



IPA Energy Consulting

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

This newsletter provides a brief update on the key electricity market design changes currently being progressed within Great Britain, focusing on December 2004.

The newsletter aims to assist electricity market participants who already have a good broad understanding of the GB electricity trading arrangements, and the key documents that underpin them, to keep track of the major consultations that affect the development of the wholesale electricity market.

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

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

HEADLINES

Ofgem has approved NGC's proposed GB Connection charging methodology but REJECTED both its proposed Use of System Charging Methodologies. NGC issued revised proposals on 20 December but the final tariffs will not now be published until the end of February.

Ofgem has issued a "minded to" statement on the level of the discount for small generators connected at 132kV in Scotland. The discount is to be set to 25% of NGC's total residual charge. This is estimated to be in the region £3.8 - £3.9/kW. This "discount" is less than the increase in the highest generation charge in Scotland under NGC's original proposals (£19.67/kW) and the highest charge under its revised proposals (£24.89/kW for Skye).

DEFRA has revised the timetable for finalising decisions on allocations to installations under the UK's National Allocation Plan; final allocation decisions are not now expected until "the end of March at the earliest".

Ofgem Issues and Consultations

**Electricity transmission network reliability incentive schemes
Final proposals**

On 1 December, Ofgem issued its final proposals on its proposed new scheme to incentivise NGC to improve network reliability.

Further consideration is to be given to the issues affecting the Scottish licensees. Comments were requested by **29 December**.

The main elements of the proposals are:

- NGC's performance is to be assessed against a target value for unsupplied MWhs (excluding events affecting 3 customers or less which are to be excluded from the scheme);
- the target is to be set at 261MWhs per year based on NGC's average performance between 1991/2 and 2003/4;
- "exceptional events" would be inside the scope of the incentive scheme but NGC would be able to claim for an adjustment. Ofgem would determine whether the event was exceptional and, if so, what adjustments to make;
- there is a dead-band (no payments to or from NGC) for performance within +/-5% of the target;
- the incentive payments are based on:
 - sliding scale reward for performance between the lower limit of the dead-band (248MWhs) and no interruptions with a maximum reward of 1% of price control; and
 - sliding scale penalty for performance between the upper limit of the dead-band (274MWhs) and an upper limit which caps payments at -1.5% of price controlled income (~653MWhs per annum);
- the scheme will be introduced on 1 January 2005 and the first period of operation will cover 15, rather than 12, months so the targets have been increased to 125% of those set out above; and
- target and incentive values for 2006/7, based on the targets set out above, are also included in the proposed licence changes to cover the extension of the current price control to 31 March 2007.

Ofgem has provided an analysis of what the cost/value of the scheme to NGC would have been if it had been in place since 1991/2. This indicates that NGC would have received a reward in 8 out of 13 years and a penalty in the remaining 5, but the penalty would have exceeded 1% of price controlled income in two of those 5 years.

4th January 2005

The document also includes the statutory 28 day consultation on proposed changes to NGC's licence.

The proposals can be found at:
http://www.ofgem.gov.uk/temp/ofgem/cache/cmsatta ch/9472 tx_incentives.pdf

Supplying low income and vulnerable customer groups

On 2 December, Ofgem issued guidance on its views on whether suppliers considering developing special tariffs for low income and other vulnerable groups would be in conflict with competition law and other relevant regulatory obligations. Ofgem concludes that, in its view, none of these arrangements (the supply licence, competition law, and consumer protection law) prevents the development of such tariffs.

The document also notes that nothing in the document should be construed as fettering Ofgem's discretion in respect of its application of the relevant laws and its ability to act as the relevant competition authority in any proceedings, and that the obligation to comply with competition law rests with suppliers.

The document also indicates that the guidance will, if necessary, be updated after the draft competition act guidelines are finalised and published by the OFT.

The guidance can be found at:
http://www.ofgem.gov.uk/temp/ofgem/cache/cmsatta ch/9486_27204.pdf

Cash Out Review Working Group

The first, much delayed, meeting of CORWG was held on 2 December with the second taking place on 22 December 2004. Weekly meetings have been scheduled from 10 January to the end of June 2005. The group's minutes/papers/presentations can be found at:
<http://www.ofgem.gov.uk/ofgem/work/index.jsp?sec tion=/areasofwork/cashoutreview>

Governance in the Electricity Distribution Commercial arrangements

On 13 December, Ofgem issued a consultation on the consolidation of the existing commercial arrangements for distribution into a single new document, with provision for bilateral agreements where appropriate. The document would have its own governance arrangements including a Panel of stakeholder representatives.

