

This newsletter provides a brief update on the key electricity market design changes currently being progressed within Great Britain, focusing on activities between 20th December 2003 and 31st January 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 Ofgem/DTI and Code consultations that affect the wholesale electricity market.

This issue covers: Ofgem publications; BETTA; the UK ETS National Allocation Plan; Transmission charging; 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.

LATE DECEMBER 2003 AND JANUARY 2004 HEADLINES

Ofgem Issues and Consultations

Electricity Distribution Governance Forum

On 22 December Ofgem published an open letter indicating that it will host and chair an inaugural forum for industry parties with an interest in the wider issue of electricity distribution governance at 10:30 on 10 February 2004.

The letter can be found at: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/5764_DCUSC_Forum_industry_letter_28Jan04.pdf

Ofgem proposed Corporate Strategy

On 6 January, Ofgem published its new draft Strategy document following its consultation in September 2003. The strategy focuses on seven key themes:

- creating and sustaining competition;
- regulating network monopolies;
- helping protect security of Britain's energy supplies;
- a leading voice in Europe;
- helping protect the environment;
- helping tackle fuel poverty; and
- improving Ofgem's efficiency and effectiveness.

Commenting on its own processes, the draft Strategy notes that Ofgem will examine how to improve the consultation, reporting and review process. It also notes Ofgem's intention to make its publications more concise, clearer and better focused.

On the issue of Ofgem's costs, the Strategy notes that the costs should be seen in the context of its duties and workload and that it recognises that it is its decisions that have the most significant financial impact on the industry. The Strategy also records Ofgem's commitment to spend no more than the £34m in 2004/5 as proposed in the Corporate Plan in March 2003, and that this represents a real terms reduction of 8% over 2003/4 costs.

Comments are invited by 4 February 2004 and will be followed by a further strategy document in late March. This is to be followed by consultation on the Corporate Plan.

The document can be found at:

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/5492_ProposedOfgemCorpPlan04.pdf

Gas and electricity licence applications Guidance Document

On 8 January, Ofgem published an updated guidance document on licence applications including the procedures that Ofgem follows when assessing applications for all types of gas and electricity licences and Ofgem's objective and non-discriminatory criteria for deciding whether to grant a licence. The guidance has been updated following the amendment of the gas and electricity Application Regulations in April 2003.

The guidance can be found at:

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/5528_amended_guidance0104.pdf

Powergen UK plc's proposed acquisition Of Midlands Electricity plc Report to the Office of Fair Trading

On 8 January, Ofgem published its report to the Office of Fair Trading on Powergen's acquisition of Midlands Electricity plc, which confirms its view that no significant competition concerns arise from the proposed acquisition.

The document can be found at:

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/5534_powergen_midlands_report_public.pdf

Decisions in respect of proposals to remove “Hydro Benefit” following consultation under section 11(2) of the Electricity Act

On 9 January, Ofgem published an open letter setting out its decision to direct changes to the licences of SHETL (Scottish Hydro Electric Transmission Limited), SHEPD and SSE Generation Limited to effect the removal of the Hydro Benefit subsidy. The changes came into effect on **12 January 2004**.

The letter can be found at:

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsatta/ch/5545_openlet_decision_hydrobenefit_9jan04.pdf

Testing domestic consumer take-up of energy services: trial suspension of 28 day rule

On 19 January, Ofgem issued an initial consultation on a trial to allow suppliers to impose a longer notice period for domestic customers switching suppliers than the current mandatory 28 days (the 28 Day Rule) where the supplier has also provided energy efficiency services. The consultation follows the report published last year by the Energy Services Working Group.

The consultation seeks views on the:

- size of the trial;
- definition of energy services;
- contractual arrangements permitted in the trial; and
- consumer protection measures.

The deadline for response is **13 February**. This is to be followed by a decision document and statutory consultation on consequential licence changes and a consultation on the draft derogation (from the requirement for supply contracts to be terminated on 28 days notice) at the end of February, licence modifications in March and implementation of the derogation in April.

The consultation can be found at: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsatta/ch/5638_Trial_suspension%2028_day_rule_19jan04.pdf

Ofgem to Reconsider Losses Proposal

On 21 January, Ofgem issued a press release stating that “it has submitted to the judgment of the court on the Judicial Review proceedings in respect of its decision in January 2003 to approve BSC Modification P82” following a procedural error in its decision making process.

