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Direct Dial: 020-7901-7366

14 June 2006

National Grid Electricity Transmission Company (NGET),
CUSC Signatories and Other Interested Parties

Our Ref: blm/I06 014

Dear Colleague,

Amendment to the Connection and Use of System Code ("CUSC") - Decision and Direction in relation to Proposed Amendment CAP097: "Revisions to the Contractual Requirements for Small and Medium Embedded Power Stations Under 6.5".

The Gas and Electricity Markets Authority (the "Authority"¹) has considered the issues raised in the Amendment Report² in respect of Proposed Amendment CAP097 "Revisions to the Contractual Requirements for Small and Medium Embedded Power Stations".

The CUSC Amendments Panel ("the Panel") noted that both of the Working Group Alternative Amendments ("WGAA") and four of the Consultation Alternative Amendments ("CAA") would better facilitate the Applicable CUSC Objectives when compared to the current baseline. The Panel recommended to the Authority that CAA1 for CAP097 would best facilitate the Applicable CUSC Objectives. The Panel recommended that should CAA1 for CAP097 be approved, the Implementation Date should be 10 Business Days after the Authority's decision.

Having considered the Amendment Report and the CUSC Amendment Panel's recommendation, as well as having regard to the Applicable CUSC Objectives³ and Ofgem's wider statutory duties⁴, the Authority has decided to direct a modification to the CUSC in line with CAA2 for CAP097.

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

² CAP097 Amendment Report dated 16 March 2006.

³ The Applicable CUSC Objectives are contained in Standard Condition C10 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) the efficient discharge by the licensee of the obligations imposed upon it under the Act and by this licence; and
b) facilitating effective competition in the generation and supply of electricity, and (so far as consistent therewith) facilitating such competition in the sale, distribution and purchase of electricity.

⁴ Ofgem's statutory duties are wider than the matters that the Panel must take into consideration and are explained in sections 3A – 3D of the Electricity Act 1989.

This letter explains the background to CAP097, 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.

Background

NGET suggested that section 6.5.1 of the CUSC prohibited a User who owns or operates a Distribution System ("DNO") from energising an Embedded Power Station until the relevant Generator where required, has an appropriate agreement in place with NGET. NGET has proposed an amendment to section 6.5.1 to recognise that not all Embedded Power Stations are required to have a bilateral agreement with NGET. CAP097 sought to clarify the process followed by a DNO and NGET prior to the energisation of embedded Medium Power Stations⁵ and certain types of embedded Small Power Stations⁶.

NGET raised CAP097 which was submitted for consideration at the Panel Meeting on 29 July 2005. The Panel determined that a Working Group should be established to consider the Amendment Proposal. The Working Group agreed that there was a need to address the perceived defect in the CUSC. The Working Group also formulated two WGAs which some members of the Working Group considered better facilitated the achievement of the Applicable CUSC Objectives as compared with the original Amendment Proposal and the current baseline of the CUSC.

The Working Group submitted its report for consideration at the Panel Meeting on 28 October 2005. The Panel endorsed the Working Group report and determined that CAP097 should proceed to wider consultation by NGET. NGET issued a consultation paper on 11 November 2005 with responses invited by 12 December 2005. Six CAAs were raised and in order to provide Users with an opportunity to comment on these CAAs, NGET issued a further consultation paper on 28 December 2005 with responses requested by 11 January 2006. The final Amendment Report was submitted to the Authority on 16 March 2006.

The Amendment Proposal

The stated aim of CAP097 is to enable NGET to assess whether an Embedded Power Station has a significant effect upon the GB Transmission System before that power station is energised.

The proposed process ("CAP097 Process") consists of a number of key aspects:-

- An obligation on DNOs to submit a "Request for a Statement of Works" to NGET on receipt of a distribution connection application from a Generator in respect of a Medium Power Station or a Small Power Station that is larger than 30MW and will be connected at the same voltage level as the low voltage side of the relevant Grid Supply Point.