Ofgem is also considering implementation via a collective licence modification requiring licensees to develop the document by a set date (e.g. September 2005 is considered).

Ofgem is to hold a workshop on its views, as set out in the consultation, on 21 January 2005. Responses are requested by 11 February 2005. Ofgem aims to publish a conclusions document by the end of April 2005.

The consultation can be found at:
http://www.ofgem.gov.uk/temp/ofgem/cache/cmsatta ch/9586_27604.pdf

Consultation: Transition of Electricity Distribution EHV demand use of system charges

On 17 December, Ofgem published an open letter seeking views on some distribution network operators proposals for changes to their methodologies for calculating EHV (Extra High Voltage) demand UoS (Use of System) charges from 1 April 2005. Comments are requested by **14 January 2005**.

The changes being proposed by CE, EdF, UU and WPD include changes to the methodology for determining charges to EHV customers and transitional arrangements to phase in changes for customers whose charges will increase. The letter states that Ofgem is "minded to" approve the proposed methodologies for determining EHV charges but not the proposed transitional arrangements as, in its view, these arrangements will result in cross subsidy and charges that are not cost reflective. Instead, it suggests that any phasing of higher charges should be limited to capping price rises in 2005 to no more than 50%, with full implementation of the new charges by 1 April 2006.

The letter can be found at:
http://www.ofgem.gov.uk/temp/ofgem/cache/cmsatta ch/9619_28404.pdf

Transmission investment for renewable generation

On 20 December, Ofgem published its final proposals on the funding arrangements for transmission companies' investments to support the growth in renewable generation which was not allowed for when the current transmission price controls were set. Ofgem is proposing to consult on licence modifications to implement the proposals for baseline investment (investments which Ofgem has determined are clearly justified) in "early 2005" with

4th January 2005

a view to the proposals coming into effect on 1 April 2005.

The key elements of Ofgem's proposals are:

- Reinforcement proposals are subdivided into three categories:
 - **Baseline investment** (those where the reduction in constraint costs is greater than the investment);
 - **Incremental investment** (those where the reduction in constraint costs is substantial but may not be more than the investment costs and where it may be more efficient to delay the project); and
 - **Additional investment** (those where constraint costs were likely to be lower than investment costs and where there may be a risk of stranded assets);
- £560m of investment has been categorised as **baseline investment** (Beaulieu to Deny, Sloy, Kendon and Interconnector reinforcements) subject to various provisos:
 - projects will be reviewed in the light of any additional costs imposed via public inquiry to confirm they remain economic and payments will be based on whether the projects go ahead and output measures;
 - financing costs will be based on an 8.8% pre tax cost of capital, the return will be based on the price control cost of capital (assuming a 40 year life); and
 - payment will be subject to delivery of predetermined output measures with a possibility of higher returns for higher outputs and scaling back of payments for under-delivery unless it is clear that the licensee is not at fault;
- for projects categorised as **incremental investments**, Ofgem will consider whether the licensee should be able to recover pre-construction costs on a case by case basis;
- for projects categorised as **additional investments**, Ofgem proposes that developers should develop commercial arrangements (covering long term funding) and raise code modifications to support their requirements for long term access arrangements. If these commercial arrangements cover ~50% of the long term (15 years) TNUoS charges, Ofgem may re-categorise the project as baseline investment.

The document can be found at:

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsatta/ch/9631_28804.pdf

Energy Efficiency Commitment 2005 – 2008: Administration procedures and

The Energy Efficiency Commitment 2005 - 2008: Responses to Ofgem's consultation on the administration procedures

On 23 December, Ofgem published two documents on the administrative arrangements for the 2005 – 8 EEC. The first set out Ofgem's procedures for administering the new EEC, the second provides a summary of consultees' comments on the proposals Ofgem set out in its May 2004 consultation.

The procedures can be found at:

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsatta/ch/9721_29004.pdf

and the summary of responses to consultation document can be found at:

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsatta/ch/9720_29004b.pdf

BETTA

Limitation of Liability under the STC and CUSC An Ofgem conclusions document

On 10 December, Ofgem published its conclusions on amendments to the CUSC and STC to deal with limitation of liability under BETTA. Ofgem has determined that liabilities in the CUSC and STC should be capped and that the cap should be set at £5m per incident or series of incidents. Directions to change the Codes will be issued in January 2005.