This was followed by a “Statement on Transmission Losses Decision” on 30 January that indicated that the effect of the Court’s ruling was to send the decision back to the Authority. The statement further indicates that the Authority has concluded that it is not legally possible for it to approve Modification P82 and that the proposal can not and will be not be implemented. Any new modification proposal on transmission losses would be subject to the usual industry procedures.

The Ofgem press release can be found at:

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsatta/ch/5686_r0404_21jan.pdf

The statement can be found at:

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsatta/ch/5780_Ofgem07.doc

On 27 January, ELEXON issued a Circular entitled Update on Modification Proposal P82 – ‘Introduction of Zonal Transmission Losses on an Average Basis’. The circular indicates that ELEXON has received a copy of the formal order made by the court in relation to the Judicial Review and that its legal representatives are currently considering its implications. The circular goes on to state that “ELEXON is endeavoring (notwithstanding the ultimate uncertainty as to the eventual status of, or decision to be made in relation to, P82) to ensure that no unnecessary or inappropriate monies are being expended by it in relation to the implementation of P82”

The circular can be found at:

<http://www.elexon.co.uk/docs/ta/circulars/2004/January/EL01059.PDF>

South London/East Birmingham/ Cheltenham and Gloucester Transmission Failures 2003 Ofgem Investigation - An Update

On 22 January, Ofgem issued an update on its investigation into power cuts in the South London and East Birmingham, which was expanded to include the power cut in Gloucester and Cheltenham. The investigation team is lead by Alistair Buchanan and will report to an Authority team led by Sir John Mogg. The press release states that, in the absence of new evidence coming to light, the investigation team will report to the Authority for a ruling next month and that the Authority’s ruling is not anticipated until later this year.

The Ofgem press release also indicates that Stephen Timms (the Energy Minister) has announced that the DTI’s Engineering Inspectorate had concluded its formal investigation into the London and Midlands

failures and the findings have been passed to the companies concerned. Stephen Timms' announcement indicates that the report will not be published because the material gathered in connection with this investigation is commercially sensitive and its disclosure is restricted by the provisions of the Utilities Act 2000.

The Ofgem press release can be found at:
http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/5687_r0504_22jan.pdf

Developing the Grid Codes for the Expansion of wind generation

On 29 January Ofgem announced that it has invited industry stakeholders affected by the change proposals to the Grid Codes of Scotland and England and Wales to a Forum to be held in early March 2004. The change proposals cover the technical connection requirements for non-synchronous generators in the Scottish and England and Wales Grid Codes. The press release notes that it is intended that the Forum members will be drawn from the England and Wales Grid Code Review Panel's Generic Provisions Working Group and the Scottish Grid Code Review Panel and invites Parties that wishes its views to be heard by the Forum members to contact John Marks john.marks@ofgem.gov.uk at Ofgem by 6 February.

The press release can be found at:
http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/5767_r0604_29jan.pdf

BETTA

Ofgem/DTI seminar GB-wide electricity trading and transmission arrangements, small generators seminar

Ofgem is running a seminar on small generator issues under BETTA at the Quality Hotel, Glasgow, on Thursday 5 February 2004.

The agenda can be found at:
http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/5770_Seminar_agenda.pdf

ELEXON Data Acquisition Strategy and Workshops on ELEXON's Approach to Data Take-On for BETTA

On 23 December, ELEXON published its "Data Acquisition Strategy" which gives a high level description of the activities that will need to be undertaken to populate the NETA central systems with data prior to BETTA Go-Live.

The document can be found at:
http://www.elexon.co.uk/betta/docs/progress_reports/Data_Acquisition_Strategy.pdf

ELEXON has issued an invitation to two workshops, hosted by the ELEXON BETTA Project, on its approach to data take on. The first will be held in Glasgow on 19 February and the second at ELEXON's offices in London on 24 February.

The invitation can be found at:
http://www.elexon.co.uk/betta/docs/progress_reports/BETTA_Workshops_Invitation.doc

Changes to the electricity generation, distribution and supply licences under BETTA: a third Ofgem/DTI consultation

On 14 January, Ofgem/DTI published the third consultation on the changes to the electricity generation, supply and distribution licences needed for BETTA. The consultation is accompanied by the proposed drafting for the revised licence conditions. The deadline for comments is 1 March 2004.

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/5584_Changes_elec_gen_dist_supply_licences_3rdconsult_14Jan04.pdf

Access to the GB Transmission System

On 26 January, Ofgem issued a statement on access to the GB Transmission Network. The statement gives background to the current contractual framework in England & Wales and Scotland and the arrangements that will apply under BETTA.

