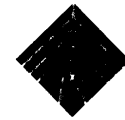
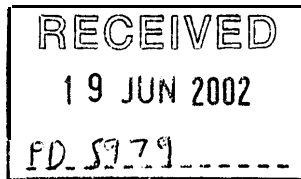


17 June 2002



National Grid

Regulation

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Dear Peter

GOVERNANCE OF ELECTRICAL STANDARDS CONSULTATION

We have read with interest Ofgem's consultation on the above and would like to take this opportunity to provide you with our comments.

The initial focus of the consultation is the governance of technical standards pertinent to distribution networks. However, it extends consideration to the governance of the Distribution and Grid Codes themselves. Our comments are restricted to the governance of the Grid Code and the technical standards within it.

We believe that the co-ordination of amendments to the Grid Code should remain the full responsibility of National Grid for the following reasons:

- The Transmission Licence places an obligation upon National Grid to have in force a Grid Code designed to permit the development, maintenance and operation of an efficient, co-ordinated and economic system of electricity transmission and to facilitate competition in generation and supply. Therefore National Grid, in consultation with transmission users, reviews the Grid Code with this aim and also to fulfil our health and safety obligations. Transferring the governance of technical standards within the Grid Code to another body may undermine National Grid's ability to achieve these obligations.
- The current governance processes of the Grid Code provide current and future users with transparency and certainty of treatment. Greater flexibility in the governance framework or transferring responsibility outside National Grid may hinder change and foster confusion in the amendment procedures.

The consultation intends to increase the influence of small players and industry participants who are not members of the Electricity Association. We believe that it is important that small players should be able to fully participate within the industry and therefore support this aim. However, as the consultation recognises, many small players do not have the necessary resources and expertise to contribute to the



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development of Grid Code technical standards and therefore it is often more appropriate for representative trade groups to be included instead.

The Transmission Licence requires National Grid to consult with all authorised electricity operators liable to be materially affected when reviewing the Grid Code. We do this by consulting all transmission users, the Grid Code Review Panel (GCRP) and anyone else who has registered an interest through our website.

The GCRP provides a formal forum for the informed discussion of proposed modifications and its business and papers are posted upon our website. The remit of the GCRP is not limited to technical matters and indeed commercial implications have sometimes been the major area of debate. GCRP membership includes generators whose only power stations are less than 100MW and the current panel member is from a representative trade group.

The GCRP reviews standards developed by the Electricity Association for inclusion in the Grid Code but it may also review standards developed by other external bodies. Its conclusions (including those that National Grid disagrees with) are presented by National Grid to Ofgem in accordance with its licence obligations. Ofgem then determines whether the proposals are to be implemented. Therefore we believe that an audience significantly wider than the membership of the Electricity Association, or any other consulted body, is adequately represented by the current arrangements.

We have provided detailed responses to the specific questions raised in the consultation paper in Appendix A. Please feel free to contact me if you would like to discuss any of the points I have raised.

Yours sincerely



Tim Tutton
Director of Regulation

Appendix A: Responses to detailed questions

Question 1 Is it appropriate to restrict the scope of this review to the governance of the Distribution Code technical standards or should it include governance of the Grid Code technical standards?

Grid Code technical standards generally concern the technical interfaces between the transmission system and its users. Currently, the Grid Code only refers to two technical standards developed by the Electricity Association (P28 and G5/4). System Security and Supply Standards, which are a condition of the Transmission Licence, are beyond the scope of the Grid Code.

As no specific problems with governance of the Grid Code have been brought to Ofgem's attention there does not appear to be any need to include its governance within this review.

Question 2 Would it be helpful to establish Technical Standards Groups under the Grid and Distribution Code Review Panels?

The consultation criticises the Distribution Code Review Panel for not considering commercial, regulatory and administrative issues associated with technical standards. We do not believe that the GCRP suffers from the same defect as its terms of reference do not limit it to consideration of technical matters. Furthermore, the constitution of the GCRP allows for the establishment of sub-committees and working groups as necessary.

The formation of a separate Technical Standards Group who would be required to refer commercial, regulatory and administrative issues externally would lead to disjointed debate of wider issues between different bodies. Ultimately these issues would have to be brought together for consideration by the GCRP as now.

Therefore we do not consider the establishment of separate Technical Standards Groups to be helpful in relation to the Grid Code.

Option 1 in the consultation proposes that a member representing Domestic Combined Heat and Power could be appointed to the panel. It is unlikely that the Grid Code will have much impact upon this technology but in any case it is already represented by the panel member for generators with power stations less than 1 OOMW.

Question 3 How should the enhanced Grid and Distribution Code Review Panels be funded?

The licensee with the licence obligation to establish and administer the code should fund the costs of administration. However, the cost of representation should be met by the users being represented.

The creation of a separate Technical Standards Group appears to be overly bureaucratic and would not provide value for money especially if there are few live technical issues being discussed. Therefore we disagree with this option.

Question 4 Is it appropriate to modify the role of the Distribution and Grid Code Review Panels to cover commercial, regulatory and administrative matters?

The author's intent behind this question is not clear. The constitution of the GCRP does not limit it to the consideration of purely technical issues and therefore this option is already being practised.

However, it may be the author's intent that the governance of the Grid Code be combined to some extent with the governance of other industry codes such as the BSC and the CUSC. Transferring the governance (wholly or partially) of the Grid Code to other bodies or of other industry codes to the GCRP would;

- confuse the methodology for raising modifications to industry documents where a code can be modified by more than one route;
- undermine the governance arrangements of industry codes; and
- require panels to change their membership to ensure that they understand the implications of changes to other industry codes under their consideration and to fully represent the interests of parties affected by those changes.

