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

Direct Dial: 020 7901 7366

14 June 2006

Our Ref: blm/I06 017

Dear Colleague,

**Modification to the System Operator - Transmission Owner Code ("STC")  
- Decision and notice in relation to Proposed Amendment CA019  
"Assessment of the Impact of Certain Embedded Power Stations".**

The Gas and Electricity Markets Authority (the "Authority"<sup>1</sup>) has considered the issues raised in the Amendment Report<sup>2</sup> in respect of Proposed Amendment CA019 "Assessment of the Impact of Certain Embedded Power Stations".

The Committee recommended to the Authority that Proposed Amendment CA019 and Alternative Amendment CA019 should not be approved. The Committee also recommended that should the Authority decide to approve either Proposed Amendment CA019 or Alternative Amendment CA019 then the implementation date should be 10 Business Days after the Authority's decision.

Having considered the Amendment Report and the recommendation of the Committee and having regard to the Applicable STC Objectives<sup>3</sup>, the Authority has decided not to direct an Amendment to the STC.

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

<sup>2</sup> CA019 Amendment Report dated 27 April 2006.

<sup>3</sup> The Applicable STC Objectives are contained in General Condition B12 of the Licence to transmit electricity treated as granted to NGET, SHETL and SPTL 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 (as amended);
- (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.

This letter explains the background to CA019 Amendment Proposal, and sets out the Authority's reasons for its decision.

## Background

NGET considers that there would be a need for a process within the STC for assessing the impact of proposed embedded Medium Power Stations<sup>4</sup> and certain embedded Small Power Stations<sup>5</sup> if any of the options within CUSC Amendment Proposal CAP097 (Revisions to the Contractual Requirements for Small and Medium Embedded Power Stations) are approved and implemented.

NGET submitted two STC Amendment Proposals (CA016 and CA017) each of which included an Original and Alternative Amendment Proposal. The two STC Amendment Proposals were considered at the Committee meeting on 20 December 2005. The Committee determined that a Working Group should be established to consider both Amendment Proposals.

The Working Group reported to the Committee meeting on 21 February 2006. At this Committee meeting, SPTL submitted a further STC Amendment Proposal (CA019) which included an Original and Alternative Amendment Proposal. SPTL proposed CA019 as an alternative to CA017. A separate amendment proposal was raised in line with the restriction on the number of alternative amendment proposals within the STC governance arrangements at that time. The Committee considered that CA019 had been fully evaluated as part of the CA016 and CA017 Evaluation Phase.

The Committee recommended that all three Amendment Proposals should proceed to the Assessment and Report Phase. NGET, on behalf of the Committee, issued a consultation paper that included STC Amendment Proposals CA016, CA017 and CA019, on 4 April 2006 with responses invited by 20 April 2006. The final Amendment Report for all three Amendment Proposals was submitted to the Authority on 27 April 2006.

## The Modification Proposal

SPT noted that the existing STC does not include an explicit process for the identification and notification of transmission system works that are triggered by proposed embedded power station connections. The following table shows the relationship between the CA016 amendment options and the CAP097 amendment options.

<b>CUSC Amendment Proposal CAP097 Option</b>	<b>Consequential STC Amendment Proposal</b>
Working Group Alternative Amendment 1 ("WGAA1")	CA019 Original
Consultation Alternative Amendment 1 ("CAA1")	CA019 Alternative
Consultation Alternative Amendment 5 ("CAA5")	CA019 Original

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<sup>4</sup> 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 SPTL's Transmission Area with a Registered Capacity of 5MW or more, but less than 30MW".

<sup>5</sup> 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 SPTL's or SHETL's Transmission Area with a Registered Capacity of less than 5 MW".

The CA019 Original Amendment Proposal would add a new section to the STC which would provide an initial assessment process to reflect proposed first part of the two stage CUSC process within WGAA1 and CAA5 Proposals. This amendment would require NGET to pay TO Engineering Charges in respect of works carried out under the new STC process.

The initial stage of the proposed STC process would: -

- Provide for the information exchange needed to enable a TO to assess the impact of a proposed embedded power station on its transmission system.
- Require the TO to assess the impact.
- Require the TO to provide NGET within a defined timescale, a Statement of Works setting out if any transmission system reinforcement works are required.