The statement notes that the most significant changes will occur in Scotland and that any party that wishes to have access to the GB network under BETTA will need to have a contract with NGC in the form defined in the GB CUSC. The statement advises parties connected in Scotland/using the Scottish transmission system to contact NGC. Parties expecting to connect in Scotland are advised to seek a connection from the relevant Scottish licensee but they are also advised to initiate discussion with NGC.

The statement also notes that the three transmission licensees are undertaking a detailed analysis of the effect on the GB transmission system of the current demand for access (particularly by Scottish renewables) and the ending of the Scottish Interconnector and allocation arrangements.

The statement records that, based on preliminary information:

- subject to local constraints, it is likely that current connectees and transmission system users will be able to have access at their current levels;
- access constraints may mean that offers to new applicants in Scotland may be linked to the completion of reinforcements; and
- for those parties, particularly in Scotland, who have applied for access but have not yet been connected the statement notes that the position is more uncertain.

The statement goes on to say that it will not be possible to be more certain about the position of any of these groups until May 2004 when the supporting analysis is expected to be completed.

The statement can be found at:

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/5730_access_gb_transmission_system_26Jan04.pdf

Addendum to GB Transmission Charging: initial thoughts consultation

On 27 January, NGC issued an addendum to its Initial Thoughts on Transmission Charging under BETTA, issued on 16 December 2003, and has extended the deadline for response to the consultation to 6 February 2004.

The Addendum includes corrections to some of the Scottish data included in the original consultation and provides additional tariff modeling, under new scenarios, following requests from users. The new Scenarios are:

Scenario 1 – to reduce the capacity at Peterhead from 2319 MWs to 1524 MWs (the generation capacity figures in Scotland are based on generation capacity figures in the Severn Year Statement and not Transmission Exit Capacity (TEC) as in England & Wales);

Scenario 2 – Peterhead at 1524 MWs and Chapelcross (196MWs) removed;

Scenario 3 – Scottish generation as per Scenario 2 with 132kV circuits using 275kV expansion factors;

Scenario 4 – Scottish generation as per Scenario 2 with all GB circuits using 400kV expansion factors; and

Scenario 5 – As per scenario 4 but increasing the 400kV expansion constant to £11.00/MWkm from £9.29 to take account of the additional cost of lower voltage asset renewal.

Other than Scenario 5, the various scenarios have a relatively small affect on demand and generation remote from Scotland. All scenarios result in smaller differentials for generation and demand than the revised base case.

GB Consultations on BSC Modification proposals and CUSC Amendments

- **P124 (Revision of Mandatory Half Hourly metering criteria)**
- **P131 (Introduction of further provisions relating to the determination of Trading Disputes)**
- **P138 (Contingency arrangements in relation to the implementation of demand control measures pursuant to Grid Code OC6)**
- **P139 (Removal of Trading Unit restrictions for Interconnector Users)**
- **P142 (Minor refinement to allow a Level 2 Default Cure period in defined circumstances)**
- **P153 (Additional Requirements to Support Competition in New and Out-of-Area Distribution Networks)**
- **CAP055 (Users' Demand Forecasts for TNUoS Charging)**

On 7 January, Ofgem invited comments on any additional GB implications of the Modification proposals **P131; P129; P142; and P153**. The deadline for comments is **5:00pm 3 February 2004**.

On 19 January, Ofgem issued a similar invitation in respect of Modification **P124**. The deadline for response is **5:00pm 16 February 2004**.

On 22 January, Ofgem issued a similar invitation in respect of Modification **P138**. The deadline for response is **5:00pm 6 February 2004**.

On 28 January, invited views on the GB implications of **CAP055**. The deadline for comments is **5:00pm 11 February 2004**.

The letters can be found at:

<http://www.ofgem.gov.uk/ofgem/whats-new/archive.jsp>

DEFRA

Consultation Paper on the UK Draft National Allocation Plan for 2005 to 2007

On 19 January, DEFRA published its consultation on the National Allocation Plan for carbon emissions permits under the first phase (2005 – 2007) of the EU ETS (European Union Greenhouse Gas Emissions Trading Scheme).