The document can be found at:

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsatta/ch/9581_27404.pdf

NGC's proposed GB electricity transmission charging methodologies

The Authority's decisions

On 10 December, the authority issued its conclusions on NGC's proposed charging methodologies for 2005/6 under BETTA. In summary, the main elements of the decision are that the Authority has:

- approved the connection charging methodology;
- noted that it would have approved the BSUoS methodology if it had been separate to the TNUoS methodology;
- rejected both the options for the TNUoS methodology; and

- set out a revised timetable for finalising the methodologies that involves shortening the period between NGC advising the industry as to the final charges and implementation.

The document also confirms the proposal announced in November that small generators connected at 132kV in Scotland will receive a discount on their generator TNUoS charges of ~£4/kW although the details will be provided in a separate document (see “minded to” statement below).

The decision document sets out in some detail: the regulatory framework within which the Authority must operate; its Statutory Duties; and relevant European Law. The document also indicates that the Authority has received two complaints under Article 23 of IMED (the Internal Market in Electricity Directive) relating to NGC’s proposed methodologies.

Ofgem raise a number of specific issues in the decision document.

Connection Charging

The Authority has approved the Connection Charging methodology subject to NGC undertaking a review of the method for calculating site specific maintenance charges (which NGC had indicated it was proposing to do) by 1 April 2007.

Transmission Network Use of System – consistency with Licence Objectives

The Authority considers that both options meet the objectives specified in NGC’s licence although this is marginal in the case of Option A (based on use of a single voltage expansion constant) because it is less cost reflective than it could be. It also makes a number of more detailed observations.

- The Authority does not consider that the potential for year on year variability in Option B would distort competition and considers that artificially restricting the extent to which tariffs change could distort competition by introducing cross-subsidies. Similarly, it does not consider that the potential for significant year on year changes in suppliers’ charges in either of NGC’s proposed options distorts competition.
- The DCLF (DC Load Flow) model **does** form an appropriate basis for developing cost reflective charges.

- The Authority considers that use of voltage specific expansion factors (Option B) is more cost reflective than use of an average value (Option A). However, the simplifying assumption that 20% of expansion would occur at higher voltages may not be cost reflective and the Authority has invited NGC to review this approach and either refine it or provide more detail.
- The Authority has asked NGC to review its approach to the treatment of spare capacity and either refine its approach or provide more detail.
- The Authority considers that the cost of providing a secure network varies with location and that a model that reflects the cost of security on a locational basis would be more cost reflective than one that does not.
- The Authority does not consider that the use of a unit cost of incremental capacity based on costs of 400kV expansion systematically overstates costs. However, it has invited NGC to consider whether its proposals can be refined in the light of consultees’ comments on this issue and propose changes and/or provide more detail on its chosen approach. NGC is also asked to provide more analysis on how the tariffs that flow from the methodologies relate to actual forecasts of investment costs under the TIRG project (Transmission Investment Review Group).

Transmission Network Use of System – consistency with the Authority’s legal duties and obligations

The document considers the proposals against three separate aspects of its wider duties/obligations.

Compliance with European Law

- The Authority considers that the change in the split of charges between generation and demand under Option B (from the current 73:27 to 90:10 under Option B) would place an additional burden on customers and that it was a disproportionate response to the issue of negative demand charges that would arise under the Option B methodology if this change were not made. The document also indicates that the Authority is not convinced there is a problem with negative demand charges but, if there is, then a different solution is required.
- The Authority does not consider that the locational charges, in either option, have a disproportionate effect on individual parties.

Protecting GB Customers

- The Authority considers that the proposal within Option B to alter the balance of charges such that demand pays 90% of the transmission network charges was a “disproportionate” response to the problem of negative demand charges. It also considers that Option A is not sufficiently cost reflective.

Process

- There is some criticism of the process from consultees which Ofgem refutes.

Timetable

The full timetable for finalising the Use of System Charging Methodology (with various caveats) is:

NGC issues revised Methodologies for consultation – **17 December**
 NGC submits revised proposals to the Authority – **end January**
 The Authority publishes an Impact Assessment – **February**
 The Authority makes its determination – **24 February**
 Decision announced together with direction to shorten time period between approval and implementation – **end February**
 Implementation **1 April 2005**.

The document can be found at:

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsatta/ch/9584_27504.pdf

GB Transmission Charging: Use of System Methodology Revised Proposals Consultation

On 20 December, NGC issued its response in the form of revised proposals for the TNUoS Methodology with a consultation deadline of **21 January**.

