

ENERGY TECHNICAL & COMMERCIAL SERVICES LTD

The Dairy House, Woolverstone Hall Park, Nr Ipswich, Suffolk, IP9 1AY

Telephone: 01473 780933, Facsimile: 01473 780933

Email tony@energytechnical.com

12 May 2006

Andy Balkwill
National Grid Electricity Transmission plc
National Grid House
Warwick Technology Park
Gallows Hill
Warwick CV34 6DA

Dear Andy

Managing Access to the GB Transmission System

Thank you for the opportunity to comment on the issues raised in the above consultation dated 13 April 2006. I understand this builds on the paper dated March 2006 entitled "Principles of Clustering, Sharing of Final Sums and Termination" and the earlier proposals for managing access to the GB Transmission System (consultation in May 2005 and conclusions the following July).

I have followed the debate on NGET's new sharing methodology for Final Sums Liabilities and share the widespread concern that the current arrangements are not working. Please find attached my replies to the questions raised in your consultation, which are submitted on behalf of Energy Technical & Commercial Services Ltd.

Yours sincerely

A R Cotton

Q1 What concerns do Users have with the existing Final Sums approach (level, volatility, timing, etc) and how do these concerns change during the connection process?

My view is that the key problem being expressed about the *principle* of Final Sums stems more from the magnitude of investments and timescales associated with their implementation than the actual approach being taken by NGET. Assuming that there continues to be a political will to incentivise significant volumes of renewable generation in areas constrained by grid access there needs to be a matching political intervention to support the infrastructure investment ahead of, or in parallel with, the development of that generation.

That said, there are a number of specific problems with the current sharing methodology:

- First, it is extremely unclear as to how the system works as witnessed by the numerous presentations and documents that NGET have had to issue to explain its basis;
- Second, the drafting of the current version of the Construction Agreement is not consistent with the method as expressed¹;
- Third, there is now much more uncertainty about potential future increases in liabilities, as new Users seeking connections after a first User has accepted an offer can increase the liabilities faced by that first User; and
- Fourth, it has been suggested that there can be a situation whereby a User that does not need any reinforcement on its own may still have to provide security if another User triggers reinforcement, even if such reinforcement is independent of the first User's decision to proceed or not².

Q2 To what extent would the options identified alleviate these concerns, and are there alternatives that Users believe should be considered?

The options identified will alleviate concerns to the extent that the magnitude of liabilities is reduced. In addition, there are clear benefits from any system that gives greater certainty about changes to the liability during the construction period. Clarification that a User should not have to provide security where it does not need the reinforcement would also be welcome.

Q3 How should Final Sums be governed and would Users support the

¹ As drafted the standard form of the Construction Agreement implies that a single sharing percentage applies to all shared works, and it also fails to deal correctly with cases where more than one User is bearing 100% of a particular shared asset (ie where it is only needed if several Users go ahead)

² This situation has been discussed in correspondence with NGET and the foregoing is NGET's view of it's policy. However, this does not seem consistent with the standard form of the Construction Agreement, where "Transmission Reinforcement Works" are defined as being "*works ... which in the reasonable opinion of The Company are necessary to extend or reinforce the GB Transmission System in relation to and prior to the connection of the User's Equipment*". If the works are not needed for that User, how can it be *in the reasonable opinion of The Company* that they are?

introduction of a Final Sums Methodology, approved by Ofgem, supported by appropriate changes to the commercial framework?

Final Sums methodologies should be drawn within the CUSC governance framework. I noted that in 2005 NGET consulted on a framework for shared liabilities specifically in the context of Scottish Users for BETTA. In the event, NGET decided to implement a system across the whole of GB without further consultation, thus prejudicing the position of any Users who had not participated in the earlier consultation in the belief that it did not relate to England and Wales.

Q4 What do Users see as the key advantages and disadvantages to an “interim” Final Sums methodology being introduced to run until any enduring development arising from the ARODG work is established?

Changes should be implemented now to alleviate the four key drawbacks of the current system, as identified in my answer to question 1 above.

Q5 What form should such an interim arrangement take (given the primary drivers of swift introduction and limited life), how soon should it be implemented, how should Users with existing agreements be dealt with?

