



*Promoting choice and
value for all customers*

National Grid Electricity Transmission plc, STC signatories
and Other Interested Parties

Direct Dial: 020 7901 7355

01 December 2005

Dear Colleague,

Modification to the System Operator - Transmission Owner Code ("STC") - decision in relation to Proposed Amendment CA013 "TEC Exchange Rate Request Process".

The Gas and Electricity Markets Authority (the "Authority"¹) has carefully considered the issues raised in the Amendment Report² in respect of Proposed Amendment CA013 "TEC Exchange Rate Request Process".

The Committee recommended to the Authority that Proposed Amendment CA013 should be made with a proposed Implementation Date of five Business Days after an Authority decision.

Having considered the Amendment Report and the recommendation of the Committee and having regard to the Applicable STC Objectives³ and Ofgem's wider statutory

¹ Ofgem is the office of the Authority. The terms "Ofgem" and "the Authority" are used interchangeably in this letter.

² STC Committee document reference CA013, Version 2.0, dated 20/10/2005.

³ The Applicable STC Objectives are contained in General Condition B12 of the Licence to transmit electricity treated as granted to NGET under section 6 of the Electricity Act 1989 (the "Transmission Licence") and are:

- (a) efficient discharge of the obligations imposed upon transmission licensees by transmission licences and the Act;
- (b) development, maintenance and operation of an efficient, economical and co-ordinated system of electricity transmission;
- (c) facilitating effective competition in the generation and supply of electricity, and (so far as is consistent therewith) facilitating such competition in the distribution of electricity;
- (d) protection of the security and quality of supply and safe operation of the GB transmission system insofar as it relates to interactions between transmission licensees; and
- (e) promotion of good industry practice and the efficiency in the implementation and administration of the arrangements described in the STC.

duties,⁴ the Authority has decided to direct an amendment to the STC in line with CA013 as detailed in the Amendment Report.

This letter explains the background to CA013, and sets out the Authority's reasons for its decision. This letter constitutes notice by the Authority under section 49A of the Electricity Act 1989 in relation to the direction.

Background

Transmission Entry Capacity ("TEC") defines a generator's maximum allowed export capacity onto the transmission system in a financial year. On 9 November 2004 Ofgem approved Alternative Amendment CAP068, "Competing requests for TEC", to the Connection and Use of System Code ("CUSC"). CAP068 was implemented on 1 April 2005 and introduced the concept whereby TEC might be traded between CUSC Parties, subject to NGET calculating an appropriate exchange rate within three months.

It is contended that the STC currently contains insufficient detail on how the calculation of the exchange rate will work should one or both counterparties to a TEC trade be sited in the licensed area, or boundary of influence, of either SP Transmission Ltd or Scottish Hydro Electric Transmission Ltd.

In order to rectify this situation, NGET submitted CA013, "TEC Exchange Rate Request Process" for consideration to the STC Committee Meeting on 25 May 2005.

The Proposed Amendment

CA013 seeks to clarify:

- the circumstances under which a Transmission Owner ("TO") would receive an NGET Exchange Rate Request;
- the information that would be provided to a TO alongside an NGET Exchange Rate Request;
- the information that must be submitted to NGET by a TO in response; and
- the timings associated with these information flows.

The Proposed Amendment is supported by NGET and both Transmission Owners.

Respondents' views

Views were invited from industry parties on the Proposed Amendment contained within the Proposed Amendment Report. The Committee received no responses.

⁴ Ofgem's statutory duties are wider than the matters that the Panel must take into consideration and are detailed primarily in the Electricity Act 1989 as amended, including by the Enterprise Act 2002; the Energy Act 2004; the Transitional Provisions; and the Utilities Act 2000.

Committee's views

The Committee recommended that the Authority approve Proposed Amendment CA013 for implementation five Business Days after its decision.

This recommendation was based on a view that CA013 would better facilitate Applicable STC Objective (a), *'the efficient discharge of the obligations imposed on the transmission licensees by transmission licences and the Act'*.

Ofgem's view

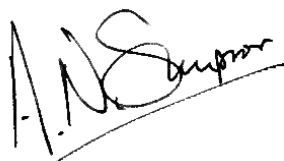
Having considered the Amendment Report in the context of the Applicable STC Objectives and its statutory duties, Ofgem considers that the Proposed Amendment would better facilitate the achievement of Applicable STC Objective (a), the *'efficient discharge of the obligations imposed upon transmission licensees by transmission licences and the Act'*.

The provision of a clear framework within the STC setting out how TEC Exchange Rate Requests should be handled where one (or both) of the Transmission Owners are impacted by the User(s) considering a reduction (or increase) in its TEC should allow this process to operate more smoothly in practice. This should enable the efficient discharge of transmission licence obligations by the licensees.

CA013 would have the additional benefit of providing CUSC Parties seeking to trade TEC with greater clarity on how the background process for calculating the TEC Exchange Rate will work, and greater assurance that these processes will be applied consistently to all applicants. Ofgem considers these transparency and consistency gains are consistent with its remit to apply regulatory best practice.

If you have any queries in relation to the issues raised in this letter, please feel free to contact Richard Hall on 020 7901 7335.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'N. Simpson', written over a horizontal line.

Nick Simpson

Director, Modifications

Signed on behalf of the Authority and authorised for that purpose by the Authority