

Amendment proposal:	Connection and Use of System Code (CUSC) Amendment proposal 142 (CAP142): Temporary TEC Exchanges		
Decision:	The Authority¹ directs that this proposal (specifically the WGAA) be made²		
Target audience:	National Grid Electricity Transmission PLC (The Company), Parties to the CUSC and other interested parties		
Date of publication:	7th June 2007	Implementation Date:	10 days after decision

Background to the amendment proposal

There is currently a significant volume of generation seeking connection to the GB transmission system. A number of proposals, including Connection and Use of System Code (CUSC) Amendment proposal 142 (CAP142): 'Temporary Transmission Entry Capacity (TEC) exchanges' have been raised to try to facilitate methods of more efficiently allocating capacity.

Approved amendment CAP068: 'Competing Requests for TEC' enabled parties to trade TEC subject to the determination of an exchange rate by National Grid Electricity Transmission (The Company). These arrangements allow TEC trades prior to the start of a financial year. The trades are also enduring (i.e. capacity is not automatically transferred back to the owner after the trade). The proposer of CAP142 suggested that this inflexibility was the reason why no TEC trade has taken place since CAP068's introduction.

The amendment proposal

CAP 142 seeks to utilise the existing level of capacity more efficiently by allowing existing users to trade their capacity on a temporary, within year, basis. This capacity leasing may allow any unused or underused capacity to be transferred between existing users and maximise the use of the transmission system.

CAP 142 was raised by British Energy and seeks to provide a framework to enable existing users of the transmission system to trade Transmission Entry Capacity (TEC) subject to the determination of an appropriate exchange rate. The proposal seeks to build on existing access products such as Limited Duration TEC (LDTEC) and Short Term TEC (STTEC) to develop a temporary TEC exchange mechanism that would apply within a charging year, with parties returning to their original level of TEC at the end of the exchange. Full details are contained in the Amendment Report in respect of CAP142³.

The amendment proposal seeks to introduce a more flexible approach to TEC exchanges than is possible under current trading arrangements. It is hoped that this will facilitate the efficient operation of the network and an increase in the number of successful trades, whilst avoiding an increase in costs to system users. This will be achieved through calculating the exchange rate so as not to increase the level of operational costs (it will not increase Balancing Services Use of System (BSUoS) charges). CAP142 would allow an exchange to take place as soon as an exchange rate has been decided and the relevant bilateral agreements amended. The donor (the party reducing capacity) would

¹ The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.

² This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989.

³ Insert <http://www.nationalgrid.com/NR/rdonlyres/6460FD38-FACB-45F2-AE56-7A52C6BBE8D6/16955/CAP142AmendmentReportv10.pdf>

continue to pay Transmission Network Use of System Charges (TNUoS). However, the proposer suggests that the donor may recover a proportion of the charges from the receptor through bilateral contracts.

To identify parties willing to trade capacity, the proposer anticipated the creation of an optional means of advertising available TEC. This would take the form of a 'notice board' allowing all parties to access details of parties interested in trading. This would be designed to ensure the process is open and transparent and provides all parties an opportunity to participate in trades.

Following a request for a trade, the Company would determine an exchange rate and make an offer; stating the capacity and the period for which the exchange would apply. In the event that the offer was rejected, no changes would be made to the bilateral agreements and both parties would continue with their existing levels of TEC. Once the trade has been completed, information would be made available to the wider market.

Working Group Alternative Amendment (WGAA)

The original proposal requires the donor to pay TNUoS charges for the total level of TEC throughout the exchange; while the receptor pays nothing to NGET.

During the working group discussions a Working Group Alternative Amendment (WGAA) was raised. This is the same as the original proposal, except in respect of the payment of TNUoS Charges. The WGAA proposes that the donor pays TNUoS for the total of its TEC holding whilst the Receptor pays an LDTEC Charge for the received volume.

The Working Group considered that this would remove any concerns about undermining the market for LDTEC or STTEC. It was also suggested that allowing a party to secure access without an associated charging liability could be viewed as the user community subsidising the access of that party. A further concern addressed by the WGAA related to the ability of portfolio players to trade on more advantageous terms, which the group argued may fail to facilitate competition.

Assessment against the applicable objectives

The Working Group considered both proposals against the applicable objectives. It considered that both the original and WGAA:

- o make better use of available network capacity and increases flexibility - therefore increasing the potential number of parties eligible to apply;
- o may create more opportunities for parties to gain transmission access;
- o may lead to cost savings by increasing competition in energy and ancillary service markets; and
- o may facilitate market entry in the longer term.

In addition, the Group noted that the original Amendment proposal may promote greater volumes of trading due to the reduced cost of access. It also noted that the WGAA led to efficient decision making and did not lead to any perverse decisions being taken.

