



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 September 2004.

The newsletter aims to assist electricity market participants who already have a 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 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

- The Russian Government has decided to submit the proposal to ratify the Kyoto Protocol to the Duma; once the Duma confirms the ratification the Kyoto Protocol will enter into force.
- BETTA took a major step forward with the activation of the new GB Codes and licences on 1 September (albeit with some provisions switched off or yet to be implemented).
- As part of the cabinet reshuffle Mike O'Brien, formerly Minister of State for Trade, has been appointed Minister of State in the DTI for E-Commerce, Energy and Competitiveness. Stephen Timms, who was the Energy Minister, has moved to become Financial Secretary at the Treasury.
- The BWEA has launched a new campaign promoting wind energy – *Embrace the Revolution*.
- The Environmental Audit Commission has announced an Inquiry into 'The International Challenge of Climate Change: UK Leadership in the G8 and EU'.
- Ofgem has published an update to its proposals for the Distribution Price Control. These include increases in capital & operating expenditure, allowing recovery of some pension costs, and less favourable tax treatment. This results in an average R_0 of 0% (as opposed to -2% in the June proposals) and an average "X" of 0. The values for individual DNOs R_0 vary between -13% for YEDL to +11% for SP Distribution. These values are based on an assumed 6.6% pre tax rate of return; the Final Proposals, which will be published on 29 November, will determine the actual rate of return to be used.

- Two independent distribution licences have been granted in the last two months. The first to Laing Energy Limited on 26 August, and the second to Independent Power Networks Limited on 3 September. These are the first distribution licences to be issued to companies that are not ex PESSs.
- NGC has published its "Final Report to the Authority" on the GB Charging Methodologies which are largely unchanged from the proposals presented in the "Final Methodologies" in August. The *illustrative* generation charges range from £19.67/kW to £-10.54 under the preferred approach (Option B).

Ofgem Issues and Consultations

Security of supply October 2003 to March 2004

Ofgem published its twice yearly retrospective on security of supply for winter 2003/4 on 6 September. The report provides a summary of security of supply for the gas and electricity markets over this period. For electricity the broad conclusion is that the market arrangements have proved robust to a wide range of "challenging events", the main one being the low forecast operating margin for winter 2003/4. One issue that is noted is the under-utilisation of the Scottish Interconnector in some circumstances, due to arrangements for access, for which BETTA is seen as the key solution. Comments were invited by **end September** (four parties commented on the last report).

The report can be found at:

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsatta/ch/8579_21704_sixmonthreport.pdf

Renewables Obligation - 1 April 2003 to 31 March 2004

On 10 September Ofgem issued a press release stating that the size of the Renewables Obligation on electricity suppliers in England and Wales and Scotland is 12,383,426 MWh and 1,239,647 MWh respectively.



IPA Energy Consulting

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

The press release can be found at:

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsatta/ch/8608_r6104_10sept.pdf

Electricity Distribution Price Control Review: Update Paper

On 27 September, Ofgem published an update on progress on the new Distribution price controls to apply from 1 April 2005. Comments are invited by **25 October**; the Final Proposals are to be published on 29 November.

Ofgem has confirmed the broad shape of its Initial Proposals in June, but has updated the detailed provisions to reflect further discussions and cost projections. Capital expenditures have increased from £5.5 billion in the June proposals to £5.7 billion and Operating expenditure allowances have increased from £702 m to £755 m. In addition, Ofgem has increased revenue allowances to allow for less favourable tax treatment than initially assumed and the recovery of pension deficits (70% of the deficit due to early retirement costs will be passed on to customers).

The average revenue allowance for all DNOs has increased since the June proposals; and the total capex allowance has increased in all but two regions. The resultant average P_0 (the initial change in prices when the new price control is introduced) is 0, as opposed to -2% in the June proposals, with prices allowed to rise in line with inflation in subsequent years. The new and June values are reproduced below (values are rounded).

DNO's	June	Update	Change
CN – Midlands	-6%	-5%	2%
CN – E.Midlands	-11%	-8%	3%
United Utilities	-2%	6%	7%
CE – NEDL	-11%	-3%	8%
CE – YEDL	-15%	-13%	2%
WPD – South West	0%	2%	2%
WPD – South Wales	2%	7%	6%
EDF – LPN	-2%	-4%	-2%
EDF – SPN	-4%	3%	7%
EDF – EPN	-5%	-2%	3%
SP Distribution	8%	11%	2%
SP Manweb	4%	-6%	-10%
SSE – Hydro	0%	3%	3%
SSE – Southern	6%	9%	3%
Total	-2%	0%	2%

The update is based on the assumption of a 6.6% pre-tax cost of capital; the actual value to be used will be determined in the Final Proposals to be published in November.

The Update document was accompanied by a paper summarising comments on the June Initial Proposals and a presentation for analysts. The Impact Assessment was published a couple of days later.

The update can be found at:

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsatta/ch/8738_22204_dpcrsepupdate.pdf

the summary of responses at:

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsatta/ch/8740_222a04_summaryofresponses.pdf

the presentation for analysts at:

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsatta/ch/8745_22204_analyst_presentation.pdf

& the Impact Assessment at:

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsatta/ch/8760_IAMFinal.pdf

Renewables Obligation - 1 April 2003 to 31 March 2004

On 28 September, Ofgem issued a press release on updated information for the second period of the Renewables Obligation finished in March.

