



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 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

- DEFRA has increased its projections of the future level of UK CO₂ emissions by 7.6% (56.1 million tonnes of CO₂) above its previous projections for the period 2005-7. The DEFRA announcement indicates that Government is planning to seek an amendment to the NAP to increase UK allowances by 19.8 million tonnes CO₂/15.3MtC (under 3% above the original level). The announcement also indicates that the “industrial (non generation) sectors” will still receive allowances based on need.
- The European Commission has approved a further 8 National Allocation Plans. For two plans, those of France and Finland, approval is subject to technical changes being made.
- Russian ratification of the Kyoto Protocol has taken another step forward with the endorsement by the Russian State Duma on 22 October.
- The Trade and Industry Committee has announced that it will conduct a short inquiry into the impact of recent increases in gas and electricity prices on all types of energy consumers.
- Brian Saunders has announced his intention to leave ELEXON in June 2005.

Ofgem Issues and Consultations

Erroneous Transfer Customer Charter Review Document

On 7 October, Ofgem published its third review of suppliers’ performance under the Erroneous Transfer Customer Charter (ETCC). The review notes

improvements in suppliers’ performance and concludes that the ETCC remains fit for purpose although there are still problems in getting customers who have been transferred in error re-registered in a timely manner. Ofgem does not propose to undertake a further review – although this could change if the number of customer complaints increases. Comments are invited by **19 November**.

The paper can be found at:

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/8856_23304.pdf

Structure of electricity distribution charges - Proposed DNO charging methodology statements

On 14 October, Ofgem published a consultation on the proposed new DNO charging methodology statements. Comments are requested by 10 November.

The consultation provides a high level summary of the main similarities and differences in the main features of the draft charging methodologies. The consultation goes on to note that Ofgem will consider all consultation responses before deciding whether or not to approve the methodologies. However, it also sets out Ofgem’s views in some key areas indicating where these diverge from the approaches that have been adopted. These include a fairly strongly expressed view on the requirement for an EHV generator DUoS tariff that is as locational as possible rather than site specific charges for this class of generator, and a suggestion that the generator “tie-in” period should be a maximum of 5 years rather than 15 as proposed by a number of DNOs.

To support the work of the longer term framework for charging, the consultation notes that the ISG (the Implementation Steering Group) will continue through to the end of 2004, and seeks views on its continuation through 2005. It also seeks views on the formation of a (Distribution) Charging Methodologies Forum.

The consultation can be found at:

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/8951_draft_oct04_cons_doc.pdf



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Draft Methodology Statements and draft UoS Charging Statements which include illustrative tariffs, for all DNOs, can be found at:

<http://www.ofgem.gov.uk/ofgem/work/index.jsp?section=/areasofwork/distributioncharges&levelids=.18587#top8587>

The notes of the meeting of the Implementation Steering Group at which the charging methodologies were discussed have also been published. This includes, amongst other things, what appears to be a fairly lengthy discussion on whether DNOs' charging models should be made available. The minutes record that Ofgem noted the comments and confirmed that there was no obligation, but that this should be reviewed in light of comments. The minutes can be found at:

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/8850_isg_mins_9Sep04.pdf

Electricity Transmission Network Reliability Incentive Schemes Initial proposals

On 15 October, Ofgem published its thoughts on a new Transmission Operator incentive for improving the reliability of transmission networks that was foreshadowed in its decision on the London and Birmingham blackouts. Comments are requested by **5 November**.

The main elements of the proposed approach are:

- the incentive arrangement will come into effect on 1 January 2005;
- it will only apply to NGC initially (although the intention is to introduce such a scheme into Scotland and it is envisaged that work to give effect to this will be complete by BETTA go live);
- extreme weather and events affecting 3 customers or less are excluded, as are events caused by a shortage of generation;
- the reward would be based on sliding scale performance against a target amount of energy not supplied (the proposal is to set a value for NGC, based on its historic performance, at ~255MWhs per annum) with no payment either way if the outturn lies in a narrow range between 90% & 100% of the target value;
- the maximum reward would be 1% of NGC's price controlled revenue if all demand is met;
- the maximum loss would be 1.5% (if the suggested targets are adopted this would occur at ~600MWhs unsupplied energy for included events within a year); and

- the first incentive period will span 1 January 2005 – 31 March 2006 and the second will run until 31 March 2007 assuming the price control is extended – target values and incentives are all increased pro rata over the first period;
- it does not provide for compensation payments to be made to affected customers.

Other points to note include the statement that the next price control will provide the opportunity to consider whether transmission entry and exit capacity should be tradeable and whether it should be sold on a long or short term basis.

The consultation can be found at:

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/8968_24004.pdf

Review of Electricity and Gas arrangements for Winter 2004/05: Conclusions

On 20 October, Ofgem published its views on security of supply issues for winter 2004/5 in the light of NGT's Winter Outlook Report. For electricity, Ofgem's report covers:

- Ofgem's assessment of the update, that the broad conclusions of NGT's analysis which suggests that security of supply can be maintained, are unchanged;
- the assessment of issues identified in the May report – Ofgem notes that only two of the issues raised in May are unresolved:
 - the ability to use surplus Scottish generation in England & Wales which is being addressed through discussion/negotiation; and
 - the review of cash out arrangements – which is no longer seen as a priority for this winter;
- areas for further analysis - Ofgem suggests that this should include:
 - the methodology used to forecast demand for 1 in 50 winters for gas;
 - the feed through of the impact of higher electricity prices on electricity consumption to demand for gas;
 - CCGT access to back up fuel other than distillate (i.e. gas not supplied via Transco's network) in circumstances where gas interruptions are due to locational constraints; and
 - Improvements in transparency in the underlying methodologies and inputs.

