AMENDMENT REPORT VOLUME 2

CUSC Amendment Proposal CAP162

Transmission Access - Entry Overrun

This document contains consultation responses and requests

Amendment Ref	CAP162
Issue	1.0
Date of Issue	08 January 2009
Prepared by	National Grid

ANNEX 1 – WORKING GROUP CONSULTATION RESPONSES

Reference	Company	Supportive
CAP162-WGC-01	Scottish Renewables	Yes
CAP162-WGC-02	Scottish Power	Yes
CAP162-WGC-03	Wind Energy	Not expressed
CAP162-WGC-04	Welsh Power	Not expressed
CAP162-WGC-05	Scottish and Southern Energy	Broadly
CAP162-WGC-06	Gaz de France	Yes
CAP162-WGC-07	International Power	Yes
CAP162-WGC-08	E.ON UK	Yes
CAP162-WGC-09	EDF Energy	No
CAP162-WGC-10	DONG Walney	Not expressed
CAP162-WGC-12	Centrica	Yes
CAP162-WGC-13	BWEA	Supportive of concept
CAP162-WGC-14	British Energy	Yes
CAP162-WGC-15	Renewable Energy Association	Yes
CAP162-WGC-16	Nuclear Decommissioning Authority	Yes
CAP162-WGC-17	ESB International	Yes
CAP162-WGC-18	RWE	Yes
CAP162-WGC-19	Immingham CHP	Yes
CAP162-WGC-21	Drax Power	No in principle
CAP162-WGC-22	AEP	Yes

31 October 2008

Patrick Hynes
UK Transmission Commercial
NGT House
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA
patrick.hynes@uk.ngrid.com

Dear Patrick

Working Group Consultation: CAP162

Scottish Renewables, the trade association for the Scottish renewables industry, welcomes the opportunity to respond to this consultation. Our comments are informed by renewables industry representation on Working Group 1 and from canvassing wider views from our membership. If you would like to discuss any aspect of this response, please don't hesitate to contact me.

Our response is structured as follows:

- General comments on over run
- Comments on each pricing option
- Views on the Original and the Alternatives

General comments

Scottish Renewables is supportive of the concept of an over run or spill-type product as part of a more flexible access regime.

Likely take-up

The likely take-up of over-run depends on:

1. The cost, and
2. The predicatbility of the cost, and
3. Whether over-run is part of a flexible, useable, short-term access regime

Our comments on (1) and (2) are provided below on the different pricing options proposed. For (3), please see our covering letter and specifically our comments on the Evolutionary Change access model.

In common with most if not all of the Working Group membership, we feel that the take-up of over run will be low in volume, but that it is a useful, if not essential, element of a more flexible access regime.

Implementation
With all of the pricing options, there will be a period of bedding-in while participants gain experience in the scale and volatility of charges. The Working Group consultation notes "*as part of the implementation of CAP162 additional information or simulated historic prices would need to be published.*" We consider this to be essential for, at least a year's duration, preferably longer, and that it should form part of any impact assessment which would include quantification of the level of uptake of overrun.

The Working Group consultation suggests that the simple methodology would be a more expedient option initially that the average methodology. Given that both use the same underlying data and cost allocation methods, we are not entirely clear why this should be the case. GBECM 14 states that for the Simple methodology on/ off switch, "*National Grid would publish a table 2 Business Days after real time indicating if and which tariff was applicable for each period. This would be based on post event analysis of real time control actions. This is the same analysis used to drive the historic costs and in the degut process proposed for the Cost Recovery methodology*."

Investment signals
As over run is currently proposed, we see no value in limiting it to parties who have applied for long term access, because (A) they wouldn't use it as a precursor to long-term access in the absence of a financially firm date for connection, and (B) paying the short term cost has no link to the provision of long-term capacity. There is no collection of excess funds from short-term revenues which feed into a fund for the provision of new capacity, and incurring short-term costs does not trigger new capacity. Rather, an application, user commitment and, we understand, a "needs" test, are all presently required before there is investment in long term capacity.

Scottish Renewables would support a direct link between short-term costs and the provision of new capacity.

SO Incentives
The Working Group report states that National Grid should be incentivised to minimise the cost of over run "*even though it is targeted*." We do not think that the targeting or not of the cost is relevant here as the costs are in part managed by National Grid, and if over run is intended as a useable service then incentives to minimise its cost are a pre-requisite.

Overrun Zones
Scottish Renewables notes that Working Group 3 has not explored the overrun zones presented in GB ECM 14.

Simple pricing methodology
The original intent of the simple pricing methodology was to provide a reasonably predictable, transparent, simple price.

We agree there is merit in using a scalar of a known quantity, and that BSUoS is a logical choice given that it represents short-run costs. We are concerned that small

independent users will not have the expertise or resources required to predict BSUoS, and, even if they did, we note that the major suppliers are themselves concerned about its existing volatility and unpredictability. Therefore Scottish Renewables is not convinced that the simple methodology achieves what it set out to do, which is to provide a simple, reasonably predictable and transparent price.

On the basis of the indicative charges published in GBECM 14, the simple price is high (when a constraint is active) and therefore we would expect uptake to reflect difficulties in matching variable output to access holdings, rather than an active decision to use overrun as an access product (i.e. at these times it is a penal spill price).

If it were possible to predict whether the constraint will be active, uptake of overrun might be improved. Given that this is, presumably, the intent – to encourage parties to generate when the system can better accommodate it – we consider it worth investigating whether the on/ off switch can be ex ante (and consider the costs versus benefits of this being wrong on occasion). If it is not possible to predict whether the constraint is active, we would consider overrun priced in this way to be of very low, if any, utility, in providing short-term access.

GBECM 14 notes that the percentage of periods for which the on/ off is switched on is linked to whether parties choose to over run. Our understanding is that it is linked to the percentage of time that constraints are breached, which could equally be influenced by existing parties with wider access holdings as it could by parties overrunning. The only discipline that over-run imposes in terms of a choice of whether to run, or not, is on those parties that are using overrun.

Finally, we are not sure that the simple methodology is any more simple or predictable than the average methodology, and would ask that consideration is given to an alternative administered price that better meets the original criteria of a simple price.

Average pricing methodology

Scottish Renewables has similar comments on the average methodology with respect to predictability. The methodology itself uses the same data and processes as the simple price, with the differences understood to be that:

1. There is no ex ante publication of price variables, (akin to the scalar in the simple methodology);
2. There is no industry experience in predicting average contstraint costs, (although historical costs could be published prior to implementation of overrun); and,
3. The average price reflects the change in constraint costs caused by overrunning parties more so than the simple price. This is partly because the methodology attempts to target the marginal (highest) constraint costs onto the overrunning parties, but it is also because of the way the scalars are calculated for the simple price.

On point (1), we would question whether the ex ante publication of scalars for the simple methodology does materially improve its preditability. On point (2) we would question, given that historical constraint data could be published, whether BSUoS multiplied by a scalar improves the predictability of the simple price. We have not formed a strong view on these points, but would simply like the questions to be asked

in order that we can fully understand the extent to which both the average and simple prices provide any predictability.

On point (3) we note the need to discuss some of these issues further in the Working Group. Scottish Renewables does not agree that the most expensive bids should necessarily be tagged against the overrunning party. This is somewhet subjective, and may not be correct in all circumstances.

Scottish Renewables would expect the "degut" of constraint costs methodology to be auditable in terms of the costs and their allocation to different parties.

Marginal pricing methodology

Scottish Renewables agrees with the Working Group consultation report that there is not sufficient information to enable a marginal pricing methodology to be approved at this point in time. The debate in the Working Group has for the most part been on the principles (rather than the practice) of marginal pricing, and it even then this has been quite minimal compared to discussions on the simple and average pricing models. At this stage Scottish Renewables does not consider any marginal methodology to be a viable Amendment proposal.

Scottish Renewables notes the stated benefits of a marginal methodology in aligning with the marginal pricing of TNUoS. We do not agree that there is automatically a better alignment of pricing signals simly by the fact that both can be called a marginal model. This depends on what costs are being reflected, and to whom they are being signalled.

We would also note that some long run costs are charged on an average basis under TNUoS, and there is a proposal from the Scottish TOs to move to a wholly average (postage stamp) pricing on a long-run basis. Furthermore auctioning of capacity in the short-term and the long-term undermines any attempt to provide carefully calculated/ sophisticated pricing signals with efficient arbitrage between the long term and short term regimes.

Scottish Renewables does however agree that it is important to provide appropriate and consistent signals between long-run and short-run costs.

The Original and Alternatives

Scottish Renewables notes that the Working Group has not yet explored the full implications of zonal versus nodal overrun, and therefore has not formed a strong opinion on this point.

We hope that you find the above helpful. Needless to say, if we can clarify any of the points made please do not hesitate to get in touch.

Yours sincerely

Jason Ormiston
Chief Executive
Scottish Renewables

SCOTTISHPOWER
Energy Wholesale

Patrick Hynes
UK Transmission Commercial
NGT House
Warwick Technology Park
Gallows Hill
Warwick CV34 6DA

30 October 2008

Dear Patrick,

Response to the Working Group Report CAP162
Transmission Access – Entry overrun

Thank you for the opportunity to respond to this Working Group Report. This response and the attached Working Group Consultation response proforma are submitted on behalf of ScottishPower Energy Management Ltd, ScottishPower Generation Ltd and ScottishPower Renewable Energy Ltd.

ScottishPower supports the proposed amendment as part of an incremental change approach to transmission access.

Across all the proposed amendments (CAP161-165) ScottishPower would prefer to see a zonal approach adopted as this would facilitate greatest use of the existing transmission system and greatly simplify the access products available to users. We note National Grid's concerns that large zones may result in an increase in constraint costs but would urge that an overly pessimistic methodology for determining zones is not adopted which would reduce the utilisation of the access products proposed.

The Overrun product alone will not facilitate the connection of additional renewable generation as envisaged under the TAR Final Report as it does not provide sufficient certainty of access ("bankability") to enable a developer to secure financial backing. However, in conjunction with other proposals and as part of an incremental change model SO release could help facilitate a change in the way both existing and new generators secure their access requirements

Take-up of Overrun

ScottishPower envisages that the take-up of overrun will be very limited as ex-post pricing will make it impossible for users to make an informed economic decision whether to run their generation plant in excess of the contracted access capacity. Over time, users may develop sufficient confidence in the prediction of constraint incidence to make limited use of overrun in areas with very low constraint costs. This would obviously preclude the use of overrun in areas such as Scotland where renewable resource is high but constraint incidence is also high and will thus fail to achieve the connection of additional renewable generation as envisaged in the Final TAR Report. In the longer term, with significant connection of renewable generation with firm access, it may become attractive for thermal generation to utilise overrun to access the transmission system when renewable generators are unable to generate.

Overrun does provide an alternative to breach of the CUSC for parties who exceed their contracted access capacity and therefore facilitates the use of other short-tem products such as TEC sharing (CAP163) and SO Release (CAP161) without fear of the consequences currently contained within the CUSC for exceeding TEC. Indeed, without an overrun product, it is difficult to see how users could make use of a combination of long and short-term products with confidence.

To achieve “bankability” and deliver the aims of TAR, the overrun price should be transparent and predictable otherwise Users will avoid its use. None of the methodologies described in the Working Group Report sufficiently demonstrate these attributes.

Simple Methodology

The Simple Methodology offers the closest approximation to ex-ante predictability through its use of pre-published scalars. However, the unpredictability of [BSUoS – RCRC] on a settlement period to period basis maintains a significant level of uncertainty for Users and would make the product unattractive. In addition, the use of scalars based upon historic constraint data may lead to counter-intuitive charging in periods where the current years’ constraint incidence varies significantly from previous years. While providing a reasonable proxy for overrun costs averaged over a longer period (e.g. a year) the Simple Methodology may not facilitate efficient economic decisions to be made in the very short-term (i.e. whether to run in the next settlement period when short-term transmission access has not been secured by other means).

Cost Recovery Methodology

The Cost Recovery Methodology (CRM) charges overrun wholly upon ex-post information and is thus lacking in predictability. Although the methodology to be used by National Grid in apportioning costs to the overrunning party will be codified and thus transparent, it will be outwith the ability of most users to either repeat the calculation or predict future costs. The IT systems to automate the calculation of overrun charges will be costly and a cost benefit analysis should be carried out before embarking on major investment in systems.

The additional complexity of attempting to calculate negative overrun charges should be avoided and would not merit the additional cost of systems required for their calculation.

A significant improvement to the CRM model would be to allow Users to securely cap their exposure to overrun prices. The User’s liability should be capped at the price that was available to the System Operator by the User’s submission of a bid price in the Balancing Mechanism regardless of the actions taken by System Operator at that time. Any alternative (more expensive) action taken by the System Operator would be for other system reasons than the effects of the user’s overrun and therefore should not be charged to that user.

Marginal Methodology

The Marginal Methodology discussed in the Working Group Report is too complex and lacks the transparency and predictability to enable Users to make informed economic decisions about whether to secure long-term or alternative short-term access products or whether to utilise overrun. This methodology would be expensive and slow to implement and would do little to achieve the objectives of TAR.

SCOTTISHPOWER
Energy Wholesale

Credit and Security Requirements

For simplicity, credit and security arrangements should mirror those for BSUoS as closely as possible. Security for forecast overrun charges could be calculated based upon the potential volume of overrun calculated on the difference between the maximum generation Capacity (GC) provided under Section M of the BSC and the amount of long-term transmission access secured at the start of each month. A “Credit Assessment Price” for Overrun, based upon historical prices, should then be applied to calculate the level of security required.

I hope you find these comments useful. Should you have any queries on the points raised, please feel free to contact us.

Yours sincerely,

James Anderson
Commercial and Regulation Manger

CUSC WORKING GROUP CONSULTATION – RESPONSE PROFORMA

CAP162 Transmission Access – Entry Overrun

Respondent:	*James Anderson, Commercial & Regulation Manager* *Telephone: 0141 568 4469*
Company Name:	*ScottishPower Energy Wholesale*
Please express your views including rational with regard to the Working Group Consultation? **Including any issues, suggestions or queries**	ScottishPower supports the proposed amendment as part of an incremental change approach to transmission access. Across all the proposed amendments (CAP161-165) ScottishPower would prefer to see a zonal approach adopted as this would facilitate greatest use of the existing transmission system and greatly simplify the access products available to users. We note National Grid's concerns that large zones may result in an increase in constraint costs but would urge that an overly pessimistic methodology for determining zones is not adopted which would reduce the utilisation of the access products proposed. The Overrun product alone will not facilitate the connection of additional renewable generation as envisaged under the TAR Final Report as it does not provide sufficient certainty of access ("bankability") to enable a developer to secure financial backing. However, in conjunction with other proposals and as part of an incremental change model SO release could help facilitate a change in the way both existing and new generators secure their access requirements. Overrun does provide an alternative to breach of the CUSC for parties who exceed their contracted access capacity and therefore facilitates the use of other short-tem products such as TEC sharing (CAP163) and SO Release (CAP161) without fear of the consequences currently contained within the CUSC for exceeding TEC. Indeed, without an overrun product, it is difficult to see how users could make use of a combination of long and short-term products with confidence.

	Simple Methodology The Simple Methodology offers the closest approximation to ex-ante predictability through its use of pre-published scalars. However, the unpredictability of [BSUoS – RCRC] on a settlement period to period basis maintains a significant level of uncertainty for Users and would make the product unattractive. In addition, the use of scalars based upon historic constraint data may lead to counter-intuitive charging in periods where the current years' constraint incidence varies significantly from previous years. While providing a reasonable proxy for overrun costs averaged over a longer period (e.g. a year) the Simple Methodology may not facilitate efficient economic decisions to be made in the very short-term (i.e. whether to run in the next settlement period when short-term transmission access has not been secured by other means). **Cost Recovery Methodology** The Cost Recovery Methodology (CRM) charges overrun wholly upon ex-post information and is thus lacking in predictability. Although the methodology to be used by National Grid in apportioning costs to the overrunning party will be codified and thus transparent, it will be outwith the ability of most users to either repeat the calculation or predict future costs. The IT systems to automate the calculation of overrun charges will be costly and a cost benefit analysis should be carried out before embarking on major investment in systems. The additional complexity of attempting to calculate negative overrun charges should be avoided and would not merit the additional cost of systems required for their calculation. A significant improvement to the CRM model would be to allow Users to securely cap their exposure to overrun prices. The User's liability should be capped at the price that was available to the System Operator by the User's submission of a bid price in the Balancing Mechanism regardless of the actions taken by System Operator at that time. Any alternative (more expensive) action taken by the System Operator would be for other system reasons than the effects of the user's overrun and therefore should not be charged to that user. **Marginal Methodology** The Marginal Methodology discussed in the Working Group Report is too complex and lacks the transparency and predictability to enable Users to make informed economic decisions about whether to secure long-term or alternative short-term access products or whether to utilise overrun. This methodology would be expensive and slow to implement and would do little to achieve the objectives of TAR.

	Credit and Security Requirements For simplicity, credit and security arrangements should mirror those for BSUoS as closely as possible. Security for forecast overrun charges could be calculated based upon the potential volume of overrun calculated on the difference between the maximum generation Capacity (GC) provided under Section M of the BSC and the amount of long-term transmission access secured at the start of each month. A "Credit Assessment Price" for Overrun, based upon historical prices, should then be applied to calculate the level of security required.
Do you believe that the proposed original or any of the alternatives better facilitate the CUSC applicable objectives, please state your reasoning?	ScottishPower believes that the Original Amendment (zonal methodology) better facilitates the applicable CUSC objectives as it offers a further short-term access product thus delivering improvements against Applicable CUSC Objective A "Efficient discharge by the Licensee of its obligations". The proposal should lead to more efficient utilisation of the GB Transmission System. Overrun provides a contractual alternative to breach of the CUSC for parties who exceed their contracted access rights thus better achieving CUSC Applicable Objective A. CAP162 should lead to increased competition by facilitating more efficient use of the GB transmission system by generating plant with low load factors or with intermittent output.
Do you support the proposed implementation, if no please state why and provide an alternative suggestion were possible?	ScottishPower supports the proposed implementation date.

Any other comments?	*N/A*
Do you wish to raise a WG Consultation Request for the Working Group to consider?	***NO***

Specific questions for CAPXXX [if required]

Q	Question	Rationale
1.	**Take-up of Overrun**	ScottishPower envisages that the take-up of overrun will be very limited as ex-post pricing will make it impossible for users to make an informed economic decision whether to run their generation plant in excess of the contracted access capacity. Over time, users may develop sufficient confidence in the prediction of constraint incidence to make limited use of overrun in areas with very low constraint costs. This would obviously preclude the use of overrun in areas such as Scotland where renewable resource is high but constraint incidence is also high and will thus fail to achieve the connection of additional renewable generation as envisaged in the Final TAR Report. In the longer term, with significant connection of renewable generation with firm access, it may become attractive for thermal generation to utilise overrun to access the transmission system when renewable generators are unable to generate. To achieve "bankability" and deliver the aims of TAR, the overrun price should be transparent and predictable otherwise Users will avoid its use. None of the methodologies described in the Working Group Report sufficiently demonstrate these attributes.
2.		
3.		

30 October 2008

Patrick Hynes
National Grid Electricity Transmission Plc
UK Transmission Commercial
NGT House
Warwick Technology Park
Gallows Hill, Warwick
CV34 6DA

Dear Patrick,

CUSC Amendment Proposal CAP162: Working Group Consultation Document

Wind Energy is pleased to submit this response to the above consultation document on Connection and Use of System Code ("CUSC") Amendment Proposal ("CAP") 162: Transmission Access – Entry Overrun. We are writing on behalf of six group companies with wind power projects under development across Scotland with a combined capacity of some 600MW. The principal shareholder in the Wind Energy companies is AES Corp, one of the world's leading independent power producers.

The two key transmission requirements for wind generators wishing to build new generation facilities are:

i) certainty of access; and
ii) certainty of cost of access

Unlike the proposals in CAP161, the concept of overrun appears to meet the first requirement. Potentially it may also meet the second requirement within acceptable bounds of certainty but with regret, we cannot tell this from the discussions in the Working Group Report. For the consideration of this amendment to be of value to us it needs to bound the differing alternative approaches to charging by indications of expected costs per annum, both mid case and high/low sensitivity cases for a range of differing regions such as northern Scotland (SHETL territory), southern Scotland, northern England etc. Absent this, we are not in a position to judge the usefulness of this product and hence cannot opine on its likely take-up.

We caution against the level of apparent complexity in this proposal which makes forming a view on the distinction between the original proposal and the Working Group Alternative Amendment difficult for parties such as us. The greater the complexity, the less this type of product will lend itself to acceptance by the banking market which is a key consideration to project developers.

We have concerns about elements of the proposal dealing with the definition of Local Works. We are firmly of the view that Local Works should only be those covered by a Sole User definition and not as proposed by the Working Group.

Finally we wish to comment on the view of the Working Group, expressed in section 7.1, that this proposal is not discriminatory. The premise on which it is based is fundamentally discriminatory because new generators would principally consider using this product because they could not get access to TEC in a timely manner, thus perpetuating discrimination between existing and new users. We can however contemplate a scenario where overrun is a generally lower cost product than TEC in some areas, potentially with a degree of uncertainty in price, where parties who are otherwise able to use TEC would choose to use overrun in preference. If that was the true intention of Overrun (which we question) then it may have a place in the suite of product options for CUSC signatories.

We hope that these comments are useful and would be happy to discuss them further if it would prove useful.

Yours sincerely

Michael Davies
Managing Director

Wind Energy (Services) Ltd, 22 Great King Street, Edinburgh EH3 6QH
Tel +44 (0)131 550 0970 Fax: +44 (0)131 550 0980

www.wind-energy.co.uk

CUSC WORKING GROUP CONSULTATION – RESPONSE PROFORMA

CAP162: Entry Overrun

CUSC parties are invited to respond to this consultation, expressing their views [and in respect of the specific questions detailed below]. Parties are invited to supply the rationale for their responses.

Please send your responses by ###### to ####. Please note that any responses received after the deadline may not receive due consideration by the Working Group.

Any queries on the content of the consultation should be addressed to ######.

These responses will be considered by the Working Group and will record the conclusion they reach on your request; as well as showing their discussions of your requests and the conclusion they reach on your request. If appropriate the group will amend their report accordingly and will record your response in the Working Group Report.

Respondent:	*Rebecca Williams* *0207 659 6620*
Company Name:	Welsh Power
Please express your views including rational with regard to the Working Group Consultation? **Including any issues, suggestions or queries**	Welsh Power believes any overrun cost methodology needs to ensure that users have the ability to forecast the likely cost of overrunning in order for the tool to be considered for use. A generator maybe willing to participate in the Balancing Mechanism (BM) without the required level of entry capacity holdings if it had the means to factor in the overrun price. Users need to be able to assess the risk and reward opportunities available from the new overrun product. The simple and cost recovery charging methodology options both contain subjectivity being applied by the SO. Welsh Power would like to propose a detailed methodology being published, providing transparency of the process undertaken by the SO for the degutting of trades. This may address the industry's concern of these charging methodologies currently containing a black box process. It would be helpful for a draft of the

	subjectivity of trades' process methodology to be made available soon in order to accurately reflect whether these methodologies could be effective for overrun charging. One of the principles of overrun charging under the cost recovery methodology is "overrun charges would include all costs incurred, by National Grid as the GBSO,…… whether taken in the BM or outside of the BM (i.e. intertrip costs or warming contracts etc…)". The rationale behind why actions such as intertrips and warming contracts are being included with the overrun calculation would be appreciated. It is difficult to understand why the costs of warming contracts are included when no physical delivery may occur, whilst the intertrip involves locational specific plant which may not be associated with the location of where the overrun has arisen due to no physical interaction being possible. Will the following actions also be included Schedule 7 and PGBT's? If all these actions outside of the BM are incorporated within the overrun charge, what is the magnitude of change upon cash-out prices?
Do you believe that the proposed original or any of the alternatives better facilitate the CUSC applicable objectives, please state your reasoning?	Welsh Power would welcome the above issues being addressed prior to providing its views on whether CAP162 better facilitates the CUSC applicable objectives.
Do you support the proposed implementation, if no please state why and provide an alternative	

suggestion were possible?	

Any other comments?	
Do you wish to raise a WG Consultation Request for the Working Group to consider?	No **If your response is yes please complete a WG Consultation Request form and return to the above address with your completed Working Group Consultation responses proforma.**

Specific questions for CAPXXX [if required]

Q	Question	Rationale
1.		
2.		
3.	.	

CUSC WORKING GROUP CONSULTATION – RESPONSE PROFORMA

CAP162 [Entry Overrun]

CUSC parties are invited to respond to this consultation, expressing their views [and in respect of the specific questions detailed below]. Parties are invited to supply the rationale for their responses.

Please send your responses by ###### to ####. Please note that any responses received after the deadline may not receive due consideration by the Working Group.

Any queries on the content of the consultation should be addressed to ######.

These responses will be considered by the Working Group and will record the conclusion they reach on your request; as well as showing their discussions of your requests and the conclusion they reach on your request. If appropriate the group will amend their report accordingly and will record your response in the Working Group Report.

Respondent:	*Garth Graham, Market Development Manager* *garth.graham@scottish-southern.co.uk*
Company Name:	Scottish & Southern Energy
Please express your views including rational with regard to the Working Group Consultation? **Including any issues, suggestions or queries**	In addition to our general comments (see covering letter) we note that work on this Amendment proposal by the Working Group is still 'work-in-progress' and therefore our comments on this consultation maybe enhanced/altered in due course as the group completes its work on the Legal Text, its Terms of Reference and associated issues. We broadly welcome this Amendment proposal. It has the potential to release transmission access capacity which has, to date, being unavailable to market participants. However, given that there has been insufficient time to undertake a load flow modelling it is not possible for us to assess the financial (and market) impact that CAP162 would have on us (and the wider market) in

	terms of, for example, BSUoS and RCRC. Pending seeing the outcome of such modelling it is very difficult for us to assess, at this stage, what the impact on TNUoS that could arise from CAP162. There remains a real risk that significant under or over recovery may arise which could, in turn, result in (undesirable) cross subsidies from some CUSC Parties to other CUSC Parties.
Do you believe that the proposed original or any of the alternatives better facilitate the CUSC applicable objectives, please state your reasoning?	Based on the limited information available we believe that CAP162 Original will better facilitate meeting the applicable CUSC objectives (when compared with the baseline). With regard to the proposed Working Group Alternative Amendment (sketched out in section 6 of the consultation document) we are mindful that the original proposal was based on a zonal, rather than a nodal, centred product. Accordingly, we believe that the Working Group Alternative does not better facilitate meeting the applicable CUSC objectives (when compared with the baseline or with the original).
Do you support the proposed implementation, if no please state why and provide an alternative suggestion were possible?	Implementation on 1st April 2010 is a reasonable aspiration on the assumption that the Authority makes a decision on this Amendment proposal by the end of July 2009. Notwithstanding our comments above concerning our acceptance (if CAP162 is approved by the Authority) of an implemented from 1st April 2010 we are concerned by the suggestion, in paragraph 8.4 of the consultation document, of approval for expenditure (incurred by National Grid) being granted prior to the Authority approval of the CAP162 change. We believe such approval for expenditure, if given, would be tantamount to fettering the Authority's discretion on CAP162. It is neither efficient nor economic, either for National Grid or CUSC Parties, for resources to be utilised and costs incurred to further develop an Amendment; over and above what is in the Final Amendment Report issued by the Panel to the Authority; prior to a decision being made on that Amendment by the Authority. Furthermore, we do not believe there is the vires, under the CUSC, for such a step to be taken. If, despite our comments on this, work were to proceed in this way then we would expect to be able to charge National Grid monthly a reasonable fee (using the NGC fee structure/costs set out in Schedule 3 of the Statement of Use of System Charges) along with all associated expenses for all our time, effort, travel etc., on this area of work.