The press release indicates the estimated shortfalls to be in the region of £682,570 (England & Wales) and £17,299 (Scotland) if no Renewables Obligation Certificates (ROCs) or buy-out payments are provided in respect of Maverick's obligation. The press release also indicates that, according to information received to date, the total Renewables Obligation on electricity supplied to customers in England and Wales is 12,387,720 MWh, and on electricity supplied to customers in Scotland is 1,239,692 MWh.

The press release can be found at:

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsatta/ch/8759_r6404_28sept.pdf

NGC System Operator incentive scheme from April 2005: Initial consultation document

On 29 September, Ofgem issued its initial consultation on the System Operator Incentive to apply to NGC's external costs from 1 April 2005. This will be the first SO incentive under BETTA and Ofgem is contemplating a two year scheme. In all other major respects Ofgem's current preference is to replicate the current arrangements with the introduction of new GB values for the main scheme parameters (i.e. same scope but extended to GB with a single target value and symmetrical sharing factors and caps and collars) although no indication of the possible values for these parameters is given at this stage.



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

The consultation indicates that although the move to BETTA introduces uncertainties in the likely costs, Ofgem considers these are less material than those faced when NETA was first introduced. However, if these uncertainties are seen as significant, it sets out three possible mechanisms for dealing with them:

- establishing separate targets for Scotland and England & Wales (although there is no discussion of how this might be achieved);
- the use of a “dead band” target like that used at NETA go live (although Ofgem dislike this approach because of the weakened incentive it provides); and
- use of asymmetric cap, floor and sharing factors (reducing the downside risk on NGC).

The consultation also considers two possible approaches for dealing with the potential for slippage in the BETTA timetable (although there are numerous statements to the effect that this is not expected). One that automatically cuts over to a new scheme with GB parameters when BETTA goes live and one that assumes continuation of the England & Wales schemes but allows for Scottish adjustments to apply when BETTA goes live. Both approaches rely on profiling of the scheme parameters, the first approach is preferred.

Other points to note include:

- the current SO incentive on *internal* costs is being extended to March 07;
- Ofgem notes its continued support for a move to a deeper external incentive scheme – but not yet;
- a straight line extrapolation of performance under this year’s scheme gives a profit to NGC of £37.9m;
- Ofgem raises the possibility of revising the reference price used to cost the net imbalance volume adjustment in the determination of the target costs and reviewing whether the current multipliers used when the system is either long or short are still appropriate;
- the consultation notes the interaction between incentive payments by the GB SO to transmission providers to reshuffle outages (which is treated as a non incentivised cost on NGC’s internal cost incentive) and consequential reductions in its external costs and notes Ofgem’s intention to take them into account when setting the targets and incentives. However, there is no discussion about how this will be achieved.

The deadline for comments is **27 October**; Initial Proposals are anticipated in December and Final Proposals in February 2005.

The consultation can be found at:

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/8762_22304.pdf

Guidance on impact assessments

On 30 September, Ofgem issued its guidance on the approach it will use in conducting Impact Assessments (IAs). The document covers when an IA will be produced (and criteria); the procedure for producing an IA (which includes a commitment to aim for a minimum consultation of 6 weeks from January 2005 – or explain why the period is shorter); and what the IA will cover.

Comments and questions on the guidance are invited and a single contact name is given for comments on this document and feedback on any IAs

The address for any issues on Impact Assessments is:

Michael Fews

Ofgem

9 Millbank

London

SW1P 3GE

Tel: 020 7901 7085

Fax: 020 7901 7196

Email: Michael.fews@ofgem.gov.uk

The guidance can be found at:

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/8801_22904b_IA.pdf

Responses to the draft guidance on impact assessments July 2004 172/0

Also on 30 September, Ofgem published a note on issues raised by consultees on its approach to IAs which, amongst other things, notes the appointment of a designated contact within Ofgem for all issues and feedback on IAs (see address above).

The note can be found at :

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/8800_22904a_Openletter.pdf

Recommendations for best practice guidelines for gas and electricity network operator credit cover



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

On 30 September, Ofgem published a consultation document that sets out the recommendations of four industry workgroups established to identify best practice in comparable industries and develop best practice guidelines for gas and electricity network operator credit cover arrangements. The paper also covers Ofgem's views on the criteria for pass through of bad debt for gas and electricity network operators.

Comments are invited by 26 November.

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/8795_22604.pdf

Renewables Obligation – Atlantic Electric and Gas Limited and Maverick Energy Limited

On 30 September, Ofgem issued a press release indicating that it does not intend to issue enforcement orders in respect of these two companies' failure to meet their renewables obligation. The press release states that Ofgem is satisfied that there is no further action it can take to secure compliance with this obligation and that issuing enforcement orders would have no practical effect.

The press release also indicates that the failure to comply with the Renewables Obligation by Atlantic and Maverick will lead to a shortfall in the buy-out fund of £8,489,163 and £699,869 respectively. The figure for Maverick is very slightly different to that quoted on the 28th.

The press release can be found at:

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/8802_r6504_30sept.pdf

BETTA

BETTA Go Active

BETTA Go Active happened according to plan on 1 September. NGC has been appointed as the GB SO under BETTA; all the Codes are now GB Codes with GB Panels. In addition, new standard licence conditions have been introduced into the transmission licences and modifications have been made to some of the standard and special conditions in all types of licence. Some of these changes have immediate effect and some take effect at go-live.