⁵ Medium Power Station is defined in the Grid Code as "A Power Station in NGET's Transmission Area with a Registered Capacity of 50MW or more, but less than 100MW; or a Power Station in SPT's Transmission Area with a Registered Capacity of 5MW or more, but less than 30MW".

⁶ Small Power Station is defined in the Grid Code as "A Power Station in NGET's Transmission Area with a Registered Capacity of less than 50MW or a Power Station in SPT's or SHETL's Transmission Area with a Registered Capacity of less than 5 MW".

- An option for the DNO to submit a “Request for a Statement of Works” to NGET irrespective of the size of the power station seeking a distribution connection at the DNO’s discretion.
- An obligation on NGET to provide the DNO with a “Statement of Works” within 28 days of the request, which sets out any transmission system reinforcement works or any site specific requirements that are triggered by the proposed embedded power station connection.
- If a requirement for transmission system reinforcement works is identified in a Statement of Works and the DNO does not terminate the CAP097 Process, a requirement on the DNO to enter into a construction agreement with NGET and provide financial security during the construction phase.
- An obligation on the DNO not to energise the embedded power station connection until the identified transmission reinforcement works have been completed and/or identified site specific requirements have been met.

NGET considers that the CAP097 Amendment Proposal better facilitates both of the Applicable CUSC Objectives. In particular, NGET considers that the proposed CAP097 process would ensure that it received timely information about proposed embedded power stations which would facilitate:-

- NGET's development of the GB transmission system in an efficient and co-ordinated manner.
- Competition in generation.

Working Group Discussions

The Working Group considered the CAP097 Original Amendment Proposal. The main issues discussed were:-

Proportionality

NGET presented its view that the cumulative impact on the transmission system of smaller power stations connecting to a distribution system can be equivalent to the impact of a single large embedded power station. NGET considered that the proposed CAP097 Process would treat transmission system reinforcement works triggered by a group of smaller power stations in an equivalent manner to an equivalently sized, single power station.

Some Working Group members noted that the existing CUSC Modification process already captures any transmission system reinforcement works required at Connection Points. NGET noted that there may be circumstances where a proposed embedded power station could trigger wider transmission system reinforcement works.

Working Group members did not unanimously agree that the proposed CAP097 Process would deal with the cumulative impact issues in a proportionate manner. Working Group members noted that the proposed CUSC obligations are defined in respect of a single power station. Some Working Group members considered that different treatment of smaller power stations compared to generators with a contractual agreement for Transmission Entry Capacity may be appropriate.

Timescales

Working Group members generally welcomed the proposal to introduce a period of delay within the CAP097 Process to allow the DNO time to establish if the generator wished to proceed with the proposed embedded power station development before a Statement of Works was deemed a Modification Application. The Working Group acknowledged that the CAP097 timescales had been developed to reflect the obligation on the DNO to provide an offer of connection to an applicant within three months. However, some Working Group members considered that limiting the length of the break point to five Business Days would allow inadequate time for the DNO and embedded power station developer to properly consider the impact of the requirements identified within a Statement of Works.

Provision of financial security

NGET maintained its view that the obligation to provide financial security for transmission system reinforcement works during construction is an appropriate financial signal. NGET further noted that a DNO could meet the security requirement by maintaining its credit rating. Some Working Group members commented that the DNO may take the decision to back off the financial risk to the developer of the new power station. Working Group members observed that the cost of providing the required security may be prohibitive to developers of embedded power stations.

Site specific requirements

NGET noted that there are a number of site specific requirements that the Grid Code states may be set out in Bilateral Agreements. NGET explained that as part of the proposed CAP097 process, it would include any site specific requirements within the relevant Statement of Works. A number of Working Group members considered that a more straightforward solution would be to define any site specific requirements within the existing Bilateral Agreement between NGET and the DNO for the relevant Connection Point.