The second part of the proposed process would apply in circumstances where a need for transmission system reinforcement works has been identified and NGET has been notified that the relevant User wishes to proceed. The proposed process would require NGET to submit a Modification Application to the relevant TO in respect of transmission system reinforcement works at the Relevant Connection Site. The proposed process would require NGET to update the Planning Assumptions to reflect NGET's view as to likely completion date for the embedded power station that triggered a need for wider transmission system infrastructure reinforcement works. The process would also require the TO to update its Transmission Investment Plan to reflect the updated Planning Assumptions. As part of the second stage process: -

- NGET would be required to notify the TO of any changes in respect of the embedded power station that are notified to NGET under the CUSC.
- The TO would be obliged to notify NGET when the required transmission system reinforcement works were completed.

The CA019 Alternative Amendment Proposal is substantially based on the CA019 Original Amendment Proposal and is intended to reflect the two stage CUSC process within the CAA1 Proposal. In addition to the proposed CA019 Original Amendment Proposal, this STC process would also require the TO: -

- To notify NGET of the proposed completion date for wider transmission system works within a defined timescale. This obligation is intended to reflect the proposed NGET obligation under the CUSC.
- To notify NGET of any changes to the proposed completion date for wider transmission system works.

### **STC Parties Assessment**

NGET considers that the options within the CA019 Amendment Proposal do not provide an appropriate means by which transmission system reinforcement works other than at the Relevant Connection Site can be progressed. NGET also advised that it would require consideration of a funding mechanism for the payment of TO Engineering Charges should either of the CA019 amendment options be approved.

SHTL noted that the options within the CA019 Amendment Proposal do not provide a mechanism for the co-ordination of transmission system reinforcement works with the construction and energisation of a proposed embedded power station.

SPTL noted that the options within the CA019 Amendment Proposal do not provide a mechanism for the co-ordination of transmission system reinforcement

works with the construction and energisation of a proposed embedded power station.

### **Impact on Core Industry Documents**

The Committee advised that neither of the CA019 amendment options would have an impact on Core Industry Documents. The Committee notes that Amendment Proposal CA019 has been triggered by CUSC Amendment Proposal CAP097.

The Committee notes that approval either of the options within the CA019 Amendment Proposal together with the approval of the associated CAP097 proposal, would not require changes to the Statement of Use of System Charges but that TOs may wish to modify the TO Charging Statements to include Engineering Charges for NGET Requests for Statements of Works.

### **Respondents' views**

The Committee received one response to its consultation on the proposed Amendment Report for CA016, CA017 and CA019. This respondent noted that the Committee's provisional recommendation is contrary to the views expressed within the CAP097 Working Group and by the CUSC Panel. This respondent considered that the STC Amendment Report should reflect a need for the Authority's decision in respect of the proposed STC amendments to be consistent with the Authority's decision in respect of CAP097.

### **Committee's views and Recommendation**

The Committee has requested that the Authority's decision on STC Amendment Proposals CA016, CA017 and CA019 is consistent with the Authority's decision on CAP097.

The Committee does not consider that either of the options within the CA019 Amendment Proposal would provide an appropriate means by which transmission system reinforcement works (other than at Relevant Connection Sites) could be progressed. In particular, the STC Parties are concerned that they would be unable to justify investment in transmission system reinforcement works for which a User has not made a contractual commitment. The Committee recommends that neither option within the CA019 Amendment Proposal should be approved.

The Committee considers that the CA019 Amendment Proposal has a further disadvantage as each of the amendment options lacks a mechanism to allow for the TO to specify site specific technical requirements.

### **NGET views and Recommendation**

NGET considers that:-

- It is unable to support neither of the options within the CA017 Amendment Proposal.
- The options within the CA017 Amendment Proposal are preferable to those within the CA019 Amendment Proposal as the CA017 amendment options do not require:-
  - NGET to provide the TOs with a view on the likelihood of a proposed embedded power station connecting to a distribution system.

- NGET to pay TO Engineering Charges in circumstances where there is no mechanism for NGET to recover these costs.

### **SHETL views and Recommendation**

SHETL considers that: -

- It is unable to support either of the options within the CA019 Amendment Proposal.
- The options within the CA019 Amendment Proposal are preferable to those within the CA017 Amendment Proposal as both of the CA019 amendment options provides for the TO to be paid for engineering works that it is required to carry out.
- The options within the CA019 Amendment Proposal are consistent with TO obligations to plan and develop its transmission system in accordance with its transmission licence and existing STC provisions.