The document can be found at:

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/9040_24304a.pdf



NGT's Winter Outlook Report – 2004/05

Also on 20 October, NGT published its winter outlook report which updates the preliminary report produced in May.

The document can be found at:

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsatta/ch/9041_24304b.pdf

Open letter on Ofgem's proposals to implement revised standards of performance arrangements for electricity distributors

On 22 October, Ofgem issued an open letter setting out its proposed revisions to the standards of performance for distributors which are to come into effect on 1 April 2005. The letter is accompanied by a draft of a new Statutory Instrument that will replace the Electricity (Standards of Performance) Regulations. No changes are being proposed to the standards of performance for suppliers. Comments are requested by **17 November**.

The letter can be found at:

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsatta/ch/9053_24504a.pdf

The draft SI can be found at:

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsatta/ch/9052_24504b.pdf

On the same day Ofgem published a consultant's report entitled **Information and Incentive Project Audit of Incident Reporting 2003/4 Final Report**; this can be found at:

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsatta/ch/9049_24404.pdf

BETTA

Limitation of Liability under the STC and the CUSC

On 13 October, Ofgem issued a consultation on the introduction of a cap on the liability provisions in the STC and/or the CUSC. The provisions in the GB CUSC and STC mirror the England & Wales arrangements where liability is limited to physical damage to property (other than those areas where it is not legally possible to limit liability), but not capped in any way. However, under the Scottish arrangements liability is both limited and capped but will be uncapped when BETTA goes live if no changes are made.

The consultation considers capping liabilities in one or both of these codes and various options are considered as to the events, or combination of events, to which any caps might apply. Ofgem's preferred approach is to have corresponding caps in the two codes with the limitation applying between users as well as between each user and NGC. It is also suggested that the liability should be capped at £5m per incident or series of incidents.

The paper proposes that changes are made to the codes to introduce the capping provisions using the BETTA transitional powers. Responses are requested by **10 November**.

The consultation can be found at:

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsatta/ch/8950_23604.pdf

Treatment of Capital Contributions made by Scottish Users to Scottish Power Transmission Limited and Scottish Hydro-Electric Transmission Limited Prior to the Introduction of BETTA

On 15 October, DTI/Ofgem published an open letter summarising the contractual and charging arrangements that will apply to connectees to the Scottish transmission networks under BETTA, with Users contracted to NGC through the CUSC, and setting out proposals for arrangements to be made by the Scottish companies to refund the un-depreciated element of any capital contributions made by Scottish Users towards the costs of their existing connection assets. Responses are requested by **15 November**.

The main elements of the proposed approach were originally aired in the July consultation on "Transmission Price Controls under BETTA, Draft Proposals". However, as Ofgem/DTI received no responses from Scottish users on these proposals this letter has been produced to give greater prominence to the issue. The letter also indicates that it expects this issue to fall within the scope of the BETTA "run-off arrangements scheme".

The letter notes that if the issue does fall within the scope of the scheme, it expects the scheme to provide for existing connection agreements to be run-off in "an equitable manner" with provision for the Authority to hear any disputes. Essentially, Ofgem/DTI expects the relevant transmission company to agree appropriate repayments with affected parties in line with guidance that the repayments should represent an "appropriate written down value" but may also take into account the cash flow implications for the transmission companies.

Where payments are made, Ofgem will require the transmission licensees to provide an audited statement of estimated and actual payments and the current accounting treatment under the revenue restriction of the amounts repaid. The capital contributions that are refunded will then be taken into account under the price controls.

It is also anticipated that the timescales for reaching agreement and making repayments will be in line with Ofgem's proposals in the July consultation – negotiations will commence no later than 60 days before go-active and payment will be made no later than 60 days after go active. It is also suggested that payments should include an adjustment to accommodate interest due assuming the due date for payment is midnight 31 March 2005. These arrangements would also apply to other up front payments such as capitalised maintenance costs.

Finally, whilst it is outside the scope of the scheme, Ofgem/DTI suggest that if the refund is used to make a capital contribution to NGC as the future provider of the connection asset to the user, then Ofgem may take this into account in setting licensees allowable revenues under BETTA.

The letter can be found at:

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsatta/ch/8971_24204.pdf

The Proposed Transmission Charging Methodologies of the GB System Operator An Ofgem Consultation and Impact Assessment

On 15 October, Ofgem published its consultation and impact assessment on NGC's proposed GB charging Methodologies which NGC submitted to the Authority for approval on 30 September. The consultation indicates that the decision is "scheduled" for late November and the Authority intends to publish a document setting out the decision, and giving the rationale for it, in early December. Comments on the consultation and Impact Assessment are requested by **12 November**.

