

CAP170 Category 5 System-to-Generator Operational Intertripping Scheme

Impact Assessment and Consultation - National Grid Response

2nd July 2009

- 1 National Grid welcomes the opportunity to respond to Ofgem's impact assessment and consultation for CAP170 Category 5 System to Generator Operational Intertripping Scheme.
- 2 National Grid Electricity Transmission plc (trading as National Grid) owns and operates the electricity transmission system in England & Wales, and is the electricity transmission System Operator across Great Britain (GBSO).
- 3 National Grid continues to believe that CAP170, through introducing administered prices for intertrips capable of being armed with respect of derogated non-compliant transmission boundaries, has the potential to significantly reduce constraint costs. National Grid considers that this would facilitate competition in the generation and supply of electricity through limiting the potential BSUoS costs, as well as allowing for the economic and efficient operation of the transmission system by ensuring that intertrip costs reflect the cost of providing the service rather than the cost of alternative actions.
- 4 National Grid acknowledges the Authority's decision to conduct this impact assessment and consultation with respect to Section 5A of the Utilities Act and specifically on the basis of the potential impact on consumers. National Grid raised CAP170 with a request for urgency on the basis of the potential for significant commercial impact on both the industry and consumers.
- 5 We note the Authority's disappointment that, given NGET's licence and statutory obligations, the issue of intertrips was not reviewed sooner. Following the Authority's letter on Managing Constraints on the GB Transmission System¹ National Grid concluded that some changes could be beneficial in reducing constraint costs; however, we continue to believe that the arrangements currently in place fully comply with National Grid's obligations under the Electricity Act 1989 and as GBSO to act in an efficient, economic and coordinated manner. In fulfilment of this role National Grid endeavours to keep arrangements under continual review, raising amendments for consideration as and when appropriate.

Interaction with Transmission Access

- 6 We note the Authority's view that CAP170, if implemented, is intended to be a short term measure until such time as enduring transmission access arrangements come into force. National Grid acknowledges that as a result of the transmission access review the model for access rights to the transmission system could be fundamentally changed. For example with the concept of derogated boundaries no longer existing. National Grid envisages that, if implemented, CAP170 will introduce category 5 system to generator operational intertripping schemes which will be in place until such time as the nature of the relevant boundary changes (i.e. the boundary become compliant). However, in line with other services, a complete review of System to Generator Operational Intertripping

¹

<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=97&refer=Networks/Trans/ElecTransPolicy/tar&sid=em ail>

Schemes may be required following implementation of transmission access to ensure appropriate arrangements are in place under the new regime.

Constraint Costs

- 7 Considering Interim Connect and Manage, the level of system investment and subsequent system outage requirements, the high constraint volumes experienced at Cheviot in 2008/09 are likely to be repeated going forward, with the potential for more non-complaint derogated boundaries. Specifically we would highlight that the volume of constraints forecast on the Cheviot boundary during 2009/10 is low in comparison to the outturn volume in 2008/09 due to a number of internal Scotland constraints which need to be resolved first (i.e. the resolution of these internal Scotland constraints means the resulting flows across the Cheviot boundary is also reduced). In 2010/11 we would expect a larger volume of constraints on the Cheviot boundary and as a result we would expect to arm the intertrip schemes to similar levels as seen in 2008/09.
- 8 Whilst there remains uncertainty with regards the access arrangements in the longer term, the enduring access regime may continue to result in high constraint volumes for instance as a result of a connect and manage regime.
- 9 National Grid continues to look for new and innovative ways of managing constraints. In respect of the Cheviot boundary (the only existing non-compliant derogated boundary), we have recently seen a reduction in costs following agreement with an additional intertrip provider and more generally as a result of our contracting strategy. As a result, the forecast cost of using the Cheviot intertrip as outlined in the impact assessment has reduced.
- 10 Whilst noting that the forecast cost of using the Cheviot intertrip has reduced, we remain of the view that CAP170 through introducing administered prices for intertrips at such boundaries would see constraint costs further reduced.
- 11 During development of CAP170 and the preparation of the report for the Authority National Grid recognised the restrictions regarding publication of key constraint information due to the commercially confidential nature of this information. National Grid provided this information to the Authority following an information request (under NGET's Licence condition B4), and we welcome the Authority's publication of this information in order that the defect, and potential saving, associated with CAP170 can be publicly articulated for full consideration by parties responding to this impact assessment.
- 12 Having acknowledged this limitation on the publication of information, National Grid is working with the industry to review and develop transparency requirements regarding publication of information on constraint management. It is our intention to further this discussion through the CUSC Balancing Services Standing Group (BSSG) to explore possible Amendment Proposals which could be introduced to the CUSC with regards to the reporting of specific information.