Any other comments?	The arrangements associated with ‘transition’ have still to be fully explained. As with all the short term arrangements it needs to be recognised that the introduction of short term products should not be at the expense of the long term arrangements (which are required to provide for the actual building of the transmission capacity upon which the short and long term depend).
Do you wish to raise a WG Consultation Request for the Working Group to consider?	*NO*

Specific questions for CAP162

Q	Question	Rationale
1.	**View as to the take up of overrun.**	Given the limited information available (e.g. the lack of load flow modelling etc.) our views on the possible uptake of an overrun product are thereby limited. That having been said our gut feel is that the uptake of overrun will be dependent on how cost reflective (or otherwise) the charges for its use are. The more cost reflective the lower the take up. The less cost reflective the greater the take up.
2.		
3.	.	

CUSC WORKING GROUP CONSULTATION – RESPONSE PROFORMA

CAP162 – Transmission Access – Entry Overrun

Respondent:	*Dan Jerwood, Regulatory Affairs* *Email: dan.jerwood@gazdefranceenergy.co.uk Tel: 0113 306 2101 Mob: 07733 322463*
Company Name:	Gaz de France ESS
Please express your views including rational with regard to the Working Group Consultation? **Including any issues, suggestions or queries**	No commercial overrun product currently available in National Grid's suite of access products there is currently no commercial incentive to prevent or deter causing adverse effects to the system through overrunning apart from the heavy handed approach of the CUSC. We believe that this amendment is greatly preferable to the prevailing arrangements for handling of entry capacity overrun within the CUSC by effectively creating a capacity imbalance mechanism for all users. Assuming existence of a short-term release mechanism such as that proposed by CAP161 (with or without STTEC and LDTEC), we doubt the facility would be significantly utilised. It is important that overrun is discouraged and that the existence of a pricing mechanism does not incentivise parties operating above access limits, and that if they wish to increase their holding they do so through the purchase of short-term products. A key decision will be which methodology will be adopted for the charging of this service. Arguments have been submitted for 3 differing methodologies with the methodology based on multiples of BSUoS (possibly net of-RCRC) currently preferred by the Working Group. It is essential to test this option further to determine the full impact to the system, the associated cashflows and estimate the expected wider industry costs. Multiples need to be set sufficiently high to ensure that additional balancing costs that arise from overrun are recovered so that access right holders are not subsidising parties that overrun. Above all any action involving overrun that creates an insufficiency of access for existing rights holders should be strongly disincentivised. In such circumstances constrained parties should receive full economic compensation. Assuming these conditions are met we see little call for parties knowingly utilising overrun. Credit cover is also an issue with this amendment. As the Overrun cost could be difficult to predict, setting of an appropriate level of cover would also be complicated. National Grid must ensure that a reasonable amount of time is allowed for increases to credit positions for users wishing to overrun. We would note that some aspects of the proposal (RCRC, BM tagging of extra zonal actions) seem to necessitate interaction with the BSC, but the impacts do not seem to have been scoped.
Do you believe that the proposed original or any of	This amendment provides a commercial mechanism for exporting over a generators agreed access rights. It is essential that there is such a mechanism, especially if incremental capacity release is enabled as otherwise incentives to participate in the short-term

the alternatives better facilitate the CUSC applicable objectives, please state your reasoning?	mechanism could be greatly undermined. In this sense it should better facilitate CUSC objective (a) "the efficient discharge by The Company of its obligations" as it may lead to a more optimised transmission system. It is unclear whether the proposal has a significant impact under CUSC objective (b) "facilitating effective competition". Arguably competition would be enhanced as there would be sharper incentives to operate within access holdings removing a competitive distortion and any incentives to free-ride. Over the longer term we do **not** see this as impacting on the quality of investment decisions by National Grid.
Do you support the proposed implementation?	Yes. We believe use of a BSUoS multiplier is easiest. Wider impact analysis must also be completed. We can not see how a modal model would work (assuming a BSUoS based tariff) and doubt it would introduce any additional benefits but could increase costs.
Do you wish to raise a WG Consultation Request for the Working Group to consider?	~~*YES*~~ / *NO* **If your response is yes please complete a WG Consultation Request form and return to the above address with your completed Working Group Consultation responses proforma.**

First Hydro Company
Bala House
Lakeside Business Village
St David's Park
Deeside
Flintshire
CH5 3XJ

Tel + 44 (0)1244 504 600
Fax + 44 (0)1244 504 613
www.ipplc.com
www.mitsui.co.jp

First Hydro Company is part of a joint venture between International Power plc and Mitsui & Co., Ltd.

Patrick Hynes
Electricity Charging & Access Development
National Grid Electricity Transmission PLC
National Grid House
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA

31st October 2008

Patrick.hynes@uk.ngrid.com

Dear Patrick

CAP 162 Entry Overrun

International Power (IPR) is responding to your consultation on behalf of First Hydro Company, Saltend Cogeneration Company Ltd, Rugeley Power Ltd, Deeside Power Development Company Ltd and Indian Queens Power Ltd.

Overrun products

Overrun enables generators to overrun the level of long term and short term rights up to the level of LCN. The overrun volume is calculated on metered generation adjusted for any balancing mechanism bid volumes . Three options for overrun charges are presented in the working group report:

- Simple Methodology
  This is based on a scaling factor used to adjust the half hourly values of BSUoS-RCRC on a TNUoS zone basis when the constraint is active. This approach has the advantage that it is simple and appears to produce a reasonable proxy to the overrun cost. In periods and zones where a constraint is not active the overrun charge will be zero but for zones where constraints are active the underlying overrun charge will be set to the historic average although scaled by the actual BSUoS –RCRC cost on the day. Although the calculation of the historic zonal cost uses the same methodology as the Cost Recovery Methodology the resulting price signal is smoothed on an annual

basis, moderating some of our concerns with the CRM approach. The greater predictability of charges inherent in the simple model is a substantial point in its favour. We support the Simple approach and would consider using it if implemented.

- Cost Recovery Methodology
  This is based on a full 'de-gut' of the system operator actions on the day with apportionment to those that overrun. We have concerns with the proposed methodology to be used by the SO to de-gut the system operator action. It makes subjective assumptions on the cost associated with constraints and how they should be apportioned and makes no allowance for factors that help relieve constraints. The cost is highly dependent on the SO actions that take place on the day which may be unrelated to the real cost of constraints. Generation that relieves constraints (such as generation in import constrained zones) do not benefit from their actions. The volatility of charges that the model implies suggests that it would not be used often; further, intuitively it seems less useful to smaller players. Primarily due the many 'judgement' calls that are included in this methodology we do not feel able to support it.
- Marginal Methodology
  This methodology is implemented by running a load flow of the system and then using bids and offers that were available on the day, determining the marginal cost of constrained actions at each node. The advantage of this methodology is that it takes the subjectivity out of deriving the overrun price but the resulting price is based on the marginal actions. We would have preferred to see this model include an average price option. Due to the long lead time and resources that would be involved in the further development of this model we do not think that it would be practical to implement it at this stage; however, it should be further considered following the implementation of the simple model.

We support the simple methodology approach to the calculation of overrun and believe that it would be practical to implement this either using TNUoS or UCA zones.

<u>Local Capacity Nomination</u>

Generators can buy short term and long term products up to the level of the Local Capacity Nomination (LCN). The default level for LCN is current TEC with the provision that during transition to the new arrangements a Generator can request a higher level of LCN up to the Station CEC limit. This will be granted as long as there are no local works required. Should there be local works required a formal modification application will be needed.

The definition of where the boundary for local works lies needs to clarify and should be related only to works up to the MITS with a similar definition used in the charging for Local TNUoS.

The time duration of the LCN product needs to be matched as a minimum to the duration of long term rights that are allocated either by auction (CAP166) or allocation (CAP165) but will also need to cater for the situation where only short term products are used. In the situation where short term rights are used we believe that LCN should be enduring but a lead time of 2 years should be required to reduce the level of LCN . We believe that enduring rights for LCN but with a longer notice period than at present (as described in CAP166 consultation) should be used for CAP161 proposals.

We believe that post commissioning security should be designed to cover the credible risk associated with a party defaulting on the payment of the charges associated with LCN (Local TNUoS). Should an existing power station fall into financial difficulties the physical assets are available for sale (by owner or administrators) to a new party. In these circumstances there may be a short period where payments are not made. To date there have been no examples of any 'forced' sales resulting in non payment of a TNUoS liabilities. Given this situation we don't believe that any security should be required from existing generators as it cannot be justified by the level of risk imposed on the system.

We hope that these comments are useful.

Yours sincerely,

Simon Lord,
Transmission Services Manager

E.ON UK plc
Westwood Way
Westwood Business Park
Coventry
CV4 8LG
eon-uk.com

Paul Jones
024 76 183 383

paul.jones@eon-uk.com

Patrick Hynes
UK Transmission Commercial
NGT House
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA

31 October, 2008

Dear Patrick,

CAP162 - Transmission Access – Entry Overrun

Thank you for the opportunity to respond to the above consultation. This response is made on behalf of E.ON UK plc.

We believe that overrun should be regarded as a facilitating product rather than a primary access product in its own right. Most developers would not wish to commit to building a new power station and rely on overrun to provide access to the transmission system. Therefore, we believe that long term rights will continue to be the primary source of access for generators. However, overrun does have a value in relation to other proposed amendments such as Entry Capacity Sharing CAP163.

It also has some benefit as a standalone product. At present, if a generator overruns its access rights the only recourse under the CUSC is to initiate breach proceedings. This ultimately can result in the de-energising of the generator's station or stations, and/or loss of its licence. This is somewhat a cumbersome process to use, particularly if a commercial alternative could be used instead.

Therefore, the reason overrun is evident. The difficult issue is the charging for it. Clearly, this is ultimately an issue for the associate charging pre-consultation GB ECM-14 and we will comment in some detail on the options in our response to this. However, as the issue is covered in the CAP162 consultation, we will provide some thoughts in this response.

E.ON UK plc

Registered in
England and Wales
No 2366970

Registered Office:
Westwood Way
Westwood Business Park
Coventry CV4 8LG

Simple, Cost Recovery and Marginal Models

As we do not expect overrun to be used by generators as a formal access product in its own right we believe that the take up of overrun will be somewhat limited. Of course, this depends on how attractive a product it is to use. Therefore, the price and risk associated with overrun is an important consideration. A main aim of overrun pricing must be to keep other Users whole from the effects caused by the overrunning party. Therefore, a cost reflective approach which aims to recover the costs caused by the overrunning generator is important.

We believe that the marginal approach that has been put forward is unlikely to meet this objective. Of course, the model is at an early stage of development and testing and it is difficult to conclude too much with a great deal of certainty. However, this approach to charging sets out specifically not to recover costs, but to send a marginal signal. We therefore are not supportive of this option at present. Also as indicated in the consultation document, the marginal pricing model is likely to require considerable development resource. We would question whether a facilitating product such as overrun with a limited expected take up should at this stage demand such intensive use of resource.

In addition to seeking to charge on a cost reflective basis, overrun should be a useable product for generators. Therefore, generators should be able to assess the likely effect that overrunning will have on their charges. The Cost Recovery model will by its subjective and retrospective nature (requiring ex post judgements from operators at National Grid as to why certain actions were taken) prove more difficult for generators to use.

The Simple method may not be fully accurate in some circumstances, but it does have the aim of cost recovery as the basis of its derivation. As such, it could be deemed as a reasonable pre estimate of the costs associated with overrun. In this context it could be considered to setting liquidated damages associated with overrun. It likely to be more useable by generators as they will at least know up front what multiplier, or scalar, will be used and can take a view on the possible level of BSUoS minus RCRC to which it will be applied.

The Simple method is also likely to involve less development cost and operation costs that the other two models. The Marginal model, as we have mentioned above, is likely to involve a high degree of development cost for National Grid, whereas the manual assessments required for the Cost Recovery method should mean relatively high operational costs.

On balance therefore, we would give our initial support to the Simple model.

Principles of Charging

The first four principles set out in 4.13 of the consultation in the section relating to the Cost Recovery method would seem to be sensible to apply to all of the options. That is:

- Overrun is charged on a per-BMU basis per-half hour settlement period Metered

values rather than FPN values are to be used in calculating Overrun charge.

- The metered values will be adjusted for any bids taken.
- Parties pay an Overrun charge even when they have accepted offers.
- Parties are not liable to Overrun charges if responding to an Emergency Instruction (as defined in the Grid Code).

We are relaxed whether or not negative prices are a feature of overrun charging. However, we would be concerned if it was the defining factor between the various options. That is, the principle of negative charges should be applied to all models or to none at all.

Security Cover

How security cover requirements are set is an important consideration of the amendment. Wherever possible, this should follow existing principles established for current charges levied under the CUSC. This has benefits for National Grid's internal processes and systems, as well as for those of Users. We therefore welcome the intention to bill for overrun and secure credit in a similar manner to that employed in respect of BSUoS.

Working Group 3 Issues

We have a number of comments to make on the aspects of the proposal that are common to other proposed amendments and therefore included in the discussions at Working Group 3. We will make our main comments on the charging issues in the responses to the pre consultation documents raised in respect of modifications GB ECM-13 and GB ECM-14. In this response, we will focus on principles developed for these issues. In general, we are comfortable with what is being proposed. However, we have a number of concerns on specific conclusions reached in respect of Local Capacity Nomination (LCN).

On the definition of LCN, we are concerned that the initial view is that it should be defined as a finite right. In principle, the assets covered by these nominations should cover the local assets required for individual generators. As such these assets generally should not be sharable with other generators. This is the rationale for stripping them out from the wider access rights. Those assets that are sharable more widely are covered by wider access rights that can be acquired through a number of routes: short term release; sharing; auctions or overrun. However, the local assets required for the station concerned would still have to be procured by the generator to avoid free riding.

The purpose of the finite rights for wider access is that when a right comes to an end, National Grid is aware that this frees up wider capacity that can be used by other generators. This same rationale does not apply for local assets as it is difficult to see how they can be used by other generators. If they are shareable with other generators then they should be included with wider assets.

Indeed, if local rights are to be treated in an identical manner as wider rights, then it is

doubtful whether they should be treated separately for the purposes of related amendments. For instance, if generators have a choice whether or not to commit to long term wider rights or to overrun, then why shouldn't this extend to LCN? It is inequitable to require LCN to be procured on an identical basis for long term rights and then deny the option for it to be acquired at all on a short term basis.

In terms of the transitional allocation of LCN for existing generators we believe that this should be to the level requested by the generator up to the level of its existing TEC. This is because LCN is a subset of the assets covered by TEC at present and not CEC. If a generator wishes to increase its LCN to any level up to its CEC, if this does not require additional works on the transmission system, then this should be accommodated. Otherwise, an increase would have to be processed through a modification application.

I hope the above comments prove helpful.

Yours sincerely

Paul Jones
Trading Arrangements

CUSC WORKING GROUP CONSULTATION – RESPONSE PROFORMA

CAP162 Transmission Access – Entry Overrun

31st October 2008, Patrick Hynes.

Respondent:	*David Scott, Energy Branch, 5th Floor, Cardinal Place, 80 Victoria Street, London, SW1E 5JL; 0203 126 2315*
Company Name:	EDF Energy
Please express your views including rational with regard to the Working Group Consultation? **Including any issues, suggestions or queries**	EDF Energy does not support the proposed implementation as it does not resolve the critical issue of providing investors with bankable transmission capacity. In general, EDF Energy believes a successful transmission package will include the following elements under which we have assessed CAP162: **Strategic investment: strengthening for new circuits and existing system boundaries for key generation development areas ahead of need** New large generation stations, including nuclear and CCGTs will be sited close to existing plant; these areas will be generation "hubs" and will need to have the connection reinforced – investment plans should be assessed for the connection of multiple power stations. For instance, evaluate investment around Kingsnorth and Sizewell, ahead of application by new nuclear developers. In such a case the revenue allowance to facilitate the strategic investment should be granted. We would also note that it is likely that offshore developments will be connected on to an onshore hub. FAIL: CAP162 does not address this. **Firmer connection dates offered by the Licensees to the developer** At present the transmission company does not offer firm connection dates, even if it is given seven years or more notice of connection. FAIL: CAP162 does not address this. **Greater User commitment from generators is acceptable, as long as it is asset (LRMC) based** Capital intensive developers aim to reduce project risk by establishing costs as early as possible in the project timeline. The principle of committing to buy transmission access for a long contract period at a fixed price would be acceptable. The commitment should recognise the length of commitment and require a subsequently lower price based on the depreciation charge - i.e. 60+

	years for nuclear stations valued against 20 years for Wind. Not applicable: CAP162 does not address this **Cost reflective: Transmission charges to be Asset (LRMC) or constraint (SRMC) based, but not pay as bid "value" based** The concept of committing to buy transmission access and hedging the risk of transmission costs is acceptable, yet not if the developer has to pay for the "scarcity" value associated with it. A commitment to pay for the asset value, represented by the Long Run Marginal Cost (LRMC) of transmission, is equitable. Should the developer or existing generator not commit to buying firm transmission access outright, then the cost of constraints or the Short Run Marginal Cost (SRMC) is an acceptable cost. PASS: Our favoured CAP162 proposal uses a simple BSUoS (minus RCRC) multiplier as a SRMC charge; we implore the use of few zones for the multiplier when calculating the charge. **Regulating constraints: ability to regulate constraint gaming (especially in Scotland) to make SRMC acceptable** The SRMC of constraints is presently well in excess of the actual cost of bringing on another generator and bidding down another generator. This pushes up the value of SRMC from £10-20/MWh to over £100/MWh; should the developer have to face SRMC charges in this instance it will be paying "rent" to another generator. Not applicable: CAP 162 does not address this.
Do you believe that the proposed original or any of the alternatives better facilitate the CUSC applicable objectives, please state your reasoning?	We do not believe Overrun will have a significant impact in improving the connection of new generation as it does not provide bankable capacity for investors.
Do you support the proposed implementation, if no please state why and provide an alternative suggestion were possible?	EDF Energy does not support the implementation of this amendment. We believe CAP162 should have a SIMPLE charging methodology using AS FEW ZONES AS POSSIBLE (such as the 17 transmission system boundaries or 24 zones discussed in the charging consultation). We don't believe the RCRC should be included in the simple charge and have proposed an alternative.

Any other comments?	The utilisation of Overrun could be “one in, all in” as for the majority of the system that is not constrained the charge should (at least in the near term) be low. However our opinion on its use is more related to the ability for investors in generation to bank on overrun, which we believe they cannot. We also consider that existing generators will have little incentive to move onto overrun, as they will wish to remain with a firm, fixed right to the transmission system. We accept the argument that generators should not have implicit access when instructed to generate though a Bid-Offer-Acceptance and should remain exposed to the overrun charge.
Do you wish to raise a WG Consultation Request for the Working Group to consider?	*YES* / ~~*NO*~~ The “minus RCRC” element should be removed from the charge. **If your response is yes please complete a WG Consultation Request form and return to the above address with your completed Working Group Consultation responses proforma.**

ANNEX 11 – CUSC WORKING GROUP RESPONSE PROFORMA

CAP162 Transmission Access – Entry Overrun

Respondent:	*Anthony Cotton, xanco@dongenergy.dk, tel 01473 780933*
Company Name:	*Submitted on behalf of DONG Walney (UK) Ltd*
Please express your views including rational with regard to the Working Group Consultation? **Including any issues, suggestions or queries**	*CAP162 is still being considered by DONG and at present we do not wish to express a view on its merits or otherwise. However, if a recommendation is to go forward to implement these changes we consider it essential that the NGET TEC Register be developed to include details for each power station's contracted LDN in MW and this should be part of the modification.*
Do you believe that the proposed original or any of the alternatives better facilitate the CUSC applicable objectives, please state your reasoning?	

Do you support the proposed implementation, if no please state why and provide an alternative suggestion were possible?	

Any other comments?	
Do you wish to raise a WG Consultation Request for the Working Group to consider?	*If the working group does not consider that the TEC register should be developed as suggested, then a Consultation alternative is required.* **If your response is yes please complete a WG Consultation Request form and return to the above address with your completed Working Group Consultation responses proforma.**

CUSC Working Group consultation response – CAP162 Overrun

Respondent:	Merel van der Neut Kolfschoten
Company Name:	Centrica
Please express your views including rational with regard to the Working Group Consultation? **Including any issues, suggestions or queries**	**General Comments** CAP162 seeks to introduce a mechanism that would allow generators to export above their transmission access capacity holdings capped by their local system capabilities and charged on a cost reflective ex-post basis. <u>Potential users</u> We believe that Overrun will be of limited use to developers who do not yet have a transmission connection (conventional and renewable) as they need a bankable access product to ensure project finance. It may be of use to existing conventional and renewable players, for example as replacement for some of their existing TEC holding. This could be beneficial to developers as – depending on how much and where on the system TEC will actually be released – it would free up some of the existing capacity that then comes available to them. <u>Overrun pricing methodologies</u> The working group considered three possible models for Overrun pricing: (1) simple model, (2) cost recovery model and (3) marginal model. The simple model uses a proxy for determining the cost of Overrun (rather than actual costs). Compared to the other two models the simple model is easier to implement. In addition, because of the scalar data, users do not have to start with a completely blank sheet of paper when this model is introduced which might help with the uptake of the product. The main advantage of the cost recovery model is that constraint costs are better targeted and therefore the model is more cost reflective, but this comes at a cost because additional resources and IT systems would be required (that is also true for the negative pricing options under this model). We believe that the marginal model, including National Grid's simple 12-node model, needs further analysis before it can be considered a possible alternative pricing methodology. <u>Take-up</u> The take-up of Overrun very much depends on how the product is priced. All models have two features in common: uncertainty in terms of cost exposure because of the ex-post price setting (albeit with ex-ante scalars in the simple pricing model) and a lack of transparency associated with constraint costing.

	Contrary to the working group report, we would argue that users are limited in their ability to make reasoned economic judgements under all three pricing models. Users are subject to price risk when they rely on Overrun for access capacity, although the risk may vary between the models. This suggests perhaps that until users have some experience with Overrun, TEC may only be released in areas with limited constraints and not (yet) in the areas where it is most needed. There is also the issue that users are not guaranteed that Overrun will not be withdrawn at some point in the future and so it may be difficult for them to make long-term decisions, e.g. to reduce their TEC in order to rely on short-term access. Considering the uncertainty around the take-up of Overrun, it might be sensible to choose the simple pricing model, which is the least costly and the quickest to implement. Depending on whether users believe ex-post pricing is indeed a significant impediment to the introduction of Overrun, an ex-ante pricing model may have to be considered by the working group. <u>BSUoS costs</u> We would like to note that Overrun may make constraints and therefore BSUoS costs more volatile. <u>Investment signals</u> We believe there is a risk that Overrun will not provide a signal for wider infrastructure works or the signal might be provided too late. In addition, Overrun may introduce an element of free-riding when the Overrun costs are lower than the relevant TNUoS charge. We wonder if SO Release should not only be used to acquire incremental access, for example capped by a percentage. **Specific Questions** <u>Take-up of Overrun</u> See above. **Issues/suggestions/queries** <u>Interaction with other CUSC amendment proposals</u> We agree that Overrun may act as a competitor to, in particular, SO Release. We would welcome further discussion by the Working Group on whether these products should co-exist or that a choice may have to be made.
Do you believe that the proposed original or any of the alternatives better facilitate the CUSC applicable objectives,	**CUSC Applicable objectives:** **(a) the efficient discharge by the Licensee of the obligations posed upon it by the Act and the Transmission Licence,** **(b) facilitating effective competition in generation and supply of electricity and facilitating such competition in the sale,**

please state your reasoning?	**distribution and purchase of electricity.** **Original: zonal Overrun** **WGAA1: nodal Overrun** Centrica believes that both the Original and WGAA1 may better facilitate the applicable CUSC objectives (subject to a workable zonal modal). Sufficient take-up could result in more efficient use of the system (CUSC objective (a)) and increased competition because more developers might be able to connect to the system (CUSC objective (b)). It is difficult to predict whether existing generators would be willing/able to give up TEC and rely on Overrun for additional capacity. It is likely that this cannot be determined until Overrun is implemented and users have gained some experience.
Do you support the proposed implementation, if no please state why and provide an alternative suggestion were possible?	Centrica would like to receive further information on the costs associated with the development of the IT systems that are required prior to an Ofgem decision (and hence may be wasted in case of a negative decision by Ofgem) before it can take a view on an implementation date.
Any other comments?	No.
Do you wish to raise a WG Consultation Request for the Working Group to consider?	No. **If your response is yes please complete a WG Consultation Request form and return to the above address with your completed Working Group Consultation responses proforma.**

embrace the revolution
www.embracewind.com

BWEA
Delivering the UK's wind, wave and tidal energy

Renewable Energy House
1 Aztec Row, Berners Road
London, N1 0PW, UK

T +44 (0)20 7689 1960
F +44 (0)20 7689 1969
info@bwea.com
www.bwea.com

Patrick Hynes,
National Grid

31st October 2008

Dear Patrick,

Consultation on CUSC Amendment Proposal CAP162: Entry Overrun – BWEA response

BWEA welcomes the opportunity to respond to this consultation. BWEA was established in 1978 and is the representative body for companies active in the UK wind, wave and tidal stream energy markets. Its membership has grown rapidly over recent years and now stands at 448 companies, representing the vast majority of connected wind capacity owners, and the companies installing and servicing these generators. The UK has a rich variety of renewable energy resources, and the largest wind resource in Europe. Wind energy currently supplies approximately 1.5 million homes in the UK. It is important to support and encourage the growth of the sector and associated benefits.

Our comments are informed by renewables industry representation on Working Group 1 and from canvassing wider views from our membership. If you would like to discuss any aspect of this response, please don't hesitate to contact me.

Our response is structured as follows:

- General comments on overrun
- Comments on each pricing option
- Views on the Original and the Alternatives

General comments

BWEA is supportive of the concept of an overrun or spill-type product as part of a more flexible access regime.

Likely take-up

The likely take-up of overrun depends on:

(1) the cost;
(2) the predictability of the cost; and
(3) whether over-run is part of a flexible, useable, short-term access regime.

Our comments on (1) and (2) are provided below on the different pricing options proposed. For (3), please see our covering letter and specifically our comments on the Evolutionary Change access model.

In common with most if not all of the Working Group membership, we feel that the take-up of overrun will be low in volume, but that it is a useful, if not essential, element of a more flexible access regime.

Implementation
With all of the pricing options, there will be a period of bedding in while participants gain experience in the scale and volatility of charges. The Working Group consultation notes "*as part of the implementation of CAP162 additional information or simulated historic prices would need to be published.*" We consider this to be essential for at least a year's duration, preferably longer, and that it should form part of any impact assessment which would include quantification of the level of uptake of overrun.