The consultation also notes that, in addition to providing comments, the Impact Assessment also provides opportunity for any party affected by the proposal to submit a complaint regarding the final methodologies, for Ofgem to review, in accordance with Article 23(6) of Directive 2003/54.

The approach adopted in the consultation is to identify the key elements of the proposed approach and then to review respondents to NGC's consultation comments, and to give Ofgem's thoughts (but not decision), on these different

elements. A brief summary of some of Ofgem's comments/observations are recorded below. This includes requests, by Ofgem, for NGC to provide further analysis on some key points by (Saturday) 23 October (subsequently provided on 22 October).

The use of the England & Wales Methodologies as the starting point

Ofgem notes that:

- the proposed changes to the calculation of the expansion coefficients and the change to the proportion of costs to be recovered from demand and generation represent significant changes;
- use of the England & Wales approach results in the GB Methodologies being similar to those for England and Wales and that this may have the effect of reducing the impact of change on England & Wales Parties;
- (but also) the England & Wales framework could support many different outcomes from postage stamp tariffs recovering all costs from demand, to nodal tariffs based on short run marginal costs recovering all costs from generation;
- it would be inappropriate for Ofgem to favour any set of proposals purely because they are based on the England & Wales approach
- (but also) considerations that led to the development of the England & Wales methodologies might "reasonably be expected" to be relevant in the context of other networks; and
- Ofgem specifically requests views on alternative approaches that may be consistent with its duties and objectives.

DC Load Flow model

Ofgem notes concerns raised by respondents on, for example, transparency and arguments in favour of scaling generation and includes within its observations comments that that SYS data is transparent and data which is based on subjective assessments by NGC would be less transparent. But it also notes that not scaling generation when it is not all equally likely to be running at peak could overstate the need for incremental capacity. It also comments that the use of the DCLF model would hinder transparency if there were a technically robust and simpler model.

Ofgem reflects on the purpose of the tariff suggesting that if the purpose is to reflect incremental costs and incremental costs are closely correlated with incremental flows that result from incrementing generation at a particular location, then the DCLF approach would result in robust tariffs

(and that the opposite is also true). Views are requested on the nature of this relationship and the relative merits of other ways of characterising the relationships between costs and changes in generation and demand.

Expansion Factors and Spare Capacity

Within its observations on NGC's treatment of spare capacity, Ofgem notes that the approach adopted in the GB Methodologies is different to that adopted in the current England & Wales Methodologies and requests an explanation of the difference together with "indicative tariffs" under both GB methodologies using a definition of spare capacity proposed in response to NGC's consultation and the current England & Wales definition.

Security Factor

Ofgem notes that NGC's analysis raises concerns about systematic differences in how well the use of the security factor assumption fits results for a secure DCLF and suggests that, if these differences exist, a single security factor may not be appropriate. Further information on the calculation of the security factor was requested by 23 October.

Appendix 3 to the consultation (produced at Ofgem's request), shows the outturn tariffs under both GB methodologies with the security factor set to one.

Expansion Constant

The impact of +/-20% change in the value of the expansion constant for both methodologies is set out in Appendix 4. Ofgem notes that this appendix has been produced at its request.

Cumulative Effect

Ofgem presents further information, based on its own analysis, of the impact of the tariffs on the overall recovery of costs from demand/generation in England & Wales/Scotland. This is reproduced below.

NGC's preferred model			
	Demand	Generation	Total
E & W	£958m (87%)	£1m (0%)	£959m (87%)
Scotland	£32m (3%)	£109m (10%)	£141m (13%)
Total	£990m (90%)	£110m (10%)	£1100m (100%)

NGC's alternative model

	Demand	Generation	Total
E & W	£785m (71%)	£178M (16%)	£963M (88%)
Scotland	£18m (2%) (2%)	£119m (11%) (11%)	£137m (12%)
Total	£803m (73%) (73%)	£297m (27%) (27%)	£1100m (100%)

Appendix 5 also includes an updated analysis of the impact on Scottish Generation which, very broadly, concludes that Scottish generators currently trading in Scotland would see higher transmission charges but would gain access to more suppliers. By contrast Scottish generators currently trading in England and Wales would see lower charges. The overall impact on Scottish generators is estimated to be a change from ~ £119 -> £132m to something in the region of £114 -> £124m (excluding the impact of BSUoS).

Appendix 6 provides analysis of the impact on the recovery of demand charges from suppliers in the Scottish areas. Ofgem's final conclusion is that the NGC proposals could have a material effect in reducing the costs of suppliers procuring energy for customers in the North of Scotland from generators in England and Wales.

The split between generation and demand

Appendix 7, prepared at Ofgem's request, contains an analysis of the impact of using a 73:27 split between generation and demand under NGC's preferred option rather than the proposed 90:10. This results in all demand charges decreasing by £3.27/kW and all generation charges increasing by £2.58/kW.

Ofgem notes that it would welcome views on alternative ways of addressing negative demand charges (the demand charge in the North of Scotland drops to £-0.95/kW when the 73:27 split is reinstated).

Connection Charges - Capital cost of pre and post vesting assets

Ofgem draw attention to the 1995 Offer determination where the DGES argued that that there was no reason why flexible payment options should be limited to post vesting connection assets.