The main elements of the revised Methodology are:

- the use of voltage specific expansion factors (as per the original Scenario B) with two refinements:
 - separate voltage specific factors (at 132kV and 275kV) will be determined and used for each of the three transmission networks;
 - the calculation of the 275kV expansion factor has been refined, in each transmission area, to reflect the proportion of existing

- (continued) 275kV lines that were designed to operate at 400kV and could be upgraded at a cost similar to that of 400kV new build;
- retention of the 27:73 split in recovery of charges from generation and demand;
- negative demand charges will be “constrained” to zero with the resultant surplus income spread uniformly across all demand.

The indicative charges that flow from this methodology for demand are shown below. For generation the highest charge under scenario B was £19.67/kW and the highest charge under the new methodology is £24.89/kW; the generation zonal boundaries have also changed with the new methodology yielding 23 generation tariff zones.

Demand Zone	£/kW 20 Dec Methodology
1 Northern Scotland	0.00
2 Southern Scotland	3.27
3 Northern	7.30
4 North West	11.05
5 Yorkshire	11.03
6 N Wales & Mersey	11.57
7 East Midlands	13.60
8 Midlands	15.10
9 Eastern	14.17
10 South Wales	18.52
11 South East	16.30
12 London	18.68
13 Southern	18.04
14 South Western	20.70

Generation Zone	£/kW 20 Dec Methodology
1 Peterhead	18.89
2 Strathbora	23.86
3 Northern Highland	22.10
4 Skye	24.89
5 Western Highlands	20.21
6 Central Highlands	16.49
7 Southern Highlands	14.49
8 Mid Scotland	12.92
9 South Scotland	12.11
10 N England	8.21
11 Lancashire, Pennines & Humber	4.94
12 Wylfa	5.65
13 Dinorwig	8.23
14 North Wales & Cheshire	2.42
15 S Yorkshire & Lincolnshire	3.28
16 Midlands & South East	1.08

	Generation Zone	£/kW 20 Dec Methodology
17	North London -	0.30
18	Central London -	5.83
19	S. Wales & Gloucester	-3.61
20	Oxon & South Coast	-1.16
21	Wessex -	5.11
22	Peninsular	-8.20
23	South West Wales	-2.52

NGC notes that, whilst in the short term it is not appropriate to change the balance of charges between demand and generation, there may be merit in considering a phased change in the medium/long term.

The document can be found at:
http://www.nationalgrid.com/uk/indinfo/betta/pdfs/GB_Charging_Revised_Proposals_Consultation_V2.pdf

Transmission price controls and BETTA: Final proposals and impact assessment

On 17 December, Ofgem issued its consultation on the final proposals for:

- the roll forward of the Scottish Transmission Companies' price controls; and
- the adjustments to be made to all three licensees price controls when BETTA is implemented.

The consultation includes the proposed drafting of the licence modifications to give effect to the changes and an Impact Assessment. The headline issues include:

- the pre tax cost of capital for the Scottish transmission licensees has been increased to match that of their distribution business (8.9% for SP Transmission and 8.7% for SHETL) to deliver an equivalent cost of capital to the 4.8% post tax cost of capital proposed under the new Distribution Price Controls; and
- the Regulatory Asset Value (RAV) for the Scotland-England Interconnector assets will be based on the present value of future contract costs and payments using a 10% discount rate.

Comments are invited by **21 January 2005**. The consultation can be found at:
http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/9612_27904.pdf

NGC System Operator incentive scheme from April 2005: Initial Proposals

Also on 17 December, Ofgem issued its initial proposals for the NGC External SO incentive scheme.

The key elements of the proposals are:

- the scope of the scheme will be the same as the current England and Wales Scheme extended to Great Britain;
- the scheme will run for one year (rather than 2 as contemplated in the previous consultation);
- there is to be no "dead-band" but Ofgem is contemplating asymmetric sharing factors to limit NGC's risks due to uncertainty in the transition to BETTA;
- NGC is to be given the choice between three options which reflect different levels of risk/reward;
- Transmission losses will continue to be incentivised as at present but the target costs will be based on the difference in the actual volume of losses compared to a target volume, described as a net losses scheme, rather than the current "gross" scheme which uses the absolute volume of losses (this does not affect the size of the losses incentive but does reduce the headline value of the incentivised costs); and
- If BETTA is delayed the current scheme would roll forward with some form of daily profiling until the BETTA scheme (which would also be profiled) can be introduced.

NGC's forecast incentivised balancing costs (assuming the treatment of transmission losses treatment is unchanged) are £543.2m. Ofgem considers this to be an overestimate and suggests the range should be £467.8m - £482.4m.

Ofgem propose to offer NGC the option to choose between a "challenging" target (within the range Ofgem considers appropriate) with a high potential profit and less risky but less rewarding options. The three options are summarised below (the targets all assume transmission losses are treated as at present).