The Working Group consultation suggests that the simple methodology would be a more expedient option initially that the average methodology. Given that both use the same underlying data and cost allocation methods, we are not entirely clear why this should be the case. GBECM 14 states that for the Simple methodology on/off switch, "*National Grid would publish a table 2 Business Days after real time indicating if and which tariff was applicable for each period. This would be based on post event analysis of real time control actions. This is the same analysis used to drive the historic costs and in the degut process proposed for the Cost Recovery methodology*."

Investment signals
As overrun is currently proposed, we see no value in limiting it to parties who have applied for long term access, because (A) they wouldn't use it as a precursor to long-term access in the absence of a financially firm date for connection, and (B) paying the short term cost has no link to the provision of long-term capacity. There is no collection of excess funds from short-term revenues which feed into a fund for the provision of new capacity, and incurring short-term costs does not trigger new capacity. Rather, an application, user commitment and, we understand, a "need" test, are all presently required before there is investment in long term capacity.

BWEA would support a direct link between short-term costs and the provision of new capacity.

SO Incentives
The Working Group report states that there should be incentives on National Grid to minimise the cost of overrun "*even though it is targeted*." We do not think that the targeting or not of the cost is relevant here – the costs are in part managed by National Grid, and if overrun is intended as a useable service then incentives to minimise its cost are a pre-requisite.

Overrun Zones
BWEA notes that Working Group 3 has not explored the overrun zones presented in GB ECM 14.

Simple pricing methodology

The original intent of the simple pricing methodology was to provide a reasonably predictable, transparent, simple price.

We agree there is merit in using a scalar of a known quantity, and that BSUoS is a logical choice given that it represents short-run costs. We are concerned that small independent users will not have the expertise or resources required to predict BSUoS, and, even if they did, we note that the major Suppliers are themselves concerned about its existing volatility and unpredictability. Therefore BWEA is not convinced that the simple methodology achieves what it set out to do, which is to provide a simple, reasonably predictable and transparent price.

On the basis of the indicative charges published in GBECM 14, the simple price is high (when a constraint is active) and therefore we would expect uptake to reflect difficulties in matching intermittent output to access holdings, rather than an active decision to use overrun as an access product i.e. at these times it is a penal spill price.

If it were possible to predict whether the constraint will be active, uptake of overrun might be improved. Given that this is, presumably, the intent – to encourage parties to generate when the system can better accommodate it – we consider it worth investigating whether the on/off switch can be ex ante (and consider the costs versus benefits of this being wrong on occasion). If it is not possible to predict whether the constraint is active, we would consider overrun priced in this way to be of very low, if any, utility, in providing short-term access.

GBECM 14 notes that the percentage of periods for which the on/off is switched on is linked to whether parties choose to overrun. Our understanding is that it is linked to the percentage of time that constraints are breached, which could equally be influenced by existing parties with wider access holdings as it could by parties overrunning. The only discipline that overrun imposes in terms of a choice of whether to run, or not, is on those parties that are using overrun.

Finally, we are not sure that the simple methodology is any more simple or predictable than the average methodology, and would ask that consideration is given to an alternative administered price that better meets the original criteria of a simple price.

Average pricing methodology

BWEA has similar comments on the average methodology with respect to predictability. The methodology itself uses the same data and processes as the simple price, with the differences understood to be that:

(1) There is no ex ante publication of price variables (akin to the scalar in the simple methodology);
(2) There is no industry experience in predicting average contstraint costs (although historical costs could be published prior to implementation of overrun);
(3) The average price reflects the change in constraint costs caused by overrunning parties more so than the simple price. This is partly because the methodology attempts to target the marginal (highest) constraint costs onto the overrunning parties, but it is also because of the way the scalars are calculated for the simple price.

On point (1), we would question whether the ex ante publication of scalars for the simple methodology does materially improve its preditability. On point (2) we would question, given that historical constraint data could be published, whether BSUoS multiplied by a scalar improves the predictability of the simple price. We have not formed a strong view on these points, but would simply like the questions to be asked in order that we can fully understand the extent to which both the average and simple prices provide any predictability.

On point (3) we note the need to discuss some of these issues further in the Working Group. BWEA does not agree that the most expensive bids should necessarily be tagged against the overrunning party. This is somewhat subjective, and may not be correct in all circumstances.

BWEA would expect the "degut" of constraint costs methodology to be auditable in terms of the costs and their allocation to different parties.

Marginal pricing methodology

BWEA agrees with the Working Group consultation report that there is not sufficient information to enable a marginal pricing methodology to be approved at this point in time. The debate in the Working Group has for the most part been on the principles (rather than the practice) of marginal pricing, and even then this has been quite minimal compared to discussions on the simple and average pricing models. At this stage BWEA does not consider any marginal methodology to be a viable Amendment proposal.

BWEA notes the stated benefits of a marginal methodology in aligning with the marginal pricing of TNUoS. We do not agree that there is automatically a better alignment of pricing signals simply by the fact that both can be called a marginal model. This depends on what costs are being reflected, and to whom they are being signalled.

We would also note that some long run costs are charged on an average basis under TNUoS, and there is a proposal from the Scottish TOs to move to a wholly average (postage stamp) pricing on a long-run basis. Furthermore auctioning of capacity in the short-term and the long-term undermines any attempt to provide carefully calculated / sophisticated pricing signals with efficient arbitrage between the long term and short term regimes.

BWEA does however agree that it is important to provide appropriate and consistent signals between long-run and short-run costs.

The Original and Alternatives

BWEA notes that the Working Group hasn't yet explored the full implications of zonal versus nodal overrun, and therefore has not formed a strong opinion on this point.

Yours sincerely,

Dr Gordon Edge, Director of Economics & Markets, BWEA

CUSC WORKING GROUP CONSULTATION – RESPONSE PROFORMA

CAP162 [Entry Overrun]

Respondent:	Rob Rome 07894 938205
Company Name:	British Energy
Please express your views including rational with regard to the Working Group Consultation? **Including any issues, suggestions or queries**	British Energy believes that: • Entry Overrun provides flexibility to generators in the way that they access the system and delivers a capacity imbalance mechanism to the generation market • This is a useful mechanism for all generators and underpins all short term access measures. Therefore CAP162 should be a priority for implementation as it ensures that the other short term measures operate efficiently. • Overrun removes the risk of a TEC breach as it clarifies an uncertain area of the CUSC where consequences of breaches are not robustly defined. • Cost reflective pricing of overrun is key to ensuring that the amendment promotes efficient use of the transmission system. • In the interests of facilitating competition and providing transparency to the market we have concerns that the complexity of some pricing methodologies e.g cost recovery and marginal, might limit the use of overrun and consequently fail to promote the efficiencies Entry Overrun should deliver. If Overrun is implemented in the CUSC but charged incorrectly the intended benefits may not be realised. BE supports the implementation of the Simple overrun pricing methodology as we believe it represents an appropriate balance between cost reflectivity and transparency. We favour the transparency of this option due to the ex-ante publication of scalars. Some parties may be concerned that the simple methodology could result in under/over recovery of BSUoS. However, it is our view that following implementation the amendment should be kept under review and, if necessary, changes can be proposed and implemented in the normal way. Of the three pricing methodologies our order of preference is: simple, cost recovery then marginal. The marginal methodology is not well enough understood to be implemented without further analysis, testing and detailed consultation. We do not believe that this methodology is properly understood by industry and the Excel prototype model has not been subject to appropriate testing or external review by experts. In particular we are concerned that this methodology does not fulfil the principles of Locational Marginal Pricing as it does not, for instance, incorporate any demand side participation. **The Working Group is interested in respondents view as to the take up of overrun.** Industry parties can be cashed-out in energy under the BSC derived rules so there is no reason to believe that parties wouldn't opt

	for an access cash-out mechanism. Overrun is a useful mechanism to all generators, underpins all of the short term measures and should therefore be a priority for implementation.
Do you believe that the proposed original or any of the alternatives better facilitate the CUSC applicable objectives, please state your reasoning?	We support the implementation of CAP162 for the reasons described above. We support the Simple pricing methodology for the transparency it provides to generators which will help promote competition.
Do you support the proposed implementation, if no please state why and provide an alternative suggestion were possible?	We support the implementation of CAP162
Any other comments?	None
Do you wish to raise a WG Consultation Request for the Working Group to consider?	No **If your response is yes please complete a WG Consultation Request form and return to the above address with your completed Working Group Consultation responses proforma.**

Patrick Hynes
UK Transmission Commercial
NGT House
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA

patrick.hynes@uk.ngrid.com

23rd October 2008

Dear Patrick,

Response to Working Group consultation on CAP 162

The Renewable Energy Association is pleased to be able to offer its comments on your consultation on CAP 162. As you are aware our members work on all types of renewable power and heat projects and obtaining more timely access to the transmission system is one of the key issues that if achieved would help our aim and that of the Government of reducing CO_2 emissions.

We are supportive of the proposal to introduce a transmission capacity overrun charge. Given that the intention (at least for the non-marginal charging options) is for other users to be left whole, there should be no objection to it from parties who do not intend to use it. It facilitates a number of other proposed products and provides contestability with sharing with other users and obtaining additional short term firm capacity from the System Operator. It is unlikely that any new project would rely on it as a product to provide its transmission access, but its existence ought to encourage existing old low load factor generation to give up TEC. They could either use overrun directly or more likely one of the other proposed new products that are facilitated in some way by overrun. This should thereby free up TEC for new projects.

Although the nature of charging for overrun is a matter for the charging consultation, we do not favour the marginal cost methodology. The reason for that is that (unlike the simple and cost reflective methodologies) the marginal approach is not set to recover the total cost of overrun, but rather to give short term price signals on capacity usage that are compatible with the long term signals given through TNUoS charges. Given that, we do not think that it will be extensively used as a primary alternative to TEC, but rather to enable and contest other new products. We feel it is more important to leave other users whole and the simple and cost-reflective methodologies aim to do that.

In response to your one specific question:

The Working Group is interested in respondents view as to the take up of overrun.

Our expectation is that it will not be used widely, if at all, as a main means of transmission access. However we believe that it will act as an important "safety valve" and will allow other new products to prosper, thereby freeing up TEC for new generation projects.

We have filled in the standard response pro forma overleaf.

Please let us know if you would like to discuss any aspects of this letter further.

Yours sincerely,

Gaynor Hartnell,
Deputy Director,
Renewable Energy Association.

Respondent:	*Name and contact details* Gaynor Hartnell 0207 925 3578 ghartnell@r-e-a.net
Company Name:	Renewable Energy Association
Please express your views including rational with regard to the Working Group Consultation? **Including any issues, suggestions or queries**	We support the proposal and would suggest either the simple or the cost reflective charging methodology.
Do you believe that the proposed original or any of the alternatives better facilitate the CUSC applicable objectives, please state your reasoning?	We believe that the proposal better facilitates the CUSC applicable objectives as it gives (either directly or by facilitating / introducing contestability with other proposed products) an alternative to the purchase of TEC which allows parties to relinquish TEC which supports new projects and thereby facilitates competition in generation. It also facilitates the more efficient utilisation of the transmission system.
Do you support the proposed implementation, if no please state why and provide an alternative suggestion were possible?	We would support implementation as soon as possible and definitely no later than April 2010. Because we do not in any event support the marginal charge out arrangement, we do not think it likely that IT development should be a critical path item.

CUSC WORKING GROUP CONSULTATION – RESPONSE PROFORMA

CAP162 - Transmission Access – Entry Overrun]

CUSC parties are invited to respond to this consultation, expressing their views [and in respect of the specific questions detailed below]. Parties are invited to supply the rationale for their responses.

Please send your responses by 31 October 2008 to Patrick Hynes at patrick.hynes@uk.ngrid.com. Please note that any responses received after the deadline may not receive due consideration by the Working Group.

Any queries on the content of the consultation should be addressed to Patrick Hynes.

These responses will be considered by the Working Group and will record the conclusion they reach on your request; as well as showing their discussions of your requests and the conclusion they reach on your request. If appropriate the group will amend their report accordingly and will record your response in the Working Group Report.

Respondent:	*David Ward* *Email: david.m.ward@magnoxnorthsites.com* *Phone: 01453 813631*
Company Name:	Magnox North Ltd (on behalf of the Nuclear Decommissioning Authority)
Please express your views including rational with regard to the Working Group Consultation? **Including any issues, suggestions or queries**	The short term measure proposed in CAP 162 allows the unlocking of potential additional short term capacity compared with current arrangements, and allows the system operator to use existing transmission assets a little more efficiently. If properly implemented it should not have an adverse effect on existing users and so is generally acceptable. Introducing a charge for overrun also addresses a long running defect in the CUSC – that there is no currently no defined penalty for breaching TEC (i.e. for overrunning.) We agree with the Working Group view that if overrun is used at all, it would probably be used as an incremental option by generators and would be used to supplement, but not replace, long-term access to the transmission system.

Do you believe that the proposed original or any of the alternatives better facilitate the CUSC applicable objectives, please state your reasoning?	Cost reflective pricing is the key to ensuring that charging for overrun leads to efficient use of the transmission system. However, in the interests of simplicity and transparency a simple charging methodology based on X*BSUoS-RCRC, as discussed by the working group, could be a useful way to start, as it would be quick and easy to implement. It would be necessary to review such a charging methodology after its introduction to verify that it achieves the intended cost recovery. If it does not, then the more complicated methods, described as "cost recovery" and "marginal pricing" in the working group report could be considered, although these are significantly less transparent. The "Cost recovery" methodology is preferable to the "marginal pricing"
Do you support the proposed implementation, if no please state why and provide an alternative suggestion were possible?	*An implementation date of 1 April 2010 is acceptable, and should certainly be achievable using the simple charging methodology.*

Any other comments?	*None*
Do you wish to raise a WG Consultation Request for the Working Group to consider?	*No* **If your response is yes please complete a WG Consultation Request form and return to the above address with your completed Working Group Consultation responses proforma.**

Specific questions for CAP 162 [if required]

Q	Question	Rationale
1.		
2.		
3.	.	

Hêdd Roberts
Electricity Charging and Access Development
National Grid Electricity Transmission Ltd
National Grid House
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA

31 October 2008

Dear Hêdd

British Energy response to the working group consultations for CUSC amendment proposals 161 - 165.

The British Energy group of companies welcomes the opportunity to respond to the above consultations. British Energy own and operate eight nuclear power stations as well as Eggborough Power Station (a large coal plant with two units fitted with FGD) and four small embedded gas generator sites. Two of our nuclear stations are located in Scotland accounting for approximately 2300MW of capacity. We also have interests through a joint venture in developing an island windfarm in Scotland.

It is important to note that during our contribution to the CUSC working groups we put aside our belief that we have enduring transmission access rights in order to facilitate the Transmission Access Review (TAR) process. As you know we do not accept that this is correct and our right to raise this very important aspect is reserved.

British Energy is supportive of TAR and its important objectives of connecting renewable generation to the system. However it is our view that TAR alone is not enough to deliver the required volume of renewable generation. A review of SQSS may allow the connection of more generation on the current system and an improvement in the planning process should allow more rapid building of the network required for future generation.

Although we are supportive of TAR we do have some comments on the current process.

We feel that the proposed changes to the current access regime are as significant as the introduction of NETA and yet by delivering TAR via the CUSC amendment process the industry has not been given the opportunity to approach it in the same way. The three CUSC working groups have had six months to deliver six CUSC amendment proposals and the associated charging changes. This has indeed been challenging. The working groups had a clear remit that each CUSC amendment should operate standalone or in conjunction with one or more of the other CUSC amendments. Although National Grid have been effective in chairing and coordinating the three working groups the very fact that there were three has made it very difficult to deliver a coherent and deliverable access regime whilst taking into account all aspects of the changes and industry wide impacts.

British Energy
GSO Business Park
East Kilbride G74 5PG

T +44 (0)1355 846000
F +44 (0)1355 846001
www.british-energy.com

Registered Office:
Barnett Way, Barnwood,
Gloucester GL4 3RS
Registered in England and Wales No. 3076445

It is also our view that TAR should focus on primary changes which enable the connection of renewable generation, not secondary, unnecessary. We believe that focusing only on those changes which need to be made will facilitate a more rapid implementation of the modifications. An area of particular concern to British Energy is the move from a residual charge based on kWh to one based on kWh. This was presented as a fundamental part of the CUSC proposals without any justification for the change. It is our view that this is a secondary change which creates large, arbitrary windfall gains and losses and is not required to meet the objectives of TAR.

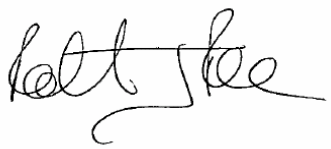
With regard to the modifications, we support the implementation of all short term measures (CAP161-163) which allow users to choose a right of access to the transmission system from a number of options over different timescales. These short term measures will allow the SO to make more efficient use of the existing transmission assets and will facilitate competition in the generation market by providing more flexible means for access to the system. Whilst some industry parties may have concerns over detailed aspects of the short term measures we believe that, providing SO incentives are aligned these can be implemented for April 2010. However we would ask that as take up of the short term measure advances that the effectiveness of these changes is continually monitored and reviewed so that improvements can be made via the usual CUSC amendment process.

We do not support CAP164 in its present state but believe that a reasonable solution can be found and that the working group should be allowed to progress an alternative which provides a better balance of cost reflectivity. The aim of the alternative is to provide an improved balance of socialised cost and costs targeted on those generators which cause them

We do not at present support CAP165. Our participation in the working groups has highlighted the issue of the uncertainty that National Grid faces with regard to generator exit from the transmission system. However we do not understand the extent to which stranded assets on the system is a real issue. Without this knowledge it is impossible to carry out a cost benefit analysis of the proposed modification. It is our view that any benefit of CAP165 remains unproven unless a cost benefit analysis (which considers the electricity system as a whole) is performed.

Please find attached our detailed comments on the working group consultations for CAP161-165. If you have any comments or questions relating to our responses please contact me on 01452 653170.

Yours sincerely



Rob Rome
Head of Transmission & Trading Arrangements

ESB International Investments Ltd

UK Office
3rd Floor, Regent's Place, 338 Euston Road, London NWI 3BT, England
Telephone +44-0-207-544 8631 **Fax** +44-0-207-544 8401
www.esbi.ie

Patrick Hynes
UK Transmission Commercial
National Grid
NGT House
Warwick Technology Park
Gallows Hill
Warwick, CV34 6DA

31 October 2008

Dear Mark

Response to Working Group Consultations in respect of Modification Proposals CAP161-166

ESB International (ESBI) is pleased to submit this response to the Working Group consultations in respect of the suite of transmission access related Connection and Use of System Code (CUSC) modification proposals. Given the interdependencies between proposals and the need to consider them as a package, we have summarised our views in a single response.

With a background as the principle electricity utility in Ireland and with diverse overseas interests, ESBI has been involved in the GB generation market since 1993 through its 50% ownership and its role in operation and management of the 350MW Corby Power Station. We are a 100% owner of the 400MW Coolkeeragh plant in Northern Ireland and during 2009 will be completing the construction of the 840MW Marchwood plant, of which we were the developer and in which we have 50% ownership. ESBI is actively seeking to expand on this generation portfolio with a view to owning and operating an additional 3GW of primarily gas fired and renewable generation capacity. A significant development activity supports this objective.

As such the ability to secure transmission access on a timely and certain basis is critical to our business. Indeed, in our view, transmission access currently represents the single greatest barrier to entry into the GB generation market. We have therefore followed the transmission access review closely and are encouraged

by recent developments. We consider it imperative that fundamental and wholesale changes are made to transmission access arrangements as quickly as possible if the twin challenges of meeting environmental targets and ensuring security of supply over the medium and long term are to be met.

In our view there are two key issues which any changes need to address.

- *The unduly discriminatory allocation of access rights* – A system which allows incumbents to roll over capacity at zero cost while requiring new entrants to secure the cost (or a proportion of the cost) of new infrastructure and wait for an undefined time until that infrastructure is built is clearly unduly discriminatory, and a major barrier to competition. Moreover it is not fit-for-purpose or capable of meeting the energy challenges GB is currently facing. ESBI supports transparent and non-discriminatory means of allocating capacity.

- *The ambiguity surrounding access rights* – In our view the lack of clarity surrounding the rights associated with Transmission Entry Capacity (TEC) is a key issue. The differing interpretations of the rights and obligations that TEC confers serves to significantly complicate issues surrounding transferring, trading or sharing capacity and requires clarification.

ESBI has carefully considered the various issues raised by modification proposals CAP161-166. In general, we support the following principles.

- *Fundamental change, implemented quickly* – The current problems with transmission access are undermining investment in the GB generation market and preventing new capacity coming on stream. This is thwarting the achievement of environmental targets and endangers security of supply. Changes need to be made quickly and proposals that are capable of timely implementation are urgently required, and should be prioritised.

- *Products that optimise use of the network* – The energy policy challenges facing GB are likely to lead to the connection of significant volumes of intermittent generation and cause material changes in the operating patterns of existing generation. In order to make best use of the network, we support a suite of products that reflect the differing operational characteristics of plant.

- *Certainty of capacity delivery* - The current absence of certainty about when a connection can be achieved significantly increases the risk and cost of investment. ESBI strongly supports the delivery of capacity within clearly specified timescales, with appropriate risk placed on National Grid where it fails to deliver that investment.

- *User commitment for all* - Given the scale of the investment that can be triggered by either the connection or disconnection of generation, ESBI supports proportionate user commitments for all system users.

We consider it vital that fundamental changes are made to transmission access arrangements. Those changes need to be capable of being implemented quickly and need to address the significant risks and barriers to market entry which new entrants currently face. While some incremental changes (such as CAP161-163) may support more fundamental change, it is important that they do not divert attention from the key issues at stake and are not seen as a comprehensive solution. ESBI supports a transmission access regime combining non-discriminatory capacity allocation, certainty of capacity delivery and proportionate user commitment.

In our view each of CAP164, 165 and 166 have the potential move towards these goals. However, we consider that CAP165 and, in particular, CAP166 present significant development and implementation challenges and require further work before a firm view on their relative merits can be reached. While there are some difficulties with CAP164, given the pressing need for change, we support its implementation as quickly as practicable because it has the potential to facilitate much quicker connection of the new generation Great Britain needs.

A series of more detailed comments in respect of individual modification proposals are contained in an annex to this document. ESBI would be happy to discuss the issues raised in this response if that would prove useful. We intend to continue to monitor the debate and respond to subsequent consultations where we can usefully do so.

Yours sincerely,

Martin Read

UK General Manager

1. RESPONSES TO MODIFICATION PROPOSALS

1.1. Overview

In this annex to our response we provide more detailed comments on each of the modification proposals. Where a point is relevant to more than one proposal we do not duplicate views.

1.2. CAP161 – System Operator Release of Short-Term Entry Rights

ESBI is broadly supportive of the concepts of releasing transmission access based on economic rather than physical criteria (i.e. if accepting the bid value where it exceeds the forecast cost of accommodating the bid volume over the requested period) and offering a range of access products that reflect the characteristics of plants of different fuel types, ages and operating patterns. We consider that CAP161 may prove beneficial by providing incentives for generators to opt for an access product other than TEC, thus potentially freeing up capacity and making more efficient use of the network.

We note that the amendment, and indeed variants of each of the other amendments, includes revised processes for local only applications and a change in the nature of entry rights from nodal to zonal. In general we can see benefit in decoupling local and wider works and in allowing generators to decide on the product they will use to gain access to the main transmission network. However we consider that it will be important to clearly define the nature of local connection rights. We also understand the rationale for a zonal definition of access rights, though note the likely trade-offs between the size of zone, the level of additional costs and the volume of access rights that can be released. We do however have concerns that the costs of transitioning to a zonal methodology may be significant and that it could create a competitive advantage for some players.

While we broadly support the CAP161 proposal and associated Working Group Alternative Amendments, we do not consider that these benefits might be expected to be as material as those associated with other Amendment Proposals (which CAP161 may support and reinforce). We would therefore be concerned were resources which could be used more productively elsewhere diverted towards developing and implementing CAP161.

In general we consider that if the potential benefits of Amendment Proposals CAP161-163 are to be realised, there is a need for innovative and effective incentives on National Grid. While this is clearly not a matter for a Working Group, we consider that Ofgem should consider options as a matter of priority.

1.3. CAP162 – Entry Overrun

ESBI considers that CAP162 could have a role to play in increasing generator choice and ensuring that access products reflect plant operating conditions. However while CAP162 is a proposal to amend the CUSC, views on the proposal, and the extent to which it is likely to be useful, will be driven by the method of charging.

While we support cost-reflective charging, the risk of using a product with an unknown liability (and credit consequences which require further clarification) is likely to be so great as to significantly diminish the usefulness of the product. Therefore, we are sympathetic to attempts to try and provide some indication of prices *ex-ante*, recognising that this inevitably involves a reduction in cost-reflectivity.

Overall we do not consider CAP162 to represent a fundamental change to transmission access arrangements or as something capable of addressing our key concerns. However, we do feel that it has the ability to free up some capacity and may therefore prove useful as part of a suite of changes. As such we are broadly supportive of the proposal.

1.4. CAP163 – Entry Capacity Sharing

As with CAP161 and 162 we consider that CAP163 may provide incremental benefits by increasing the range of options available to parties, potentially better optimising use of the network. However, we consider it imperative that entry capacity sharing operates on a transparent and non-discriminatory basis and affords the same opportunities to all classes of system users. We note that the proposal is relatively complex and may prove difficult to both implement and administer. As such we consider it important to consider whether the costs are proportionate to the anticipated benefits.

1.5. CAP164 – Connect and Manage

ESBI considers that CAP164 represents the most effective means of making significant beneficial changes to transmission access arrangements which are capable of implementation relatively quickly and easily. As such we support the CAP164 arrangements.

While we can understand concerns about increases in operational costs, we consider that it is important to fully take into account the factors which offset these costs. Providing certainty to new entrants will reduce the costs of market entry and clearly increase competition in the generation market. Given that plant seeking to enter the market is likely to have lower costs and be relatively less environmentally damaging, entry should put downward pressure on energy prices and deliver carbon savings; which facilitates the achievement of the Government's energy policy goals. In our view, increases in operational costs should persist for a relatively short

period given that increased generation market competition would be expected to promote the closure (or reduced operation) of relatively more inefficient plant.

We also consider that CAP164 would be beneficial to security of supply. Environmental legislation means that a large proportion of plant will need to leave the market over the next decade. Hence it is important that investors, such as ourselves, can freely enter the market to fill the capacity gap. A regulatory framework which provides certainty about when capacity can be delivered, as provided by CAP164, is critical in making significant investment decisions.

To an extent CAP164 reduces concerns about undue discrimination. It is available to all parties and provides all users with the same access right. In addition, it, to an extent, reduces the need to clarify the property right associated with TEC (by giving all parties an evergreen right and hence reducing the value of that right). We would strongly advocate the early implementation of CAP164.

1.6. CAP165 – Finite Long-Term Entry Rights

In general ESBI is supportive of the clear definition of long-term entry rights, user commitments from all parties and capacity being provided when a clear trigger is met. While we are broadly supportive of CAP165, we are concerned that it may not provide as significant a set of benefits as alternative proposals, particularly as it does not provide the necessary certainty over capacity delivery, and are concerned by the proportionality of proposed commitments.

ESBI considers that it is appropriate for parties to commit financially to secure capacity. However, we also consider that in return for that commitment there should be a corresponding obligation on the transmission licensee regarding capacity delivery, which CAP165 fails to deliver.