BETTA Go Active Documents

The documents relating to the Go Active notifications and arrangements have been published on a new BETTA Go Active section of the Ofgem website. Copies of the documents signed on 1 September are on the DTI website. Apologies but there are far too many of them to attempt to review here – the documents on the DTI website are listed below.

[BETTA Transitional and Enduring documents signed on 1 September 2004...](#)

Determination of standard conditions for transmission licence
 Modification of conditions of NGC's transmission licence
 Revised modification of conditions of NGC's transmission licence: 31 August 2004
 Text of NGC's transmission licence
 Modification of conditions of SHETL's transmission licence
 Revised modification of conditions of SHETL's transmission licence: 31 August 2004
 Text of SHETL's transmission licence
 Modification of conditions of SPT's transmission licence
 Revised modification of conditions of SPT's transmission licence: 31 August 2004
 Text of SPT's transmission licence
 Modification of standard conditions for generation licences
 Modification of conditions of Scottish Power Generation Limited's licence
 Modification of conditions of SSE Generation Limited's licence
 Modification of standard conditions for distribution licences
 Modification of conditions of Scottish Hydro-Electric Power Distribution Limited's licence
 Modification of conditions of SP Distribution Limited's licence
 Modification of standard conditions for supply licences
 Modification of conditions of Scottish Power Energy Retail Limited's licence
 Modification of conditions of SSE Energy Supply Limited's licence

The link to the Ofgem site is:

<http://www.ofgem.gov.uk/ofgem/work/index.jsp?section=/areasofwork/betta0>

The link to the DTI website is:

http://www.dti.gov.uk/energy/domestic_markets/electricity_trading/betta_transit.shtml



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

GB Consultation for NGC's Grid Code Change Proposals E/04 ("Further proposed changes to Grid Code OC2"), F/03 ("Proposed Changes to Operating Code OC2 - Outage Planning"), A/04 ("Proposed Change to the 'Data Validation, Consistency and Defaulting Rules' under the Grid Code"), E/03 ("Proposed changes to Connection Conditions CC.6.3.3 in respect of frequencies below 49.5Hz") and D/04 ("Grid Code Compliance Issues with Refurbishment Plant")

On 3 September Ofgem issued an open letter consulting on the inclusion of the above Grid Code changes in the designated GB Grid Code. Comments were invited on the GB consequences of the proposed changes by **5pm 22 September**.

The letter can be found at:

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsatta/ch/8575_21604_E04_F03_D04.pdf

Production of Seven Year Statements by the Transmission Licensees in the Run-Up to BETTA Go-Live

On 20 September, Ofgem issued an open letter seeking views on a proposal to lift the requirement on NGC and the Scottish transmission licensees to produce Seven Year Statements/Revisions for the period 2005/6 to 2011/12 in respect of their separate licence areas.

The proposal is made in response to requests from the licensees that they should be relieved of these obligations and in the light of the requirement on NGC to produce an interim version of the GB SYS for the period 2005/6 to 2011/12 by November 2004 and a full one by May 2005.

The proposal is based on the assumption that BETTA Go Live will occur on or around 1 April 2005. Recognising that Go Live could be delayed, additional provisions will be included in any direction to relieve the licensees of these obligations that will allow the Authority to require the licensees to produce the documents or updates if Go Live is delayed for any reason.

Comments are requested by **8 October**.

The open letter can be found at:

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsatta/ch/8710_22004.pdf

Planning and operating standards under BETTA: An Ofgem/DTI conclusion document

On 29 September, Ofgem issued its conclusions on the Security and Quality of Supply Standard to apply across GB under BETTA and the final version of the harmonised standard (volume 2).

Volumes 1 & 2 can be found at:

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsatta/ch/8767_22404_Vol1.pdf

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsatta/ch/8766_22404_Vol2.pdf

NGC System Operator incentive scheme from April 2005: Initial consultation document

Issued on 29 September - see above under Ofgem section.

GB Transmission Charging: Final Methodologies Conclusions Report to the Authority

On 30 September, National Grid published its final report on the GB charging methodologies. The proposals mirror those set out in the August "Final Proposals" consultation, with some mainly minor changes that are described below. Draft charging methodologies have also been produced for both options and comments are invited on these documents by **31 October**. These statements will be submitted to the Authority for approval after that date. The next steps include the Authority producing an Impact Assessment followed by an Authority decision in November, indicative tariffs will follow in January 2005, final tariffs and connection charges are to be published on 31 January 2005, and the Statement of Use of System Charges in February.

The conclusions report confirms NGC's preference for "Option B" which is based on the use of multi voltage expansion constants and a shift in the split of charges between generation and demand to 10:90 to ensure demand charges do not go negative. The report also concludes that whilst NGC prefers Option B it considers that Option A, which uses a single 400kV expansion constant and retains the current 27:73 split in charges between generation and demand, also meets its licence objectives and that should the Authority wish to reject Option B it should implement Option A.