Impact on small power stations

Some Working Group members expressed concern about the volume of Statement of Works requests that would be needed in respect of embedded small power stations. A de-minimis threshold of 30MW was proposed. Concerns were also raised about the obligation being defined in terms of the proposed connection arrangement for the embedded power station. Some Working Group members considered that this part of the proposal would result in arbitrary and discrimination between generation developments in close geographic proximity. Some Working Group members were concerned that the proposed CAP097 Process would reduce the transparency of the DNO's connection application process.

Working Group Alternative Amendment

The Working Group developed two Working Group Alternative Amendments ("WGAA").

Working Group Alternative Amendment 1 ("WGAA1")

WGAA1 was proposed by CE-Electric⁷. CE-Electric suggested that a clear and transparent process for making generator connections to distribution systems was appropriate.

⁷ CE-Electric represents two CUSC Parties – YEDL and NEDL.

WGAA1 provides a process ("WGAA1 Process") for the exchange of information between a DNO and NGET about likely embedded power station connections and where necessary, to provide for the deferral of the generator connection until the necessary transmission system reinforcement works have been carried out. The WGAA1 Process consists of :-

- A mechanism that allows DNOs to notify NGET of distribution connection applications in respect of Medium Power Station developments.
- A requirement for NGET to inform the DNO if transmission system reinforcement works are triggered by the proposed embedded power station connection.
- A mechanism that allows NGET to specify site specific requirements which are consistent with the Grid Code in respect of Medium Power Stations.
- Obligations on the DNO not to energise the embedded power station connection, until all of the transmission reinforcement works notified by NGET have been completed.

This proposal was put forward because the proposer considered that:-

- An embedded Medium Power Station may have a material impact on the transmission system.
- Any impact of Small Power Station connections could be readily managed by the DNO and NGET via the existing Modifications process defined in the CUSC as Small Power Stations connected to a distribution system would have a negligible impact on the main interconnected transmission system.
- The CUSC obligations should only apply in respect of power stations within the scope of the Grid Code Licence Exempt Embedded Medium Power Stations arrangements.
- Any restrictions on embedded power station connections associated with transmission system reinforcement works should be proportionate and not create artificial discrimination.
- It is disproportionate to require financial security for transmission system reinforcement works from an embedded power station developer.

Working Group Alternative Amendment 2 ("WGAA2")

WGAA2 was proposed by CE-Electric and United Utilities and is intended to simplify CAP097 Original Amendment. The proposed process ("WGAA2 Process") has two parts which:-

- a) provide for an initial assessment by NGET (following a DNO submission of a Request for a Statement of Works) of the impact of a proposed embedded power station connection, and
- b) provide an explicit link to the existing CUSC Modification Application process in circumstances where a need for transmission system reinforcement works or site specific requirements were identified in the Statement of Works.

WGAA2 differs from the original Amendment Proposal by:-

- Clarifying that the Statement of Works process is an initial assessment by NGET of the impact a proposed embedded power station connection has on the GB Transmission System.
- Amending the existing CUSC definition of the circumstances where a DNO may be required to enter into a construction agreement and agreements to vary Bilateral Agreements under the CUSC.

- Requiring the DNO to submit a formal application to NGET if the Statement of Works indicates that transmission system reinforcement works or site specific requirements are required.

This proposal was put forward because the proposers wished to amend the timescales defined within the CAP097 Process. The proposers raised WGAA2 without prejudice to the views each party has on the CAP097 Original Amendment Proposal.

Respondents' views

NGET issued a consultation paper on 11 November 2005 inviting responses from CUSC Parties and interested parties.

NGET received 10 responses to the consultation in respect of CAP097, of which:-

- Two respondents strongly supported WGAA1.
- Two further respondents considered WGAA1 to be the preferable of the CAP097 options.
- Three respondents supported WGAA2.
- Three respondents did not support any of the CAP097 options.