We also have some concerns about the proportionality of commitments for existing users. While we think it is reasonable for a commitment to existing capacity to be made, we are concerned that the length of commitment being requested may not reflect the risks imposed on the transmission network by some users (for example plant that has just connected) and may create additional risks for generators that they are not able to effectively manage. In our view non-discrimination does not necessarily require an equal commitment from new and existing users, but a commitment that reflects the relative risk of asset stranding that new and existing users impose.

Therefore, while we support the basic principles of CAP165, we consider that further work is required to address detailed aspects of the proposal. A suitable form of CAP165 could complement the implementation of CAP164.

1.7. CAP166 – Long Term Capacity Auctions

While we recognise that many aspects of CAP166 require further development and clarification, we have sought to include a number of comments and observations below.

In general, ESBI agrees that the absence of an ability to discover the true value of transmission access rights may compromise the efficient development of the network of electricity and, in particular, agree that the existing arrangements create a barrier to entry. We also agree that, as a general principle, users should only be able to realize value from a transmission access right if they have had to pay value for those rights through a transparent and non-discriminatory process. As such we consider that well designed capacity auctions could provide significant improvements when compared to existing arrangements.

We recognise that in auctioning capacity the devil is inevitably in the detail and that there will be design and implementation challenges. We support elements of the current CAP166 proposals but have significant concerns about others. For example, ESBI supports the use of locational TNUoS charges as reserve prices as this would maintain a link between the price paid and the long run marginal cost of assets and may reduce the risk of significant under-recovery of revenues; which could lead to large and volatile charges. However, the statement that "Long-term entry access rights would be defined on a zonal basis, such that each user can share capacity between its power stations on a real time basis at a 1:1 exchange rate within these defined zones" raises significant concerns about undue discrimination. It is of paramount importance that all parties, irrespective of ownership, fuel type or operating regime, can compete on a non-discriminatory basis. It will be essential to ensure that no party, for example a portfolio player, is afforded a competitive advantage as a result of auction design. Therefore arrangements, and regulatory oversight, will be required to ensure equitable optimisation of capacity holdings. We would also support development and publication of the methodology to determine the level of user commitment required to trigger new investment and the period within which investment will be delivered. In our view understanding these factors is critical to evaluating the proposal.

We recognise that auctions can provide capacity to any party willing to make a sufficiently significant user commitment within defined timescales (while also allocating scarce capacity in the short term). Therefore, it could be argued that CAP166 has much in common with the CAP164 proposals. It may therefore be appropriate to consider whether auctioning capacity would provide significant benefits above those provided by CAP164 or, potentially, whether CAP164 might present a practicable interim option, allowing auctions to be further developed?

1.8. Conclusions

Overall we are supportive of elements of each of the proposed modifications. We consider that some or all of CAP161-163 could provide useful incentives for parties to opt for alternative capacity products and optimise use of the transmission network. However, we do not view them as solutions in themselves and consider that fundamental change to transmission access arrangements needs to be implemented quickly.

In our view each of CAP164, 165 and 166 have the potential move towards these goals. However, we consider that CAP165 and, in particular, CAP166 present significant development and implementation challenges and require further work before a firm view on their relative merits can be reached. While there are some difficulties with CAP164, given the pressing need for change, we support its implementation as quickly as practicable because it has the potential to facilitate much quicker connection of the new generation Great Britain needs. We are conscious that additional changes will be required to support the implementation of these proposals and will respond to these in due course, where we have particular views to contribute.

RWE npower

Hedd Roberts
Development Manager,
Electricity Charging & Access
National Grid House
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA

Email: sarah.a.hall@uk.ngrid.com

Name David Mannering
Phone 01793 89 2172
E-Mail david.mannering@rwenpower.com

31st October, 2008

CUSC Amendment Proposals CAP161: System Operator release of Short-Term Entry Rights, CAP162: Entry Overrun, CAP163: Entry Capacity Sharing, CAP164: Connect and Manage, CAP165 Transmission Access Finite Long-term Entry Rights, Working Group Reports, October 2008

Dear Hedd,

Please find attached our response to the Consultations for CUSC Amendment Proposals 161 to 165. This response is provided on behalf of the RWE group of companies, including RWE npower, RWE Supply and Trading GmbH and npower renewables, a fully owned subsidiary of RWE Innogy.

There are three key principles which we believe changes should satisfy:

- Short term access should be available to facilitate the efficient use of the system, especially spare capacity
- Short term access should not allow free riding or obscure signals which would otherwise indicate to NGC a need to invest in additional capacity
- Costs should be borne by those who impose them, not smeared across users generally.

Our detailed response to the individual CUSC Amendment Proposals is included as an attachment to this letter. We would note the following:

- Although we support the implementation of short-term access rights (CAP161, CAP162 and CAP163) they must be defined and priced in a way that does not undermine the incentive to book long-term access rights. We fully endorse the "ticket-to-ride" principle;

- Charges should be cost-reflective for all types of generation connected to the network and should vary according to location to reflect capital costs in building and maintaining the network together with any local congestion costs. Given the

RWE npower

Trigonos
Windmill Hill Business Park
Whitehill Way
Swindon
Wiltshire SN5 6PB

T +44(0)1793/89 39 83
F +44(0)1793/89 29 81
I www.rwenpower.com

Registered office:
RWE Npower plc
Windmill Hill Business Park
Whitehill Way
Swindon
Wiltshire SN5 6PB

Registered in England and Wales no. 3892782

huge need for new plant over the next decade or so, it is fundamentally important that potential developers face the correct locational price signals;

- The resolution of constraints should be market-based rather than administered and the costs reflected back on those users that caused them to be incurred rather than smeared across all users. There should be explicit financial support (such as ROCs) for connecting renewable generation not discriminatory arrangements for network access; and

- Notwithstanding our concerns with the process as set out below, we believe that there are some merits in these CUSC Amendment Proposals, but they need to be considered and implemented as a coherent package as any reformed access regime must be stable over time, avoid perverse incentives and minimise regulatory risk.

The stated aim of National Grid in raising the suite of CUSC Amendment Proposals is to support the objectives of the Transmission Access Review in facilitating the connection of more renewable generation to the GB Transmission System. RWE has actively supported the process and indeed is making an important contribution in CUSC working groups. However, we do not believe that sufficient time has been allowed for consideration of such important potential amendments to the CUSC and Charging Methodologies. Arguably, this has resulted in proposals not being fully worked up before consultation.

In addition, there has not been enough focus on applying existing arrangements, such as CAP 150 (Capacity Reduction). We believe that infrastructure delivery coupled with more proactive queue management, linked to the successful implementation of the proposed changes to the statutory infrastructure planning regime, would resolve many of the problems with the GB Transmission Queue and that this in turn would contribute to meeting the Government's renewable generation targets.

If you wish to discuss any aspect of our response, please do not hesitate to contact me.

Yours sincerely,

By email so unsigned

David Mannering
Director of Economic Regulation

Attachment - CUSC Amendment Proposals CAPs 161-165 - Comments

Attachment: **CUSC Amendment Proposals CAPs 161-165 - Comments**

CAP161 – System Operator (SO) Release of Short-term Entry Rights

We support the principle of the release of short-term entry rights in order to optimise use of the GB Transmission System (GBTS) as long as this does not increase costs to all users (through increased constraint costs caused by the GBSO releasing too many rights or getting its forecasts wrong or being incorrectly targeted). We believe that the 2-day-ahead (2DA), and 5-week-ahead (5WA) release of short-term rights by the GBSO would lead to a more optimal use of the GBTS and could in principle provide users with more flexibility. However, we do not support C-LDTEC as this would potentially require the GBSO to forecast system conditions and associated constraint costs up to 45 weeks in advance. This could lead to excessive constraint costs and potentially allow certain users to avoid paying the true long run costs of system investment.

Our view is that the 5WA and 2DA options should only be used to acquire incremental short-term access to supplement longer-term access holdings and therefore would not replace the efficient long-term investment signals to the TOs. However, we are concerned that C-LDTEC could lead to inefficient investment as the short term allocation process does not allow the long term locational signals to be discovered.

CAP162 – Transmission Access – Entry Overrun

We support the principle of Overrun as it should allow the GBSO and users to optimise the use of the GB transmission system, but only when used in conjunction with acquiring long-term access products. The proposal would enable the GBSO to maintain efficient and economic investment in new infrastructure with a charging system which retains overall cost-reflectivity. Overrun should facilitate access sharing and remove the possibility of a CUSC Breach if users generate above their Entry Capacity holding (currently TEC). Overrun should be available to all generator types and would not be discriminatory if it is priced to reflect any additional costs caused by overrunning. Furthermore, cost reflective overrun charges should remove the risk of “free-riding” in relation to transmission investment.

Entry Overrun should allow more generation to connect to the GBTS and hence increase competition provided that the overrun prices include any additional constraint costs incurred in operating the system. Also users should have a reasonably clear idea of what these additional costs might be before they decide to overrun in any particular period. The proposed simple (Overrun) methodology using (BSUoS-RCRC) multiplied by a scalar (X) that reflects constraint costs as a proxy for constraint costs in any half-hour period could provide an appropriate solution, at least as an interim (temporary) solution, as it does give some approximation to what potential “system” costs might be in a particular zone at a particular time.

Our preference is for a marginal methodology which would seem to offer the most appropriate outcome in relation to the efficient costs of short-term access at various locations on the GBTS. If the marginal methodology was available to users then it may be possible for them to make a reasonable forecast of the costs for short-term access at various locations on the system. Alternatively, the GBSO could release its forecasts of these costs at the day-ahead stage so that users could make an economic judgement whether to overrun at a particular location. However we note that a marginal methodology may not be available for an April 2010 implementation date and an interim, perhaps based on the simple methodology, may be required.

We do not support the Cost Recovery Methodology as it would be very difficult to identify exactly

which costs were attributable to overrunning parties and there would inevitably be a degree of subjectivity in disaggregating these costs. This model may be expensive to administer and may not help users at different locations to easily predict potential Overrun prices at any particular time or location.

Entry Overrun would facilitate Entry Capacity Sharing (CAP163) by allowing a generation level above notified shared access. The proposal addresses the restriction in the existing CUSC arrangements which mean that sharing parties are in breach of the CUSC if they exceed notified access capacity. The interim simple or enduring marginal Methodology could also be used as a basis for allocating the increased costs of constraints for Connect & Manage generators (see CAP164 below).

CAP163 – Transmission Access – Entry Capacity Sharing

RWE supports the principle of Entry Capacity Sharing as we believe that it may allow more optimum use of the existing transmission system. The benefits of the proposal will depend on the sharing arrangements introduced. It is not efficient or cost reflective to create artificially large "sharing zones" which would lead to a significant increase in constraint costs that have to be borne by consumers. The conclusions of the working group indicated that node-to-node sharing with pre-defined exchange rates (where possible) would seem to give the best solution as this would allow or should allow all users to share transmission access with a large number of parties.

Of the three notification options presented, RWE prefers the ex ante approach where parties can change notifications up to the day-ahead stage. In addition information on completed sharing arrangements should be released to the market at this time. Day-ahead arrangements would give adequate time for users (including weather-dependent generators such as wind) to arrange sharing and also ensure that information is released to the market to inform trading decisions. A codified approach may be considered as the next best option. It is less flexible but is easier to implement and manage when compared with the ex ante approach. We do not support ex post notification as this could provide perverse incentives and be open to gaming.

We do not believe that the Open Sharing model provides any benefit above that provided by the other sharing options considered by the Working Group and therefore do not support it.

As mentioned above, there is a strong connection with CAP162. Whilst Entry Capacity Sharing could be introduced without CAP162, we believe that it would work better if CAP162 was introduced at the same time.

CAP164 – Connect and Manage

RWE supports the principle of connect and manage but has serious concerns about the treatment of additional constraint costs that arise.

It is possible that an approach based on connect and manage could allow more generation to connect to the transmission system. However, it is also likely that most of the additional generation will be in areas of the GBTS which are already constrained. This could lead to increased constraint costs as the wider transmission system would not be ready to accept the anticipated increases in generation (this was indicated in Ofgem's Regulatory Impact Assessment for CAP148 (Deemed TEC) which allowed only new Renewable generation to connect and showed that the likely Carbon cost savings would be far outweighed by increased constraint costs).

CAP164 does not discriminate against any generation type and may have merits in facilitating the connection of more renewables. However, under the original CAP164 proposal increased constraint costs will be borne by users through increased BSUoS costs and may lead to higher prices for all consumers. We can only offer our support for Connect and Manage on condition that any resultant increases in constraint costs are either allocated to parties causing them or these resultant costs are significantly reduced. Failure to do this would give inappropriate incentives and, over time, lead to an increasingly inefficient grid access regime.

A simple (Overrun) methodology developed for CAP162 where X*(BSUoS-RCRC) in a particular zone for any half hour period could be used as an interim proxy for constraint costs under a connect and manage regime in order to provide an approximate targeting of these costs on users that have caused them. However, our preference is for a marginal methodology which would seem to offer the most economic and efficient outcome in relation to the efficient costs of short-term access at various locations on the GBTS.

A possible method of reducing resultant increased constraint costs from connect and manage is a volume cap in specific areas where the volume of connect and manage generation is significant. This option may have some merit but whether we support it or not will depend on the choice of the numeric limit, the level of the likely increase in constraint costs and the way that these costs are allocated. We believe that a volume cap is better than the other potential alternatives discussed in the Working Group Report i.e. Interim TEC, a bid/offer cap, TNUoS nets off some BSUoS or an Incremental Capacity Release methodology.

An alternative means of limiting the amount of connect and manage generation is to lengthen the guaranteed lead time for connection. The WG Report shows analysis for 3-year and 4-year lead times. Rather counter-intuitively, the net benefit for a 3-year lead time is greater than that for 4-years (this is not borne out by Ofgem's cost-benefit analysis for CAP148 Deemed TEC). We are not convinced by this analysis (for CAP164) and feel that a 4-year lead time would be better than 3-years as there would be less time between connection and delivery of wider system reinforcement.

In general, we believe that the efficient development of the transmission network and the timely connection of all types of generation technologies, both in the short term and for the longer timescales, would only be better achieved if the suite of CUSC modifications is considered as a whole to avoid distortions between users and the varying timescales.

CUSC Amendment Proposal CAP165 Transmission Access – Finite Long-term Entry Rights

We recognise the concerns associated with signals for plant closure as identified in the CAP165 defect. However, we do not support the implementation of the original amendment as drafted and do not believe that as set out it better facilitates the relevant CUSC objectives. In particular pre commissioning liabilities that are no longer directly reflective of the costs incurred will increase risk of stranded assets and could result in inefficient investment (Objective a)). Furthermore the 50% sharing factor will impact on other users where user liabilities do not meet the stranded costs and this could detrimentally impact on competition (Objective (b)). In addition we remain concerned about the use of non refundable final sums and consider that they would result in termination charges that are no longer reflective of the costs actually incurred by users and may, in some cases, be considered a penal charge.

Of the alternatives set out in the consultation document we support the use of cost reflective final sums as set out in WGAA2, subject to an appropriate open and transparent methodology for the establishment of the final sums. This approach should address the concerns expressed in the document with regard to the potential issues with the visibility of final sums. Further we would suggest that such a methodology could establish whether these cost reflective final sums should or could be shared with other users (perhaps through a sharing factor). We believe that this issue should be explored further in the implementation of the amendment proposal.

Our response to the specific questions raised on the consultation is included below:

Question: The Working Group invites industry views on whether it is appropriate for generators' existing transmission access rights to be changed by a CUSC amendment.

Answer: The existing transmission rights are established under the current NGET licence through the:

1. CUSC in relation to connection and use of the system; and
2. The charging methodologies in relation to the liabilities for paying to use the system; and
3. The GBSQSS in relation to the design of the transmission system to deliver a pre defined level of security.

The rights as currently defined allow the user to connect and use the system subject to certain connection conditions up to a defined level of capacity subject to an annual liability to pay (or receive a credit) for use of the system with a defined level of constraint costs recovered from all users through BSUoS. As a consequence of the arrangements under the licence, changes to any of these documents can affect the nature of a user's rights to use the transmission system.

We do not believe that a change to the CUSC can exclusively result in a fundamental change to the nature of the existing rights to use the system. This can only be achieved through changes to more than one of the documents that govern the rights to use the system. This is explicitly recognised under CAP165 with the consequential amendments to the charging arrangements (in particular the liability for charges).

The key question for users is whether any such change is proportionate in relation to the defect that is being addressed. In this context it is important to recognise that changes to the framework for existing rights will impact on wider security of supply and risk in the electricity market. We believe that further work is required to clarify the implications for the enduring charging arrangements that are associated with CAP165 (e.g. the treatment of the residual) in order to understand the impact of this CUSC change.

It is also worth noting that the other outstanding CUSC amendments (short term release (CAP161), capacity overrun (CAP162) and capacity sharing (CAP163)) fundamentally change the nature of existing rights, particularly the concept of exceeding the existing transmission entry capacity up to the level of the connection capacity.

Question: The Working Group requests views on whether the appropriate level of security for post-commissioning users should be zero or based on one year's worth of TNUoS.

We support post commissioning security based on one-year's worth of TNUoS or the balance thereof for users commissioning within year. It should be noted that this security should be established for both the local connection capacity and the long term finite rights. The commissioning dates for these may vary.

Question: The Working Group also seeks views as to whether, if the appropriate level of security was based on one year's worth of TNUoS, the security requirement should be:

(a) the remaining balance the current year's TNUoS;
(b) one rolling year's worth of TNUoS; or
(c) six months' worth of TNUoS.

Answer: TNUoS is established as an annual charge. Therefore, we believe that security should be established on the remaining balance of the current year's TNUoS (including the residual liabilities, however calculated).

Question: The Working Group seeks views on whether LCN should be a finite or an evergreen right.

We are concerned about the definition of the local connection (LCN). We believe that the local connection capacity could be defined as follows:

"those transmission assets that are not connection assets but are required to enable a user (or more than one user sharing a local connection) to export output up to the level of the connection entry capacity (CEC) of each generating unit in compliance with the GBSQSS to a main interconnected transmission system (MITS) substation using assets that are capable of being shared (with demand) but not currently shared or not capable of being shared at the time of the offer to connect to the transmission system"

Consequently we believe that the LCN can be considered as an enduring right to remain connected to the transmission system. However, the right to "use" the system could be subject to an appropriate notification process for termination (similar to WGAA2) or user commitment for the local connection (a booked period similar to CAP165). We believe that further work is required to clarify the nature of LCN rights and in particular to address circumstances where the LCN (or part thereof) becomes a "shared" asset as part of the main interconnected transmission system.

Question: The Working Group requests views on whether it would be more appropriate to include the user commitment amounts in the arrangements for local connections rather than in those for wider transmission access rights.

It is essential that user commitment amounts are included for both the local connections (however defined) and for wider transmission access rights. This should ensure that the SO and TOs receive appropriate investment signals and minimises the risk of stranded assets.

The Working Group requests views on the proposed implementation dates, and whether such dates should be fixed or open-ended.

It is preferable to use fixed implementation dates to ensure that there is some certainty for the market. However, we believe that further work is required to provide a detailed and practical implementation timetable given that are large number of existing agreements that will require revision as a consequence of the CAP165 process.

Hêdd Roberts
Electricity Charging & Access
Development Manager
National Grid House
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA

Centrica Energy
Maidenhead Road
Windsor
Berkshire SL4 5GD
www.centrica.com

01753 431000

31 October 2008

Dear Hêdd,

Re: Centrica responses to the draft working groups reports for CAP161-165

Centrica welcomes the opportunity to comment on the draft Working Group reports for CAP161-165, the CUSC modification proposals that form part of the so-called Transmission Access Review suite.

Please find enclosed our responses to the draft Working Group reports. Below we have set out some introductory comments.

The aim of the Transmission Access Review, jointly led by Ofgem and BERR (now DECC), was to deal with the large queue of generators waiting for a connection to the transmission system, in particular in light of meeting the government's 2020 renewable targets.

Centrica – as owner and developer of both conventional and renewable generation – believes it is vital for meeting the renewable targets and also ensuring security of supply that a transmission access regime is in place that addresses the GB Queue and encourages investment in renewable as well as conventional generation.

It is our view – and has been since the beginning of the Transmission Access Review process – that significant investment in the transmission system and changes to the planning process are the key solutions to the GB Queue. We welcome improved GB Queue management and the GB SQSS Review because we believe that in combination with transmission investment and planning reform these initiatives will go a long way to reducing the GB Queue. We therefore hope to see significant progress in these areas soon.

In addition to network investment, we are supportive of making better use of the existing transmission access capacity through the introduction of short-term access products (CAP161-163). We also support the principle of Connect & Manage (CAP164), but we believe that an equitable solution to the smearing of increased constraint costs amongst all users must be found before that proposal could get our full support.

We remain of the view that TEC is and should be an evergreen right and that, in the context of the solutions mentioned earlier, the introduction of finite rights (CAP165) and capacity auctions (CAP166) is not proportionate, and for this and many well rehearsed reasons we do not support these proposals. In our view finite rights and capacity auctions would only increase risks and uncertainty for developers and existing generators at a time when significant investment in both renewable and conventional generation is much needed.

Centrica considers that the working groups have not been given sufficient time to fully consider possible alternative modification proposals, the interaction between the different proposals and the proposed changes to the charging methodology. Although we very much appreciate the hard work done by the industry and National Grid, we have serious concerns about the robustness of some of the analysis that the working groups have been able to carry out in the limited time available, in particular with regards to auctions. In our view a thorough analysis that covers these aspects is essential to ensure an access regime that is coherent and fit for purpose.

In this regard we do not understand how Ofgem's decision to reject the CUSC Panel's request for an extension (except for 2 extra weeks for the auction proposal) can be reconciled with Ofgem's earlier comments about lack of analysis and justification in for example the recent CAP131 and CAP148 Impact Assessments.

Centrica will continue to be actively involved in the CUSC modification process. To avoid unnecessary delays, we trust Ofgem will inform the working groups of areas requiring further analysis and justification, before the work of the groups must come to an end. This would be a significant improvement compared to the process followed with the modification proposals mentioned earlier.

Please note that the enclosed responses to the draft Working Group reports are our initial views and are subject to further analysis and discussion by the working groups.

If you have any queries regarding our response, please do not hesitate to contact me.

Kind regards,

Merel van der Neut Kolfschoten
Centrica Energy

31 October 2008

Hedd Roberts
UK Transmission Commercial
NGT House
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA
hedd.roberts@uk.ngrid.com

Dear Hedd

Working Group Consultations: CAP161 to 165
A covering letter

In view of the interaction of the current suite of TAR CUSC Amendments and associated charging modifications, as described in your Guidance Note accompanying the consultations, Scottish Renewables would like to make some over-arching comments on each of the access reform models, to accompany our responses to each of the individual Amendments.

Firstly we would like to record our appreciation of the co-ordinated manner in which both CUSC, charging and related issues (such as zoning) have been developed and assessed. This has been invaluable and we would urge you to consider adopting this as common practice for future modifications.

Our remaining comments are on the two basic models of access reform proposed under CAPs 161 through to 165. Our comments on access allocation via an auction will follow in our CAP 166 response.

Connect and Manage

As you know Scottish Renewables has supported Connect and Manage as a model which we feel could bring significant benefits. We take issue with some of the impact assessments that has been undertaken, but do accept that *in extremis* there are some potentially undesirable consequences that could be avoided. In that vein we have submitted a request for an Alternative to CAP 164. We would note that this should not detract from the need for stronger incentives on the management of constraint costs.

Evolutionary Change

We are concerned that the Evolutionary Change proposals would not bring forward connections where this was cost effective, because of the low utility of the products to our membership. This is not a comment on the cost reflectivity or otherwise of the products, it is more a question of the predictability of costs and benefits, and the complexity of some of the proposals.

At the very least, introduction of the evolutionary change model would mean that to avail of the short-term access products, a good portion of our membership would need to: re-appraise their market entry strategy, re-finance their projects, consider implementing new trading operations, install new technical equipment and, if they are considering trading independently, navigate the Balancing and Settlement Code and familiarise themselves with trends in BSUoS and the likely future market for constraint services and costs. If there is a one-off, early opportunity to secure any "spare" capacity at a good price, these members will clearly be at a disadvantage.

Furthermore we are concerned that none of the Evolutionary Change proposals for short term access provide our members with any guarantees on access for the amount of time required to make a new project bankable.

We are also concerned that by targeting constraint costs on users of short term access, they are being unfairly exposed to costs over which they have little or no control. This is further exacerbated by the existing non-compliance of the Scotland-England boundary. We would look for some very firm reassurances on these points should these proposals be implemented.

If you would like to discuss any of these points, or any of those in our responses to the individual TAR modifications, please don't hesitate to contact me.

Yours sincerely

Jason Ormiston
Chief Executive
Scottish Renewables

GDF SUEZ

Patrick Hynes
National Grid
UK Transmission Commercial
NGT House
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA

31 October 2008

Dear Patrick,

CUSC Amendment Proposals 161 - 165

Further to the industry consultation process this year, please find enclosed the responses from Gaz de France ESS (UK) Ltd on;

- CAP161 – System Operator Release of Short-Term Rights
- CAP162 – Entry Capacity Overrun
- CAP163 – Entry Capacity Sharing
- CAP164 – Connect & Manage
- CAP165 – Finite Long-Term Entry Rights

The view of Gaz de France ESS (UK) Ltd and supporting arguments are enclosed in the documentation, however there are various points which we feel need highlighting which apply to all the above amendments and the process which has lead us to this point.

GDF Suez Group, the parent company of Gaz de France ESS (UK) Ltd, owns and operates two gas-fired CHP assets, a 215MW power plant at Shotton and the recent major purchase of Teesside Power, a 2000MW power plant. Any review of access arrangements should promote a simple, transparent regime that will not only benefit existing and new forms of generation but that will also encourage investment.

Long term access is vital to all generators and potential new investors who have to guarantee a return to owners or financial backers. Access should be allocated on a non-discriminatory basis with costs based on the connection itself rather than the generating technology. The System Operator should be able to manage the network optimally and participants should work with them in cooperation towards this goal.

The changes offered in all the amendments which comprise the Transmission Access Reform offer a wide scope of proposed changes to the industry with a view to meeting the government's EU 2020 emissions targets. While we support the merits of encouraging new developments to meet these aggressive targets,

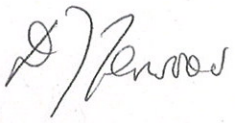
existing generators, which underpin the security of the system and widespread provision of baseload power, should not be adversely impacted in any way.

To facilitate these changes, three Working Groups, established to debate short term strategy, long term strategy and management of the agreed changes earlier in 2008, comprised of industry representatives were established and tasked with the review. The individuals who accepted these difficult roles should be commended, as the delivery of these reforms is key to the future of generation in the United Kingdom.

Finally, it has to be pointed out that the intensity and complexity of work undertaken by these groups in relatively short timescales has been a cause of major concern within Gaz de France ESS (UK) Ltd. All six amendments (we will submit a formal response to CAP166 separately in line with its specific deadline) have the potential for significant impact on the industry. The proposals are all fundamental changes to access arrangements, but, nonetheless, have been hurriedly prepared without full consideration being given to key aspects including their impact assessment and cost benefit analysis. In addition, various charging methodology changes have been discussed in parallel with these proposals which has placed a further strain on already stretched resources. This can only have had a detrimental effect on work carried out in these areas and the ability of industry participants to form reasoned and considered opinions for response.

Should you wish to discuss any of these points or the contents of the response proformas in greater detail, please do not hesitate to contact either me on 0113 306 2101 or Phil Broom on 0113 306 2104.