The main changes to the proposed methodologies are:



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

- under Option B, in line with the approach adopted for calculating the 132kV expansion factor, the calculation of the 275kV expansion factor has been changed to take account of the likelihood that some future upgrades of existing 275kV lines may include upgrading to 400kV (approx 20%);
- clarification that transmission connected interconnectors that submit a positive TEC will be liable for TNUoS;
- correction to the methodologies to exempt interconnectors who do not submit a positive TEC but who import to GB as a result of responding to an emergency instruction, from generation TNUoS charges;
- correction to the connection methodologies to allow for depreciation periods for FMS/EMS meters that match replacement periods notified by the Transmission Owner rather than assuming the 15 year standard that applies within England & Wales;
- a change to the data used for identifying embedded generation to ensure consistency between Scotland and England & Wales data (both are to be based on net peak demand data provided by the GB DNOs);
- clarification that where a small directly connected generator allows another BSC Party to register its generation under the BSC, it is the BSC lead party that will be liable for BSUoS on the units generated and the generator that is liable for generator TNUoS; and
- in addition to the changes to the methodologies there have been some minor corrections to the data used within the DCLF model.

The **illustrative** tariffs from this September Conclusions document are set out below together with the values from the August Final Methodologies document.

Scenario A – NOT preferred

Scenario A		£/kW	£/kW
Generation Zone		Sept	August
		Concs	Final Method.
1	Pet'hd & N Highland	16.64	16.68
2	Skye & W Highland	15.89	15.94
3	Central Highlands	12.95	13.00
4	Central Belt	11.89	11.94
5	Borders & N England	8.66	8.67
6	L, Pennines & H	5.34	5.33
7	N.Wales & N.Mids	3.83	3.82
8	Anglesey	6.63	6.63
9	Dinowig	9.21	9.21
10	Mid Wales & W. Ms	1.52	1.52
11	E Mids & Anglia	2.41	2.40
12	S. East & Estuary	0.45	0.44
13	Central London	-5.73	-5.73
14	S.Wales & S. Coast	-2.51	-2.53
15	Wessex	-5.02	-5.02
16	Peninsular	-7.69	-7.70

Scenario A		£/kW	£/kW
Demand Zone		Sept	August
		Concs	Final Method
1	Northern Scotland	1.13	1.09
2	Southern Scotland	4.44	4.40
3	Northern	7.87	7.78
4	North West	11.46	11.46
5	Yorkshire	11.35	11.36
6	N Wales & Mersey	11.43	11.43
7	East Midlands	13.72	13.73
8	Midlands	15.24	15.24
9	Eastern	14.45	14.46
10	South Wales	18.78	18.80
11	South East	17.12	17.13
12	London	19.29	19.31
13	Southern	18.40	18.41
14	South Western	20.89	20.90



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

Scenario B - PREFERRED

	Scenario B Generation Zone	£/kW Sept Concs	£/kW August Final Method.
1	Peterhead	17.19	17.96
2	N Highland	19.67	20.54
3	W Highland	17.41	18.01
4	Skye & Quoich	15.73	16.30
5	Cent High & Angus	13.26	13.57
6	Argyll & Bute	11.47	11.77
7	S.W.Scotland	8.92	8.98
8	S.E.Scotland	10.10	10.25
9	N England	5.84	5.79
10	L, Pennines & H	2.60	2.56
11	N Wales & N Mids	0.72	0.67
12	Anglesey	3.78	3.72
13	Dinowig	6.36	6.30
14	Mid W, Mids & SE	-1.64	-1.68
15	North London	-2.71	-2.75
16	Central London	-8.64	-8.72
17	Oxon & S. Coast	-3.65	-3.71
18	S.Wales & Glos	-6.20	-6.30
19	Wessex	-7.05	-7.08
20	Peninsular	-10.54	-10.60
21	South West Wales	-4.61	-4.75

	Scenario B Demand Zone	£/kW Sept Concs	£/kW August Final Method
1	Northern Scotland	2.32	1.71
2	Southern Scotland	7.39	7.28
3	Northern	11.27	11.31
4	North West	14.79	14.81
5	Yorkshire	14.66	14.67
6	N Wales & Mersey	14.81	14.84
7	East Midlands	17.12	17.16
8	Midlands	18.66	18.70
9	Eastern	17.67	17.67
10	South Wales	22.01	22.01
11	South East	20.42	20.43
12	London	22.63	22.65
13	Southern	21.73	21.74
14	South Western	24.29	24.32

The conclusions document, draft charging methodologies, and cover letter to the Authority can be found at:

http://www.nationalgrid.com/uk/indinfo/betta/gb_consultations.html

Proposed Transitional Modifications to the BSC

PTMs are dealt with under the BSC section of this market update.

Government Bodies & Other Bodies

The EU

The Commission hails the proposal of the Russian government to ratify the Kyoto protocol

The Russian government is proposing to ratify the Kyoto protocol. An EU press release on this decision can be found at:

<http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/04/1165&format=HTML&aged=0&language=EN&guiLanguage=en>

DTI

The Renewables Obligation Order 2005 Statutory Consultation

On 8 September, the DTI published a statutory consultation on a number of amendments to the Renewables Obligation Order (ROO) most of which have been foreshadowed for some time. Any changes will take effect on 1 April. Comments are invited by **1 December**. A similar consultation exercise is being conducted by the Scottish Executive in respect of the Renewable Obligation (Scotland) order.

The DTI has also (very helpfully) produced a consolidated version of the proposed amended ROO to avoid the need to refer to the Original and amendments.

Views are sought on the proposed amendments and other options that are considered. The currently preferred approach (rather than all the detailed options) for the amendments is summarised below.