A number of comments were raised in the responses that were relevant to all CAP097 options. The main points raised were:-

- Support for clarification of CUSC6.5.1 and for the introduction of a clearly defined process.
- The decision on CAP097 should be deferred pending the outcome of the review of the Grid Code definitions of Small, Medium and Large Power Station.
- Section 6.5.1 of the CUSC should be reviewed in conjunction with Ofgem's "Enduring Transmission Charging for Distributed Generation" consultation process.
- A model under which the DNO agrees net transfer requirements with NGET on a Grid Supply Point basis would be preferable.
- Unless it was amended, section 1.3.2 of the CUSC could frustrate the intent of CAP097.
- A requirement to notify NGET of Relevant Embedded Small Power Stations has not been justified.
- An approach that shared the risk associated with transmission system reinforcement triggered by a proposed embedded power station connection across the wider industry, would be more appropriate.

In respect of the CAP097 Original Amendment Proposal, the main points raised in the responses were that the proposed CAP097 Process:-

- Would require a significant amount of bureaucratic management.
- Should not apply in respect of Small Power Stations.
- Would introduce a barrier to entry to prospective market participants.
- Is contrary to the principle of embedded generators only requiring a contractual relationship with the DNO.
- Has unrealistic timescales. In particular, the five Business Days period is considered to be impracticably short for the complex business decisions that would be required if a proposed embedded power station development triggered transmission system reinforcement works.

- Would create significant financial liabilities for a DNO if transmission system reinforcement works were triggered. It is expected that these liabilities would be passed on to individual power station developers.
- Would automatically deem a Statement of Works where transmission system reinforcement works are identified to be a Modification Application. This approach could result in a DNO incurring unnecessary costs if the embedded power station developer chose not to proceed with the proposed development.

In respect of the CAP097 WGAA1 proposal, the main points raised in the responses were that the proposed WGAA1 Process:-

- Would not preclude the assessment by NGET of the impact of Small Power Stations on the transmission system.
- Could be easily amended to define a timetable for identifying any transmission system reinforcement works that were identified as necessary.
- Appears to require NGET to carry out works without confirmation that the proposed embedded power station development would proceed.
- Does not require the DNO to provide security during the construction period for transmission system reinforcement works, other than in respect of works required at the relevant Connection Site.
- Does not provide a contractual basis for the DNO to offer a completion date within the relevant distribution connection offer to a developer seeking an embedded power station connection.
- Does not provide an incentive to NGET to carry out any transmission system reinforcement works. The WGAA1 Process would introduce a significant risk of stranded assets on the transmission system if the embedded power station did not proceed.
- Provides a practical balance between economic purity and practical effects on developers of smaller distributed generation projects.

In respect of the CAP097 WGAA2 proposal, the main points raised in the responses were that the proposed WGAA2 Process:-

- Should not apply in respect of Small Power Stations.
- Would automatically deem a Statement of Works where transmission system reinforcement works are identified to be a Modification Application. This approach could result in a DNO incurring unnecessary costs if the embedded power station developer chose not to proceed with the proposed development.
- Is based on realistic timescales for the DNO to establish if the embedded power station developer wishes to proceed if the power station triggers transmission system reinforcement works.
- Would require a significant amount of bureaucratic management.

The respondents' views are summarised and contained in the Amendment Report in respect of CAP097.

Consultation Alternative Amendments (CAA)

During consultation, six further Alternative Amendments were suggested.

Consultation Alternative Amendment 1 (“CAA1”)

CAA1 is based on the WGAA1 Process but also includes a requirement for NGET to draw up a timetable for the required transmission reinforcement works within 90 days of receiving a notification from the DNO. The CAA1 process would also require NGET to notify the DNO of any subsequent changes to this timetable.

CAA1 was proposed by CE-Electric. The proposer considers that these changes to the WGAA1 Process address concerns that were raised in the CAP097 consultation about the lack of defined timescales in the WGAA1 proposal.