Proposed value	Optn 1	Optn 2	Optn 3
Target	£480m	£500m	£515m
Upside share	60%	40%	25%
Downside	15%	20%	25%
Share			
Cap	£50m	£40m	£25m
Floor	£-10m	£-20m	£-25m

The target values would reduce by £122.5m if Ofgem's proposal to move to a net losses scheme is introduced.

Comments are requested by **21 January 2005**. The initial proposals can be found at:

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/9613_28004.pdf

BETTA "minded to" statement on the interim discount for small transmission connected generators and impact assessment

On 17 December, Ofgem issued a "minded to" statement proposing that the subsidy for small transmission connected generations in Scotland should be set to 25% of the total, per kW, residual charge in NGC's transmission charge calculation. This represents a change from the approach that was originally suggested of either fixing the charge or setting it to the generator residual charge. Ofgem estimate the value of the subsidy as being ~£3.80/kW - £3.91 based on NGC's analysis in its proposed Scenarios A and B. Comments are requested by **21 January 2005**.

The letter, which also includes an Impact Assessment, can be found at:

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/9617_28204.pdf

Conclusions in relation to the 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 17 December, Ofgem issued a letter setting out its conclusions on the arrangements for determining the repayment of capital contributions to connection costs made to the Scottish Transmission Companies pre BETTA.

The letter can be found at:

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/9618_28304.pdf

BETTA open letter on proposed changes to Standard Licence Conditions C18, C8 and D15 for Transmission Licences, Section 12 of the CUSC, Section I of the STC – and transitional licence obligations for all generation, distribution and supply licensees to reflect the possible late issuance of GB offers under transmission licence condition SLC C18 and other required changes

On 17 December, Ofgem issued an open letter indicating that, as anticipated in its open letter published in November, NGC had requested an extension for the timescales for making GB offers under its Standard Licence Condition C18. The letter covers changes to C18, to amend the timescales, and other consequential and related changes (including changes to the CUSC and STC). Comments are requested by **12 January 2005**.

The open letter can be found at:

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/9622_28604.pdf

The accompanying four annexes showing the proposed revised legal drafting can be found at:

http://www.ofgem.gov.uk/ofgem/whats-new/index.jsp?section=whats-new&levelids=.1_9132#top9132

The proposed BETTA run-off arrangements scheme

Conclusions

On 17 December, Ofgem published its conclusions on the BETTA run-off scheme; the document also sets out the pre-designation text noting that (subject to approval/amendment by the Secretary of State) it would come into force on, or about, **22 December 2004**. All three transmission licensees will be obliged to enter into the scheme on designation day. However, other licensees will have until **10 January 2005** to accede to the Scheme Framework Agreement.

The conclusions document can be found at:

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/9630_28704a.pdf

the pre-designation text can be found at:

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/9629_28704b.pdf

Government Bodies & Other Bodies

HM Government

Review of the UK Climate Change Programme Consultation Paper

On 8 December, Government issued its consultation on the UK's Climate Change Programme; responses are requested by **2 March 2005**.

The document can be found at:

<http://www.defra.gov.uk/corporate/consult/ukccp-review/index.htm>

4th January 2005

DTI

Licence exemptable 50-100MW generating stations connected on or before 30 September 2000: Consultation on draft order to harmonise arrangements in Scotland with those in England and Wales

On 23 December, the DTI issued a consultation on proposals to harmonise the licence exemption arrangements in Scotland, once BETTA is implemented, with those currently in force for England & Wales generators. The proposals will only affect generators who connected in Scotland on or before 30 September 2000 and who export between 50 and 100MWs. It is understood that this will only affect 4 generating stations all of which are owned by Scottish and Southern Energy plc. The deadline for response is **30 January 2005**.

The consultation can be found at:
http://www.dti.gov.uk/energy/consultations/licence_exemptable.pdf

Assistance for areas with high electricity distribution costs - Part II: consultation on detailed licence provisions

Also on 23 December, DTI issued a consultation on the licence changes needed to implement the scheme to subsidise the cost of distribution to consumers in the North of Scotland through a p/kWh charge on suppliers using the GB transmission system. The scheme, which is given effect through an Order made under the Energy Act 2004 and through licence changes, replaces the "hydro benefit" arrangements established when the industry was privatised. Comments are requested by **30 January**; the scheme is planned to come in to effect on 1 April 2005.