- Extend the level of the Renewables Obligation beyond 2010/11 to 2015/16 and beyond

This will increase the level of the obligation in this period from the current, flat, 10.4% from 2010 by 1% per year to 15.4% in 2015/16. The obligation would then remain at this level until 2026/7.

- Allow tradeability between Northern Ireland Renewables Obligation Certificates (NIROCs) and GB ROCs

Following the anticipated introduction of the Northern Ireland Renewables Obligation on 1 April 2005, DTI is proposing to amend the ROO to reflect the changes in the Energy Act to allow Northern Ireland Renewable Obligation Certificates (NIROCs) to be used by suppliers to meet their England & Wales (and Scottish) obligations. The Northern Ireland Assembly will need to pass equivalent provisions to allow acceptance of GB ROCs in Northern Ireland. The proposed changes will also allow Ofgem to issue GB ROCs in respect of offshore renewable generation directly, and exclusively, connected to the Northern Ireland Grid.

- Changes to secure the buy-out fund

Two changes are proposed – surcharges for late payment and mutualisation – both of which use new powers created under the Energy Act. DTI is not proposing to introduce amendments to shorten obligation periods or allow for netting off between any entitlement to recycled funds and liabilities – although comments on these approaches are invited.

Surcharges - the proposed change introduces a power to levy a surcharge on late payments into the buyout fund. It is proposed that for a period of three months after the payment date (1 October to 31 December) there would be a late payment period during which Ofgem's enforcement powers are suspended but late payments would be liable a surcharge. The proposed surcharge is Bank of England Base Rate +5% levied on a daily basis. DTI propose that the late payment fund should be separate to the buy-out fund but would be recycled on the same basis as the buy-out fund. It is suggested that payments should be made by 1 March. Once the late payment period has expired Ofgem would be able to use its enforcement powers.

Mutualisation – the proposed change sets out the arrangements under which all suppliers would be required to contribute to a shortfall in the buy-out fund resulting from the failure of a supplier(s) to meet its obligations. The consultation proposes that the mutualisation provisions would be triggered only where the fund shortfall is greater than 10%, and that any shortfall would be recovered in full up to a maximum level of 50% of the total value of the fund.

Suppliers would be required to fund the shortfall (which includes the amount subject to mutualisation

and any defaulting supplier's share of the mutualised amount) in proportion to the size of their obligations during the period covered by the shortfall. The mutualisation arrangements would be triggered in the year after the obligation period to which the failure relates, and Ofgem would be required to publish a formal notice notifying suppliers when this happens; payment would be required in the following year.

- Consider the introduction of a single recycling mechanism for the separate buy-out funds

DTI is proposing to retain the three separate buy out funds (NI, S and E&W) but to have a single recycling mechanism such that payments from the fund would be the same in all three areas.

However, this creates some potential difficulties with the operation of the proposed mutualisation arrangements which are anticipated to be regional. Merging the mutualisation arrangements is considered but seen as premature before the NI Obligation is established. Instead the DTI seeks views on limiting the effect of any failure to recycling payments that would have been due to suppliers in the area where the failure occurred. Because of this issue the legal drafting does not include provisions to allow for a single recycling mechanism. However, DTI notes that if such a provision is not introduced in time for 1 April 2005, it will deal with the issue under the 2005/6 review of the RO.

- Introduce more flexibility for small generators.

DTI is proposing to give generators of up to 50kW dnc the option to claim ROCs monthly or annually, currently they are required to claim annually. The option would be exercisable annually in advance of each obligation period (the option of allowing the choice to be made only once for the duration of the Renewables Obligation is also considered).

A separate consultation is being undertaken by the Scottish Executive in respect of the Scottish Obligation. In addition to the above, the consultation on the ROS includes some changes specific to the Scottish Order under Article 8.

Any changes are subject to state aid approval.

The relevant documentation can be found at:



IPA Energy Consulting

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

<http://www.dti.gov.uk/energy/renewables/policy/roo2005.shtml>
<http://www.scotland.gov.uk/consultations/enterprise/renewables.pdf>

Proposed European Directive on Security of Electricity Supply and Infrastructure Investment (2003/0301 (Cod)): Initial Regulatory Impact Assessment

On 17 September, the DTI published its initial Impact Assessment for the EU's proposed Directive on security of supply. The general tenor of the IA is that the UK's current regulatory regime is appropriate for safeguarding UK security of supply and that the security of supply concerns raised by the EC do not arise/apply in the UK. It also concludes that the overall benefit to the UK of implementing the proposed Directive is very likely to be negative. The IA also questions whether there are any UK benefits of implementing the revision to the Directive that was suggested by the European Council in July, although it notes other EU states may benefit from this approach.

The initial impact assessment can be found at: http://www.dti.gov.uk/energy/domestic_markets/security_of_supply/ria_sec_elec_supply.pdf

Government Restructuring Aid to British Energy Approved by the European Commission

On 22 September, DTI issued a press release on the European Commission's decision to approve the restructuring aid to British Energy.

The approval is subject to certain compensatory measures including:

- an indefinite requirement for the nuclear generation business to be ring fenced from BE's other businesses;
- a six year limit on any nuclear or fossil expansion in the European Economic area and on hydro-electric capacity expansion in the UK;
- a six year restriction on selling to industrial and commercial customers at prices below the wholesale market (except in exceptional market circumstances).