The document can be found at:

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsatta/ch/8970_24104.pdf



The proposed transmission charging methodologies of the GB system operator: An Ofgem consultation and Impact Assessment National Grid response to the Authority's request for supplementary information

NGC met what it described as Ofgem's "challenging timetable" for providing the requested additional information on 22 October. NGC's cover letter indicates that the requests are:

1. *to publish a more detailed rationale on the justification underlying the decision to not model spare capacity on a GB basis;*
2. *to publish indicative tariffs modelling the application of spare capacity across GB using both the existing arrangements in England and Wales and the approach set out by NERA in response to NGC's April 2004 Initial Methodologies Consultation under both NGC's preferred and alternative scenarios;*
3. *to publish further information on the calculation of the security factor including on the application of a more disaggregated approach to their treatment i.e. the application of a number of different factors; and*
4. *to publish more detailed analysis on the assertion that the preferred and alternative options are equally stable including by benchmarking against the stability of existing tariffs in England & Wales.*

The document responding to these requests can be found at: www.nationalgridinfo.co.uk/betta/gb_consultations.html

BETTA consultation on Non Standard BM Unit Configurations associated with Cascade Hydro Schemes and associated GB Grid Code and GB BSC drafting: Ofgem/DTI conclusions

On 15 October, Ofgem/DTI published an open letter giving its conclusions on the treatment of cascade hydro plants under the GB BSC following a mini-consultation on the proposed approach in July.

Ofgem/DTI conclude that the non standard BM Unit configurations proposed by Scottish and Southern Energy for its 6 cascade hydro plants should be adopted and that the changes to the BSC that are needed to give effect to this should be made. However, in the light of the suggestions made in response to the mini consultation, Ofgem/DTI also conclude that some changes should be made to the proposed drafting for the Grid Code and recommend that the Authority direct NGC to make those changes.

The open letter can be found at:

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsatta/ch/8965_23904a.pdf

Production of Seven Year Statements by the Transmission Licensees in the Run-up to BETTA go-live: Authority Conclusions

On 29 October, Ofgem published an open letter setting out its decision to relieve the three transmission licensees from the obligation to produce Seven Year Statements (SYS)/updates for 2005/6 – 2011/12 for their own transmission areas given that NGC is required to produce a GB version of the SYS under BETTA for the same period. However, Ofgem will have the right to direct licensees to produce updates to their own Seven Year Statements if BETTA is delayed. The open letter also includes copies of the directions sent to the transmission licensees making these changes.

The open letter can be found at:

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsatta/ch/9097_24704.pdf

Government Bodies & Other Bodies

DTI

Appeals against Ofgem Code Modification Decisions: Consultation on Draft Order

Changes to Licence Fee Arrangements for funding Code Modification Appeals and Licence Modification References

On 4 October, the DTI published two consultations on the new right of Appeal to the Competition Commission (CC) against Authority decisions on Code Modifications that was provided for in the Energy Act 2004. The first covers the proposed Order that establishes which codes are subject to this right and identifies some types of decision to be excluded from the right; the second covers licence fee funding arrangements for appeals against Code Modification decisions and licence modification references. The deadline for comments on both documents is **27 December 2004**.

The Draft Order

The Codes that are to be covered by the right of Appeal are:



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- the Connection and Use of System Code (CUSC);
- the Balancing and Settlement Code (BSC); and
- the Transco Network Code for gas.

The Act includes a number of specific provisions in respect of the conduct of the appeal. These are summarised in the consultation and reproduced below.

- *the right of appeal will be restricted to parties that are materially affected by a particular code modification;*
- *Appeals that are trivial or vexatious will not be granted leave;*
- *Appeals with no reasonable prospect of success will not be granted leave;*
- *the determination of the appeal will take the form of a review on the merits of the decisions, assessing whether Ofgem failed to have proper regard to the applicable code objectives or to the regulator's statutory obligations, failed to give the appropriate weight to one or more of those objectives and obligations or whether the decision was based on an error of fact and/or the decision was wrong in law. It will not involve a full rehearing of the case for a code modification*
- *the implementation of the modification will continue as scheduled unless a case is made out to the satisfaction of the Competition Commission that this would result in disproportionate costs;*
- *the appeals process will normally be kept to 12 weeks, and will be kept to a maximum of 14 weeks.*

In addition, it is proposed that the new Order should include provisions to exclude the following decisions from the right of Appeal:

- those where the delay caused by the timescales for appeals could have a material and adverse impact on security of supply (it would be for Ofgem to direct the Competition Commission when these conditions have been met);
- BSC decisions where the Authority agrees with the Panel's recommendation;
- CUSC decisions where the Authority agrees with the majority of CUSC Panel members;
- CUSC decisions where CUSC Panel members' views are not recorded and less than 12 Parties responded, or more than 12 responded but the Authority agreed with the majority of respondents;
- Network Code decisions where the Authority agrees with the majority of respondents.

The consultation notes that consideration is being given to the introduction of provisions within the Network Code to allow for a Panel recommendation and invites views on the proposal that, if introduced, decisions where the Authority agrees with this body should be excluded from the right of appeal.