Yours Sincerely,



Dan Jerwood
Gaz de France ESS (UK) Ltd

Patrick Hynes
UK Transmission Commercial
NGT House
Warwick Technology Park
Gallows Hill
Warwick CV34 6DA

patrick.hynes@uk.ngrid.com

Dear Patrick

Transmission Access Review: CAP161—165 consultations

Immingham CHP LLP welcomes the opportunity to comment on the first five of the six Transmission Access Review (TAR) change proposals to Cusc raised by National Grid.

This response is in two parts. The first offers some general thoughts, including comments on process. The second section details our views on the five individual amendment proposals that close out on 31 October.

Part 1 - General comments

Generator access rights

It is essential that in making changes to the access regime existing transmission access rights are respected. Generators with bilateral connection agreements with National Grid have evergreen rights and National Grid has no ability to remove those rights without legislation and appropriate compensation. This baseline has important implications for the TAR; but in particular it means that the CAP165 *Finite long term entry rights* (and CAP 166 *Long-term entry capacity auctions,* which we will respond to separately) is not lawful.

To date the issue of removal of rights and the transition to a proposed new regime has yet to be addressed explicitly by the Working Groups, and these matters require immediate consideration.

In this context we endorse the fuller points on the firm nature of existing rights made in the response provided to these consultations by the Association of Electricity Producers.

Industry process

We are very concerned about the robustness and thoroughness of the assessment of the proposals developed to date. The development is of a scale comparable to the introduction of the New Electricity Trading Arrangements—the process is essentially dealing with a complete redefinition of contractual access rights, how to trade them and any shortfall in these. Allowing the three Working Groups only five months to undertake a development has degraded the process and significantly undermined the quality of the outputs. This should be compared with the gas sector, where the industry has been struggling with a similar set of issues for almost ten years but fundamental changes still occurring, fuelling perceptions of regulatory risk in that sector and increasing immeasurably market complexity deterring new entry.

Ofgem has been openly critical of the state of industry modification reports in the recent governance review and its decision on the scope of that review.[1] However we find it difficult to understand how the current TAR/CAP process could lead to accurate cost-benefit analysis and be supported by thorough in-depth qualitative analysis to the level that Ofgem require and which the industry itself aspires to.

In practical terms these constraints on the process mean that the current round of consultations are absent of any meaningful cost/benefit analysis (the only report with any quantification is CAP164, but even this is limited and tied to a specific aspect of the evaluation). In the absence of this quantitative analysis, we are surprised by the tone of the assessment sections of the reports suggesting the Working Groups are developing clear views. In fact with no rounded impact assessments we fail to see how the reports can contain any firm recommendations at all.

We are also concerned about the short consultation period and the evident problems that groups have had in developing viable alternate proposals. Most of these alternatives have scarcely got beyond the conceptual stage and have not been defined in sufficient detail for respondents to comment on.

While we highlight these particular concerns, there is a general lack of overall detail and analysis. There are also concerns that important recent innovations delivered by CAP150 *Capacity reduction* proposal have yet to be tried and tested and cannot be factored into the analysis and the baseline. We also think there are further benefits available from better queue management that should be taken into account and these might pre-empt some of the more radical change proposals under consideration.

Finally on process the industry still awaits the Authority determination for CAP148 *Deemed access rights to the GB transmission system for renewable generators*. Similar considerations with regard to CAP131, which had been live for over two years until recently, has also aggravated the industry's assessment process, introducing further variables.

Given this profoundly unsatisfactory process we think:

- these points on process should be clearly communicated to the Cusc Panel and Ofgem;
- the panel, as owners of the integrity of the process, should resolve whether the information provided to Cusc signatories in these consultations provides a robust enough basis on which the Working Groups to move to making recommendations.

Part 2 - Immingham CHP LLP summary views

Consultation pro formas on each of CAP161-165 are attached.

In summary:

[1] Ofgem Code Governance Review Open letter http://www.ofgem.gov.uk/Licensing/IndCodes/CGR/Documents1/Open%20letter%20announcing%20governance%20review.pdf and CAP131 Decision Letter http://www.nationalgrid.com/NR/rdonlyres/6ED038C8-9A08-46B3-806B-9C3C330A4F4A/28940/CAP131D.pdf

- We support the principle behind CAP161 – *Short-term entry rights*: However more focussed analysis is required to more fully define the solution and demonstrate the benefits, especially how they might deliver more robust solutions than the current short-term access products available to the market;
- Again we support the principle behind CAP162 – *Overrun* provided it does not compromise the "ticket-to-ride" principle. Further holders of existing rights should not be adversely impacted in the event of aggregate zonal rights being exceeded. If they are, full economic compensation should be provided. The charging mechanism should be kept as simple as possible and avoid interaction with the BSC arrangements and systems. As with CAP161 significant further work is needed before the report can be finalised;
- In principle CAP163 – *Capacity sharing* has our support as well. National Grid might have to assist matching parties, and the alternative involving the open sharing model may also have merit provided the right holder is agreeable to trading the rights. Missing detail is required in a number of areas;
- We believe that CAP164 – *Connect and manage* offers **the best short-term option** for meeting the Government's objectives, optimizing existing capacity and expediting clearance of the queue. We think the consultation report understates the increased efficiency that would arise from more efficient, low-carbon plant getting onto the system sooner and the greatly increased certainty this proposal would bring to developers, with real benefits to security of supply going forward;
- We strongly oppose CAP165 – *Finite long-term rights.* This proposal is driven by ideology and the defect has not been properly defined. As noted above, we consider it unlawful and it entails misappropriation of existing property rights held by connected parties and does not include an appropriate compensation mechanism.

Immingham CHP LLP has tried to comment on these proposals constructively despite the problems inherent in the process and the timetable. This is reflected in our qualified support for CAP161-163 and our explicit support for CAP164. The fact remains that the documents are incomplete, hurried and do not set out the pros and cons of change well. The proposals have not been properly worked up and do not represent a fit basis for consultation.

It should be noted that our owner ConocoPhillips embarked upon entry into the market in the run up to NETA implementation. As part of that process the existing MCUSA was transposed into the Cusc, which necessitated very close examination by us and expert advisers of the consequences of these changes. Since then we have seen Betta implementation, which saw the Government take powers to reallocate and constrain access rights held by some generators. We now see complex proposals brought forward entailing considerable further and fundamental change at a time when we are committed to further investment on Immingham stage 2, and when we have possible further low carbon investment in the pipeline.

The consultation documents are littered with statements that these change proposals are motivated by desires to help low carbon developers such as ourselves, and to stimulate competition and better enable achievement of the Government's climate targets.

From our perspective ill-considered change of this nature rushed through to meet arbitrary externally administered timetables is of itself a significant retrograde step even if the change proposals themselves are well-intended. The only parties who will be able to properly assess these proposals and probably benefit from them are the large-integrated players that have been able to populate the working groups and influence the construction of the proposed solutions.

We would suggest the exercise is an object lesson in regulatory risk.

If you have any questions on this response or require further views do not hesitate to contact.

Kirsten Elliott-Smith

Cusc Working Group consultation

CAP161 System Operator Release of Short-Term Entry Rights

Respondent:	*Kirsten Elliott-Smith,* *Tel: 020 7408 6651*
Company Name:	Immingham CHP LLP
Please express your views including rational with regard to the Working Group Consultation? **Including any issues, suggestions or queries**	We support the principle of short-term incremental capacity release of surplus access capacity by the SO provided existing rights can be delivered. We believe it may have merit in that it could help reduce the queue if it encourages TEC release. However there are a number of practical questions that need to be dealt with before a firm view can be expressed. The interaction with current 'short-term' products such as LDTEC requires much clearer definition, as the Working Group assumes the existing products would remain in place. Other areas where further definition is needed, include: ▪ what is the mechanism for releasing the capacity and would it be capped on a zonal or national basis? ▪ what would happen if rights could not be delivered and how would access holders be protected in such circumstances? ▪ how should users price this product? Pay as bid could lead to users with expensive rights while the product is in it's infancy. ▪ what are the credit/ security requirements around this product? ▪ what impact will the various options have on BSUoS? ▪ what would happen if the additional balancing costs exceed the supplementary revenues? ▪ how should National Grid be incentivised to mitigate these costs? ▪ what guarantees are there that BSUoS costs will not rise as a consequence of the SO's actions? ▪ what will National Grid's assessment principles be for a short-term auction? What other factors apart from bid price will be included? ▪ when would the market see associated information? ▪ how would a buy back mechanism work? We oppose the CLDTEC option: National Grid acknowledges the price which might be wrong therefore leaving the wider community to make up the difference in the costs (which are not quantified) through BSUoS.
Do you believe that the proposed original or any of the alternatives better facilitate the CUSC applicable objectives, please state your reasoning?	This amendment could lead to improvements under CUSC Objective (a) because of more efficient use of available capacity within week and on the day. Given it is likely to be utilised by intermittent plant, it may also assist with the meeting of emissions targets, implying the operation of the system would be more carbon efficient. The auction processes could be very resource intensive and the cost of credit

	required and the associated complexity, particularly for new providers, might prove a barrier to entry. These factors have implications for objective (b). Due to the short-term nature of this amendment and the associated products, there will be no investment made on the basis of this product alone. In fact it is possible that the availability of short-term mechanisms might deter parties from making their true longer-term intentions known. But, given our view of limited uptake of these products, we do not think that overall it will offer any significant improvement to CUSC Objective (b). In the round we think there will be overall benefits primarily under objective (a) provided cost and complexity can be contained. We do not have on the particular consultation questions raised. We would observe that the more flexible the arrangements (closer to real time, longer market opening etc), the greater the potential benefit, but there is clearly a trade off with the associated costs and complexity. In determining its view on these issues National Grid will need to better understand the likely take up of the different options.
Do you support the proposed implementation	Yes provided it is more clearly detailed and supported by a robust and beneficial cost benefit analysis. A further qualification is the need to show the facility would be utilised. It remains unclear as to what level of interest this product will produce and how it might be utilised. We can see no analysis of size of surplus holdings at different times of year, and there is no analysis of why existing short-term products have not been utilised.
Do you wish to raise a WG Consultation Request for the Working Group to consider?	No.

Cusc Working Group consultation

CAP162 Entry Overrun

Respondent:	*Kirsten Elliott-Smith,* *Tel: 020 7408 6651*
Company Name:	Immingham CHP LLP
Please express your views including rational with regard to the Working Group Consultation? **Including any issues, suggestions or queries**	This amendment is superior to the current arrangements for handling of entry capacity overrun within the CUSC as it effectively creates an access capacity imbalance mechanism for all users. Assuming existence of a short-term release mechanism that addresses limitations with current short-term access products such as that proposed by CAP161, it is doubtful the facility would be significantly utilised. However it is important that overrun is discouraged and that a pricing mechanism should incentivise parties not to operate above access limits, and that if they wish to increase their holding they do so through the purchase of short-term products. Arguments have been submitted for three differing methodologies with the methodology based on multiples of BSUoS (possibly net of-RCRC) currently preferred by the Working Group. We agree this is the best option available. Multiples need to be set sufficiently high to ensure that additional balancing costs that arise from overrun are recovered so that access right holders are not subsidising parties that overrun. We think referencing RCRC introduces an unnecessary complication. In particular any action involving overrun that creates an insufficiency of access for existing rights holders should be strongly disincentivised. In such circumstances constrained parties should receive full economic compensation. The full impact on BSUoS/RCRC remains unknown as to date no load flow modeling has been carried out. It is possible that if there is significant use of this option that there could result in an over/under recovery of TNUoS. Both of these issues require further detailed consideration.
Do you believe that the proposed original or any of the alternatives better facilitate the CUSC applicable objectives, please state your reasoning?	This amendment provides a commercial mechanism for exporting over a generators agreed access rights. It is essential that there is such a mechanism, especially if incremental capacity release is to occur as incentives to participate in the short-term mechanism could otherwise be greatly undermined. In this sense it should better facilitate CUSC objective (a) as it may lead to a more optimised transmission system. It is doubtful whether the proposal has a significant impact under CUSC objective (b). Competition could be enhanced as there would be sharper incentives to operate within access holdings removing a competitive distortion and any incentives to free-ride. Over the longer term we do not see this as impacting on the quality of investment decisions by National Grid.
Do you support the proposed implementation, if no please state why and provide an alternative suggestion were possible?	Yes, provided the solution is kept simple. We believe use of a BSUoS multiplier is easiest, but wider impact analysis must also be completed to test this. We cannot see how a nodal model would work (assuming a BSUoS based tariff) and doubt it would introduce any additional benefits but could increase costs.

	Any alternative that involves interaction with the BSC and the central trading arrangements should be avoided owing to cost and complexity.
Do you wish to raise a WG Consultation Request for the Working Group to consider?	No.

CUSC WORKING GROUP CONSULTATION

CAP163 – Entry Capacity Sharing

Respondent:	*Kirsten Elliott-Smith,* *Tel: 020 7408 6651*
Company Name:	Immingham CHP LLP
Please express your views including rational with regard to the Working Group Consultation? **Including any issues, suggestions or queries**	This change should see wider uptake from generators who cannot make full use of their access rights e.g. wind generation or hydro generation or cannot avail themselves of them in a timely manner. This change will be of use to new projects which have been completed without wider reinforcement work in place. However there are cases where 'conventional' generation might not be making full use of their connection for short periods of time and, provided they can find a suitable party to share with it, it could offer them capacity to share on a limited basis. However, finding a party to enter into an agreement with may prove difficult for users wanting to make use of this option, and we note there is no assessment of likely market take up. A number of issues require further consideration including: ▪ the question of whether this proposal may preclude the introduction of a proper TEC trading scheme ▪ participants views of the value of rights within a zone mean that a !:1 exchange may not appear attractive. This raises a question as to how attractive and variable exchange rates are likely to be. We would argue more fundamentally that rights have to be zonal to match current TEC rights, but they could be deemed to be equivalent within zone to facilitate exchange ▪ there would also need to be clear parameters for ensuring that overruns on shared capacity were clearly identified and allocated. This issue would be more manageable if, as the group proposes, sharing could occur after the event ▪ zonal and nodal definitions in the report remain unresolved and complex. We must have a clear understanding of the potential impact of these issues before either the Working Group, the Cusc Panel or National Grid make firm and informed recommendations.
Do you believe that the proposed original or any of the alternatives better facilitate the CUSC applicable objectives, please state your reasoning?	This amendment has the ability to allow more efficient use of the current network and could provide National Grid with better investment signals, including important information on when it might defer, rephrase or reprioritise investment. It has the ability to improve both objective (a) through more efficient use of transmission access and objective (b) by the introduction of sharing markets (if suitable parties can identify each other). There may be security benefits if capacity sharing allows more generation onto the system sooner. Against this there may be risks that the expectation of capacity sharing could see investment decisions on new network capacity deferred.

Do you support the proposed implementation, if no please state why and provide an alternative suggestion were possible?	Yes – this option provides greater flexibility for both existing and new grid users. A real concern involves the difficulty parties both wanting and owning rights will experience in finding each other. Would National Grid be able to facilitate a process where parties could express interest in entering into sharing arrangements? Exchange rate methodologies however must be robust and transparent for this proposal to work, but we sense these might introduce unnecessary complications and therefore costs. .It is also likely that this might lead to different views on value, and to start with a flat zonal approach is therefore to be preferred. In this context the alternative of an open sharing model may offer a simpler route but it has not as yet been properly defined. In particular the outline of this alternative requires amendment so that the option of release of rights is with the current rights holder and not at the SO's option.
Do you wish to raise a WG Consultation Request for the Working Group to consider?	No.

Cusc Working Group consultation

CAP164 Connect and Manage

Respondent:	*Kirsten Elliott-Smith,* *Tel: 020 7408 6651*
Company Name:	Immingham CHP LLP
Please express your views including rational with regard to the Working Group Consultation? **Including any issues, suggestions or queries**	This amendment should provide an accelerated route to market for all generators and could therefore facilitate the more rapid introduction of renewable generation and other sources of low carbon power, which will contribute to the meeting of renewables and emissions targets. Of the various CAP proposals being developed, this provides the most certain route for achieving early benefits, and ICHP supports this change. It is likely that there would be reasonable uptake of this option, suggesting real benefits; this is in contrast to the other short-term change proposals being progressed, which can be described as speculative. Further development would be beneficial in some areas but in general this solution is better developed than the other CAP proposals. Nevertheless the document could be more specific with regard to: ▪ any compensation paid by National Grid for delays it causes to connection should not be recovered through increased charges to the wider industry ▪ we agree that force majeure for the generator should be carved out of the commitment arrangements, but the detailed provisions in this area need to be developed ▪ what reassurance is there that existing rights holdings would be guaranteed? How would they be compensated in the event of non-delivery? ▪ the alternatives have not been defined, but we would not support any bid cap on BM actions or volume cap on the physical system as these would be operationally fraught to implement.
Do you believe that the proposed original or any of the alternatives better facilitate the CUSC applicable objectives, please state your reasoning?	This amendment is likely to be neutral under objective (a) over time as an increase in short-run operating costs associated with increased constraints (once supplementary TNUoS costs have been needed against these) is likely to be offset by a more secure, efficient system over the shorter-term and more orderly investment over the longer-term. CAP164 significantly improves against the baseline CUSC baseline with regard to objective (b) "facilitating effective competition". By allowing more generation onto the system sooner, there must be competitive benefits in both generation and green supply. It will also improve the quality of competition by providing certainty to new entrants in generation. Capacity sharing represents a simpler, more certain route to commissioning low carbon capacity, especially in a situation where capacity sharing is an option. This can only provide investors with greater predictability over their projects, lessening their risk and allowing for more secure generation as we approach increased risk of a capacity gap. Plant seeking to enter the market is likely to have lower costs and be relatively less environmentally damaging, and entry should put downward pressure on energy prices and deliver carbon savings. Both these factors should improve

	operational benefits. Increased generation market competition would also be expected to promote the closure (or reduced operation) of relatively more inefficient plant.
Do you support the proposed implementation, if no please state why and provide an alternative suggestion were possible?	Yes
Do you wish to raise a WG Consultation Request for the Working Group to consider?	No.

Cusc Working Group consultation

CAP165 Finite Long Term Entry Rights

Respondent:	*Kirsten Elliott-Smith,* *Tel: 020 7408 6651*
Company Name:	Immingham CHP LLP
Please express your views including rational with regard to the Working Group Consultation? **Including any issues, suggestions or queries**	In common with all existing connected parties that hold TEC and who elect to continue to pay TNUoS annually, we have evergreen transmission access rights. We have complied with terms of connection agreements, underwritten the necessary investment to deliver our production and signed delivery contracts on the assumption that we can get our produce to market. Non-discrimination requirements suggest that parties who now wish to be connected to the transmission network and who create the need to invest significant further sums of money in order to obtain a suitable level of connection and access to customers, including the associated reinforcement works, should be bound by similar arrangements. The current arrangements broadly speaking delivered extensive new investment and security of supply during the 1990s. The introduction of TEC and supporting short-term products are structured on the same principles and have worked well. Ofgem has not set out any counter-arguments through the Working Group process, and it is not satisfactory that they have not provided any evidence to back up its assertions. In fact we would observe that the CAP165 report does not define the defect in terms of the access right at all; it simply notes that current user commitment arrangements provide a degree of uncertainty to the network owners and it goes on to say that they do not have security for TNUoS charges from post-commissioning generators. Both these "defects" can be tackled relatively simply (even though Ofgem has just rejected CAP131) without any change to the basic access rights that have been vested in the form of TEC. Setting aside the principle of removing TEC rights, there are multiple problems with the proposal for finite long-term rights under CAP165. For instance there is: ▪ no clear description of the subscription process ▪ no clear definition of the proposed transition period and a confusing range of implementation possibilities ▪ a confusing range of zoning options ▪ insufficient definition of the nodal alternative. Furthermore the charging impacts are the subject of a separate consultation which has only recently appeared. This is not a good example of an orderly change process.
Do you believe that the proposed original or any of the alternatives better facilitate the CUSC applicable objectives, please state your reasoning?	This amendment provides no improvements under any of the CUSC objectives. It would moreover significantly increase the risk of doing business in the sector and increase market complexity. It favours the largest players with extensive resource and introduces significant new unmanageable risks. Given the limited definition of how the arrangements would work, we consider

	CAP165 would also probably have significant unintended consequences.
Do you support the proposed implementation, if no please state why and provide an alternative suggestion were possible?	No – This is not a valid amendment proposal as it would be illegal to overwrite current access rights embodied by TEC. The proposed solution is not proportionate to the stated defect. Given the stated defect, we are concerned that to date there has been no attempt to address alternative solutions around the process of withdrawal and providing associated security without any fundamental revision to access rights, as this provides a much more proportionate response.
Do you wish to raise a WG Consultation Request for the Working Group to consider?	No.

Grampian House
200 Dunkeld Road
PERTH PH1 3GH
Perthshire

Hêdd Roberts
UK Transmission Commercial
National Grid House
Warwick Technology Park
Gallows Hill
WARWICK CV34 6DA
Warwickshire

Telephone: 01738 457377
Email: garth.graham@scottish-southern.co.uk

Our Reference:
Your Reference:

Date : 31 October 08

Dear Hêdd,

Working Group Consultation Documents for CAPs 161, 162, 163, 164 and 165

This response is sent on behalf of Keadby Generation Ltd.; SSE Energy Supply Ltd.; SSE Generation Ltd.; Medway Power Ltd.; Slough Energy Supplies Ltd.; Airtricity Ltd. and Airtricity Generation (UK) Ltd.

We welcome the opportunity to respond to these five CUSC Amendment Proposal Working Group Consultations. We have provided specific comments, via completed pro-forma, for each of the five consultation documents (see attached). In addition, we have some general comments which are applicable across the suite of five proposals (except where we indicate otherwise). These are set out in this letter which should be considered as a supplementary response to each of the five specific pro-forma responses.

General observations

Scottish and Southern Energy (SSE) has supported the Transmission Access Review (TAR) that was initiated by the UK Government and Ofgem last year. Throughout this process, we have argued that the key elements for a successful transmission access regime are clear, proportionate commitment from Users of the GB transmission system and cost-reflective, stable and predictable charges for

access and use of the transmission system. As a consequence, we have favoured the 'Connect and Manage' type of approach for new Users (akin to that proposed under CAP164).

It remains our view that 'Connect and Manage' should form the core of any transmission access regime. In exchange for a strong, but proportionate, User commitment from applicants, National Grid should be obliged to provide a firm connection date that is no later than four years after that User commitment. This would provide strong and meaningful investment signals for both new generation and network infrastructure.

In relation to the proposals for short term access products, in general we understand and support the principle that underlies CAPs 161, 162 and 163. These products would supplement those existing short term access products (STTEC, LDTEC, TTECE and TEC Trading). As was illustrated through discussions in the Working Groups, these existing products have been little used and this is an issue that should be address upfront in relation to these new short term access products. We note that, by providing access to the GB transmission system within operational timescales, the network capacity utilised through these access products will sit outwith the system planning assumptions. Given this, we expect these new short term access products, if implemented, to be largely used by existing Users, to 'top up' their firm access rights, rather than by new Users.

We strongly believe that the Working Group should give further consideration and undertake an assessment of the possible useage of these short term access products. This would allow a meaningful cost benefit analysis and impact assessment to be undertaken. It is important that the potential benefits are assessed before implementation costs are incurred (for example, investment in costly IT systems). In addition, more detailed reporting on this issue is required to aid our decisions as to whether or not these amendments better facilitate the CUSC objectives.

In relation to the proposal for new long term access products, we remain unconvinced that there is a meaningful defect to the CUSC that requires the major change to the transmission access regime proposed by CAP165. We note the limited time available to the industry to debate this issue (and support comments made in the Working Group and elsewhere on the impact of the short timescales on the quality of the report). However, based on the evidence presented to date, we continue to believe that existing Users have evergreen rights to use the transmission system so long as they comply with their contractual obligations. This, in our view, means that CAP165 (and CAP166) is not a valid proposal.

Not withstanding our comments above, we note in relation to CAP165 the debate over the duration of access rights has been very much focused, to date, on providing network investment signals. We believe that this approach does not give due regard to the potential impact on Users' decisions. In particular, we are mindful of the older plant currently on the system and the number of opted-out units. What would be the commercial decisions made by these Users if they were required to secure a future numbers of years of transmission access? In particular what would the detrimental impact be on security of supply if this Amendment was implemented? We believe this security of supply issue should be given urgent consideration by the Working Group and, as a consequence, we are submitting a Working Group Consultation Alternative Request (for CAP165 only) to that affect.

Comments applicable to CAPs 161, 162, 163, 164 and 165

Draft legal text has not been provided for these consultations. Without seeing the specific detail of what will actually appear in the CUSC we have been limited in our ability to provide full comments on these proposed changes to the CUSC. We look forward, in accordance with section 8.17.8 (d) of the CUSC, to the Working Groups completing the legal text and providing this in their Final Working Group reports issued to the CUSC Panel. We believe that Users should have the opportunity to comment on where this legal text is materially different to their understanding of the proposal (as set out in these consultations) and, if appropriate, further consultation(s) should be conducted before the CUSC Panel submit their reports to the Authority.

The Working Groups have still to complete all the items to be addressed as part of their **Terms of Reference**. Again, this lack of detail restricts our ability, at this stage, to provide a complete response to these consultations. In particular it limits our ability to assess each of these changes in terms of them better meeting the applicable CUSC objectives as the full details are not clear to the Working Group and, therefore, not clear to us.

Many of these proposals would 'lock-in' the current **TNUoS charging methodology**. We strongly believe that the current charging methodology is undermining Government policy by sending a signal not to invest in new generation in those areas with an abundance of natural renewable resource. Developing an access regime that has, at its core, this charging regime is clearly an issue given the extreme price signals of TNUoS at the margins of the system, and the volatility and unpredictability of the methodology. Not only would this reduce the value of the access product in large parts of the country, greater and prolonged exposure to TNUoS would increase risk and hence cost to Users. We believe the Working Groups should consider the potential impact of this approach on the decisions of Users with respect to the utilisation of these transmission access products.

We have concerns that the proposed changes are not conducive to facilitating the required **investment signals** for both generators and transmission system owners. For example, whilst it is inherently correct that the SO releases any spare capacity in the short term and therefore that CAP161 (SO Release) is a useful product, we do not see it providing the longer term certainty for generators or transmission system owners to invest in new capacity. Equally, if a User opted to gain access through short term products (feasible for low load factor plant in unconstrained zones), then this would move that User out of the system planning timescale.

"Spare" capacity is fundamentally driven by the longer term suite of incentives on transmission providers to invest in infrastructure and without proper consideration of how this is supported by additional new shorter term measures, there is significant potential for inefficient outcomes. Conversely, the intention behind CAP165 of removing the existing transmission access rights of generators (both new and existing) is a hugely damaging development as far as investor certainty is concerned and, at the very least, will increase industry costs by the necessary inclusion of additional risk premia in business plans.

The **treatment of negative zones** has still to be fully addressed by the Working Groups when considering the impact of these five proposals, rendering both the analysis and consideration

incomplete. We note that there is the potential for perverse outcomes, particularly in the use of short term products, in negative zones and this should be explored by the Working Group. We also note the evidence presented to the Working Groups that the cost of connection in negative zones can be substantial (for example, around London). It is clearly inappropriate to require no User commitment from Users in these areas requiring, in effect, Users in positive zones to underwrite and cross-subsidise the required network investment in negative (as well as positive) zones. We look forward to this being rectified in the Final Working Group Reports issued to the CUSC Panel.