In addition, the EC has set a threshold of £1.629 billion for the aid and can request enhanced reporting if this is exceeded. The aid will only become available once the restructuring is complete.

The press release can be found at: <http://www.gnn.gov.uk/environment/detail.asp?ReleaseID=130324&NewsAreaID=2&NavigatedFromDepartment=False>

DEFRA

Proposed Options to Improve the Current UK Emissions Trading Scheme

On 3 September DEFRA announced that, on 26 August, it had written to direct participants of the UK's Emissions Trading Scheme seeking views on six possible options suggested by NERA to tackle oversupply of allowances and to encourage trading. The deadline for comments was **30 September**. DEFRA notes that the timetable is tight because any changes need to be put in place by the end of the year.

The announcement can be found at: <http://www.defra.gov.uk/environment/climatechange/trading/uk/>
 & the letter at: <http://www.defra.gov.uk/environment/climatechange/trading/uk/pdf/ukets-defra260804.pdf>

Review of UK Climate Change Programme - Terms of Reference Announced

On 15 September, DEFRA issued a press release announcing the terms of reference for a review of the UK Climate Change Programme. The programme was launched in November 2000. The review will include a formal consultation this Autumn followed by publication of a revised programme in the first half of 2005.

The terms of reference for the review are:

- *to evaluate key elements of the UK Climate Change Programme, to measure their impacts and effects;*
- *to update greenhouse gas emissions projections;*
- *to assess whether the UK is on course to achieve its target under the Kyoto Protocol;*
- *to assess whether the UK is on course to achieve its domestic goal to reduce carbon dioxide emissions by 20 per cent below 1990 levels by 2010;*
- *to assess whether the UK is on course to make the "real progress by 2020" towards the longer-term goal of reducing carbon dioxide emissions by some 60 per cent by about 2050, anticipated in the Energy White Paper;*
- *to identify and evaluate the options for putting the UK on a path to a 60 per cent reduction in carbon dioxide emissions by 2050 by delivering further reductions in greenhouse gas emissions through to 2010, 2015 and 2020;*

- to set out how we intend to ensure the UK achieves its Kyoto target and continues to move towards its domestic carbon dioxide goals;
- to assess the costs and benefits to the UK and to UK business of the proposed revised programme of action to reduce emissions;
- to prepare for the 4th National Communication to the UNFCCC¹ Secretariat, and to ensure that the UK can report with confidence in 2005 to its European partners and the international community that the UK has made "demonstrable progress" towards its Kyoto target;
- to assess the UK's response at national, regional and local level to adapting to the impacts of climate change.

The press release can be found at:
<http://www.defra.gov.uk/news/2004/040915b.htm>

Environmental Audit Committee

The International Challenge of Climate Change: UK Leadership in the G8 and EU

On 20 September, the Environment Audit Committee announced it was launching an inquiry on the "challenges posed by Climate Change and the need to begin negotiating an international framework to succeed Kyoto and bring about more radical cuts in carbon emissions."

Written evidence is requested by **29 October**. It is anticipated that oral evidence will be taken in November and December.

The announcement also states that the Committee is particularly interested in:

- "whether an international ETS is feasible, given that targets and compliance penalties would need to be rigidly enforced and bearing in mind the political pressures to which an international ETS would be subject;
- what other alternatives to an international ETS exist; and whether an ETS would be more effective than such alternatives in maximising carbon reductions worldwide and in channelling investment in low-carbon technologies into less developed countries;
- what approach and specific objectives in relation to climate change the UK Government should adopt during its presidency of the G8 and EU in 2005; and

- what contribution individual departments can make (eg. FCO, DEFRA, HMT, DfT, and DFID), and whether they are sufficiently 'joined-up' in delivering a coherent UK agenda".

The announcement can be found at:
http://www.parliament.uk/parliamentary_committees/environmental_audit_committee/eac_20_09_04.cfm

The BSC and CUSC

Proposed Transitional Modifications

Following designation of the GB BSC and the implementation of the new transitional provisions of Section I, the new BSC "Proposed Transitional Modifications" (PTMs) arrangements have come into effect. PTMs are changes that are required to allow implementation of BETTA and which are developed and proposed by ELEXON under Section I of the BSC, rather than under the usual Modification process. As with all Mods they are subject to the approval of the Authority.

Approval of PTM001 - Relating to BETTA Testing

On 22 September, the Authority approved the first PTM (PTM001 - Relating to BETTA Testing); this deals with testing arrangements for BETTA and came into effect 5 Working Days after the decision.

PTM002 – GB-wide Reporting of Forecast Data prior to the BETTA Effective Date

On 15 September ELEXON issued the second PTM for consultation. Responses were requested by 17:00 Friday 1 October 2004 on a standard response proforma. The proforma was revised and reissued on 21 September.

Documentation for PTMs can be found at:
<http://www.elexon.co.uk/changeimplementation/ModificationProcess/ptmodificationdocumentation/default.aspx>

BSC Parties – joiners and leavers

At BETTA go-active (1 September), **SP Distribution Ltd, Scottish Hydro-Electric Power Distribution Ltd and British Energy Generation (UK) Ltd** all joined the Balancing and Settlement Code (BSC), on 20 September, **Enron Capital and**



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

Trade Resources Ltd withdrew followed by **El Paso Merchant Energy Europe** on 30 September 2004.