### **SPTL views and Recommendation**

SPTL considers that: -

- It is unable to support either of the options within the CA019 Amendment Proposal as these amendment options do not provide an adequate contractual mechanism for co-ordination of transmission system reinforcement works with the energisation of proposed embedded power stations.
- The absence of a clear contractual route between NGET and the embedded power station would result in the absence of certainty for a TO to commence transmission system reinforcement works or for the generator to commence the proposed embedded power station.
- The options within the CA019 Amendment Proposal are preferable to those within the CA017 Amendment Proposal as both of the CA019 amendment options provides for the TO to be paid for engineering works that it is required to carry out.
- The options within the CA019 Amendment Proposal are consistent with TO obligations to plan and develop its transmission system in accordance with its transmission licence and existing STC provisions.

### **Ofgem's view**

The reasons for the Authority's decision to approve the proposals to amend section 6.5.1 of the CUSC are set out in the decision letter relating to CUSC Amendment Proposal CAP097. These reasons are not repeated in this letter (except where they apply directly to the proposed STC changes or the response the Committee received to the associated consultation). In reaching its decision in respect of the STC amendment proposals Ofgem has considered the requirements to amend the STC in the light of the Authority's approval of Consultation Alternative Amendment 2 set out in CAP097.

Ofgem is concerned that both CA019 amendment options propose different processes for reinforcement works triggered by an embedded power stations to be taken forward depending on whether works are required at the Relevant Connection Site or on the wider transmission system. Ofgem considers that the CA019 Amendment Proposal is less efficient than the single process within the CA016 Amendment Proposal.

Ofgem understands that there may be circumstances where a transmission licensee identifies a need to specify site specific technical requirements in respect of an embedded power station connection. Ofgem is concerned that the CA019

amendment options do not enable a transmission licensee to specify site specific technical requirements.

Ofgem notes that the CA019 amendment options do not preclude TOs from charging NGET for the engineering work that a TO would be required to carry out if NGET requested an assessment of the impact of a proposed embedded power station. In general, Ofgem considers that cost reflective charging arrangements have an important role in promoting efficiency and competition.

Ofgem notes that under the STC, NGET provides TOs with Planning Assumptions which contain information that should be used by the TOs in planning and developing their transmission systems. Ofgem understands that Planning Assumptions will include NGET forecasts of power flows onto and off the relevant parts of the GB Transmission System as well as information to allow TOs to forecast power flows. Ofgem considers that the requirement within the CA019 amendment options for NGET to provide updated Planning Assumptions that includes a view on the likelihood and timing of a proposed embedded power station connecting is consistent with the scope of Planning Assumptions within the STC. However, Ofgem also considers that a requirement on NGET to provide information to a TO to allow it to form a view on the likelihood and timing of a proposed embedded power station, would be consistent with the scope of Planning Assumptions within the STC.

Ofgem notes that the Committee has recommended that neither of the options within the CA019 Amendment Proposal should be approved. Ofgem considers that either of the options within the CA019 Amendment Proposal would better facilitate the achievement of relevant STC Objectives by providing a mechanism that would enable transmission licensees to assess the impact of proposed embedded power stations on the transmission system and ensure timely notification of any transmission system reinforcement works that are required. However, Ofgem considers that the CA019 amendment options would better facilitate the achievement of the relevant STC Objectives to a lesser extent than the CA016 amendment options.

Ofgem notes the Committee's request that the Authority should approve only one of the CA016, CA017 and CA019 Amendment Proposals. Ofgem acknowledges the Committee's request for a decision on the CA017 Amendment Proposal that is consistent with the Authority's decision on CAP097. Ofgem also acknowledges the respondent's concern that its decision in respect of the STC amendment proposals should be consistent with the Authority's decision in respect of CAP097. Ofgem does not consider that the CA019 Amendment Proposal is consistent with the Authority's decision in respect of CAP097.

Ofgem notes that the Committee submitted a single Amendment Report for three STC Amendment Proposals. Ofgem understands that the CA016, CA017 and CA019 Amendment Proposals are related and that the approach was required due to the constraints of the STC governance arrangements at the time that the CA017 Amendment Proposal was raised. Ofgem notes that the Committee did not formally amalgamate these Amendment Proposals. Ofgem would expect separate submissions by the Committee in respect of separate Amendment Proposals. However in this instance, Ofgem considers that a single Amendment Report was acceptable.

**The Authority's notice**

The Authority has therefore decided not to direct an amendment to the STC as set out within the CA019 Amendment Proposal in the Amendment Report.

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