We believe that it is important that the new transmission access products are both **easily tradable and available in sufficient volumes** to provide the required benefits for Users. If parties are expected to rely on the current (baseline) CUSC arrangements for trading (as per the CAP68/CAP142 arrangements) for the new products then, based on the history to date, this is highly unlikely to happen. We look forward to reviewing and commenting on the Working Group developments of the tradability elements of the five proposals.

Details are still lacking on how these changes will impact on / consider the implication for **distribution-connected generation Users**.

The proposed changes have not fully addressed what will happen at times of **network unavailability**. Notwithstanding our comments on our existing rights, under the proposed new regime transmission access rights will be sold. As such the purchaser will, correctly, expect to be fully compensated if and when those rights are withdrawn.

The proposed approach with the five amendments do not, at present, seem to permit Users the **right to appeal** to the Authority for a determination in the event of the GBSO taking actions, under any of the proposals, which are contrary to the requirements of the CUSC. For the avoidance of doubt, it should be made clear, with all five changes, that applications for these new access products should be treated as variations to connection agreement and that the associated disputes process will apply. Furthermore, where a User believes that the GBSO has not acted in accordance with the CUSC requirements that it can seek a determination from the Authority.

It is essential that **cost benefit analysis** is completed for all five proposals and that the associated 'Post Implementation Evaluation' criteria are set out. Where a cost benefit analysis has been completed then all the associated details should be published and this data should be used as the benchmark for a post implementation evaluation. In other words, if the cost benefit analysis concludes that 'x' MW of new generation will come forward as a result of CAPXXX being implemented the post implementation evaluation should determine if 'x' MW was achieved or not.

Discussions were held in the Working Groups as regards the **transmission access rights of existing Users**. For the avoidance of doubt, as both an existing User and a party with considerable 'new' capacity under development (for which we hold rights for transmission access via our signed contractual agreements with the GBSO) we believe we have contractual evergreen rights to use the GB transmission system so long as we continue to pay all the charges associated with our contractual obligations. Nothing in either this covering letter or the attached pro-forma should be taken as either an acceptance of, or support for, the unilateral removal/reallocation of these existing rights by us.

We note that the Working Groups are still considering what, exactly, the **definition of 'local' and 'wider'** actually means in terms of the legal wording in the CUSC. Whilst the consultation documents provide some helpful indications of what these might be, we cannot come to a conclusion on our view of these two key elements of the proposal until we have seen the actual definitions for them. We also note that this proposal to split the GB transmission system into local and wider elements is a fundamental change to the network arrangements and question whether it is appropriate to progress this as, essentially, a sub-requirement of this process.

A common theme of the proposed User commitment arrangements is that, from the Trigger Date, a new User will be required to make a **non-refundable financial commitment** to the GBSO. In positive charging zones this commitment might be substantial (raising issues for independent developers) and volatile (where it is linked to the prevailing tariff). Yet, the GBSO is not committed to provide anything in return. We believe that the Working Groups should give further consideration to the 'product' that is being purchased by the non-refundable financial commitment.

Non physical players (CAP165)

Discussions were held within the Working Groups on the possible involvement of **non physical players** with respect to these new access products (as recorded in section 4.6 of the CAP165 report). As the CUSC is currently constituted we do not believe it is permissible for non physical players to be involved in booking or holding transmission access rights. We look forward to the publication of the advice from DECC (formerly BERR) as outlined in paragraph 4.6.2 of the CAP165 report in due course.

We agree with the comments in the report that if non physical players were to be permitted to book/hold transmission access rights that this would be directly contrary to the wording and intention of CAP150. If the Authority were to reverse the CAP150 decision (only made in May of this year) by allowing for the involvement of non physical players in the CUSC this would, in addition to undermining CAP150, increase the regulatory uncertainty surrounding Authority decisions.

Those that support the involvement of non physical players might, *in extremis*, have a case if: (a) the cost of transmission access was "too high" due to monopoly rents being extracted; or (b) transmission access was unavailable due to shortage of resources. Unless we are very much mistaken neither of these apply for GB transmission access. With respect to (a) the GBSO and three TOs make a regulated rate of return which is subject to extensive oversight by the Authority so the overall cost of transmission access cannot, by any reasonable measure, be considered excessive (although the perverse machinations of the TNUoS charging methodology does adversely impact on Users in peripheral areas). With regard to (b) given the active involvement of the Authority in ensuring that the GBSO and three TOs have sufficient funds to provide the necessary transmission assets we cannot see how non physical players can 'magically' source additional transmission towers/wires etc., that cannot be sourced by the GBSO and TOs at a lower (regulated) cost.

Furthermore, those parties that advocate the involvement of non physical players need to recognise that such players are not charities. They will expect/require a very large risk premium to be paid by the physical party which eventually uses 'their' capacity in the future. It is to be expected that transmission capacity funded via a non physical player will cost a physical player far more than equivalent capacity either funded via that physical player themselves or by the GBSO and TOs. This higher cost will, in turn, have to be passed onto end consumers. Future complaints by physical players about the high prices sought by non physical players would need to be seen, by the Authority, in this light: risk-reward equals higher (unregulated) prices.

Finally, its worth noting that, given the current situation within the global financial community, its by no means certain that any non physical players would come forward in the near term to actually fund, via their booking/holding, transmission access capacity over the timeframe required to trigger the building of incremental capacity. In view of this, coupled with the legal inability for non physical players to be party to the CUSC, it seems appropriate that this aspect of the long term arrangements is not pursued further at this time. If, at a future date, the involvement of non physical players is resurrected then we look forward to commenting on the draft primary legislation, and associated changes to market arrangements that would flow from it, at that time.

CAP164 Working Group Consultation Request

We would like to advise you that we understand that the Scottish Renewables Forum wish to raise a Working Group Consultation Request for CAP164 (Connect & Manage). As noted in the minutes[1] of the CUSC Panel meeting on 1st May 2008 SSE stepped forward to enable the SRF to be represented on the CUSC TAR Working Groups. Its in this light that we have offered to 'sponsor' the SRF CAP164 Working Group Consultation Request; otherwise it could not be raised and considered by the Working Group. Our 'sponsorship' should not be taken as reflecting our views on this request from the SRF. We, like other CUSC Parties, will comment in due course on this request if it proceeds to becoming a Working Group Amendment Alternative.

I hope these comments and those in the attached pro-forma are useful to the Working Groups in taking forward the further development of these five proposals, and we look forward to the opportunity to provide further comments once the details of the proposed access products have been established.

Yours sincerely,

Garth Graham
Electricity Market Development Manager
Energy Strategy

[1] 1525. The Panel agreed that they were comfortable that it appeared on paper that SSE had two members of Working Groups 1 (CAP161-164) and 2 (CAP165-166) as one of the nominations was actually on behalf of the Scottish Renewable Forum (SRF) and had no contractual relationship with SSE (who had stepped forward to provide a CUSC party to enable the SRF to be nominated to the Working Groups) .

Drax Power Station • PO Box 3 • Selby • North Yorkshire • YO8 8PQ • T. +44 (0)1757 618381 • F. +44 (0)1757 618504

FAO Patrick Hynes
UK Transmission Commercial
NGT House
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA

31st October 2008

Dear Patrick,

CAP161 System Operator Release of Short-term Entry Rights, CAP162 Entry Overrun and CAP163 Entry Capacity Sharing Working Group Consultation Responses

Drax Power Limited is the operating subsidiary of Drax Group plc and the owner and operator of Drax Power Station in North Yorkshire. We are pleased to have the opportunity to respond to the CUSC Working Group Consultation on CAP164 Connect and Manage.

To date, our responses have been provided on the basis that we do not have enduring transmission access rights. As you know, we do not accept that this is correct, and our right to raise this very important aspect is reserved.

The Government has committed to challenging targets for the connection of renewable generation by 2020; a challenge that requires substantial new investment by both current industry parties and new entrants. Drax has recently announced its intentions to invest in three new biomass plants that will provide a combined total of 900MWs of renewable generation capacity; these investments will count towards meeting the Government's renewable targets. Drax shares the concerns of other industry parties that the changes proposed as a result of the Transmission Access Review are on a par to the scale of NETA. However, the industry has only been allocated a very short timescale in which to develop solutions that address the issues highlighted in the joint report developed by Ofgem and BERR earlier this year.

Drax acknowledges that there are serious issues regarding the GB Queue in terms of the timely provision of access for serious investors, whose connection dates have been substantially delayed due to the volume of speculative connection requests. However, we note that the recently approved CAP150 amendment, which aims to address these GB Queue management issues, has not been given the time required to test its effectiveness. It is of grave concern that persistent changes to the access arrangements only serve to provide further uncertainty for investors, particularly at a time when the Government is striving to encourage investment on an unprecedented scale.

A detailed response to each of the CAP161, CAP162 and CAP163 consultations can be found attached to this letter in the appendices. However, we would like to highlight the following points:

1. Drax currently remains very sceptical as to whether the release of short-term entry rights would aid the connection of new generation as an enduring product;

2. It is our belief that when investing in new generation plant, a developer requires certainty of market access over the term of the investment; whilst the use of short-term products provides a new route to gaining transmission access, it is unlikely that a business would invest based upon short-term access arrangements alone;

3. Drax believes that there may be benefits in using short-term access products to aid early connection to the system whilst wider upgrade works take place; however, such products must be highly flexible and work over reasonable distances of the transmission system (i.e. sharing will only be beneficial to parties if they are offered reasonable exchange rates);

4. Whilst sharing appears to be a good concept that provides greater optimisation of the transmission system, the benefits may be more easily used by portfolio players rather than new entrants (therefore making the wholesale market less competitive);

5. We remain concerned over the potential for greater costs being socialised across the system, especially with the overrun product;

6. It is essential that short-term entry products are transparent, as users must be able to understand the process and have good access to information in order to understand the risks of using such products.

As mentioned above, Drax remains very sceptical as to whether short-term entry access products could constructively provide earlier connection of new generation on the scale required. The key to resolving the issues surrounding the GB Queue is to find an enduring access regime that fits the needs of *both new and existing generators*, which will facilitate faster connections and ensure security of supply whilst allowing market forces to decide which generators remain on or leave the system. Therefore, Drax does *not* believe that CAP161, CAP162 nor CAP163 provide adequate solutions.

From an enduring access perspective, Drax believes that at this stage of the process when comparing CAP164 against CAP165 and CAP166, the CAP164 proposal would be the most useful in terms of ensuring new generators can connect in a timely manner, whilst also ensuring that the integrity of the system is maintained from a security of supply perspective.

However, Drax acknowledges that CAP164 does not aid the improvement of investment signals for Transmission Owners. Drax considers that a combination of CAP164 and CAP165 WGAA3 could provide a more robust solution, facilitating network entry whilst providing enhanced investment signals to National Grid. We have also stated this in our CAP164 and CAP165 Working Group Consultation responses for consideration by the appropriate working groups.

We look forward to reviewing the final reports upon completion. If you have any queries regarding the comments in this response, please feel free to contact me.

Yours sincerely,

Stuart Cotten

Regulation
Drax Power Limited

APPENDIX 1

CUSC WORKING GROUP CONSULTATION – RESPONSE PROFORMA
CAP161 SYSTEM OPERATOR RELEASE OF SHORT-TERM ENTRY RIGHTS

Respondent:	Stuart Cotten
Company Name:	Drax Power Limited
Please express your views including rational with regard to the Working Group Consultation? **Including any issues, suggestions or queries**	To date, our responses have been provided on the basis that we do not have enduring transmission access rights. As you know, we do not accept that this is correct, and our right to raise this very important aspect is reserved. Drax currently remains very sceptical as to whether the release of short-term entry rights would aid the connection of new generation. It is our belief that when investing in new generation plant, a developer requires certainty of market access over the term of the investment. Whilst the use of short-term products provides a new route to gaining transmission access, it is unlikely that a business would invest based upon short-term access arrangements alone. Drax believes that financial institutions are unlikely to commit funds to a project that cannot demonstrate a firm ability to connect to the transmission system and partake in the market. However, there may be merits in the argument that the release of short-term entry rights may allow generators to connect earlier if they were to use short-term products whilst wider infrastructure upgrade works are completed (i.e. whilst waiting for access to long-term entry products). In addition to this, the use of short-term products may be more useful for plant that have lower load factors, such as wind farms and peaking plant. Such plant may find it more desirable to use more customisable short-term products rather than locking into long-term products that would be more costly and potentially underutilised. However, for wind farms and peaking plant to be able to use these auctions, they would have to know the periods in which they wish to operate by the time the auction takes place. For peaking plant this may not be such a problem, as they will have a number of indicators that will dictate how they operate and, presumably, their fuel will be on standby. Wind farms do not have the luxury of accurately predicting there fuel availability until much closer to the period in which they will generate. In order for wind farms to use this product effectively, it would suggest that the auctions would have to take place as close to real-time as possible. This in itself is no small task, as it is not just the System Operator that will have to ensure there is adequate resource available to provide the auction, but the operators of the wind farms themselves will also require the resource to partake. For smaller operations, this would potentially be a large undertaking given the scale of the project. In order to ensure that the auctions take place when the most accurate information is available (in terms of weather forecasting

	and National Grid's view on transmission utilisation), it would seem sensible to suggest that the auctions should take place every day of the week for the following day. However, this should only be done if the associated costs and expected utilisation of short-term auctions deems it to be a reasonable practice. The short-term entry rights auctions could also be used as a route to market for generators to sell their wider access rights via National Grid, should such generators know that their plant would be unavailable for a number of periods (for example, due to outages). This could encourage generators to release unutilised firm entry access in the short-term, which would provide National Grid with a more firm view of what transmission entry access is available on a given day.
Do you believe that the proposed original or any of the alternatives better facilitate the CUSC applicable objectives, please state your reasoning?	Drax believes that this process may allow generators to access the system early whilst waiting for wider transmission upgrade work to be completed, which would facilitate greater competition. This methodology also works on the basis of National Grid releasing "unused" entry access, which in principle appears to be a more optimal way of providing short-term access to the system (especially when compared with the likes of an overrun type methodology). However, there are some concerns over the transparency of the model, which may need some work. Users must be able to understand the process and have access to good information in order to understand the risks of using this product. The proposal appears to be non-discriminatory (in terms of type of generation), provided that the auction is performed in timescales that allow wind farms to gain access to more accurate weather information.
Do you support the proposed implementation, if no please state why and provide an alternative suggestion were possible?	The implementation date appears reasonable.
Any other comments?	No.
Do you wish to raise a WG Consultation Request for the Working Group to consider?	No.

APPENDIX 2

CUSC WORKING GROUP CONSULTATION – RESPONSE PROFORMA
CAP162 ENTRY OVERRUN

Respondent:	Stuart Cotten
Company Name:	Drax Power Limited
Please express your views including rational with regard to the Working Group Consultation? **Including any issues, suggestions or queries**	To date, our responses have been provided on the basis that we do not have enduring transmission access rights. As you know, we do not accept that this is correct, and our right to raise this very important aspect is reserved. Whilst Drax can understand the rationale behind the overrun proposal, we are concerned over the potential consequences that such a proposal may cause, in terms of the socialisation of costs and the move to a sub-optimal transmission network. Drax believes that the main advantage of an overrun type product would be to help ensure that parties avoid a breach of the CUSC, should CAP163 Entry Capacity Sharing be approved (i.e. it would avoid capacity sharing parties from accidently using the same capacity at the same time and breaching the CUSC). Drax remains sceptical as to whether CAP162 would aid in the connection of new generation, given that the cost of transmission access per MWh could be volatile and heavily influenced by the actions of others on the system (i.e. a high risk strategy in terms of investment versus returns). We believe that this product may prove more useful for existing peaking plant that respond to extreme prices in tight periods (if they find this more desirable than existing transmission access arrangements), rather than helping to relieve connection congestion for new investments. Drax believes that there may be benefit in overrun aiding the more timely connection of new generation plant whilst wider transmission access upgrades are completed. However, we do not believe that it would be effective as an enduring method of access for a new developer. It is our belief that when investing in new generation plant, a developer would require a more stable, long-term access product over the term of the investment.
Do you believe that the proposed original or any of the alternatives better facilitate the CUSC applicable objectives, please state your reasoning?	Drax believes that the overrun product may prove more useful as tool to prevent breaches of the CUSC, should an amendment such as Entry Capacity Sharing be approved (therefore, it may be beneficial to competition if it were to help the Capacity Entry Sharing proposal). CAP162 appears to be non-discriminatory, in that all types of user could use the product. However, it may lead to a less efficient system where, if the costs are not targeted properly; it may work to the detriment of all users

	as a portion of the cost is socialised. We believe that the concern over users "free riding" access is valid and that costs should be targeted (i.e. the constraints caused as a result of overrunning), to ensure that there is minimal effect on those that do not use the product.
Do you support the proposed implementation, if no please state why and provide an alternative suggestion were possible?	Drax agrees with the Working Group on the implementation date and the need for testing prior to implementation.
Any other comments?	No.
Do you wish to raise a WG Consultation Request for the Working Group to consider?	No.

APPENDIX 3

CUSC WORKING GROUP CONSULTATION – RESPONSE PROFORMA
CAP163 ENTRY CAPACITY SHARING

Respondent:	Stuart Cotten
Company Name:	Drax Power Limited
Please express your views including rational with regard to the Working Group Consultation? **Including any issues, suggestions or queries**	To date, our responses have been provided on the basis that we do not have enduring transmission access rights. As you know, we do not accept that this is correct, and our right to raise this very important aspect is reserved. Although we do not believe that this amendment will resolve the issue of gaining more timely entry access on its own, CAP163 may provide benefits for plant that would like an interim solution for entry rights whilst wider works are completed. However, the benefits may be more easily used by portfolio players, rather than new entrants. It would also appear to make sense that this tool would be more effective when used between intermittent and conventional plant, rather than two plants of the same type. For example, the exchange rate is more likely to be closer to 1:1 where the two plants are closer; if two wind farms were to use sharing, they are more likely to require the access at the same time, i.e. when the "fuel" is available. The usefulness of sharing may be quite limited, depending upon the exchange rates offered to parties. The process of developing zones in all of the transmission access amendments has been very problematic, and has highlighted the issues of moving transmission access products around the system. If a solution cannot be found that facilitates exchange rates with useful ratios over wider areas of the system, this amendment may provide very little benefit. The risk of two parties that have a sharing agreement both generating at the same time is a real issue. To ensure the parties do not breach the CUSC, it would be advisable to ensure that an overrun type product is also available. Without an overrun product, this entry access tool may prove more risky to use, therefore less desirable.
Do you believe that the proposed original or any of the alternatives better facilitate the CUSC applicable objectives, please state your reasoning?	If this amendment were to lead to earlier connections based upon users sharing entry access rights, then this amendment could lead to greater competition. However, this will depend on the final design of the arrangements in terms of where sharing could occur and the anticipated exchange rates that users will have access to. If the modification is workable and there is an appetite to use the arrangements, then there should be benefits in the optimal use of transmission access rights. This will become more clear as work continues.
Do you support the	The implementation date appears reasonable.

proposed implementation, if no please state why and provide an alternative suggestion were possible?	
Any other comments?	No.
Do you wish to raise a WG Consultation Request for the Working Group to consider?	No.

embrace the revolution
www.embracewind.com

BWEA
Delivering the UK's wind, wave and tidal energy

Renewable Energy House
1 Aztec Row, Berners Road
London, N1 0PW, UK

T +44 (0)20 7689 1960
F +44 (0)20 7689 1969
info@bwea.com
www.bwea.com

Hêdd Roberts,
National Grid

31st October 2008

Dear Hêdd,

In view of the interaction of the current suite of TAR CUSC Amendments and associated charging modifications, as described in your Guidance Note accompanying the consultations, BWEA would like to make some over-arching comments on each of the access reform models, to accompany our responses to each of the individual Amendments.

Firstly, we would like to record our appreciation of the co-ordinated manner in which both CUSC, charging and related issues (such as zoning) have been developed and assessed. This has been invaluable and we would urge you to consider adopting this as common practice for future modifications.

Our remaining comments are on the two basic models of access reform proposed under CAPs 161 through to 165. Our comments on access allocation via an auction will follow in our CAP 166 response.

Connect and Manage

As you know, BWEA has supported Connect and Manage as a model which we feel could bring significant benefits. We take issue with some of the impact assessment that has been undertaken, but do accept that *in extremis* there are some potentially undesirable consequences that could be avoided. We do not have a consensus position on how these consequences should be avoided, but note the work on CAP 164 Alternatives and the calls for there to be much stronger incentives on all parties to better manage constraints.

Evolutionary Change

We are concerned that the Evolutionary Change proposals would not bring forward connections where this was cost effective, because of the low utility of the products to our membership. This is not a comment on the cost-reflectivity or otherwise of the products, it is more a question of the predictability of costs and benefits, and the complexity of some of the proposals.

At the very least, introduction of the evolutionary change model would mean that to avail of the short-term access products, a good portion of our membership would need to re-appraise their market entry strategy, re-finance their projects, consider implementing new trading operations, install new technical equipment, and, if they are considering trading independently, navigate the Balancing and Settlement Code and familiarise themselves with trends in BSUoS and the likely future market for constraint services and costs. If there is a one-off, early opportunity to secure any "spare" capacity at a good price, these members will clearly be at a disadvantage.

Furthermore, we are concerned that none of the Evolutionary Change proposals for short-term access provide our members with any guarantees on access for the amount of time required to make a new project bankable.

We are also concerned that by targeting constraint costs on users of short term access, they are being unfairly exposed to costs over which they have little or no control. This is further exacerbated by the existing non-compliance of the Scotland-England boundary. We would look for some very firm reassurances on these points should these proposals be implemented.

If you would like to discuss any of these points, or any of those in our responses to the individual TAR modifications, please don't hesitate to contact me.

Yours sincerely,

Dr Gordon Edge,
Director of Economics & Markets,
BWEA

Charles House
5-11 Regent Street
London
SW1Y 4LR
Tel: 020 7930 9390
Fax: 020 7930 9391
enquiries@aepuk.com
www.aepuk.com

31st October 2008

Dear Hêdd

AEP Response to the Connection and Use of System Code Amendment Proposals CAP161-166

Thank you for the opportunity to comment on the Connection and Use of System Amendment proposals CAP161-166. Please find attached our response.

If you wish to discuss any aspects of our response please contact Barbara Vest, Head of Electricity Trading on 07736 107 020

Yours sincerely

By email

David Porter OBE
Chief Executive

Copied to:
John Overton DECC
Stuart Cook Ofgem
Patrick Hynes National Grid
Sarah Hall National Grid

Association of Electricity Producers response to the Transmission Access Review consultations CAP161-166 issued October 2008

1. The Association of Electricity Producers represents generating companies in the UK with our membership comprising a wide range of technologies utilising fossil, nuclear and renewable sources of energy. A large number of our members have interests in generating stations using renewable energy or plan to build new, more carbon efficient plant, in future and are therefore in the process of either seeking investment, planning permission, or await connection to the Transmission System. Between them, members will undertake a vast majority of the investment needed to meet the Government's targets for renewable energy for 2010 and 2020. Members also include a number of non-generators. Members operate in a competitive electricity market and they have a keen interest in its success, not only in delivering power at the best possible price, but also in meeting environmental requirements. A full list of Membership is provided in the Appendix 3.

2. The Association is clear that for our country to prosper, the United Kingdom must be an attractive place to invest in energy infrastructure. To that extent if the regulatory and legislative climate is not inviting, investment in new generation projects can and will locate elsewhere. Therefore any review of transmission access must seek to deliver a clear, consistent and proportionate light-touch regulatory regime that encourages investment in the range of generation technologies capable of facilitating delivery of at least 20GW of new and replacement generation, built over the period from now till 2020. This will help to achieve all of the government's energy policy goals. We recognise the pressing case for resolution of many of the issues to be addressed within the suite of NGET proposals.

3. Our members agree that for electricity producers, network access is a long-term issue consistent with the whole life of a generating project. Primary access to electricity networks should operate in a transparent non-discriminatory manner and be cost based for all connections regardless of generation technology, voltage, location or network asset ownership. Network access should be viewed solely as a necessary enabling service that allows generators to get their product to their customer. Generators must continue to have rights of access that are clearly defined ensuring delivery of a predictable volume and duration that does not compromise the commercial viability of the generator.

4. The Association welcomes the opportunity to comment on the six Transmission Access Review (TAR) proposals raised by National Grid Electricity Transmission (NGET) and will, in addition, include its views on the process of development and assessment followed to date. We would also like to take the opportunity to propose options for further future developments of the new transmission access arrangements.

5. This response is in two parts. The first offers some general comments on the overall effect and implications of the proposed reforms, including commentary on the process so far and potential enhancement to the development cycle of these far ranging reforms. The second section details our members' views of the six individual amendment proposals. The Association would be pleased to discuss aspects of this response directly with DECC, Ofgem or NGET.

Industry Engagement to Date

6. The history behind the perceived need for the TAR has been well documented so far. We have seen a range of facilitating modifications that have been raised and developed by industry[1]. The proposals have been assessed by Connection and Use of System Code Working Groups, with some adopted (CAP150 – Capacity Reduction), some recently rejected (CAP131 – User Commitment for new and existing Generators) and some with the Authority for determination (CAP148 – Deemed Access Rights to the GB Transmission System for Renewable Generators). As an industry we will always seek to progress and enhance our day to day operational environment and recognise the need to adapt the transmission access arrangements further in order to achieve the challenging renewable energy targets set by Government.

7. To that end, on receipt of the suite of six TAR proposals our members ensured full engagement representing a wide range of technologies within the three Working Groups. The groups were established to develop and assess the options to facilitate delivery of more flexible transmission access onto the Transmission Systems within England, Wales and Scotland. Those volunteering to participate within the TAR Working Groups accepted the difficulty of the task. Having reached the point at which National Grid Electricity Transmission (NGET) has composed and issued all six consultation documents however our members have severe reservations about the overall robustness and thoroughness of the assessment of the proposals developed to date. This is an issue raised by the Authority in its 13th October 2008 determination of CAP131: User Commitment for New and Existing Generators[2]. Allowing the three Working Groups only five months to undertake a development that is of a scale equivalent to the introduction of the New Electricity Trading

[1] See list of Electricity Access related modifications listed in Appendix 1

[2] CAP131 response http://www.nationalgrid.com/NR/rdonlyres/6ED038C8-9A08-46B3-806B-9C3C330A4F4A/28940/CAP131D.pdf

Arrangements was always going to be challenging. On the gas side of the industry our colleagues have been struggling with a similar issue for almost ten years.

8. The process was further complicated by the fact that Working Group 1 was dealing with four amendments in parallel. The task faced by Working Group 2, who dealt with two contentious and complex proposals, was no less onerous. This lack of time and intensity of work undertaken leaves our members concerned that the objectives of the Transmission Access Review may not actually be delivered. Due to the intensity of effort required to complete this task, the Working Groups had to rely on much of the work being undertaken by sub groups and NGET, meaning that the risk of a disjoint in the overall design was increased. Indeed as late as the Working Group 2 meeting of 8th October significant gaps in the auction design process were being discovered. Bearing in mind the Ofgem criticism of the state of industry Final Reports[3] we find it difficult to understand how such a process could lead to accurate cost and benefit analysis and be supported by thorough in depth qualitative analysis to the level that Ofgem require as standard. The Ofgem attendees at the Working Group meetings must be aware of how frustrating the lack of time has proven to be.