The current policy should be modified such that the sharing methodology is applied for potential Users whose connection offers are assessed at the same time or within a fixed (and short) period after acceptance of the first User's offer. Thereafter new Users should only be assessed within the same cluster where adding the new User would not increase the liabilities of the existing Users in the cluster.

Assuming the long term arrangements is implemented through an amendment to the CUSC, the short term treatment should be implemented in the same way as the current methodology, but following full GB-wide consultation. However existing Users Construction Agreements would only be changed through consent or where a Modification was applied for (as per the current policy).

Q6 Do Users see benefit in wider information provision arrangements and be prepared to release necessary information?

There would appear to be merit in sharing such information.

Q7 Should such a process be facilitated by National Grid, or other industry bodies (such as the BWEA)?

If the information was released pursuant to the CUSC then clearly NGET would undertake the role.

Q8 Should additional information on shared reinforcements (clusters) be published:

- (a) to all Users, for example, in the Seven Year Statement;**
- (b) to all Users benefiting from the shared reinforcement; or**
- (c) only to Users benefiting from the shared reinforcement and who**

have agreed to share this information.

I would support the widest possible information sharing ie option (a).

Q9 What are the advantages and disadvantages of each of the above and is there a preference for one particular approach? Please justify.

Restricting the information to Users in the cluster or those who agreed to share the information would give an advantage to certain parties over others, for example those who were planning new investments that might join in an existing cluster.

Q10 How could Users with BELLA be incorporated in enhanced information sharing provisions, and what role, if any, would DNOs need to play in this?

The holders of BELLAs have a direct relationship with NGET and these could and should be drawn within the same information sharing framework. More problematical is where non-CUSC Parties are affected (eg should CUSC modification CAP097 be approved). In this case the DNO would have to play a role, with the information sharing provision applied indirectly. There are already precedents for NGET's requirements to be enforced through the DNO (eg the Grid Code LEEMPS provisions).

Q11 What additional information would be of use to the industry:

- (a) capacity provided by a reinforcement;**
- (b) the identity of other Users subject to the reinforcement;**
- (c) relationships between reinforcements (for example, where reinforcements are sequential or consequential);**
- (d) other, please specify.**

The capacity provided is clearly required, along with the amounts being taken up by other Users and any interactions with other reinforcement work. The identity of Users holding TEC is already published by NGET and it is hard to see why this would be any different.

Q12 Are the advantages of a Balanced Scorecard approach such that this method should automatically be used rather than contacting Users on a sequential basis?

The Balanced Scorecard approach has laudable aims but the devil will be in the detail. It will be extremely difficult to come up with an objective and non-discriminatory mechanism particularly given the conditionality commonly found in consents. In addition, just because a project has consent does not mean that it will go ahead, or that it is more viable than one that does not have consent.

Q13 If not, would the enhanced information provisions discussed earlier in this document better enable Users to identify opportunities for themselves and approach National Grid if they wished to take advantage of this?

Yes, this would be consistent with the approach on TEC trading.

Q14 Do Users support the use of bilaterally agreed changes to Users' Agreements over the existing Modification Application process to reordering the queue for transmission access, regardless of process used to identify candidates who may wish to take advantage of an opportunity?

It is surely a question of contract whether any particular change to a User agreement is a Modification or a Variation.

Q15 Against this background, is there anything else Users would like National Grid to progress?

There are existing agreements to provide “non-firm” connections albeit mostly on an interim or historic (ie pre-BETTA) basis and these are often supported by Transmission Related Agreements (TRAs) which protect NGET and other Users from the actions of connection parties. These may be provided with or without inter-trips.

These measures and the existing short-term and limited duration TEC products are or may be useful to Users but a far wider discussion is needed on how this can be taken forward. We need to go beyond the rather bald statement that “National Grid believes it is unlikely that additional firm [*or non-firm*] access rights could be provided by the use of additional intertrips and, even if it were feasible, there are a number of significant drawbacks of this approach”³.

It would be extremely helpful to develop further and more flexible products that allow access rights to be traded over shorter timescales than is possible at present. Further clarity is also needed on how TEC trading works in practice including how TEC “exchange rates” are to be calculated.

Given the prevalence of TRAs they too should be drawn within the CUC process to ensure these are applied in a transparent and non-discriminatory manner.

The situation of Users holding capacity which they are not using also needs to be examined.

³ Consultation document paragraph 67, text in italics added by author