However, the Group considered that the proposal could, in the longer term, adversely impact the quality of operational information available to the system operator. It also noted that there was a risk that the proposal could lead to an increase in constraint costs. Members also considered that the original proposal may provide competitive advantages to portfolio players and, by introducing a subsidy, could distort the market and undermine competition.

CUSC Panel⁴ recommendation

The CUSC Panel (the Panel) discussed the proposals at their meeting on 27th April 2007. A majority of Panel members considered that the Amendment proposal failed to better facilitate achievement of the Applicable CUSC Objectives. However, a majority considered that the WGAA would better facilitate achievement of the Applicable CUSC Objectives. Therefore the Panel recommended that the WGAA for CAP142 should be approved. It was recommended that CAP142 should be implemented as soon as practical after the Authority's decision, noting the need to amend the Charging and Methodology Statements.

The Authority's decision

The Authority has considered the issues raised by the amendment proposal and the final Amendment Report (AR) dated 8 May 2007. The Authority has considered and taken into account the responses to NGET's consultation on the amendment proposal which are attached to the AR⁵. The Authority has concluded that:

1. implementation of the Working Group Alternative Amendment proposal will better facilitate the achievement of the Applicable CUSC Objectives of the CUSC⁶; and
2. directing that the amendment be made is consistent with the Authority's principal objective and statutory duties⁷.

Reasons for the Authority's decision

Ofgem has considered the views of the Panel, as well as those expressed by respondents to NGET's consultation and agrees with the Panel's recommendation that the WGAA best facilitates the achievement of the Applicable CUSC Objectives.

By increasing the opportunities available to network users, we think that both the original amendment proposal and the WGAA are likely to increase flexibility and facilitate competition. This flexibility may allow both generators and the wider market to respond to unanticipated events, such as a plant breakdown, in a more efficient manner. We also note that the ability to trade capacity for various time periods would be expected to increase the likelihood of successful trades taking place, benefiting the efficient operation of the transmission network.

However, we agree with respondents that considered the original Amendment proposal fails to facilitate competition as it provides a potential competitive advantage to portfolio players and by, in effect, requiring the generality of system users to fund the costs of short term access. Ofgem considers that the absence of an appropriate charging liability may lead to an inefficient volume of trading and may undermine existing short term access products.

Overall, we don't think that the proposal will have a significant impact on our wider statutory duties. However, it could be argued that the additional flexibility provided by the proposal may be of benefit to security of supply. An example of this might be if a

⁴ The CUSC Panel is established and constituted from time to time pursuant to and in accordance with the section 8 of the CUSC.

⁵ CUSC amendment proposals, amendment reports and representations can be viewed on NGET's website at <http://www.nationalgrid.com/uk/Electricity/Codes/systemcode/amendments/>

⁶ As set out in Standard Condition C10(1) of NGET's Transmission Licence, see: http://62.173.69.60/document_fetch.php?documentid=5327

⁷ The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Electricity Act 1989.

generating plant suffers a prolonged unplanned outage and another station is able to use what would otherwise have been unused capacity.

Ofgem considers that the ability to reallocate capacity between parties is a necessary part of a well functioning set of transmission access arrangements. Ofgem therefore welcomes the further consideration of these issues as part of the Transmission Access Standing Group.

We note that only incumbents have the ability to trade capacity under the current drafting of CUSC. In theory, we think that incumbents and new entrants should be able to secure capacity on a non-discriminatory basis in order to maximise the efficiency and flexibility of the transmission network. However, there is a need to avoid perpetuating perverse incentives to hoard capacity, by either future users or incumbents, by allowing parties to realise a value from a product (TEC) bought at cost. We therefore think that it is important to question whether the rights and obligations associated with existing access products are sufficiently well defined to allow the development of a well-functioning traded market. Ofgem considers that this may be an issue which would merit consideration in the future.

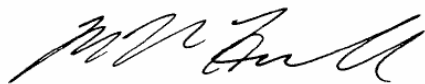
Implementation

Section 8.23.1 of the CUSC requires that “...the CUSC shall be modified in accordance with the terms of the direction by the Authority, or other approval by the Authority of, the Proposed Amendment or any Alternative Amendment contained in the relevant Amendment Report”.

Ofgem considers the provision of an implementation date is an integral part of any Amendment Proposal to the CUSC. The wording used in the amendment report for CAP142 (section 7) does not specify a date and as such it is not possible for Ofgem to direct a change to the CUSC in the manner envisaged in 8.23.1. Accordingly Ofgem intends that NG should rely on the provisions in 8.23.3 of the CUSC which set out when an amendment must be implemented in the event Ofgem does not specify an implementation date in its direction.

Decision notice

In accordance with Standard Condition C10 of NGET's Transmission Licence, the Authority, hereby directs that the Working Group Alternative Amendment proposal in respect of CAP 142: Temporary TEC Exchanges be made.



Robert Hull
Director, Transmission

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