It should be noted that representation at the GCRP differs from that at the CUSC Amendment Panel and from that at the BSC Panel both in terms of the parties represented and in terms of the background of the representatives.

Question 5 How should these panels be funded?

The licensee with the licence obligation to establish and administer the code should fund the costs of administration e.g. National Grid for the Grid Code and CUSC. However, the cost of representation should be met by the users being represented.

Question 6 Is it appropriate that the drafting of the electrical standards be performed by a new body with a remit to act for the benefit of the principal stakeholders?

Given the existence of organisations such as the Electricity Association, the Institution of Electrical Engineers and the British Standards Institute, it is unclear what value would be added by a new electrical standards body.

The Grid Code is established under National Grid's transmission licence with the objective of developing, maintaining and operating the transmission system in an efficient, co-ordinated and economic manner and to facilitate competition in generation and supply. The Grid Code is also vital to fulfilling our health and safety obligations. It is therefore appropriate for National Grid to lead on developments of the Grid Code, including which standards are adopted within it, if these objectives are to be achieved.

Whilst a new or existing body could be given responsibility for developing electrical standards, we consider the current arrangements are appropriate where National Grid, in conjunction with the GCRP, is not compelled to adopt standards developed by any particular external body.

If National Grid was compelled against its recommendation to adopt standards proposed by an external body then liabilities associated with the adoption of that standard should be indemnified by the external body. However, whereas National Grid is party to the CUSC, and as such its liabilities to users of the transmission system are limited to some extent by the terms of the CUSC, an external body may not enjoy similar protections.

The current arrangements are flexible in that standards developed by the appropriate body are reviewed. If electrical standards were governed by a particular standards organisation then the choice of standards would be restricted to those considered by that organisation. Therefore that organisation would have to consider all standards relevant to the Grid Code to prevent appropriate standards being omitted.

Question 7 How should such a body be funded?

National Grid currently funds the administration of the GCRP and the Grid Code which it carries out internally alongside the administration of the CUSC Panel and the CUSC. If the development of electrical standards in the Grid Code was outsourced to a new body, beyond the control of National Grid, then costs may escalate and it would no longer be appropriate for National Grid to fund this activity from its regulated income.

Question 8 Should Elexon oversee governance of the Distribution and Grid Codes and referenced electric standards?

See response to Question 6.

In addition, Elexon was established under the new electricity trading arrangements to specifically oversee the administration and maintenance of the BSC adopted by National Grid pursuant to the Transmission Licence. It would be inappropriate for the Transmission Licence to require the establishment of a body to consider electrical standards referred to in the Distribution Codes. Such an obligation would be better placed within the Distribution Licences with the obligation to establish Distribution Codes.

Question 9 Should the governance of the electrical standards by an alternative UK or international standards organisation be pursued?

Standards developed by UK or international standards organisations may already be adopted in the Grid Code. However, we believe that the existing arrangements should be retained, such that National Grid is not compelled to adopt such standards.

Question 10 Should the DTI set up a new standards body?

See response to Question 6.

Question 11 How should a DTI standards body be structured and funded?

See response to questions 6 and 7.

Where an organisation is funded by its members then it will inevitably seek to represent the interests of those members. Therefore it would be inappropriate for such a body to be funded by licensees as this may influence its decisions. A truly independent body representing the interests of all stakeholders would have to be funded by Ofgem or government.

Question 12 Should all draft documents be published on a publicly accessible Internet site, and should the site have facility for readers to provide comments using the internet?

We believe that internet-based consultation is a helpful way to encourage participants to contribute to industry wide discussions.

Documents can be cost effectively circulated using email or industry websites and responses can be returned by email and in some cases published on industry websites. However, publication of information on the internet needs to be managed prudently to prevent readers being over-burdened with information. Small players with limited

resources may prefer to be directed on what to respond to.

Question 13 Are there other more appropriate governance arrangements not discussed above and that should be considered?

We believe that a model similar to that used during National Grid's recent review of our transmission security standards would form a suitable framework for reviewing technical standards. The review should be undertaken by the Network Owner but should consult all relevant network users and enable full participation throughout the consultation from initially identifying the issues through to reviewing the conclusions.

Question 14 Should drafting committees for standards falling under the Panels be open public meetings? If so, how is this best achieved?

Provided those on the drafting committee represent all affected parties then it is unlikely that meetings will be well attended by other persons. However, it is useful for drafting committees to hold open meetings to ensure transparency of the drafting process.

Question 15 Is it necessary for drafting committees to have fully independent chairpersons? If so who might such people be?

Standards drafted for adoption by the Grid Code are discussed by a representative GCRP and also circulated to all affected parties in consultation. Therefore it is not necessary for the chairman of a drafting committee to be fully independent as un-aired views may be escalated to the panel or included in responses to the consultation.

Question 16 How best can third parties, particularly small players, take part in development of industry standards and how should this be funded?

As we have outlined in our response above, National Grid is already obliged to consult with all authorised electricity operators. Provided that third parties are authorised electricity operators or register an interest on our website, they would already be captured in any Grid Code consultation.

In practise many small players are unable to resource participation in the development of industry standards and therefore it is more practical to include representative trade associations which are usually funded by those they represent.

Question 17 Overall, which option do you regard as the preferred way forward?

As stated above our preference is for the current arrangements to be retained whereby responsibility for the Grid Code is retained by National Grid. We feel that consultation with all authorised electricity operators likely to be affected and discussion with the GCRP has worked well and does not need modification.