The consultation notes the need for clarity in consultees' positions in respect of modifications to the CUSC and Network Code, and notes that Ofgem is to publish guidance on this issue which will be submitted to the relevant panels.

A copy of the draft Order is included within the consultation - the deadline for comments is **27 December 2004**. The consultation can be found at: http://www.dti.gov.uk/energy/consultations/appeals/secondary_order.pdf

Funding Appeals and Licence Changes

The consultation seeks views on changes to electricity and gas licences to allow the Competition Commission (CC) to recover its costs of any Appeals to it under the new appeals provisions within the Energy Act 2004.

The main elements to be covered by the cost recovery mechanism are:

- where the appeal is allowed costs must be recovered from Ofgem (Ofgem may also be required to pay a proportion of an appellant's costs);
- where the appeal is dismissed costs must be recovered from the appellant (or appellants – with the split determined by the CC); and
- arrangements where the CC determines that a party should pay a third party's appeal costs.

The consultation also covers the arrangements for allocating costs of licence modification references which, under the 2004 Act, will be a matter for the CC to decide rather than Ofgem.

The consultation suggests that no licence changes are needed in order to recover the cost of Code modification appeals where costs are recovered from Ofgem as they can be treated as part of Ofgem's normal costs.

However, changes are required for licence modification appeals as Ofgem is currently only able to recover the costs of an appeal from holders of the same form of licence as the appellant. The changes that are being proposed will allow Ofgem to recover these costs from all licence holders or in whatever proportions the CC directs. In order to clarify how any costs will be allocated, Ofgem is proposing to



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update its licence recovery principles document to make it clear that:

- where the CC does not give any specific direction as to how costs should be recovered then the apportionment would be on the same basis as Ofgem's normal running costs; and
- where the CC directs how these costs are to be recovered then this would be used to determine the allocation between licensees.

This document also states that the intention is to have the Appeals mechanism for Code Modifications to be in place by April 2005. The consultation can be found at:

http://www.dti.gov.uk/energy/consultations/appeals/licence_mod.pdf

Assistance for Areas with High Electricity Distribution Costs

On 20 October, the DTI issued a consultation on the new arrangements to protect consumers from the cost of high distribution charges in the North of Scotland following Ofgem's decision to end the "Hydro Benefit" scheme in the light of legal advice. Under the new scheme, which will be given effect through an Order made under new provisions in the Energy Act 2004 and licence changes, the GBSO will levy a surcharge on all suppliers that it will pass on to the Distribution Network Operator with the highest distribution charges (the area served by Scottish Hydro Electric Distribution Limited). The subsidy must be used to offset charges to suppliers. Comments are invited by **27 December 2004**.

The main elements of the proposed scheme are:

- the scheme will start on 1 April 2005 and be reviewed every three years;
- the level of the subsidy to the Distribution Network Operator will be set to the level of the Hydro Benefit subsidy at the time that scheme was withdrawn with an annual adjustment to reflect the efficiency savings imposed in the Distribution price control;
- the charge to suppliers will be a flat p/kWh charge, reset annually based on the annual cost of the scheme divided by projected demand, and recovered quarterly;
- payment terms for suppliers will be 30 days, late payments will attract a penal rate of interest of 8% over Bank of England base rate (the interest will be retained by the GBSO);
- the annual cost of the scheme will include the GBSO's costs in administering the scheme and any adjustments for under or over recovery of costs in the previous year;

- the GBSO will be required to produce a Statement, that is subject to Ofgem's approval, which sets out the basis of the charges and the payment arrangements.

In addition to seeking views on the proposals summarised above, the consultation is also seeking views on the proposal not to make special provisions for CVA (Central Volume Allocation) registered Licence Exemptable Generators (LEGs). The issue is raised because SVA (Supplier Volume Allocation) registered LEGs *may* benefit once the new charge is introduced through reducing suppliers' chargeable demand and hence liability for the p/kWh charge which raises the question of whether, for the purposes of equity, the charge should therefore be paid to CVA registered LEGs (and any suppliers that are net exporters due to embedded generation). However, on balance, the DTI is NOT proposing to make special arrangements for these generators.

The consultation can be found at:

http://www.dti.gov.uk/energy/consultations/assistance_for_areas_with_high_elec_dist_costs.pdf

Trade and Industry Committee

New Inquiry: Fuel Prices

On 12 October, the Trade and Industry Committee issued a press release announcing a new inquiry into the effect of fuel prices in the gas and electricity sectors on domestic and non domestic consumers.

This follows Ofgem's report on price spikes in the wholesale gas market in October/November 2003 (http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/8816_23204b.pdf) and the Financial Services Authority's recent statement (http://www.fsa.gov.uk/pubs/other/statement_gas.html) that it has found no evidence of manipulation of the markets where wholesale gas is traded. The press release indicates that the inquiry will cover whether rises have been a temporary response to short-term supply problems or are the start of a long-term increase in UK energy prices, and what Ofgem's and the DTI's responses to the problem should be.

Written evidence is requested by **Wednesday 24 November**. The Committee hopes to take oral evidence in December.