BSC Miscellaneous

Role of ELEXON extended to Scotland

On 1 September ELEXON issued a press release on the GB extension of its role. This can be found at: http://www.elexon.co.uk/documents/Newsroom/Press_Releases_2004/Go-Active_Press_Release.pdf

GB BSC Panel

The first meeting of the GB BSC Panel was held on 2 September. From now the GB BSC Panel recommendations on Modification Proposals will need to be made in the context of the wider GB arrangements, including GB wide consultation. This process started with a GB extension of the Assessment consultation for Mod P169 (Publication of BMU names on ELEXON website).

BSC Review 2004/5: Review of the Supplier Volume Allocation (SVA) Arrangements

ELEXON published its 2004/5 BSC review, which gives ELEXON's analysis of the operation and efficiency of the SVA arrangements, on 7 September. Comments were invited by 28 September. The report will be passed to the Volume Allocation Standing Modification Group (VASMGM) for discussion.

The main conclusion is that the SVA arrangements are, in aggregate, working well and are proving robust in the face of all the data quality problems that have been seen. However, the complexities of the arrangements to deal with individual metering points in the Supplier Hub arrangements continue to cause problems and inefficiencies and the current Performance Assurance Framework is not able to resolve the problems.

The report, which takes a very strategic approach, goes on to suggest a number of possible strategies. These include fundamental changes to the Supplier Hub concept and performance assurance arrangements.

Operation of a new Distribution System

On 29 September, ELEXON issued a circular stating that it had received notice that Southern Electric Power Distribution (SE) intends to operate a new Licensed Distribution System at Colbalt Park

(connected at the Silverlink Grid Supply Point and forming part of the Northern GSP Group), from 1 October.

Modification Standing Group Issues

Centrica has proposed standing group Issue 11: Performance Targets and Monitoring which raises the issue of the appropriateness of the target for the volume of energy to be settled on the basis of actual reads as opposed to estimates. The issue, which is also raised in the ELEXON BSC Review (see above) will be considered by the VASMGM.

CUSC Amendments

Authority Decisions

CAP 070 (Short Term Firm Access Service) & UoSCM-M-13 Introducing a New Charge for Short-Term Transmission Access

On 10 September, Ofgem approved CAP070 and advised NGC of its decision NOT to veto modification UoSCM-M-13 to the use of system charging methodology. These two changes create a new short term access product Short Term Transmission Entry Capacity (STTEC) and the charging provisions to support it. Parties are now able to apply for short term access rights that come into effect from 1 November. The non refundable application fee for applying for the STTEC came into effect on 13 September.

The UoSCM-M-13 decision letter and the revised charging methodologies can be found at: http://www.nationalgridinfo.co.uk/charging/mn_modifications.html

On 20 September, the Authority APPROVED an Alternative Amendment for **CAP071** (Development of a Maximum Generation Service) and consequential changes to the Balancing Principles Statement, the Procurement Guidelines, and the ABSVD Methodology Statement with effect from 4 October. The change establishes enduring arrangements for provision of a maxgen service under which generators offer to provide additional generation beyond their Maximum Export Limit/CEC (Connection Exit Capacity) on a non firm basis.

On 28 September the Authority APPROVED an Alternative (Alternative A) to **CAP 47** (Introduction



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

of a competitive process for the provision of mandatory Frequency Response), for implementation on **1 October 2004**. NGC had recommended implementation of Alternative B.

The approved amendment will allow generators to submit “holding prices” for mandatory frequency response (the price to be paid when generators hold plant available to provide mandatory frequency response services) to NGC on a monthly basis and these prices will no longer be subject to the cost reflective charging principles.

Also on 28 September, NGC wrote to Ofgem requesting that implementation of this approved amendment be delayed to **1 October 2005**. In making its request NGC notes that the report on CAP47 which had suggested an implementation date of 1 October 2004 had been submitted to the Authority in September 2003 and that no work in developing the supporting systems has been undertaken ahead of the Authority’s decision. Consequently, NGC no longer has time to implement the changes by 1 October. NGC also notes that there is interaction with the BETTA developments and that it believes it is essential that BETTA is able to “bed-in” before this change is implemented.

On 30 September, the Authority APPROVED NGC’s request and the amendment (CAP 047) will now be introduced on 1 October 2005.

Further information on the CUSC and CUSC Amendments can be found at: http://www.nationalgrid.com/uk/indinfo/cusc/mn_amendment_progress.asp?type=Amendment_Register

The decision letter on the balancing services documents and the revised documents can be found at: http://www.nationalgrid.com/uk/indinfo/balancing/mn_transmission.html

NGC Consultations/Documents

Supplemental Standing Reserve (SSR) statement

NGC has issued an invitation to tender for the provision of Supplemental Standing Reserve for winter 04-05. The deadline for submission of a tender is **17:00 13 October**.

The ITT documentation went on the website on 29 September at: http://www.nationalgrid.com/uk/indinfo/balancing/mn_whats_new.html

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

September Consultation Summary

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.