9. The Association's members are concerned whether, during this short consultation period, industry will have enough information to develop viable alternate proposals, particularly from those who have not had the time or resource to engage within the Working Groups, and who could provide a valuable additional perspective. We have requested on several occasions that NGET issues an open invitation to industry to participate in 'A Day in the Life of' workshop which would encompass all six proposals to ensure the design delivers what it is proposing to and to educate the wider community about the purpose of each of the proposals, whether implemented to interact with one another or in isolation. This should have been undertaken prior to publication of the six consultation reports however time did not allow this to happen. This is a huge omission for such a radical suite of changes.

Work outstanding

10. Our members believe that they have secured evergreen transmission access rights and that NGET has no ability to remove those rights without legislation and significant compensation. We therefore do not believe that the CAP165 - Finite Long Term Entry Rights or CAP 166 - Long-Term Entry Capacity Auctions are permissible. Ofgems refusal to enter further dialogue on this issue within the

[3] Ofgem Code Governance Review Open letter http://www.ofgem.gov.uk/Licensing/IndCodes/CGR/Documents1/Open%20letter%20announcing%20governance%20review.pdf and CAP131 Decision Letter http://www.nationalgrid.com/NR/rdonlyres/6ED038C8-9A08-46B3-806B-9C3C330A4F4A/28940/CAP131D.pdf

Working Groups[4] has been an added frustration. We were told, during the July 08 Working Group meetings, that Ofgem believed that 'Existing generators do not have "evergreen" rights to the system (but we [Ofgem] are open to "legal" arguments)'. This is not at all helpful. To date, the issue of removal of rights and transition to a new regime has yet to be addressed. There are a great many Bilateral Agreements between NGET and individual power stations that will have to be unravelled. We do not believe that it is within the scope of this suite of amendments to change them.

11. There are several areas where we have requested additional clarification and have yet to be convinced that this will be delivered. This particularly concerns the lack of evidence around the potential for stranding of Transmission Assets (an important driver behind the raising of CAP165). This is a difficult concept to come to terms with in light of the current queue of generation awaiting transmission connection. In addition, industry consternation around the purpose, value and benefits of adopting an auction approach has yet to be allayed. During development of the short-term connection options the lack of process and transparency around the re-allocation of released Transmission Entry Capacity[5] became apparent. We require reassurance of timely and transparent resolution/reallocation going forward. In addition we do not believe that Security of Supply issues around increased numbers of intermittent generators connecting to the System have yet been fully assessed

12. We need a clear identification of what specifically exists within the proposed design to encourage NGET to offer Firm Connections. The suite of proposals, or indeed a combination of, should lead to an identification of enhanced long term signals to encourage power plant build within the UK. At present this is proving difficult to envisage due to the lack of overall detail and in-depth analysis.

13. Members also raise concerns that important recent innovations delivered by CAP150 – Capacity Reduction proposal have yet to be tried and tested.

14. In addition we have recently seen The Authority reject CAP131 – User Commitment for new and existing Generators. CAP131 emerged from work undertaken within the Ofgem-led Access Reform Options Development Group (ARODG) and was presented to the September 2006 Connection and Use of System Code Panel meeting. The Panel decided that CAP131 should proceed to Working Group assessment for 3 months with the first meeting of the Working Group held on 19 October 2006. The Working Group requested an extension of 2 months at the CUSC Panel Meeting on 24 November 2006 which the Authority approved. The Working

[4] Stuart Cook presentation to Working Groups 1, 2 and 3 July 2008 http://www.nationalgrid.com/NR/rdonlyres/D36AC4A0-65AC-4223-B509-FDF4E61DCBA/26976/0807OfgempresentationatTARWG2meeting.pdf

[5] TEC was released to the market in April 08 by a Scottish generator and capacity was only partially reallocated later in the year. The question remains as to what happened in between and where did the residual go?

Group Final Report was issued to the Authority on 24th July 2007 who issued an Impact Assessment 6 June 2008 and subsequently its determination letter to reject on 13th October 2008.

15. Even though Ofgem was meeting attendees throughout the CAP131 process and had chaired the ARODG meetings it stated that '*the key issue raised by all of the proposals is whether the different treatment of new and existing generators under CAP131 and the alternative proposals would give rise to undue discrimination. As such, an assessment of the appropriate level of user commitment for both new and existing generators is necessary so that any recommendations to the Authority to approve a proposal that has differential treatment are based on clear rationale, and where the issue of discrimination is engaged, any potential discrimination can be justified objectively. We note from responses to the IA that the working group did not directly assess whether or not new and existing generators was an appropriate distinction for different treatment of security cover. We have not seen a robust argument that the risk and impact of termination can be neatly categorised as between new and existing generators.*' With Ofgem attending the majority of TAR meetings it is hoped that any concerns will have been aired well before the six amendment reports are finalised. We consider Ofgem attendees are not Authority members and therefore their views cannot be deemed to be fettering Authority discretion.

16. Finally we await the Authority determination for CAP148 – Deemed Access Rights to the GB Transmission System for Renewable Generators. Until such time as we have certainty on this then we must assess the current suite of proposals against the current baseline. This further complicates the ability to fully understand the potential final design and overall impact on the future of the six proposals currently under examination.

Positives to take from the experience to date

17. At the beginning of this process the AEP sought the increased engagement and visibility of BERR (now DECC) and Ofgem staff throughout the development of each proposal. Ofgem was able to respond positively and members are convinced that this will enhance the decision making process as Ofgem staff will have been able to ensure Authority members were fully briefed throughout. One further improvement we anticipate will be the benefit at the determination stage when the Authority should be expected to follow the industry lead in expediting its decision-making phase in a timely manner. The industry, after all, has worked to an exacting timetable, it would be inappropriate for the Authority not to follow suit.

18. We believe that it should be possible, once the industry consultation process is complete to undertake some form of identification and fast tracking of 'Quick Wins' where a clear cost benefit has been identified. For example if the arrangements to support Transmission Entry Capacity Sharing can be adequately defined then this option should provide a positive System benefit and offer the opportunity to reduce the queue of those awaiting transmission access.

19. Many members have commented on the perceived benefit of adopting a holistic approach to the development of the six proposals which included co-incident revisions to the supporting Charging Methodologies within the design phase. We are aware that Ofgem is currently consulting on the appropriateness of including Charging Methodologies within an industry code governance framework[6]. Deliberations during the TAR process may prove that whilst to some this may appear beneficial, it might not be necessary to wait to formalize this approach if in future, where an impact on a Charging Methodology has been identified, a parallel assessment of any necessary charging changes is undertaken. We would suggest on conclusion of this exercise that this approach be assessed and if found beneficial adopted as best practice. We would however suggest that it would be beneficial to make sure both strands of development Working Groups hold occasional joint meetings as we found, for example, within this TAR process a disjoint between the Working Groups 1 and 2 understanding of the definition and purpose of Local Connection Nomination to that of Working Group 3.

20. During discussion of CAP165 – Finite Long Term Entry Rights amendment an improved understanding of the rationale behind the proposal emerged and many of our members now have an increased appreciation of the potential risks faced by NGET with regard to the future usage of the Transmission Network and perceived problems with the 5 day notice period for termination of entry capacity. In response a group of our members developed an alternate proposal WGAA3[7] which it is hoped will address NGET's concerns in a more proportionate manner. This compromise solution will introduce a notification process for generators to indicate their intention to remain on the System and therefore the guarantee of income for NGET. This may lead to enhancement of NGET's future network planning and network investment assessments which will ultimately flow through to the improved accuracy of future Price Controls.

Areas of Concern

21. Association members are concerned about the impact the uncertainty of this process will have on future investment for existing and commissioning plant, especially at a time when we know we need least 20 GW of new and replacement generation. Whilst generators believe that they have evergreen rights, i.e. those that continue until they notify NGET to the contrary, there exists a particular concern in relation to pre-commissioning generators who are currently signatories to construction agreements. Such generators are clear that the security they have lodged with NGET (in some cases in cash) was specifically lodged to cover the costs associated with providing a connection for their new plant. The amount of security can increase

[6] Ofgem Code Governance Review: Charging Methodologies Governance Options http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?file=CGR_CM_Sept_FINAL.pdf&refer=Licensing/IndCodes/CGR

[7] WGAAA3 introduced at the 20th August 2008 Working Group 1 meeting

during the course of construction (if they are on Final Sums) as the costs of their connection increases, notably if a new party joins a cluster and triggers further deeper reinforcement. The assets that they are providing security for are set out in the construction agreement, and discussions with NGET set out why each is required. It therefore follows that they can reasonably believe that they were securitising a connection right. As some of the agreement involve security sums ranging from tens of thousands to many millions, it would be reasonable for them to assume that the connection was not simply for a year. Such new plants have secured financing based not only on the project being a viable construction, but that they have secured transmission rights to give them access to the market to sell their power. Should the Authority agree to any modification that removes these rights we believe that it may face legal challenge which will send a dangerous message to developers that new build in the UK faces unmanageable risk.

22. Many AEP members have experience across both the gas and electricity markets and have raised grave concerns about the potential introduction of any form of auctioning process. The Association believes that capacity auctions are not an appropriate means of allocating network capacity. Our members believe that this approach does not deliver improved long term investment signals, inappropriately introduces under and over recovery into a regulated income stream and carries with it an onerous and unnecessary administrative burden. In particular any change which increases the uncertainty faced by GB generators, such as the introduction of auctions, will make GB less attractive for investment in generation when compared with our European competitors. If auctions are adopted this should result in a proportionate reduction of System Operator revenue incomes. This should be the end result as an auction approach means that the management, and associated risks, of a significant proportion of connection moves from NGET to generators who will be making the decisions, providing the funding and bearing the risks to support how much transmission access they procure and utilise under such a regime.

23. During the early stages of the CAP166 – Long Term Entry Capacity Auctions the Associations Electricity Network Committee extended an invitation to our gas colleagues to share with us their knowledge and experience of the gas auction regime. Despite having a much longer timeframe to develop the supporting business rules, auctioning within the gas regime has been beset with difficulties, so much so that six years in we still see corrective modifications being raised (UNC187a Transfer and Trades)[8]. The original rationale for the introduction of auctioning was apparently to highlight areas within the gas transmission network which required investment, an outcome yet to be delivered. NGET knows where the investment is needed within the electricity transmission network. NGET knows it has a queue of projects awaiting a reasonable connection offer. Why then do we need to introduce a costly and resource intensive auctioning process to provide the same answer?

[8] See list of Gas access related modifications listed in Appendix 2

24. Working Group 2 has had only five months to consider CAP166, a difficult enough task, complicated further by having to do so in shared meetings that also dealt with the development of CAP165 – Finite Long Term Entry Rights. Working Group members had no experience of designing an auction and we fear that if Ofgem persists in promotion of auctions many years will be spent correcting what is most likely a flawed design. Our members, participating in the Working Group 2 work, have contributed in an open minded and constructive manner. Even so the whole process of consideration of an auction design for TAR has been fraught with difficulty from the start. Zone definition, upon which the original proposal depended, proved impossible to complete in any meaningful manner, despite the very best efforts of NGET. The academic world is light on auction theory of the type required for electricity networks, therefore input from an appropriate level of expertise from within the academic world proved difficult. Devising a working model, albeit on an Excel spreadsheet, was a task which challenged the best amongst the Working Group 2 membership. We know that at the 8th October Working Group 2 meeting significant gaps in the auction design process were discovered. Yet at the point when the Connection and Use of System Code Panel requested three months additional development time, in order to ensure a valuable and worthwhile consultation would be issued to the industry, Ofgem refused to allow any more than two weeks. At present we have yet to be fully convinced of the costs, benefits and impacts associated with such an approach. Indeed it would perhaps be more appropriate to allow more time and effort to enable the existing queue mitigation measures introduced by CAP150 – Capacity Reduction, which was only implemented on 16th May 2008, to work before embarking on such radical and costly measures.

25. NGET issued the Working Group CAP166 – Long Term Entry Capacity Auctions consultation on 17th October 2008 with, as expected, the assessment far from complete. This is most disappointing, especially when the intensity of activity required by both NGET and the Working Group 2 members meant an unwelcome distraction from the process of assessment of the already released suite of TAR Working Group consultations. This also adversely impacted the period when the Working Groups needed to ensure wider understanding of the proposals as currently developed and have an opportunity to consider alternative approaches. The three months would have been used to attempt to improve the auction design and ensure that it was subject to robust testing. The Working Group may also have had time to begin development of the auction assessment method statement and carry out an assessment of the impact of auctions on Security of Supply.

26. We believe that System planning standards should ensure consistent treatment for all generation connections and wherever possible should allow choice of connection by the generator. Policies and procedures for provision of connections and management of the connection process should be non-discriminatory, transparent, cost reflective and subject to industry governance. Government and regulatory policy makers must recognise the fundamentally important role that the planning

system and its associated processes play in the promoting effective investment in the electricity transmission network. The associated planning constraints inevitably result in a long, slow process for electricity transmission build. Current Planning Bill enhancements may improve the process, however as it will only apply in England and Wales, this will not help those requiring connections in Scotland.

27. The extremely short assessment timetable has meant that there remains uncertainty about the true impact on power price and linkage to carbon should any of the amendments be approved. One emerging likely scenario however is the impact in Scotland where a significant number of renewable generators could be allowed to connect to a network which is known to be already severely constrained. It is feasible that we end up in a situation whereby renewable generation has to constrain off competing renewable generation. This appears counter intuitive to what the transmission access review is trying to achieve and an area which requires further debate.

28. In the background to this whole development process there have remained uncertainties around the legislative backstop route frequently referenced by Ofgem with little known about what this alternative approach might involve. The question of whether this could be a better way to achieve more appropriate and targeted results remains until such time as DECC provide more detail about what might be proposed, when this might occur and what would fall within or without scope. Our members would benefit from further information at the earliest opportunity.

Proposed way forward

29. During development of the suite of proposals it became apparent that there were some possible winners and losers amongst the six approaches and our Associations Energy Network Committee discussed potential preferred combinations. Committee members noted however that Connection and Use of System Code Panel must assess each amendment individually against the baseline in existence at the time of their deliberations. The committee felt that CAP161 – System Operator Release of Short-Term Entry Rights, CAP162 – Entry Overrun and CAP163 – Entry Capacity Sharing could exist together and offered the best combination whilst recognising that CAP163 – Entry Capacity Sharing may need CAP162 – Entry Overrun in order to operate efficiently. CAP166 - Auctions was unworkable both in its' interaction with the sharing proposal and from a security of supply point of view. We would suggest therefore, in light of exacting time constraints, that it may be appropriate to concentrate future effort on resolving the design and assessment options being dealt with by Working Group 1further.

30. In summary implementation of CAP161-System Operator Release of Short-Term Entry Rights, 162 – Entry Overrun and 163 – Entry Capacity Sharing would allow more choice for generators to manage access and facilitate the connection of renewable generation in the short term. Whilst CAP164 - Connect and Manage

does not work in its current form ongoing development of a Working Group alternate to address the issue of cost reflectivity may yet prove beneficial. Association policy reflects the lack of support for CAP166.

31. Whichever of the suite of amendments are to be subject to further development our members believe that it is paramount, in order to ensure improved wider understanding of what is to be delivered for transmission access, a more robust assessment approach be established from this point. During the development of the New Electricity Trading Arrangements (NETA) industry established a Steering Group supported by a number of Expert Groups and a Programme Management Board. The impact of the proposals under review if adopted will mean a radical shift from the current baseline. It therefore follows that the industry requires a suitable developmental framework be established in order to move the process forward. We would suggest such an approach be given appropriate consideration.

32. The stated aim of the Transmission Access Review is to ensure that the GB transmission system and associated charging and access arrangements are able to facilitate the connection of the significant amount of additional renewable electricity generation required to meet the Government's targets by 2020. While charging and access arrangements are vital the primary means of achieving these targets will be through significant investment in network infrastructure by Grid Owners. We are concerned that insufficient emphasis and urgency is being placed on the need for such network investment and appropriate incentivisation of Grid Owners and Operators to achieve this. Without such investment being signalled generators will not have the confidence to make long term investments no matter how attractive changes to charging and access arrangements are perceived to be.

33. Grid Owners and Operators should be adequately incentivised through their licence requirements and security standards to deliver the most appropriate network to enable generators and suppliers to trade their energy. Association members believe that additional financial incentives should only be required where a clear business case has been identified and would support proposals to encourage network owners to move towards more strategic and timely investment ahead of full user commitment provided it is linked to appropriate risk and reward arrangements. To that end, in order to kick start this process now, we would propose Ofgem consider a relaxation of revenues within the scope of their Transmission Operator Incentive Scheme review in order to enable NGET to invest. It is likely that such investments will result in an increase in Transmission Network Use of System charges however for some members this would be preferable to the uncertainty delivered by increases in Balancing Services Use of System charges that would otherwise be incurred to resolve System constraints. If such an approach were adopted we believe this should be introduced alongside requirements for Network Asset Owners and System Operators to publish sufficient network information to assist the understanding of key network investments by generator developers in order that they can monitor progress towards provision of additional wires.

34. GB transmission charging and access arrangements for generators are already significantly different to those for generators in the major neighbouring European Union Member States with GB generators facing much more uncertainty under these arrangements. From an investment and competition viewpoint it is important to assess the European impact of changes to GB arrangements. The European Commission's stated aim is to increase the harmonisation of trading arrangements; particularly on a regional basis across Europe. Any changes taking us further away from our most important neighbours require justification.

CUSC WORKING GROUP CONSULTATION – RESPONSE PROFORMA

CAP161 – System Operator Release of Short-Term Entry Rights

Respondent:	*Barbara Vest Head of Electricity Trading* *Tel: 0207 930 9390 Mob: 07736 107 020*
Company Name:	Association of Electricity Producers
Please express your views including rational with regard to the Working Group Consultation? **Including any issues, suggestions or queries**	Association members believe that this proposal is non discriminatory. We believe it may have merit in that it could help reduce the queue if it encourages TEC release. However this statement applies only if any release of TEC is appropriately managed. This concern crystallised during one of the earliest Working Group 1 meetings when it was revealed that TEC released by a Scottish generator appeared not to have been redistributed in a timely manner to those waiting in the queue. There is a question about what happened to the total amount as only a proportion of the amount available was subsequently released. Did NGET effectively remove this TEC as Scottish System is non-compliant? Pay as bid will be difficult for Users in the initial stages as there is little visibility of the economic value of access in the short term All options of SO release carry a risk of increased, or decreased, BSUoS as a result of incorrect analysis and price calculations by the SO, the risk decreases as timescales/duration decrease Full recovery of costs/BSUoS unknown as the extent of utilization of this option yet to be ascertained. In addition the full impact on BSUoS/RCRC remains unknown as to date no load flow modeling has been carried out. It will be necessary that the option is fully trialed and tested in order to reveal the full impact on the System and wider industry costs. It is possible that if there is significant use of this option that there could result in an over/under recovery of TNUoS Linkage to SO Incentive Scheme unknown however there is consensus amongst our members that NGET need to bear some of the risks/costs where they their analysis proves incorrect. e.g. this links into the increase in BSUoS costs 2008/09

	There were concerns about the 5 week-ahead model as conditions can change in this timeframe meaning this option may not work for wind as too far from real time, therefore the 2 day ahead option has been developed. In the case of short term release of access 2 day ahead auctions (or day ahead if it goes that way), if the cost of access increases quickly, generators who provide cash security would have great difficulty, certainly in the current climate in providing NGET with any additional credit amounts within these timescales. Should NGET investigate the potential to carry insurance cover against such generators? In the case of 1 day rights, it is likely not too cost them too much and would facilitate greater flexibility and might promote more participation? Credit issues generally need to be addressed as this is a major and potentially costly change from current arrangements. 5 week-ahead release should enable the SO to carry out improved planning. This option may work for some technologies (e.g. Pumped Storage, Hydro, OCGTs). The suite of options (2DA, 5WA and up to 42 week ahead CLDTEC) provides opportunities for all technologies to manage access and power sales over different time periods Transition yet to be discussed, in particular the linkage to the charging regime. Do we assume cutover to new regime seamless? In addition does the current queue disappear with a new one created whilst generators await long term connection arrangements to be delivered? It may be the case that in some areas where there are lower constraint costs generation may choose to use SO Release rather than pay TNUoS. This may result in the introduction of an element of Free Riding. Not a transparent process so unease if included within the SO incentive scheme. Once the SO has recovered its costs any residual should flow through to BSUoS We note that details such as NGET's auction assessment method statement are not yet available. There must be an opportunity for industry comment on the draft auction assessment method statement once it is available
Do you believe that	May deliver improvements against Applicable CUSC Objective

the proposed original or any of the alternatives better facilitate the CUSC applicable objectives, please state your reasoning?	A "Efficient discharge by the Licensee of its obligations" as the proposal should lead to improved optimisation use of GB Transmission System. CAP161 should lead to increased competition by enabling more efficient use of the GB transmission system, especially by generating plant with low load factors or with variable output. Assessment of this proposal against Applicable CUSC Objective B has proven difficult but our members believe that the release of access on a short term basis will provide more choice for generators and consequently promote competition in the power markets. However a robust analysis of this view has yet to be undertaken
Do you support the proposed implementation Date?	Provided it is supported by a robust and beneficial cost benefit analysis, including a full understanding of the impact on the SO Incentive Scheme and charging regime
Do you wish to raise a WG Consultation Request for the Working Group to consider?	No

Specific questions for CAP161

Q	Question	Rationale
1.	**Is there a benefit in moving to a day ahead auction?** **If so do CUSC Parties prefer the first or second option for the timeline for the 2 day SO Release auction, noting the resource implications in section 34.70?**	Yes, although requiring additional resource there must be benefits as such an approach would enable generators and the SO to use the most up to date weather and network information (outages/constraints) available at the time. Such enhancements will emerge with experience
2.	**What information, published ex post, would be useful to participants?**	We note that "*the Working Group agreed that after the auction, all information, and the result of the auction should be published, as soon as reasonably possible, including all successful and unsuccessful bid information (location, volumes and prices (bid and buyback))*." We agree with these considerations. We would also expect updates at the NGET Operational Forum in order to identify potential future enhancements

Q	Question	Rationale
3.	**Would Parties prefer a seven day a week auction or 5 day a week auction?**	We consider that the day-ahead auctions should take place at weekends as well as weekdays. It is up to parties to decide how best to utilise this option

CUSC WORKING GROUP CONSULTATION – RESPONSE PROFORMA

CAP162 – Entry Overrun

Respondent:	*Barbara Vest Head of Electricity Trading* *Tel: 0207 930 9390 Mob: 07736 107 020*
Company Name:	Association of Electricity Producers
Please express your views including rational with regard to the Working Group Consultation? **Including any issues, suggestions or queries**	Association members believe that this proposal is non discriminatory. We believe this to be a more commercial solution to the existing cumbersome breach provisions for overrunning access rights Creates a capacity imbalance mechanism for all users The full impact on BSUoS/RCRC remains unknown as to date no load flow modeling has been carried out. It will be necessary that the option is fully trialed and tested in order to reveal the full impact on the System and wider industry costs. It is possible that if there is significant use of this option that there could result in an over/under recovery of TNUoS The Simple Methodology can be implemented in the short term, is transparent and with part of the charge published ex-ante, gives a better view to generators to enable them to make use of Entry Overrun. Any risks associated with the accuracy and cost reflectivity outweigh the benefits of early implementation. The Cost Recovery model requires significant additional resource however the benefits of this additional overhead compared to the additional cost has yet to be assessed. The Marginal Methodology has been developed in a prototype Excel Spreadsheet and is at this stage not well known by the industry and has been insufficiently tested The treatment of the over/under recovery resulting from the use of all of the options is unknown, potentially complex and non-transparent. The socialised costs within the scalar model would result in those who are overrunning benefitting if there is an over recovery funds redistribution

	Appropriate credit will be required for Entry Overrun. The level required would be established in the assessment stage in accordance with the Best Practice Guidelines for Gas and Electricity Network Operator Credit Cover and has yet to be fully reviewed by the Working Group Additional constraint costs must be allocated to those who cause them with calculation and allocation methodology applied in a timely manner If majority of generators utilise overrun in future what is the impact on investment signals for NGET. Where is the tipping point for overrun?
Do you believe that the proposed original or any of the alternatives better facilitate the CUSC applicable objectives, please state your reasoning?	This proposal may facilitate increased competition May increase opportunity to connect to the NGET if new entrants can utilise some of the spare capacity potentially freed up by exiting connectees Should enable opportunity to assess risk/reward to enable arbitrage between mix of firm/non firm products Should enable opportunity to assess risk/reward to enable arbitrage between mix of firm/non firm products This proposal should lead to increased competition therefore is offers a code enhancement against Applicable CUSC Objective B
Do you support the proposed implementation Date?	Provided it is supported by a robust and beneficial cost benefit analysis
Do you wish to raise a WG Consultation Request for the Working Group to consider?	No

CUSC WORKING GROUP CONSULTATION – RESPONSE PROFORMA

CAP163 – Entry Capacity Sharing

Respondent:	*Barbara Vest Head of Electricity Trading* *Tel: 0207 930 9390 Mob: 07736 107 020*
Company Name:	Association of Electricity Producers
Please express your views including rational with regard to the Working Group Consultation? **Including any issues, suggestions or queries**	Association members believe that this proposal is non discriminatory. CAP163 provides for a user led framework for entry capacity sharing, with the entry capacity nodal approach limiting the risks of the additional constraint costs identified by introduction of a zonal entry capacity sharing approach Despite the best efforts of NGET development of this proposal was severely hampered by problems identified within the Nodal v Zonal debate. If artificially large Zones are created to facilitate more sharing then this could significantly increase constraint costs which would be socialised through BSUoS In addition the introduction of entry capacity sharing on a nodal basis needs further development to allow industry to understand the application process for exchange rates and their calculation. Generators would see little value in an ex post exchange rate based on overrun process as they would have no visibility in advance of the cost of access The impact on and interaction with the current TEC Trading Scheme has yet to be fully assessed This proposal may be of limited value if generators cannot find someone to share with at suitable exchange rates
Do you believe that the proposed original or any of the alternatives better facilitate the CUSC applicable objectives, please state your reasoning?	In theory this proposal should allow more effective utilisation of existing Transmission network and may deliver signals for network investment. In addition if successfully implemented this might improve Security of Supply if more generators are seen to be connecting to the System .e.g. if windfarm developers share with existing plant. However in order to attract participation the exchange rate methodology must be robust and transparent. If achieved then this proposal may be an improvement against CUSC Applicable Objective's A and B
Do you support the proposed implementation Date?	Provided it is supported by a robust and beneficial cost benefit analysis
Do you wish to raise a	No

WG Consultation Request for the Working Group to consider?	