The press release can be found at:

http://www.parliament.uk/parliamentary_committees/trade_and_industry/trade_and_industry_press_notice_no_46_101004.cfm



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DEFRA – EU

Emissions trading - National Allocation Plans

On 20 October the EU announced its decision on a further 8 National Allocation Plans - Belgium, Estonia, Finland, France, Latvia, Luxembourg, Portugal, and the Slovak Republic. Six plans were accepted unconditionally after some changes were made prior to approval. The plans from Finland and France have been approved on condition that certain technical changes are made.

The plans for Cyprus, the Czech Republic, Hungary, Italy, Lithuania, Malta, Poland and Spain have not yet been assessed; Greece has yet to submit its NAP.

Further information can be found at:

http://europa.eu.int/comm/environment/climat/emissions_plans.htm

Subsistence charging - amendment to the EU Emissions Trading Scheme Regulations

On 22 October, DEFRA issued a consultation on its proposals for charging installations for the costs regulators incur in setting up and administering the EU emissions trading arrangements. The proposals envisage three size based charging bands. In addition, charges will vary in future years because the size of the charging base will depend on the number of installations excluded from the scheme. The deadline for comments is **3 December**.

The consultation and related documents can be found at: <http://www.defra.gov.uk/corporate/consult/euets-charging/index.htm>

UK Announces Plans on EU Emissions Trading Scheme

On 27 October, DEFRA issued a Press Release and Statement updating its energy projections, emissions projections, and proposed allocations under the EUETS National Allocation Plan. The revisions result in a 7.6% (56.1 million tonnes of CO₂) increase in projected emissions in the period 2005-7.

The DEFRA press release states that the Government is planning to seek an amendment to the NAP to increase UK allowances to be allocated under the NAP by 19.8 million tonnes CO₂/15.3MtC (under 3% above the previous level). The net effect of the increased projection in emissions and the level of increase proposed for the NAP is that the revised allocation will result in an allocation that is 5.2% below the “business as normal” projections

compared with the 0.7% shortfall projected previously.

The announcement gives no details on how the revised allocation will be split between sectors other than the statement that the “industrial (non generation) sector” will still receive an allowance based on need. The “Questions and Answers” published at the same time goes a little further stating:

“allocations to industry will continue to be based on projected need with the electricity supply industry (ESI) contributing the additional reductions.”

The press release can be found at:

<http://www.defra.gov.uk/news/2004/041027a.htm>

The updated energy and emissions projects can be found at:

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

Q&As published with the announcement can be found at:

<http://www.defra.gov.uk/environment/climatechange/trading/eu/nap/pdf/napcapqa-0410.pdf>

JESS

International Blackouts in August & September 2003

Ofgem and DTI have prepared a note for the JESS on the international power blackouts in August and September 2003, including comments on the implications for UK. The events covered are

- US/CANADA August 14
- SWEDEN September 23
- ITALY September 28

The note can be found at:

http://www.dti.gov.uk/energy/jess/blackout_note.pdf

The National Audit Office

Energywatch and Postwatch: Helping and Protecting Consumers

On 15 October, the NAO issued a press release on its report of its examination of Energywatch and Postwatch. The press release states that...



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“Over their first three years, Energywatch and Postwatch have successfully established their organisations, developed efficient systems to handle customer complaints and sought to address major consumer problems in the energy and postal sectors. But today’s report highlights that there is scope to increase and demonstrate more clearly those benefits, and reduce costs.”

The press release can be found at:

<http://www.nao.org.uk/pn/03-04/03041076.htm>

The report can be found at:

http://www.nao.org.uk/publications/nao_reports/03-04/03041076.pdf

The BSC and CUSC

BSC Authority Decisions

On 05 October the Authority APPROVED Modification **P162** (Changes to the definition of Imports and Exports) for implementation on **19 October 2004**. The Modification clarifies the definition of “imports” and “exports” and ensures that the BSC is consistent with current operational practice and the relevant metering Codes of Practice.

On 29 October, in line with the recommendation of the BSC Panel, the Authority REJECTED Modification P153 (Additional Requirements to Support Competition in New and ‘Out-of-Area’ Distribution Networks). The Modification had sought to introduce new provisions into the BSC to define the processes associated with migration of SVA (Supplier Volume Allocation) metering systems between licensed distribution operators. This issue is being addressed via Change Proposal CP1206 “Issues associated with the registration of Metering Systems on existing New Distribution Networks and transfer to P62 compliant arrangements”.

BSC New Modifications

October saw a number of new Modification proposals

P175 (Development of provisions related to certain bid offer acceptances issued pursuant to the Grid Code (e.g. BC2.9 and BC2.10)), is a further Mod intended to rectify the problems created by the potential for the bid/offer price of a BM Unit subject to an Emergency Instruction needed for system reasons feeding into energy imbalance prices (see 172,173,174 raised in September). There are two main elements to this Modification.

The first is the ability to construct “replacement” bid / offer prices that may be based on the price of bids or offers NGC would have accepted if it had not had to issue the Emergency Instruction. The second is the provision of an option for the Lead Parties of affected BM Units to be able to claim compensation for the costs incurred in responding to the instruction. The Modification was raised by RWE Npower on 1 October.