The consultation covers, amongst other things, the determination of the national cap on permits, how the volume will be allocated between each sector (and includes provisional activity/sectoral level totals for 2005-7), and how the sectoral allocation will be shared between sector installations. The consultation also covers applications for temporary exclusion from the scheme, the proposals for the New Entrants' Reserve, and technical issues where the detail has yet to be determined such as the definition of "closure" for installations.

The consultation was supplemented by a workshop on 28 January 2004 and further sectoral meetings have been scheduled throughout February.

The deadline for response is **Friday 12 March 2004**. The Draft National Allocation Plan will be notified to the commission by 31 March 2003.

The consultation can be found at:
<http://www.defra.gov.uk/corporate/consult/eu-etsnap/consultation.pdf>

Environmental Audit Commission

First Special Report Government Response to the World Summit on Sustainable Development 2002: From Rhetoric to Reality

On 28 January the EAC announced the publication of the above report which can be found at:

<http://www.parliament.the-stationery-office.co.uk/pa/cm200304/cmselect/cmenvaud/232/23203.htm>

TNUoS Tariffs for 2004/5

On 29 January, NGC published the Transmission Network Use of System Tariffs for 2004/5. These can be found at:

http://www.nationalgrid.com/uk/indinfo/charging/pdfs/2004_5_TNUoS_Tariffs.pdf

Modifications and Amendments

BSC Modifications and Issues

Authority Decisions

On 22 December the Authority, in line with the BSC Panel's recommendation, APPROVED the proposed Alternative to Modification **P127** (optional De-registration by Insolvent Party) for implementation on 15 March 2004. This Modification will allow an insolvent Party to withdraw from the BSC, and provides a mechanism for it to withdraw unused credit cover, in certain circumstances.

On 23 December the Authority APPROVED the Alternative Modification to **P133** (facility to permit BSCCo to undertake the role of Profile Administrator) for implementation on 2 January 2004. The BSC Panel had recommended implementation of the original Modification. The approved Alternative Modification will allow BSCCo to undertake the role of Profile Administrator for limited time periods where no suitable provider has been identified. During this period BSCCo would seek to procure a new Profile Administrator.

Also on 23 December, in line with the BSC Panel's recommendation, the Authority APPROVED Modification **P141** (Removal of Unintentional Effects of Approved Modification P106 on Supplier Charges) with an implementation date of 24 June 2003. This Modification will have the effect of undoing some of the unintended effects on the application of Supplier Charges created by Modification P106 which had formalised the use of "Supplier IDs" in the BSC.

On 24 December the Authority, in line with the BSC Panel's recommendation, REJECTED Modification **P129** (Changes to Panel determination Process and Panel Election Procedures). This modification had sought to revise the BSC Panel election procedures to introduce a constituency, first past the post, based approach. It had also sought to give the Panel the authority to determine Modifications where a "significant majority" of Panel Members were in agreement.

New Modifications

On 19 December, Scottish Power Energy Management Limited raised Modification Proposal **P156** (Suspending the implementation of the zonal allocation of transmission losses).

This Modification seeks to stop the implementation of Modifications P82 and P125 (which introduce zonal average charging for transmission losses) by removing or disabling systems and documentation that would give effect to these Modifications.

On 6 January, EdF Energy raised Modification Proposal **P157** (Replacement of current Supplier Charges rules). The Modification seeks to replace the current Supplier Charges with new charges that meet criteria, developed by the VASMG (Volume Allocation Standing Modification Group), for “corrective techniques” under the Performance Assurance Framework.

On 27 January, British Gas Trading raised Modification **P158** (Introducing the ability to lodge a consolidated Letter of Credit (LoC)). The Modification proposes that Parties with Multiple Party Ids should be allowed to post a single consolidated LoC to cover all their Party Ids, and identify the amount allocated to each Id, rather than having to post a separate LoC for each Id.

On 28 January ELEXON, on behalf of the BSC Panel, raised Modification **P159** (Extending the scope of e-mail communications under the Code) which seeks to allow e-mail communication under the Code unless the Code specifies an alternative mechanism.

On 29 January, EdF Trading Ltd raised Modification **P160** (Removal of the Anomalous Effect of the Error Correction Payment (ECP) for Multiple Claims Affecting the same Settlement Period and Energy Account). The Modification indicates that, where a Party has a number of successful Post Notification Error claims that affect the same Settlement Period, the equation for calculating the ECP can result in payments significantly more than 20% of the actual financial benefit a Party will receive and could even exceed the actual financial benefit. The Modification proposes that the calculation of the ECP should be amended to remove this effect.