Consultation Alternative Amendment 2 (“CAA2”)

The CAA2 proposal was raised by EDF Energy to address concerns with the WGAA2 process. CAA2 differs from WGAA2 by:-

- Requiring compulsory notification by a DNO of distribution connection applications in respect of proposed Medium Power Station developments.
- Requiring compulsory notification by a DNO of distribution connection applications in respect of proposed Small Power Station developments where the DNO considers that the proposed connection may have a significant effect on the GB Transmission System.
- Requiring a positive indication from the DNO before a Modification Application is taken forward by NGET if a Statement of Works indicates that a proposed power station connection triggers transmission system reinforcement works.
- Terminates the process if the DNO does not provide a positive indication to NGET within 90 Business Days of the issue of the Statement of Works.

Consultation Alternative Amendment 3 (“CAA3”)

The CAA3 proposal was raised by SP Transmission & Distribution to address concerns with the WGAA2 process. CAA3 differs from WGAA2 by:-

- Requiring compulsory notification by a DNO of distribution connection applications in respect of proposed Medium Power Station developments.
- Requiring compulsory notification by a DNO of distribution connection applications in respect of proposed Small Power Station developments where the DNO considers that the proposed connection may have a significant effect on the GB Transmission System.

Consultation Alternative Amendment 4 (“CAA4”)

NGET suggested CAA4 which replicates the CAP097 Original Amendment and reflects changes to the CUSC arising from CAP105 which were approved by the Authority on 7 December 2005 and implemented on 21 December 2005.

Consultation Alternative Amendment 5 (“CAA5”)

NGET suggested CAA5 which replicates WGAA1 and reflects changes to the CUSC arising from CAP105 which were approved by the Authority on 7 December 2005 and implemented on 21 December 2005.

Consultation Alternative Amendment 6 (“CAA6”)

NGET suggested CAA6 which replicates WGAA2 and reflects changes to the CUSC arising from CAP105 which were approved by the Authority on 7 December 2005 and implemented on 21 December 2005.

Consultation Alternative Amendment consultation

NGET issued a consultation paper on 28 December 2005 inviting responses from CUSC Parties and interested parties.

Respondents' views

NGET received six responses to the Consultation Alternative Document in respect of CAP097, of which:-

- Two respondents supported CAA1.
- One respondent who did not support any of the CAP097 options stated that CAA1 was preferable of the presented options.
- Two respondents supported CAA3.
- One respondent supported CAA2 and a further respondent noted qualified support for CAA2 subject to the outcome of the review of the Grid Code definitions of Small, Medium and Large Power Stations.

A number of comments were raised in the responses and the main points raised were:-

- The impact of Small Power Stations can be assessed as part of the general planning processes.
- The risk of inefficient transmission system investment decisions as a consequence of clusters of Small Power Stations should be no greater than the risk associated with the investment decisions triggered by changes in demand.
- Section 1.3.2 of the CUSC contradicts CAA1. If CAA1 is approved then further CUSC amendment would be required.
- CAA3 provides the most proportionate solution to the problem that NGET has identified.

CUSC Amendment Panel's recommendation

The Panel recommended to the Authority that the version of CAP097 that would best facilitate the achievement of the Applicable CUSC Objectives is CAA1. In respect of the other options within CAP097, the Panel considered that WGAA1, WGAA2, CAA1, CAA2, CAA5 and CAA6 would better facilitate the achievement of the Applicable CUSC Objectives. The Panel did not consider that CAP097 Original Proposal, CAA3 or CAA4 would better facilitate the achievement of the Applicable CUSC Objectives.

The Panel recommends implementation 10 Business Days should WGAA1, CAA1 or CAA5 be approved. The Panel recommends implementation 30 days after the Authority's decision should CAP097 Original Amendment, WGAA2, CAA2, CAA3, CAA4 or CAA6 be approved.

Ofgem's view

Having considered the Amendment Report, Ofgem considers, having regard to the Applicable CUSC Objectives and its statutory duties, that CAA2 for CAP097 would best facilitate the achievement of the Applicable CUSC Objectives when compared to the other options developed under CAP097 and the current baseline of the CUSC.

Ofgem agrees with the common view that section 6.5.1 of the CUSC is not clearly defined. Ofgem notes that the section 6.5.1 of the CUSC obligation on DNOs is defined in terms of power stations where the generator is required to enter into an agreement with NGET. Ofgem further notes that section 6.5.1 of the CUSC does not define how a generator may be required to enter into a contractual relationship with NGET.