P176 (Clarification of the Requirements for Estimation/Deeming Meter Readings/Advances in certain circumstances to Facilitate Correction of Anomalies in Certain Circumstances) was raised by Npower Limited on 4 October. This Modification proposes moving certain detailed provisions of the BSC that relate to the process of deeming meter reads in certain circumstances to a Code Subsidiary Document (and extending the circumstances in which they are invoked) and including a reference to this document within the Code.

P177 (Removal of Intertrip provisions from the BSC) was raised by National Grid Transco on 4 October. The Modification seeks to remove the provisions in the BSC that refer to the treatment of an Intertrip as an acceptance and is linked to parallel changes, that deal with compensation for Intertrips, being considered for the CUSC (CAP076). The Modification also notes the probable requirement for changes to the Grid Code as well.

P178 (Reduction in the BSC timescale for parties who have settled the vast majority of their trading debts) was raised by Uskmouth Power Company Limited on 4 October. The Modification seeks to allow parties who are non physical traders, or who only have meters registered in CVA, to withdraw from the BSC after R2 (the second reconciliation run at D+85). This is subject to the withdrawing party meeting all the other current withdrawal criteria and making provisions to cover any final bills that may be incurred through the reconciliation process, up to Final Reconciliation, via a cash “withdrawal deposit” left with ELEXON that is repayable if not used.

P179 (Housekeeping Modification) was raised by the BSC Panel, on ELEXON’s recommendation, on 15 October. The Modification states that it covers 28 minor changes to the Code.



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BSC Miscellaneous

Brian Saunders to leave ELEXON

On 6 October, ELEXON issued a circular indicating that Brian Saunders has announced his intention to leave ELEXON in June 2005. The circular goes on to state that the process of identifying his successor will start immediately.

New CUSC Amendment proposals

CAP077 (Revision to CUSC Amendment Implementation Dates where an Authority Decision is referred to Appeal or Judicial Review) was raised by NGC. The amendment proposes to introduce provisions to allow implementation dates for approved amendments to be amended if the Authority's decision is appealed to the Competition Commission or subject to Judicial Review.

CAP078 (Charging for Costs Incurred in the Acquisition of Consents under the Construction Agreement) was raised by NGC. The amendment proposes that the requirement on Users to fund NGC costs in obtaining consents for connections should be removed and replaced by provisions that allow NGC to capitalise the cost and add it to the costs of the scheme which would then be recovered via connection or TNUoS charges as appropriate. The liability to provide security to cover costs in the event that the agreement is terminated would remain.

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

Balancing Services Report

NGC is seeking industry views on the usefulness of the information provided in its monthly report on the Balancing Services it has procured and whether additional areas should be included. Comments should be sent to: BalancingServices@ngtuk.com

Proposed revisions to Balancing Principles Statement, Procurement Guidelines, Applicable Balancing Services Volume Data Methodology Statement and Balancing Services Adjustment Data Methodology Statement Minor changes to align documentation following the publication of the revised Transmission Licence at BETTA Go-Active

On 20 October, NGC issued a consultation on what it describes as changes to the above documents that are "of a non-material nature" and which are required to align these documents with other changes made at BETTA go active. Responses are requested by **17 November**; NGC will prepare and submit its report in the light of responses on or before 24 November.

The Consultation can be found at:

http://www.nationalgrid.com/uk/indinfo/balancing/pdfs/C16_Consultation_Document_BETTA.pdf

IPA NEWS

IPA are pleased to announce that Peter Bedson has been promoted to the position of Director within IPA. Peter has been with the company for 3 years and within that time has headed up the UK and Western Europe business. Peter will continue to fulfill this role in his new position.

IPA are also pleased to announce the publication of a new service – the Monthly Market Summary Datasheet. This free datasheet provides a snapshot of the key parameters of the England & Wales electricity market each month, including Market Price Data, Power Station Availability, System Demand, Generator Market Shares and Balancing Market Activity. A hard copy should arrive on your desk soon. If you do not receive a hard copy within the next week, please log on to our website and register your interest in receiving it.

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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October 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
DTI / Scott Exec	The Renewables Obligation Order 2005 Statutory Consultation 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	8 Sept	1 Dec
Ofgem	Production of Seven Year Statements by the Transmission Licensees in the Run-Up To BETTA Go-Live The open letter can be found at: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/8710_22004.pdf	20 Sept	8 Oct
EAC	EAC Inquiry The International Challenge of Climate Change: UK Leadership in the G8 and EU The announcement of the Inquiry can be found at:	20 Sept	written evidence by 29 October. oral evidence ~ Nov/ Dec

