document Link: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/1247_2_211_05.pdf	30 Sept	9 December
NEW in October			
Ofgem	Title: Electricity Distribution Mergers: clarification of existing policy Link: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/1250_4_Elec_Dist_Mergers_061005.pdf	5 October	n/a
DTI	Title: Draft Fuel Security Code Links (Draft Code & policy document): http://www.dti.gov.uk/energy/domestic_markets/security_of_supply/draft_rev_fuel_security_code.pdf & http://www.dti.gov.uk/energy/domestic_markets/security_of_supply/draft_rev_fuel_security_code_support.pdf	5 October	18 November
NGET (& Ofgem)	Title: National Grid's Winter Outlook Report 2005/06 Links (report & Ofgem's cover letter): http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/1249	5 October	n/a

	3_214_05.pdf & http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/12495_215_05.pdf		
NGET	Title: Introducing a New Charge for Limited Duration TEC Initial Thoughts Consultation Link: http://www.nationalgrid.com/uk/Electricity/Charges/modifications/	5 October	5 November
Ofgem	Title: <u>National Grid Electricity Transmission plc's request for a change to the publication date of the GB transmission system Seven Year Statement under standard condition C11 (Production of information about the GB transmission system) of its transmission licence</u> Link: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/12526_217_05.pdf	6 October	20 October
Ofgem	Title: <u>Request for extension to timescales: Consent pursuant to SLC C8 (Requirement to offer terms)</u> Link: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/12543_218_05.pdf	7 October	n/a
Ofgem	Title: Notice under section 11A (1) and (3) of the Electricity Act 1989 (Transmission) Link: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/12550_221_05.pdf	10 October	8 November
Ofgem	Title: Notice under section 11A (1) and (3) of the Electricity Act 1989 (distribution) Link: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/12549_220_05.pdf	10 October	8 November
NGET	Title: Fast Reserve Tender Process Communication Regarding Changes to the Tender Process Link: http://www.nationalgrid.com/NR/ronlyres/8E15785F-B9D1-4A6A-9415-944ED5ED59D0/4296/2005_FastReserve_Terms_Memo.pdf	13 October	
NGET	Title: Conclusions Report Modification Proposal to the Connection Charging Methodology GB ECM-01 One-off Charges for System to Generator Intertripping Schemes Link: http://www.nationalgrid.com/uk/Electricity/Charges/modifications/	14 October	Authority decision required within 28 days
Ofgem	Title: open letter in relation to Modification Proposal	14	26 October

	<p>to the Use of System Charging Methodology GB ECM-02: Negative Demand Charges.</p> <p>Link: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/12609_223_05.pdf</p>	October	
Ofgem	<p>Title: Social Action Strategy</p> <p>Link: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/12605_222_05.pdf</p>	14 October	n/a
Ofgem	<p>Title: 2006-07 electricity distribution EHV use of system charges</p> <p>Link: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/12633_227_05.pdf</p>	19 October	
DEFRA	<p>Title: 19 October 2005 - Linking Directive Regulations laid before Parliament</p> <p>Link: http://www.defra.gov.uk/environment/climatechange/trading/eu/kyoto/index.htm</p>	19 October	<p>Comments on the accompanying guidance is requested by 31 January 2006</p> <p>Regulations effective from: 13 November 2005</p>
DEFRA	<p>Title: Consultation on the first amendment to the Greenhouse Gas Emissions Trading Scheme Regulations 2005</p> <p>Link: http://www.defra.gov.uk/corporate/consult/etsregs05-amend1/index.htm</p>	24 October	16 January
Biomass Task Force	<p>Title: Biomass Task Force - final report to Government, October 2005</p> <p>Link: http://www.defra.gov.uk/farm/acu/energy/biomass-taskforce/</p>	25 October	
Ofgem	<p>Title: Issuance of GB offers to certain users in timescales later than as directed by the Gas and Electricity Markets Authority pursuant to subparagraph 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</p> <p>Link: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/12665_229_05.pdf</p>	25 October	
Ofgem	<p>Title: Open letter on Ofgem's Electricity Distribution Customer Service Reward Scheme</p> <p>Link: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/1266</p>	26 October	9 December

	7_230_05.pdf		
Ofgem	<p>Titles: Decision of the Gas and Electricity Markets Authority to accept commitments pursuant to section 31A(2) of the Competition Act 1998</p> <p>Commitments offered by SP Manweb plc (Company Number 02366937) (“SP Manweb”) to the Gas and Electricity Markets Authority (the “Authority”) pursuant to Section 31A of the Competition Act 1998.</p> <p>Links: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/12675_234_05a.pdf http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/12675_234_05b.pdf</p>	27 October	
Ofgem	<p>Title: Judicial Review on Transmission Charges Ofgem welcomes Judge’s ruling</p> <p>Link: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/12716_44.pdf?wtfrom=/ofgem/press/pressrelease-list.jsp</p>	28 October	
Ofgem	<p>Title: Notice under Section 11(2) of the Electricity Act 1989 (SP Transmission Ltd)</p> <p>Title: Notice under Section 11(2) of the Electricity Act 1989 (National Grid Electricity Transmission plc)</p> <p>Title: Notice under Section 11(2) of the Electricity Act 1989 (Scottish Hydro-Electric Transmission Ltd)</p> <p>Title: Cost recovery and incentive mechanism for transmission investment for renewable generation baseline projects</p> <p>Links: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/12698_235_05a.pdf http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/12697_235_05c.pdf http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/12695_235_05b.pdf http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/12694_235_05d.pdf</p>	28 October	25 November
Ofgem	<p>Title: Transmission Investment for Renewable Generation - Scottish Power Transmission Limited's Submission to Ofgem to Upgrade the Scotland / England Interconnector</p> <p>Link: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/12722_238_05.pdf</p>	31 October	18 November

BSC New Mods...			
P195	Neutrality for CCGT BMUs Switching Between Gas and Distillate - URGENT	Scottish & Southern	2 October
CAP Decisions...			
CAP095	Removal of Operational Day Reference from Ex Post Publication of Response Information	APPROVED	Implement 28 Oct
New CAPs			
CAP 106	Amendment to revise Paragraph 4.5.1 (Indexation - Application) of the CUSC	NGET	
Withdrawn CAPs			
CAP098	Reassessment of Suppliers Value at Risk		
CAP096	Revisions Resulting from Interconnector Separation		
CAP102	Revision of CUSC Amendment Provisions		