CAP097 Amendment Proposal

Ofgem understands that all of the CAP097 amendment options would remove a possible requirement for the embedded power station to enter into a direct contractual agreement with NGET. Ofgem considers that the removal of this requirement should result in more straightforward arrangements for developers of smaller embedded power stations. Therefore, Ofgem considers that each of the CAP097 amendment options would better facilitate competition in generation.

Ofgem notes that all of the CAP097 amendment options would require a DNO to provide NGET with information about distribution connection applications for proposed Medium Power Stations. Ofgem considers that this is a proportionate measure given there is a reasonable likelihood that a Medium Power Station could have a significant impact on the GB Transmission System. Ofgem considers that the proposal to require a DNO to notify NGET at an early stage of a proposed embedded power station development will better enable NGET to discharge its statutory and licence obligations. Ofgem also considers that the early stage notification would also help facilitate competition in generation by ensuring that any transmission system implications are identified early in the development of a new embedded power station.

Ofgem recognises that a distribution licensee is obliged to define in an offer of connection the date when any works required to permit access to its distribution system will be completed. Ofgem also notes the comment from one respondent that the amendment options which contain a period of delay of 90 days may significantly increase the risk that distribution licensees may need to seek the Authority's consent for extension to the three month period. Ofgem considers that a licensee is required to present justification as part of any applications for consent to extend the three month period. Ofgem notes that a distribution licensee may consider the need to take account of associated transmission system reinforcement works to form part of a justification for a consent application.

Ofgem acknowledges that some embedded Small Power Stations or more likely groups of embedded Small Power Stations may have an impact on the GB Transmission System. Ofgem recognises that under section 6.5.1 of the CUSC, a generator could be required to enter into a contractual agreement with NGET in respect of any embedded power stations. However, Ofgem understands that this requirement only applies where NGET considers it necessary. Ofgem is not satisfied that sufficient evidence has been presented to justify a requirement for DNOs to automatically request a Statement of Works in respect of all embedded Small Power Stations within the scope of the proposed definition for Relevant Embedded Small Power Station in CAA4 or CAA6. Ofgem is concerned that such an obligation could reduce the efficiency of the proposed CUSC process by requiring a DNO to notify and NGET to assess embedded power station developments that are unlikely to have a significant impact on the GB Transmission System.

Ofgem considers that the proposed definition of Relevant Embedded Small Power Station in CAA4 and CAA6 is not relevant in all areas of GB. In particular, Ofgem is concerned that the CAA4 or CAA6 proposals could lead to confusion about the CUSC obligations that are relevant to embedded power stations in Scotland that are smaller than 30MW. Ofgem also notes that the proposed voltage level of connection for a Small Power Station would not necessarily be clearly defined at the early stages of the distribution connection application process.

Ofgem understands that the CAA2, CAA3, CAA4 and CAA6 Proposals could result in the DNO incurring financial liabilities should transmission system reinforcement works be triggered by a proposed embedded power station connection. Ofgem recently published a letter⁸ summarising the work carried out by the Access Reform Options Development Group. Ofgem recognises the wider industry concerns about the allocation of security requirements between new and existing generators. In its letter of 9 May 2006, Ofgem indicated that there may be a case for changing the arrangements for security in respect of new generator connections. In light of the current volume of applications for connection to and use of the transmission system, Ofgem anticipates that alternative arrangements to the current final sums liabilities will be brought forward by the industry in the near future.