The main elements of the scheme are:

- NGC (as GB SO) will levy a p/kWh charge, quarterly, on all suppliers based on metered demand;
- Late payment will be subject to interest at bank base rate +8%;
- the total amount to be recovered will be £38.6m per year indexed in line with RPI with provisions to deal with under/over recover in any year, plus an administrative fee to cover the GB SO's costs (which will be a percentage of the p/kWh charge);
- it is proposed that there is no reconciliation between suppliers once the 14 month settlement process is complete; and

- the subsidy will be passed to the distributor serving the specified area (North of Scotland) who will be obliged to pass it on to "authorised suppliers" within the area.

A word version of the document can be found at:
<http://www.dti.gov.uk/energy/consultations/>

DEFRA & DTI – EU Emissions Trading Scheme

Guidance on Appeals

On 1 December, DEFRA published guidance on the appeals process for allocations to installations under the National Allocation Plan. The guidance can be found at:

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

Emissions registries: Commission adopts rules to ensure emissions trading market reaches full potential

On 21 December, the EU issued a press release on its adoption of a final piece of legislation under the EU's Emissions Trading Directive which establishes the electronic registries arrangements. The press release can be found at:

<http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/04/1523&format=HTML&aged=0&language=EN&guiLanguage=en>

EU Emissions Trading Scheme: UK National Allocation Plan Updated timetable to final allocation decision

On 23 December, DEFRA published a paper updating the timetable for finalising decisions on allocations to installations under the UK's National Allocation Plan. The paper indicates that UK officials are still in discussion with EU officials about the UK's proposed changes to its draft NAP and that these discussions are taking longer than anticipated. There are also a number of outstanding issues still to be resolved and final allocations decisions are not now expected until "the end of March at the earliest". The paper confirms that the UK is not seeking to make any further amendments to the NAP submitted to the EU on 10 November.

The paper and revised timetable can be found at:
<http://www.defra.gov.uk/environment/climatechange/trading/eu/pdf/revised-fadtimeline.pdf>

4th January 2005

DEFRA

Five year strategy - promoting energy efficiency

On 8 December, DEFRA issued its five year strategy for promoting energy efficiency. The press release indicates that the high priority issues are:

- continuing the £50m **Community Energy Programme**;
- undertaking a high level **Energy Efficiency Innovation Review**;
- developing a new approach to **Climate Change Communications**;
- **improving social housing** and playing a major role in the development of the **Sustainable Buildings Code**;
- exploring and assessing the role which tradeable **'white certificates'** could play in promoting a further improvement in energy efficiency; and.
- advising and supporting individuals, businesses and the public sector.

The press release can be found at:

<http://www.defra.gov.uk/news/2004/041208c.htm>

The policy document can be found at:

<http://www.defra.gov.uk/corporate/5year-strategy/5year-strategy.pdf>

UK Emissions Trading Scheme – Administrative rule changes

On 29 December, DEFRA issued an open letter indicating that Ministers had approved rule changes for the UK's emissions trading scheme including changes to support the temporary exclusion of UK ETS installations from the EU's emissions trading scheme.

The letter can be found at:

http://www.defra.gov.uk/environment/climatechange/trading/uk/pdf/ukets_amend04letter.pdf

The Trade and Industry Committee

The Electricity Distribution Networks: Lessons from the storms of October 2002 and Future investment in the networks

On 13 December, the TIC published its report on its inquiry into the lessons to be learnt from the impact of the storm of 2002 on distribution networks. There are three key messages in the summary to the report.

- Lessons have been learnt and distribution companies are better placed to deal with the aftermath of severe weather. The committee commends the work of the Network Resilience Working Group.
- The committee is "increasingly confident" that Ofgem will allow for sufficient revenue to replace ageing infrastructure, maintain the network adequately, and invest in improved quality of service and in the new construction needed to accommodate renewable generation in the next price control. Although it has not gone as far as the committee had hoped in respect of capital expenditure allowances.
- The committee is "less happy" about the continued regulatory pressure on operational expenditure.

The report can be found at:

<http://www.publications.parliament.uk/pa/cm/cmtrdind.htm>

The BSC and CUSC

BSC Authority Decisions

On 9 December, the Authority APPROVED Urgent Modification **P181** (NGC Emergency Instruction Damhead Creek 19.5.04: Deferral of Settlement Process). The BSC Panel had recommended rejection. The Modification will delay the use of corrected data from the Damhead Creek dispute from entering Settlement until the Final Reconciliation Run.

On 17 December, the Authority REJECTED Modification **P168** (Publication of BMU GC and DC values on ELEXON website). The Modification had sought to require ELEXON to publish GC and DC (Generation Capacity and Demand Capacity) alongside the Party Name and BM Unit Identification Number that it currently publishes.