	http://www.parliament.uk/parliamentary_committees/environmental_audit_committee/eac_20_09_04.cfm		
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_22_204_dpcrsepupdate.pdf the summary of responses at: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/8740_22_2a04_summarvofresponses.pdf the for analysts at: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/8745_22_204_analyst_presentation.pdf & the Impact Assessment at: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/8760_IA_Final.pdf</p>	27 Sept	25 October Final Proposals are to be published on 29 November.
Ofgem	<p>NGC System Operator incentive scheme from April 2005: Initial consultation document</p> <p>http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/8762_22_304.pdf</p>	29 Sept	27 October
Ofgem	<p>Recommendations for best practice guidelines for gas and electricity network operator credit cover</p> <p>http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/8795_22_604.pdf</p>	30 Sept	26 November
NGC	<p>GB Transmission Charging: Final Methodologies Conclusions Report to the Authority</p> <p>http://www.nationalgrid.com/uk/indinfo/betta/gb_consultations.html</p>	30 Sept	Comments on Draft charging method..s by 31 October
NEW IN OCTOBER.....		Issued	Response Due
DTI	<p>Changes to Licence Fee Arrangements for funding Code Modification Appeals and Licence Modification References</p> <p>http://www.dti.gov.uk/energy/consultations/appeals_secondary_order.pdf</p> <p>Funding Appeals and Licence Changes</p> <p>http://www.dti.gov.uk/energy/consultations/appeals_licence_mod.pdf</p>	4 Oct	27 Dec
Ofgem	<p>Erroneous Transfer Customer Charter Review Document</p> <p>http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/8856_23304.pdf</p>	7 Oct	19 Nov
TIC	<p>New Inquiry: Fuel Prices</p> <p>The press release can be found at: http://www.parliament.uk/parliamentary_committees/trade_and_industry/trade_and_industry_press_notice_no_46_101004.cfmodification</p>	12 Oct	Written evidence is requested by 24 Nov

Ofgem	Limitation of Liability under the STC and the CUSC http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/8950_23604.pdf	13 Oct	10 Nov
Ofgem	<u>Structure of electricity distribution charges - Proposed DNO charging methodology statements</u> http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/8951_draft_oct04_cons_doc.pdf	14 Oct	10 Nov
Ofgem	Draft Methodology Statements and draft UoS Charging Statements which include illustrative tariffs, for all DNOs, can be found at: http://www.ofgem.gov.uk/ofgem/work/index.jsp?section=/area/sofwork/distributioncharges&levelids=.1_8587#top8587		
Ofgem	Treatment of Capital Contributions made by Scottish Users to Scottish Power Transmission Limited and Scottish Hydro-Electric Transmission Limited Prior to the Introduction of BETTA http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/8971_24204.pdf	15 Oct	15 Nov
Ofgem	The Proposed Transmission Charging Methodologies of the GB System Operator An Ofgem Consultation and Impact Assessment http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/8970_24104.pdf	15 Oct	12 Nov
NGC	The proposed transmission charging methodologies of the GB system operator: An Ofgem consultation and Impact Assessment National Grid response to the Authority's request for supplementary information	22 Oct	
Ofgem/DTI	www.nationalgridinfo.co.uk/betta/gb_consultations.html . BETTA consultation on Non Standard BM Unit Configurations associated with Cascade Hydro Schemes and associated GB Grid Code and GB BSC drafting: Ofgem/DTI conclusions http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/8965_23904a.pdf	15 Oct	
NAO	Energywatch and Postwatch: Helping and Protecting Consumers The press release can be found at: http://www.nao.org.uk/pn/03-04/03041076.htm The report can be found at: http://www.nao.org.uk/publications/nao_reports/03-04/03041076.pdf	15 Oct	
Ofgem	Electricity Transmission Network Reliability Incentive Schemes Initial proposals http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/8968_24004.pdf	15 Oct	5 Nov
JESS	International Blackouts in August & September 2003		

(Ofgem/DTI)	http://www.dti.gov.uk/energy/jess/blackout_note.pdf		
NGC	Proposed revisions to Balancing Principles Statement, Procurement Guidelines, Applicable Balancing Services Volume Data Methodology Statement and Balancing Services Adjustment Data Methodology Statement Minor changes to align documentation following the publication of the revised Transmission Licence at BETTA Go-Active http://www.nationalgrid.com/uk/indinfo/balancing/pdfs/C16_Consultation_Document_BETTA.pdf	20 Oct	24 Nov
DTI	Assistance for Areas with High Electricity Distribution Costs http://www.dti.gov.uk/energy/consultations/assistance_for_areas_with_high_elec_dist_costs.pdf	20 Oct	27 Dec
Ofgem	Review of Electricity and Gas arrangements for Winter 2004/05: Conclusions http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/9040_24304a.pdf NGT's Winter Outlook Report – 2004/05 http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/9041_24304b.pdf	20 Oct	
DEFRA	Subsistence charging - amendment to the EU Emissions Trading Scheme Regulations http://www.defra.gov.uk/corporate/consult/euets_charging/index.htm	22 Oct	3 Dec
Ofgem	Open letter on Ofgem's proposals to implement revised standards of performance arrangements for electricity distributors http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/9053_24504a.pdf The draft SI can be found at: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/9052_24504b.pdf Consultant's report entitled Information and Incentive Project Audit of Incident Reporting 2003/4 Final Report ; http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/9049_24404.pdf	22 Oct	17 Nov
DEFRA	UK Announces Plans on EU Emissions Trading Scheme The press release can be found at: http://www.defra.gov.uk/news/2004/041027a.htm The updated energy and emissions projects can be found at: http://www.dti.gov.uk/energy/sepn/emissions_projections.pdf	27 Oct	

	Q&As published with the announcement can be found at: http://www.defra.gov.uk/environment/climatechange/trading/eu/nap/pdf/napcapqa-0410.pdf		
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