CAP097 Original Amendment Proposal, WGAA1 and WGAA2

Ofgem has considered the effect of CAP105 which was approved on 7 December 2005 and implemented on 21 December 2005. CAP105 changes the CUSC references to “NGC” to “the Company”. Ofgem notes that the draft legal text for the CAP097 Original Amendment, WGAA1 and WGAA2 proposals were prepared before the Authority’s approval of CAP105. As the Original Amendment, WGAA1 and WGAA2 Proposals utilise NGC, Ofgem considers that any of these Amendment Proposals should not be implemented due to the negative impact that this would have on the clarity of the baseline of the CUSC. Ofgem further notes that NGET has raised CAAs which update the draft legal text for the Original Amendment, WGAA1 and WGAA2 proposals to reflect the Authority’s CAP105 decision. Each of these CAAs is considered separately below.

CAA4 (CAP097 Original Amendment Proposal Updated to Reflect the CAP105 Decision)

Ofgem acknowledges that the process defined in CAA4 is intended to align with the distribution connection application process, which should take no longer than three months. Ofgem has considered the timeline provided in the CAP097 Amendment Report and is concerned that it shows a maximum duration for the CAP097 Process of more than three months.

Ofgem also notes respondents’ views that the proposed period of delay of five Business Days would not allow sufficient time for an embedded power station developer to make the complex business decisions that would be needed if a Statement of Works shows that transmission system reinforcement works are triggered. Ofgem agrees that five Business Days would not provide a reasonable period of time for communication between NGET, the DNO and the embedded power station developer and for the embedded power station developer to assess its position.

⁸ 83/06a Access Reform in Electricity Transmission – Working Group Report and Next Steps, 9 May 2006.

Ofgem considers that CAA4 would better facilitate the achievement of the Applicable CUSC Objectives but to a lesser extent than other CAAs because of the proposed definition of Relevant Embedded Small Power Station and the proposed length of the period of delay within the process.

CAA5 (WGAA1 Updated to Reflect the CAP105 Decision) and CAA1

CAA5 and CAA1 are substantially the same. Ofgem is concerned that either of the CAA5 or CAA1 Proposals would replace the existing contractually based arrangements with an information exchange process. Ofgem shares the concerns that have been expressed that the absence of financial commitment (should wider transmission system reinforcement works be triggered by a proposed embedded power station connection) could result in transmission system reinforcement works and the embedded power station development not being adequately coordinated. Ofgem does not consider that CAA5 or CAA1 provide a mechanism that appropriately allocates the liability for securing the costs of transmission system reinforcement works that are triggered by an embedded power station connection.

In principle, Ofgem considers that it is appropriate to base the requirement for a DNO to automatically notify NGET at the Medium Power Station threshold. Ofgem is concerned that neither the CAA5 nor the CAA1 Proposals make explicit provision for a DNO to notify NGET of any proposed Small Power Station connections. Ofgem does not consider that conclusive evidence has been presented that confirms the proposer's view that Small Power Stations always have a negligible impact on the GB Transmission System.

Ofgem considers that either of the CAA5 or CAA1 Proposals would better facilitate the achievement of the Applicable CUSC Objectives but to a lesser extent than other CAAs because of the absence of sufficiently robust contractual arrangements and the lack of formal arrangements for the notification in respect of embedded Small Power Stations.

CAA6 (WGAA2 Updated to Reflect the CAP105 Decision)

Ofgem acknowledges that the process defined in CAA6 does not wholly align with the distribution connection application process which should take no longer than three months. Ofgem notes that consent can be granted allowing a DNO a longer period of time to make an offer for connection to its distribution system. Ofgem recognises that should CAA6 be approved there is an increased risk that DNOs may need to seek such consents.

Ofgem has considered the timeline provided in the CAP097 Amendment Report. Ofgem notes that CAA6 proposes a two stage CUSC process and allows for up to a 90 Business Day break between each stage. Ofgem agrees that this would be a more reasonable time period to allow for communication between NGET, the DNO and the embedded power station developer and for the embedded power station developer to assess its position.

Ofgem considers that CAA6 would better facilitate the achievement of the Applicable CUSC Objectives but to a lesser extent than other CAAs because of the proposed definition of Relevant Embedded Small Power Station.