CARRIED FORWARD FROM THE LAST EDITION.....		Issued	Response Due
DTI	Transmission Charging and the GB Wholesale Market DTI Conclusions on Part 2: Transmission charging, in the context of the Government's policy objectives for growth in renewables http://www.dti.gov.uk/energy/domestic_markets/electricity_trading/trans_charging2.pdf	2 March	Further consultation anticipated in autumn
The Welsh Assembly	draft Ministerial Interim Planning Policy Statement (MIPPS) on renewable energy" and "draft Technical Advice Note (TAN) 8: Renewable Energy". http://www.wales.gov.uk/subiplanning/content/tans/tan08/mipps-indexe.htm	13 July	8 October
DTI	Relaying the Common Tariff Obligation – Draft Electricity Act 1989 (Uniform Prices in the North of Scotland) Order 2004 http://www.dti.gov.uk/energy/consultations/cto.pdf	4 Aug	4 Nov
Ofgem	Ofgem's three year strategy 2005 – 8 http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/8142_initjalconsultationletterComms.pdf	5 August	Oct 04
DTI	Carbon Abatement Technology Strategy - Consultation Document http://www.dti.gov.uk/energy/coal/cfft/apgtfreport.shtml	6 Aug	29 Oct
DTI	Consultation on guidance to power station developers http://www.dti.gov.uk/energy/consultations/power_station_final.pdf	25 Aug	24 Nov
NEW IN SEPTEMBER.....		Issued	Response Due
DEFRA	Proposed Options to Improve the Current UK Emissions Trading Scheme The announcement can be found at: http://www.defra.gov.uk/environment/climatechange/trading/uk/ & the letter at: http://www.defra.gov.uk/environment/climatechange/trading/uk/pdf/ukets-defra260804.pdf	3 Sept	30 Sept
Ofgem	GB Consultation for NGC's Grid Code Change Proposals E/04 ("Further proposed changes to Grid Code OC2"), F/03 ("Proposed Changes to Operating Code OC2 - Outage Planning"), A/04 ("Proposed Change to the 'Data Validation, Consistency and Defaulting Rules' under the Grid Code"), E/03 ("Proposed changes to Connection Conditions	3 Sept	22 Sept

	<p>CC.6.3.3 in respect of frequencies below 49.5Hz”) and D/04 (“Grid Code Compliance Issues with Refurbishment Plant”)</p> <p>The letter can be found at: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/8575_21604_E04_F03_D04.pdf</p>		
Ofgem	<p>Security of supply October 2003 to March 2004</p> <p>The report can be found at: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/8579_21704_sixmonthreport.pdf</p>	6 Sept	End Sept
ELEXON	<p>BSC Review 2004/5: Review of the Supplier Volume Allocation (SVA) Arrangements</p>	7 Sept	28 sept
DTI/ Scott Exec	<p>The Renewables Obligation Order 2005 Statutory Consultation</p> <p>The relevant documentation can be found at: http://www.dti.gov.uk/energy/renewables/policy/roo2005.shtml http://www.scotland.gov.uk/consultations/enterprise/renewables.pdf</p>	8 Sept	1 Dec
DEFRA	<p>Review of UK Climate Change Programme - Terms of Reference Announced</p> <p>The press release can be found at: http://www.defra.gov.uk/news/2004/040915b.htm</p>	15 Sept	
DTI	<p>Proposed European Directive on Security of Electricity Supply and Infrastructure Investment (2003/0301 (Cod)): Initial Regulatory Impact Assessment</p> <p>The initial impact assessment can be found at: http://www.dti.gov.uk/energy/domestic_markets/security_of_supply/ria_sec_elec_supply.pdf</p>	17 Sept	
Ofgem	<p>Production of Seven Year Statements by the Transmission Licensees in the Run-Up To Beta Go-Live</p> <p>The open letter can be found at: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/8710_22004.pdf</p>	20 Sept	8 Oct
EAC	<p>EAC Inquiry</p> <p>The International Challenge of Climate Change: UK Leadership in the G8 and EU</p> <p>The announcement of the Inquiry can be found at: http://www.parliament.uk/parliamentary_committees/environmental_audit_committee/eac_20_09_04.cfm</p>	20 Sept	written evidence by 29 October. oral evidence ~ Nov/ Dec
Ofgem	<p>Electricity Distribution Price Control Review: Update Paper</p> <p>The update can be found at: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/8738_22204_dpcrseupdate.pdf the summary of responses at: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/8740_22204_dpcrseupdate.pdf</p>	27 Sept	25 October Final Proposals are to be published on 29 November.

	222a04_summaryofresponses.pdf the for analysts at: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/8745_22204_analyst_presentation.pdf & the Impact Assessment at: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/8760_I_AFinal.pdf		
Ofgem	NGC System Operator incentive scheme from April 2005: Initial consultation document http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/8762_22304.pdf	29 Sept	27 October
Ofgem	Planning and operating standards under BETTA: An Ofgem/DTI conclusion document Volumes 1 (the conclusions document and revised guidance note) & 2 (the standard) can be found at: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/8767_22404_Vol1.pdf & http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/8766_22404_Vol2.pdf	29 Sept	
Ofgem	Guidance on impact assessments http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/8801_22904b_IA.pdf	30 Sept	
Ofgem	Responses to the draft guidance on impact assessments July 2004 172/0 http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/8800_22904a_Openletter.pdf	30 Sept	
Ofgem	Recommendations for best practice guidelines for gas and electricity network operator credit cover http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/8795_22604.pdf	30 Sept	26 November
NGC	GB Transmission Charging: Final Methodologies Conclusions Report to the Authority http://www.nationalgrid.com/uk/indinfo/betta/gb_consultations.html	30 Sept	Comments on Draft charging methods by 31 October