However, on the same day, the Authority APPROVED the Alternative to Modification **P169** (Publication of BMU names on ELEXON website) which will require ELEXON to publish all the BM Unit Registration data for live BM Units contained in a particular data flow (the CRA I020 flow) on the ELEXON website, including the full names of BM Units and the GC/DC status and values, rather than just the BM Unit identifiers. The Modification will be implemented on **5 January 2005**.

4th January 2005

BSC New Modifications

On 20 December, power raised Modification **P183** (Additional Mechanisms for Obtaining a valid Change of Supplier Read). The Modification is part of a package of proposals being developed by the Customer Transfer Programme (CTP), aimed at improving the Change of Supplier Process. Most of the changes are outside the scope of the BSC. However, this change is needed to support this package of changes and seeks to amend the BSC rules on the types of meter read that are acceptable under the BSC on change of supplier.

BSC Parties – joiners and leavers

Four companies acceded to the BSC on 1 December. Two as suppliers: **EnergyCo1 Ltd & EnergyCo2 Ltd**; one as an Interconnector Administrator / Interconnector Error Administrator: **SONI Ltd** and one as a generator: **Gaz de France Generation Limited**. On 9 December **Global Utility Connections Limited**, a licensed distribution operator, acceded to the BSC.

BSC Miscellaneous

ELEXON Business Plan 1 April 2005 - 31 March 2008

ELEXON has issued its draft Business Strategy, which incorporates the Business Strategy and Annual Budget, and invites comments are invited from Parties entitled to submit Modification proposals by **10 January 2005**. The Strategy is subject to approval by the BCS Panel; the budget by the ELEXON Board. The budget projections show a reduction of £18.3m on the 2004/5 costs of which £16.m is due to the disappearance of the NETA pre go-live costs.

The draft plan can be found at:
<http://www.elexon.co.uk/Publications/CorporateAndFinancial/default.aspx>

The Value for CAP (The Credit Assessment Price)

On 10 December, ELEXON notified the industry that the BSC Panel had determined that the Credit Assessment Price (CAP) would be reset to £23.00/MWh (with no reference to VAT) with effect from **12 January**. The value of CAP will be reviewed again in 6 months time.

CUSC Authority Decisions

On 13 December, the Authority APPROVED an Alternative Amendment to **CAP069** (Users' Forecasts used in the calculation of TNUoS Charges) for implementation 10 business days after the decision. The change places an obligation on NGC to request, and on Users to provide, a forecast of the Transmission Entry Capacity (TEC) for the following charging year.

Withdrawal of CUSC Amendment Proposal

On 7 December, NGC notified the industry that **CAP078** had been withdrawn. CAP078 (Charging for Costs Incurred in the Acquisition of Consents under the Construction Agreement), was originally put forward by NGC in October.

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

NGC Consultations/Documents

For transmission charging methodology see BETTA section.

IPA NEWS

IPA would like to wish all our readers a Happy New Year.

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

December 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. Readers should also refer to the relevant documents to confirm response dates.

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
	Consultation on amendments to the STC The open letter can be found at: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/9420_26804.pdf	30 Nov	7 Jan
Ofgem	Credit Cover for Transmission Owners The document can be found at: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/9445_26904.pdf	30 Nov	10 Jan
NEW IN DECEMBER.....		Issued	Response Due
Ofgem	Electricity transmission network reliability incentive schemes Final proposals The final proposals can be found at: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/9472_text_incentives.pdf	1 Dec	29 December
DEFRA	Guidance on Appeals The guidance can be found at: http://www.defra.gov.uk/environment/climatechange/trading/eu/nap.htm	1 Dec	
Ofgem	Supplying low income and vulnerable customer groups The guidance can be found at: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/9486_27204.pdf	2 Dec	
DTI	Review of the UK Climate Change Programme Consultation Paper The document can be found at: http://www.defra.gov.uk/corporate/consult/ukccp-review/index.htm	8 Dec	2 March
DEFRA	Five year strategy - promoting energy efficiency The press release can be found at: http://www.defra.gov.uk/news/2004/041208c.htm	8 Dec	