CAA2

CAA2 requires a DNO to submit a Request for a Statement of Works in respect of proposed embedded Medium Power Stations and proposed embedded Small Power

Stations where the DNO believes that the proposed power station connection may have a significant impact on the GB Transmission System. Ofgem notes that CAA2 differs from CAA6 in two main ways:-

- Definition of Relevant Embedded Small Power Station
- Arrangements for proceeding to a Modification Application should site specific requirements be identified in respect of the proposed embedded power station connection but not a need for transmission system reinforcement works.

In respect of the proposed definition of Relevant Embedded Small Power Station, Ofgem notes that a DNO would be required to request a Statement of Works where it reasonably believes that the proposed Small Power Stations may have a significant effect on the GB Transmission System. Ofgem considers that the CAA2 obligation is more proportionate as it only requires the notification of embedded Small Power Stations that are likely to have an impact on the GB Transmission System.

Ofgem is concerned that a DNO would not necessarily have access to sufficient information to form an accurate view on the impact a proposed embedded power station connection may have on the GB Transmission System. Ofgem also acknowledges that the proposed CAA2 obligations could be interpreted in different ways and therefore has concerns of inconsistent application between DNOs. However, Ofgem notes that there is already an established interface between NGET and DNOs with regular contact for planning and operational purposes. Ofgem considers that it should be possible for NGET and all DNOs to agree circumstances that are likely to have a significant impact on the GB Transmission System to assist with the interpretation of the proposed CAA2 obligations. In the interests of transparency, Ofgem considers that it would be beneficial if any such guidance information was made widely available.

Ofgem notes that the proposed CAA2 Process does not automatically deem a Statement of Works where site specific requirements are identified but not a need for transmission system reinforcement works, to be a Modification Application from the DNO. Ofgem notes that there are costs associated with a Modification Application which are charged to the applicant. Ofgem considers that it is appropriate to require a positive indication from the DNO of an intention to proceed before costs for which the DNO would be liable, are incurred.

Ofgem considers that CAA2 would better facilitate the achievement of the Applicable CUSC Objectives and to a greater extent than all of the other CAAs. Ofgem considers that CAA2 is the most proportionate Amendment Proposal and provides a mechanism for notification of embedded power station developments that are likely to have a significant impact on the GB Transmission System.

CAA3

Ofgem notes that CAA3 differs from CAA2 in respect of the proposed definition of Relevant Embedded Medium Power Station. Ofgem notes that a DNO would be required to request a Statement of Works in respect of proposed Medium Power Stations that were:-

- 50MW or larger, or
- Considered by the DNO to have a significant effect on the GB Transmission System.

Ofgem notes that the proposed definition of Relevant Embedded Medium Power Station in CAA3 is not relevant in all areas of GB. In particular, Ofgem is concerned that the CAA3 proposal could lead to confusion about the CUSC obligations that are relevant to embedded power stations that are between 30 and 50MW and connected in SP Transmission Ltd's transmission area.

Ofgem considers that CAA3 would better facilitate the achievement of the Applicable CUSC Objectives but to a lesser extent than other CAAs because of the proposed definition of Relevant Embedded Medium Power Station.

The Authority's Direction

The Authority has decided to direct that Consultation Alternative Amendment 2 for CAP097, as set out in the Amendment Report, should be made and implemented.

Having regard to the above, the Authority, in accordance with Condition C10.7(a) of the licence to transmit electricity granted to NGET under Section 6 of the Electricity Act 1989 (the "Transmission Licence"), hereby directs NGET to modify the CUSC in accordance with Consultation Alternative Amendment 2 as set out in the Amendment Report.

The modification is to be implemented and take effect 30 days after the Authority's decision.

In accordance with Condition C10.7(c) of NGET's Transmission Licence, NGET shall modify the CUSC in accordance with this direction of the Authority.

If you have any queries in relation to the issues raised in this letter, please feel free to contact me on the above number or alternatively contact Bridget Morgan on 020 7901 7080.

Yours sincerely,

A handwritten signature in black ink that reads "John Scott". The signature is written in a cursive style with a horizontal line underneath the name.

John Scott
Technical Director

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