New Parties to the BSC

ELEXON notified the industry that, on 2 January, The Team Group of Companies UK Limited acceded to the Balancing and Settlement Code and that it will provide the service of a Supplier.

Withdrawal from the BSC

On 22 January, ELEXON notified the industry that AES Barry Operations Limited would withdraw from the Balancing and Settlement Code on 16 January 2004.

BSC Miscellaneous

Party Agent Withdrawal

On 23 December, ELEXON issued a Circular indicating that a Non Half Hourly Data Aggregator and Data Collector will cease to operate in the market from 1 April 2004. The Party Agent operates under the “SWAE” Market Participant ID (MPID). A workshop was held on 21 January to consider a common solution to the difficulties this creates for suppliers. This was followed by a further Circular, on 22 January, summarising the approach proposed at the workshop and inviting Party Agents to submit proposals which ELEXON would circulate to suppliers. A further meeting will be hosted by ELEXON, starting at **9:30am on 3 February**, for suppliers to consider Agent proposals and select the proposal to be taken forward.

The various ELEXON circulars (EL01028, EL01055) can be found at: <http://www.elexon.co.uk/ta/circulars/circulars.html>

Invitation to the Performance Conference 2004

On 28 January, ELEXON issued an invitation to a two day “Performance Conference” it is holding on **Wednesday 3 and Thursday 4 March 2004**. The ELEXON circular indicates that the conference will concentrate upon Supplier Volume Allocation (SVA) issues and is open to all BSC Parties, Accredited Party Agents and registered BSC Third Party Beneficiaries.

The circular can be found at: <http://www.elexon.co.uk/docs/ta/circulars/2004/January/EL01060.PDF>

CUSC Modifications and Issues

Authority Decisions

On 23 December, Ofgem issued a raft of decision letters in respect of various House Keeping Amendments to the CUSC.

The following CAPs were all APPROVED:

- **CAP 056** (Correction to definition of Operational Metering Equipment);
- **CAP 058** (“Reinstatement of Connection Site Demand Capability to Section 2, Paragraph 2.5”);
- **CAP 059** (“Minor Text Amendment to Section 2, Paragraph 2.17.8”);



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- **CAP 060** (“Minor Text Amendment to Section 6, Paragraph 6.6.4”);
- **CAP 062** (“Amendment of contact address and addition of title of person to contact in Exhibit F, Note 9 – Construction Agreement; Exhibit I, Note 12; Exhibit D, Note 14; Exhibit B, Note 13”);
- **CAP 063** (“Amendment of contact address in Exhibit O, Part I, Schedule 6 and Exhibit O, Part II, Schedule 6”);
- **CAP 064** (“Minor reference error in Schedule 2, Exhibit 3, Construction Agreement”); and
- **CAP 065** (“Removal of Provisions relating to NETA Go live”); and
- **CAP 066** (“Removal of Historic Transitional Provisions from Section 10”).

CAP 057 (“Removal of reference to Transmission Services Use of System Charges”) and **CAP 061** (“Addition of missing detail in Exhibit F, Note 10”) were REJECTED.

New Amendments

NGC raised **CAP071** (Short Term Firm Access Service). NGC is proposing introducing a new Short Term Transmission Entry Capacity (STTEC) product, in time for winter 2004/5, that would allow generators to request a short term (4 week) increase in their Transmission Exit Capacity (TEC). NGC would require six weeks notice of the requested change and would give four weeks notice of its decision on whether the increased capacity could be made available. The charges would be developed via changes to the Charging Methodologies.

Withdrawn Amendments

NGC has indicated it wished to withdraw **CAP067** (Clarification of Contractual Relationship Required for Embedded Generation (CUSC 6.5.1)). CUSC Parties have until **2 February** to indicate support for the CAP or it will be formally withdrawn.

IPA NEWS

Date for your Diary

IPA is running an Emissions Trading workshop for the IIR on 24 February. This will be held at the Ramada Plaza, Regent’s Park, London and is a precursor to the Electricity Annual – The Transformation Of The UK Power Sector. For more information and to register visit www.iir-conferences.com.

New appointment

Christopher Flynn has recently joined IPA as a Consultant. He holds a degree and masters in law and is currently studying a Masters degree in Management, Economics and International Relations at the University of St Andrews. Previously he worked as an advisor for the Australian Federal Shadow Minister for Foreign Affairs and as a lawyer for Allens Arthur Robinson law firm in Sydney.

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