	The policy document can be found at: http://www.defra.gov.uk/corporate/5year-strategy/5year-strategy.pdf		
Ofgem	Limitation of Liability under the STC and CUSC An Ofgem conclusions document The document can be found at: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/958127404.pdf	10 Dec	Codes will be issued in January 2005.
TIC	The Electricity Distribution Networks: Lessons from the storms of October 2002 and Future investment in the networks The report can be found at: http://www.publications.parliament.uk/pa/cm/cmtrdind.htm	13 Dec	
Ofgem	NGC's proposed GB electricity transmission charging methodologies - The Authority's decisions The document can be found at: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/958427504.pdf	10 Dec	
NGC	GB Transmission Charging: Use of System Methodology Revised Proposals Consultation The revised methodology can be found at: http://www.nationalgrid.com/uk/indinfo/betta/pdfs/GB_Charging_Revised_Proposals_Consultation_V2.pdf	20 Dec	21 January
Ofgem	Governance in the Electricity Distribution Commercial arrangements The consultation can be found at: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/958627604.pdf	13 Dec	Ofgem is to hold a workshop on its views, as set out in the consultation , on 21 January 2005. Responses are requested by 11 February 2005.
Ofgem	Consultation: Transition of Electricity Distribution EHV demand use of system charges The letter can be found at: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/961928404.pdf	17 Dec	14 Jan
Ofgem	Transmission price controls and BETTA Final proposals and impact assessment The consultation can be found at: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/961227904.pdf	17 Dec	21 January
Ofgem	The proposed BETTA run-off arrangements scheme	17 Dec	S, D & G

	<p>Conclusions</p> <p>http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/963028704a.pdf the pre-designation text can be found at: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/962928704b.pdf</p>		licensees will have until 10 January 2005 to accede to the Scheme Framework Agreement.
Ofgem	<p>BETTA open letter on proposed changes to Standard Licence Conditions C18, C8 and D15 for Transmission Licences, Section 12 of the CUSC, Section I of the STC – and transitional licence obligations for all generation, distribution and supply licensees to reflect the possible late issuance of GB offers under transmission licence condition SLC C18 and other required changes</p> <p>The open letter can be found at: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/962228604.pdf The accompanying four annexes showing the proposed revised legal drafting can be found at: http://www.ofgem.gov.uk/ofgem/whats-new/index.jsp?section=whats-new&levelids=.1_9132#top9132</p>	17 Dec	12 January
Ofgem	<p>Conclusions in relation to the 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</p> <p>The letter can be found at: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/961828304.pdf</p>	17 Dec	
Ofgem	<p>NGC System Operator incentive scheme from April 2005: Initial Proposals</p> <p>The initial proposals can be found at: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/961328004.pdf</p>	17 Dec	21 January
Ofgem	<p>BETTA “minded to” statement on the interim discount for small transmission connected generators and impact assessment</p> <p>The letter, which also includes an Impact Assessment, can be found at: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/961728204.pdf</p>	17 Dec	21 January
Ofgem	<p>Transmission investment for renewable generation</p> <p>The document can be found at: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/963128804.pdf</p>	20 Dec	
EU	<p>Emissions registries: Commission adopts rules to ensure emissions trading market reaches full potential</p>	21 Dec	

	The press release can be found at: http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/04/1523&format=HTML&aged=0&language=EN&guiLanguage=en		
DEFRA	EU Emissions Trading Scheme: UK National Allocation Plan Updated timetable to final allocation decision The paper and revised timetable can be found at: http://www.defra.gov.uk/environment/climatechange/trading/ea/pdf/revised-fadtimeline.pdf	23 Dec	
DTI	Assistance for areas with high electricity distribution costs - Part II: consultation on detailed licence provisions Also on 23 December. Comments are requested by 30 January A word version of the document can be found at : http://www.dti.gov.uk/energy/consultations/	23 Dec	30 January
DTI	Licence exemptable 50-100MW generating stations connected on or before 30 September 2000: Consultation on draft order to harmonise arrangements in Scotland with those in England and Wales The consultation can be found at: http://www.dti.gov.uk/energy/consultations/licence_exemptable.pdf	23 Dec	30 January
Ofgem	Energy Efficiency Commitment 2005 – 2008: Administration procedures and The Energy Efficiency Commitment 2005 - 2008: Responses to Ofgem’s consultation on the administration procedures The procedures can be found at: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/972129004.pdf and the summary of responses to consultation document can be found at: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/972029004b.pdf	23 Dec	
DEFRA	UK Emissions Trading Scheme – Administrative rule changes The letter can be bound at: http://www.defra.gov.uk/environment/climatechange/trading/uk/pdf/ukets_amend04letter.pdf	29 Dec	
ELEXON	ELEXON Business Plan 1 April 2005 - 31 March 2008 The draft plan can be found at: http://www.elexon.co.uk/Publications/CorporateAndFinancial/default.aspx		10 January