Incentive Structure

- 13 National Grid believes that it is important that mechanisms exist which appropriately cater for the impact of unforeseen events, including the development of industry frameworks, upon the incentive structure. Currently the Income Adjusting Event (IAE) mechanism exists in relation to the current Balancing Services Incentive Scheme which can be used to redress the effects of unforeseen events on incentive performance. As a point of principle, we believe that developing the industry frameworks in response to the incentives placed on us to reduce costs is an entirely appropriate measure for National Grid to employ and we would expect to share with market participants any savings made through such developments via the incentive scheme structure (e.g. sharing factors). To exclude such developments from the incentivised arrangements risks creating perverse incentives which inhibit future development of the industry framework.

- 14 We recognise that if CAP170 is implemented a wider consultation regarding the requirement for an IAE may be required. Within this context it should be noted that, as highlighted earlier, progress has been made in reducing the cost of Cheviot intertrip provision. Therefore, any IAE, if CAP170 were implemented, would need to take account of the actions undertaken by National Grid to reduce system operation costs before such implementation.

Connect and Manage

- 15 National Grid is aware of the potential interaction between CAP170 and Interim Connect and Manage. As indicated in the Authority's impact assessment connection of an additional 450MW of Scottish generation is likely to give rise to a forecast additional £40 million of constraint costs if the full amount connects (of which only a small portion is likely to connect during 2009/10). National Grid would like to reiterate that this is a forecast cost. The assumptions underpinning this forecast would require amendment as a consequence of CAP170.

Payment Terms

- 16 National Grid agrees with the Authority's assessment that there does not appear to be any material difference which would justify different payment terms for the proposed category 5 intertripping scheme and existing payment terms in place for category 2 and category 4 intertripping schemes. We would stress that were the existing terms no longer considered to be appropriate any party could raise a CUSC Amendment Proposal to amend these terms. Specifically, if a different payment mechanism is considered appropriate for the proposed category 5 intertripping scheme, this could be addressed as part of the review following implementation of CAP170.

Competition in the ancillary services market

- 17 National Grid fully supports that the GB market is based on the principle of using market based solutions. As such, National Grid would only seek to administer prices in circumstances where it is considered absolutely necessary to do so. Experience with intertrips at non-compliant derogated transmission boundaries indicates that the market based approach is not delivering the most effective terms such that administration of intertrip arrangements has become necessary.

Discrimination

- 18 National Grid considers that CAP170 is a proportionate solution which introduces justifiable differential treatment between different classes of generators. As such, in line with the Authority's initial assessment of CAP170, National Grid does not believe that CAP170 introduces undue discrimination against generators behind a non-compliant derogated boundary.
- 19 National Grid has developed, and consulted upon, changes to the Procurement Guidelines setting out how selection of category 5 intertripping scheme providers will be conducted, and the Balancing Principles Statement setting out the criteria for choice of arming within a pool of providers. As part of this development and consultation we would like to confirm that careful consideration has been given to ensure objective justification for the selection and use of providers.
- 20 We note the concerns raised that the proposed criteria are relatively high level, with a potential lack of transparency; National Grid would like to clarify that the Procurement Guidelines and the Balancing Principles Statement cannot be exhaustive or fully prescriptive, but rather represent a generic statement of the procurement and balancing principles. Moreover, the main purpose of industry consultations on both the Procurement Guidelines and the Balancing Principles Statement is to ensure that National Grid procures and utilises the proposed category 5 intertripping service in a transparent manner.

Offshore

- 21 National Grid is aware that the proposed legal drafting in the CAP170 Amendment Report does not reflect the changes to the CUSC that have now been designated by the Secretary of State in relation to the offshore transmission regime (as with a number of other proposals awaiting direction from the Authority). Only minor changes to this effect would be required for the purposes of CAP170 (and corresponding Grid Code modification B/09), amending the referencing from GB SQSS to NETS SQSS. As such, if CAP170 is implemented, National Grid would envisage raising a subsequent housekeeping change to ensure that the correct legal text reflecting both offshore and CAP170 is included in the CUSC.

Process

- 22 National Grid acknowledges the concerns raised with regards the urgent progression of CAP170. We do, however, believe that the process followed for CAP170, and the corresponding changes to the Grid Code, Procurement Guidelines and Balancing Principles Statement, have followed due process. We further believe that, combined with this impact assessment and taking account of the urgent nature of the proposal, the process has facilitated adequate opportunity for comment. However, if implemented National Grid would fully support a full review of the proposal (in line with CUSC 8.21.1.9).

Please do not hesitate to contact David Smith on 01926 655534 if you wish to discuss this response.