CUSC WORKING GROUP CONSULTATION – RESPONSE PROFORMA

CAP164 – Connect and Manage

Respondent:	*Barbara Vest Head of Electricity Trading* *Tel: 0207 930 9390 Mob: 07736 107 020*
Company Name:	Association of Electricity Producers
Please express your views including rational with regard to the Working Group Consultation? **Including any issues, suggestions or queries**	A variety of access products and exchange and trading services should be available to generators to enhance the optimisation of use of available access, subject to their impact on other users and the avoidance of risk of compromising the access standards of other users. These products and services should be developed as options to facilitate optimisation, not as prescriptions to discriminate between generators. Association members believe that this proposal is non discriminatory only because users have a choice on whether to accept a TEC Effective Date. However any perceived benefit is negated due to the resulting discrimination against all other network users as the potentially significant additional costs of Connect and Manage are then socialised and therefore not targeted on those who cause them The headline for this proposal should be that, in theory, the amendment could facilitate additional generation to connect to the Transmission System; however analysis shows that the impact of the additional System constraints and associated costs would wipe out any delivered carbon benefit. This problem is further exacerbated by the fact that much of the generation wishing to make use of this option will be aiming to connect in areas already severely constrained. This will inevitably lead to renewables limiting access to other renewables (constrained off). In addition the GBSO would need to ensure that adequate reserve was available to meet the increased likelihood of unexpected changes in generator output The problem areas on the transmission network are already known therefore the linkage to and reliance on local works is critical. The result could be that there is little impact on System investment as signals already there but cannot be met due to planning restrictions and other factors. Planning in England, Wales and Scotland is a slow process in terms of electricity network investment. In Scotland for example Planning Permission has a 3 year lifespan. Delivery of Transmission

	System enhancements can easily take longer and therefore the risk of 'timed out' permissions is a real one. The service standards for connection should be agreed and there should be appropriate redress when the standard is not achieved or delivered in an agreed timescale. Wherever possible there should be competition in the provision of connections, with connecting parties having the option to organise the provision of connection assets. Economic rationality applied to the provision of access means that there must always be scope for some degree of constraint in access to the network, but this must be determined through clear access rules and procedures that take account of the costs and benefits Although more renewable generators should have the opportunity to connect earlier some of the benefit may be achieved by better management of the queue There is no evidence that CAP164 would improve investment signals to NGET to invest in new transmission. One option may be to amend the SO incentives scheme to be multi-year with NGET sharing a proportion of the much higher BSUOS payments as a result of CAP164. This would then incentivise investment
Do you believe that the proposed original or any of the alternatives better facilitate the CUSC applicable objectives, please state your reasoning?	Even though this proposal may allow more generation to connect earlier than would be the case under the current arrangements, the overall additional costs imposed on the wider community could be considered as not proportionate or cost reflective. However our members are contributing to the development of an alternative proposal to address these concerns the aim of which is to provide an improved balance between the socialisation of costs and cost targeting for those generators which cause them
Do you support the proposed implementation Date?	Provided it is supported by a robust and beneficial cost benefit analysis
Do you wish to raise a WG Consultation Request for the Working Group to consider?	No

CUSC WORKING GROUP CONSULTATION – RESPONSE PROFORMA

CAP165 – Finite Long Term Entry Rights

Respondent:	*Barbara Vest Head of Electricity Trading* *Tel: 0207 930 9390 Mob: 07736 107 020*
Company Name:	Association of Electricity Producers
Please express your views including rational with regard to the Working Group Consultation? **Including any issues, suggestions or queries**	Industry believes that they have evergreen transmission access rights and have seen no evidence to show that this is not the case. The fact that well in advance of connection generators are required to invest significant sums in order to allow NGET to provide the required level of connection and System reinforcement, followed by years of further TNUoS payments is evidence that the rights are evergreen until such time as the generator decides transmission access is no longer required. The fact that Ofgem refused further dialogue on this did not help understand the full purpose of this proposal. In their July 2008 presentation to the Working Group Ofgem stated that 'Existing generators do not have "evergreen" rights to the system(but we [Ofgem] are open to "legal" arguments)'[9] This was not a satisfactory way to leave this crucial issue. Of concern is the fact that to date there has been no attempt to address issues around the process of withdrawal and compensation for removal of existing rights and transition to the new regime In response to the emerging understanding around the potential impact of a 5 day termination notice the Working Group have developed, and are still coming to grips with, what some consider as a compromise agreement offering NGET a rolling [4year] notification period of their intent to generate. This would align to investment lead times. In addition this makes a commitment workable in that it is linked to liquidity in the market rather than a requirement to link amounts to an overinflated price at auction or long commitment period. This addresses the potential high level of outturn costs associated

[9] Stuart Cook presentation 9th July 2008
http://www.nationalgrid.com/NR/rdonlyres/D36AC4A0-65AC-4223-B509-2FDF4E61DCBA/26976/0807OfgempresentationatTARWG2meeting.pdf

	with the original proposal. For example, a 20 year commitment at a high TNUoS price may result in a generator being exposed to excessively high cost during periods when power price drops significantly. The resulting burden could force business into bankruptcy with costs falling on all other participants and no advance warnings for NGET. The economics of this approach just do not add up. The introduction of finite rights removes generator flexibility and as a consequence reduces efficient exit from the System
Do you believe that the proposed original or any of the alternatives better facilitate the CUSC applicable objectives, please state your reasoning?	Working through this proposal has enabled the industry to better understand the problems faced by NGET with regard to generator withdrawal from use of the transmission network. However industry believes that they have evergreen rights and, despite requests to Ofgem for proof that this was not the case, Ofgem refused further dialogue on this issue. We can see no benefit within this proposal against any of the Applicable CUSC Objectives
Do you support the proposed implementation Date?	No because we do not see this as a valid proposal. Our members believe that they have secured evergreen transmission access rights and that NGET have no ability to remove those rights without legislation and significant compensation
Do you wish to raise a WG Consultation Request for the Working Group to consider?	No

CUSC WORKING GROUP CONSULTATION – RESPONSE PROFORMA

CAP166 – Long Term Entry Capacity Auctions

Respondent:	*Barbara Vest Head of Electricity Trading* *Tel: 0207 930 9390 Mob: 07736 107 020*
Company Name:	Association of Electricity Producers
Please express your views including rational with regard to the Working Group Consultation? **Including any issues, suggestions or queries**	Despite their best efforts the lack of time afforded to the Working Group meant that assessment of this proposal was not complete Following evidence presented by the Connection and Use of System Code Panel that the consultation was not fit for release we were surprised at Ofgems insistence that the Working Group were to complete their deliberations within a maximum two week extension period rather than the requested three months (Note: the Working Groups original recommendation to the CUSC Panel was a minimum six month extension). This follows Ofgems criticism of industry code change assessment reports raised via its Code Governance Review, and most recently its CAP131 – User Commitment for New and Existing Generators determination letter. It has been impossible, due to the lack of detail, assessment of benefit and omission of clear evidence in support of a case for change, to fully assess and respond to this particular Working Group consultation
Do you believe that the proposed original or any of the alternatives better facilitate the CUSC applicable objectives, please state your reasoning?	In its current state we can see no evidence of benefit within this proposal against any of the Applicable CUSC Objectives
Do you support the proposed implementation date?	No because we do not see this as a valid proposal
Do you wish to raise a WG Consultation Request for the Working Group to consider?	No

Magnox North

Magnox North
Support Office

Berkeley Centre, Berkeley
Gloucestershire GL13 9PB
Tel: +44 (0)1453 814000
Fax: +44 (0)1453 812529
www.magnoxnorthsites.com

31 October 2008

Patrick Hynes
UK Transmission Commercial
NGT House
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA

Direct tel: 01453 81 3631
Direct fax: 01453 81 2001

Your ref:
Our ref:

Dear Patrick

Response to National Grid TAR Consultation CAP161-166

I am responding on behalf of the Nuclear Decommissioning Authority (NDA) to the Transmission Access Review (TAR) Working Group consultation. As you are probably aware, the NDA is the owner of the former Magnox, UKAEA and BNFL sites, which currently includes two directly connected large power stations, one embedded large power station, one embedded small power station, several directly connected demand sites, and a number of distribution-connected demand sites.

Our comments on the individual CUSC amendments 161 to 166 are provided separately.on the standard Pro-forma provided for this. I have emailed comments on CAP 161-164 to you, on CAP 165 to Sara Hall, and on CAP 166 to Mark Duffield. This letter contains some general comments applicable to all the amendments

The NDA understands the objective of TAR to allow more new generation to connect to the system sooner than under the current arrangements. This is a desirable objective, which the NDA supports, particularly in view of Government policy for a rapid increase in the use of renewables for generation. But TAR does not create additional transmission assets, and it is not clear whether TAR would allow a significant amount of additional generation to connect early.

TAR goes well beyond the six CUSC amendments, and is likely to require significant changes to the charging principles, and to the security standards (GBSQSS). Because the various possible changes are strongly interlinked, comments on individual changes cannot be taken in isolation. Overall, whatever combination of changes is eventually introduced, the NDA considers it important that the following general principles are followed, for the benefit of all users:

- There should be no reduction in the security of grid connection, or security of supply, to any particular user or to users as a whole
- The introduction of short term access products etc should not cause a material increase in charges, compared with current arrangements, to generators who chose to continue to use long term access products.

- There should be no material transfer of charges from one party to another, for example, by the introduction of a flat MW-hour charge. A transfer of charges from one class of users to another class of users would effectively be a cross-subsidy and is unacceptable as it conflicts with the applicable CUSC objectives.
- There should not be a material increase in charges to demand users compared with continuing current arrangements.
- There should also be no material increase in the volatility or uncertainty of future charges to users, when compared with a continuation of the current arrangements

The short term measures CAP161, CAP162 and CAP163 allow the unlocking of potential additional short term capacity compared with current arrangements, and allow the system operator to use existing transmission assets a little more efficiently. They would not necessarily have an adverse effect on existing users and so are generally acceptable. CAP 164 might allow some additional capacity but with a risk of significant increased costs to most users, and windfall payments to a few generators. CAP 165 and CAP166 do not release additional capacity, but effectively re-allocate capacity rights between generators; for this reason CAP165 and 166 need to be examined carefully to ensure they do not introduce undue discrimination.

The amendment proposals deal exclusively with access rights for generation, and do not discuss demand. It has been a general principle in the past that generation and demand should generally be treated in a symmetrical manner, where this is reasonable. We would like the working groups to consider this issue, and indicate in the final working group reports whether there may be consequential changes for demand.

I hope the comments are clear; they are not confidential. Please contact me if you wish to discuss further.

Yours Sincerely

David Ward

Grid Interface Engineer
Operational Programmes, EWST, Magnox North
david.m.ward@magnoxnorthsites.com

ANNEX 2 – WG CONSULTATION REQUESTS

Reference	Company	Details of the proposal	Working Group Comments
CAP162-WGCR-01	EDF energy	Simple tariff based on BSUoS. Proposal removes link to imbalance pricing	The working group agreed not to take forward as a WGAA on the basis that it was a charging issue. National Grid that it could be considered along with responses to charging pre consultation GBECM14.

CUSC WG CONSULTATION REQUEST FORM

Please send your completed form along with your completed Working Group Consultation Response to Patrick Hynes by 31st October 2008.

Please note that any responses received after the deadline may not receive due consideration by the Working Group.

Respondent Name and contact details	*David Scott, Energy Branch, 5th Floor, Cardinal Place, 80 Victoria Street, London, SW1E 5JL; 0203 126 2315*
CAP162 Transmission Access Entry Overrun	
Capacity in which the WG Consultation Request is being raised : (i.e. CUSC Party, BSC Party or "National Consumer Council ")	CUSC Party

Description of the Proposal for the Working Group to consider*(mandatory by proposer)*:
The Charge is based on X*BSUoS only.

Description of the difference(s) between your proposal compared to Original / Working Group Alternative(s) *(mandatory by proposer)*:
Equivalent to the Original proposal using the simple formula X*(BSUoS-RCRC), but without the –RCRC element. Where X is the zonal multiplier for the [24] overrun zones.

Justification for the proposal (*including why the Original proposal / Working Group Alternative(s) does not address the defect*) *(mandatory by proposer)*:
BSC parties are exposed to imbalance through the Energy Imbalance Charge (EIC) which is a payment associated with either short or long volumes multiplied by SBP or SSP respectively. Energy imbalance cash-out prices (SBP/SSP) aim to represent the marginal cost of replacement energy, not system actions, such as constraints[1]. The aim of the EIC is not to recover the cost of the GBSO resolving the net imbalance of contract notifications against demand; rather it is an incentive for parties to self-balance and settles the gross imbalance of all parties. The net value of these cash-flows between parties and the GBSO is redistributed through the Residual Cashflow Reallocation Charge (RCRC) charge. This is the difference between the SSP & SBP prices and the respective party imbalance volumes to which they are multiplied. RCRC therefore does not equate to the cost of resolving the net imbalance. The actual cost of net imbalance is the bid or offer cashflows between the generator and the GBSO, which is included in BSUoS either as bid or offer revenues. This means that when the system is long, bid receipts may depress the overrun charge somewhat (if there is no offer side action accompanying it), however the actual cost of overrunning, which is constraints, will still be reflected by the bid-offer spread of bids with corresponding offer side actions.

Impact on the CUSC *(this should be given where possible)*:
None – same as Original proposal

Impact on Core Industry Documentation *(this should be given where possible)*:
National Grid's Use of System Charging Methodology
BSC: the BSC uses a dual price methodology in setting cash-out prices, with a reverse price that has historically encouraged parties (suppliers) to submit contract notifications in excess of metered volumes. Thus the average Net Imbalance Volume (NIV) typically requires the GBSO to accept bids on generators to reduce output. Significant uptake of Overrun may encourage parties to go longer to

[1] P217, recently approved by ofgem aims to eradicate the pollution of cash-out prices by constraint actions. P217 will remove most "pollution" of cashout prices and hence of RCRC by constraint-related effects rendering any past correlations between RCRC and BSUoS, weaker

depress the overrun charge.	
Impact on Computer Systems and Processes used by CUSC Parties *(this should be given where possible)*: None	
Justification for the proposal with Reference to Applicable CUSC Objectives* *(mandatory by proposer)*: These changes to WGAA1 better CUSC objective "b" by: Removing any unnecessary interrelation between constraint costs and imbalance payments/receipts.	
Attachments (~~Yes~~/No): **If Yes, Title and No. of pages of each Attachment:**	

Notes: None

1. Applicable CUSC Objectives* - These are defined within the National Grid Electricity Transmission plc Licence under Section C7F, paragraph 15. Reference should be made to this section when considering a proposed amendment.

ANNEX 3 - REPRESENTATIONS RECEIVED DURING CONSULTATION

This Annex includes copies of any representations received following circulation of the Consultation Document (circulated on 28 November 2008, requesting comments by close of business on 12 December 2008).

Representations were received from the following parties:

Company	File Number
AEP	CAP162- CR-01
British Energy	CAP162- CR-02
Centrica Energy	CAP162 - CR-03
Drax Power Limited	CAP162 - CR-04
E.ON UK plc	CAP162 - CR-05
First Hydro	CAP162 - CR-06
Immingham CHP LLP	CAP162 - CR-07
REA	CAP162 - CR-08
Rio Tinto Alcan	CAP162 - CR-09
Scottish and Southern Energy	CAP162 - CR-10
Scottish Power	CAP162 - CR-11
Welsh Power	CAP162 - CR-12

Drax Power Station • PO Box 3 • Selby • North Yorkshire • YO8 8PQ • T. +44 (0)1757 618381 • F. +44 (0)1757 618504

FAO Bali Virk
National Grid
National Grid House
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA

12th December 2008

Dear Bali,

Company Consultation Response for CAP161 System Operator Release of Short-term Entry Rights, CAP162 Entry Overrun, CAP163 Entry Capacity Sharing, CAP164 Connect and Manage and CAP165 Finite Long-term Entry Rights

1. Drax Power Limited is the operating subsidiary of Drax Group plc and the owner and operator of Drax Power Station in North Yorkshire. We are pleased to have the opportunity to respond to the aforementioned consultations regarding CAP161-165.

2. To date, our responses have been provided on the basis that we do not have enduring transmission access rights. As you know, we do not accept that this is correct, and our right to raise this very important aspect is reserved.

3. The Government has committed to challenging targets for the connection of renewable generation by 2020; a challenge that requires substantial new investment by both current industry parties and new entrants. Drax has recently announced its intentions to invest in three new biomass plants that will provide a combined total of 900MWs of renewable generation capacity; these investments will count towards meeting the Government's renewable targets. Drax shares the concerns of other industry parties that the changes proposed as a result of the Transmission Access Review are on a par to the scale of NETA. However, the industry has only been allocated a very short timescale in which to consider potential solutions that address the issues highlighted in the joint report developed by Ofgem and BERR earlier this year.

4. Drax acknowledges that there are serious issues regarding the GB Queue in terms of the timely provision of access for serious investors, whose connection dates have been substantially delayed due to the volume of speculative connection requests. However, we note that the recently approved CAP150 amendment, which aims to address these GB Queue management issues, has not been given the time required to test its effectiveness. It is of grave concern that persistent changes to the access arrangements only serve to provide further uncertainty for investors, particularly at a time when the Government is striving to encourage investment on an unprecedented scale.

CAP161-163 Short-term Access Proposals

5. Whilst Drax understands the rationale behind the short-term access proposals in CAP161-163, we still remain very sceptical as to whether the release of short-term entry rights would aid the connection of new generation as an enduring access product. It is our belief that when investing in new generation plant, a developer requires certainty of market access over the term of the investment; whilst the use of short-term products provides a new route to gaining transmission access, it is unlikely that a business would invest based upon short-term access arrangements alone.

6. Drax believes that there may be benefits in using short-term access products to aid early connection to the system whilst wider upgrade works take place. However, such products must be highly flexible and work over reasonable distances of the transmission system (i.e. the capacity sharing proposals will only be beneficial to parties if they are offered reasonable exchange rates). Whilst capacity sharing appears to be a good concept that provides greater optimisation of the transmission system, the benefits may be more easily used by portfolio players with multiple sites rather than new entrants, thereby making the wholesale market less competitive.

7. We remain concerned over the potential for greater costs being socialised across the system, especially due to the consequences of an overrun style product. Whilst we see the benefit of an overrun product in terms of avoiding breaches of the CUSC in situations where generators share access capacity and have the potential to generate at the same time, we still have reservations regarding its use as a general purpose short-term access solution. Greater targeting of costs towards the source of the constraints may help to reduce the burden of socialised constraints, but may also limit the practicality of the product for the User concerned.

8. Short-term auctions under CAP161 also have serious short-falls for certain Users, particularly wind farms. For any User to be able to use short-term auctions, they would need to know the periods in which they wish to operate by the time the auction takes place. For conventional peaking plant, this may not be such a problem, as they will have a number of indicators that will dictate how they operate and, presumably, their fuel will be on standby. Wind farms do not have the luxury of accurately predicting there fuel availability until much closer to the period in which they will generate. In order for wind farms to use this product effectively, it would suggest that the auctions would have to take place as close to real-time as possible. This in itself is no small task, as it is not just the System Operator that would have to ensure there is adequate resource available to provide the auction, but the operators of the wind farms themselves will also require the resource to partake. For smaller operations, this would potentially be a large undertaking given the scale of the project.

9. Overall, short-term products may provide alternative routes to markets for Users, but they do not offer the certainty of market access that long-term products provide. Certainty of market access is crucial for any investor, whether new or existing, but it is particularly crucial when attempting to secure finance for a project.

10. Further to this, it is essential that any short-term entry product is transparent, as users must be able to understand the processes involved and have good access to information in order to understand the potential risks of using such products.

CAP164 Connect and Manage

11. It is our opinion that this amendment would be the most useful in helping new Users to gain access to the transmission system sooner. Shorter connection times, due to local connection occurring prior to the completion of wider works, would mean that only serious developers could apply for transmission connections. In the longer term, there would be no need to make speculative applications as there would be, at the very least, a much reduced queue.

12. The nature of the current access arrangements, and those described under the CAP164 proposal, appear reasonably consistent. This would suggest that when compared to other options (such as CAP165 and CAP166), CAP164 would provide greater stability for (a) existing Users, (b) those in the process of constructing new plant, and (c) those that are at earlier points in the planning and application processes.

13. It is clear that system constraints could increase under a Connect and Manage approach, meaning it is probable that the task of balancing the system will become more difficult for National Grid. Further to this point, the socialisation of related constraint costs under CAP164 Original may be problematic, in terms of an unpredictable increase in BSUoS costs with a more “spiky” profile. However, the Working Group has attempted to address this issue in the CAP164 WGAA, where costs are targeted towards those that cause them due to such early connections.

14. We recognise that National Grid does not receive better investment signals with CAP164, as plant could still give very little notice to relinquish their entry access rights. However, Drax believes that a combination of a Connect and Manage approach with the four year rolling rights proposal under CAP165 WGAA3 would provide a much more robust solution. We address this in our "Potential Solution" section (below).

CAP165 Finite Long-term Entry Rights

15. Neither CAP165 Original nor any of the CAP165 alternatives would release more entry capacity than the current baseline. Under the CAP165 Original, WGAA1 and WGAA2 proposals, Users can only secure long-term access to the system if they commit to long commitment periods, although this would in-turn subject generators to a high commitment payment should market economics change and they wish to exit the market.

16. Although it is argued that securitisation is only for one year, User "commitments" are likely to relate to periods much further out than market liquidity, which is a very risky position for a new (or existing) investor to take.

17. Users are only certain of being able to generate in the years that they gain an access booking, i.e. they cannot be guaranteed extensions beyond the booking period unless access is still available. This encourages Users to commit to long booking periods. It should be noted that barriers to exit will only compound the issues associated with barriers to entry; obstructing old plant from disconnecting (due to potentially high commitment costs incurred when leaving the market) will mean lower volumes of access rights are released for new plant to utilise.

18. Committing to longer commitment periods only works for larger cash-rich companies, as a downturn in market prices / change in legislation may force smaller companies to abandon projects. The commitment alone may force such parties into default / administration, thereby causing them to default on their commitment, which in turn may lead to the socialisation of defaulted payments across the industry.

19. Whilst it is recognised that CAP165 would provide National Grid with better investment signals, it is important to recognise that the amendment introduces further substantial risks (above the current baseline) to the generator, at a time when the encouragement of new generation is vital. In order to encourage investment, such risks must be manageable in a way that correlates to the risks of the market in which the investor intends to operate. For example, the arrangements must enable an investor to respond to economic signals and changes in legislation.

20. As mentioned earlier, Drax believes that a combination of a Connect and Manage approach with the four year rolling rights proposal under CAP165 WGAA3 would provide a more robust solution. We address this in our "Potential Solution" section (below).

Potential Solution

21. Drax believes that when comparing the CAP164 proposals against the CAP165 and CAP166 proposals, the CAP164 proposals would be the most useful in terms of ensuring new generators can connect in a timely manner, whilst also ensuring that the integrity of the system is maintained from a security of supply perspective. However, Drax acknowledges that CAP164 does not aid the improvement of investment signals for Transmission Owners.

22. Drax considers that a more robust solution may be a combination of the CAP165 four year rolling rights solution (CAP165 WGAA3) with a Connect and Manage approach. Such a combination would:

    a) Ensure new plant could connect in a timely manner;

    b) Provide greater commitment to National Grid from generators, in the form of guaranteed transmission access revenue over the rolling period;

c) Provide enhanced investment signals to National Grid, as the longer notice periods for decommissioning plant would help National Grid avoid a high proportion of costly, unneeded wider infrastructure investment;

d) Allow generators to make decisions based upon the current economic indicators in the market, for example forward power, fuel and carbon curves; and

e) In terms of changes to the CUSC, this approach is more akin to the current arrangements than the other available options.

23. This solution would provide certainty of access for both new and existing generators, whilst allowing the economics of the wholesale market to determine which generators remain on the system.

Summary

24. In summary, Drax remains very sceptical as to whether short-term entry access products could constructively provide earlier connection of new generation on the scale required. The key to resolving the issues surrounding the GB Queue is to find an enduring access regime that fits the needs of *both new and existing generators*, which will facilitate faster connections and ensure security of supply whilst allowing market forces to decide which generators remain on or leave the system. Therefore, Drax does *not* believe that CAP161, CAP162 nor CAP163 provide adequate solutions.

25. Drax currently believes that neither CAP165 Original nor any of the alternatives would aid the connection of new plant to the transmission network, as no new entry capacity is created. Therefore, the CAP165 proposals would not aid more timely connections for new Users. The proposal purely provides greater investment signals to National Grid, whilst simultaneously increasing the risk to the User, who must effectively gamble their new investment on either:

    a) Locking into long-term entry capacity with a huge commitment that could potentially bankrupt them in an economic downturn; or

    b) Not locking into long-term entry capacity and facing the risk of losing the ability to gain access to the system, which could potentially place the investment in jeopardy.

26. From an enduring access perspective, Drax believes that when comparing the CAP164 proposals against the CAP165 and CAP166 proposals, the CAP164 proposals would be the most useful in terms of ensuring new generators can connect in a timely manner, whilst also ensuring that the integrity of the system is maintained from a security of supply perspective.

27. However, Drax acknowledges that a Connect and Manage approach does not aid the improvement of investment signals for Transmission Owners. Drax considers that a combination of a Connect and Manage approach with CAP165 WGAA3 (four year rolling rights) would provide a more robust solution, facilitating network entry whilst providing enhanced investment signals to National Grid.

If you have any queries regarding the comments in this response, please feel free to contact me.

Yours sincerely,

Stuart Cotten

Regulation
Drax Power Limited

AEP Response to the Connection and Use of System Code Amendment Proposals CAP161-165

1. Thank you for the opportunity to respond to the consultations on the Connection and Use of System Code Amendment Proposals CAP161-165. The Association of Electricity Producers represents generating companies in the UK with our membership comprising a wide range of technologies utilising fossil, nuclear and renewable sources of energy. A large number of our members have interests in generating stations using renewable energy or plan to build new, more carbon efficient plant, in future and are therefore in the process of either seeking investment, planning permission, or await connection to the Transmission System. Between them, members will undertake a vast majority of the investment needed to meet the Government's targets for renewable energy for 2010 and 2020. Members also include a number of non-generators. Members operate in a competitive electricity market and they have a keen interest in its success, not only in delivering power at the best possible price, but also in meeting environmental requirements.

2. As you are aware many of our members have actively participated in the development of the five proposals you are currently consulting on since they were initially raised in April this year. For those who were unable to participate directly we have provided regular updates through our association committees. Our members remain concerned about the relatively short timescale allowed for assessment of proposals and lack of cost benefit analysis undertaken to date. Members also raise concerns that important recent innovations delivered by CAP150 – Capacity Reduction proposal have yet to be tried and tested. We do not believe that Security of Supply issues around increased numbers of intermittent generators connecting to the System have yet been fully assessed. In addition we would reiterate the need for improved transparency around the process for re-allocation of released Transmission Entry Capacity with reassurance of timely reallocation going forward.

3. With regard to the individual proposals CAP161 – System Operator Release of Short-term Entry Rights, CAP162 – Entry Overrun and CAP163 – Entry Capacity Sharing attract general support from association members and should, in theory, enable connection of additional generation. We agree with

National Grid Electricity Transmission (NGET) that for CAP161 and CAP162 there is no merit in pursuing implementation of the original proposals due to the issues identified by the Working Group associated with the zonal definition of access rights. In addition we agree that due to the issues associated with unlimited sharing of access rights at a 1:1 exchange rate within pre defined zones the CAP163 original proposal should also not be implemented.

4. Member views were supportive but split on the over the merits of the CAP161 alternatives. The CAP162 working group alternative attracted general support for what this proposal is trying to achieve as did the working group alternative for CAP163.

5. Association members agree with NGET that the costs associated with the CAP164 – Connect and Manage proposal is of concern. There is tentative support amongst our membership for the working group alternative proposal for CAP164 pending the outcome of further work on the charging methodologies and revenue flows.

6. In our 31st October 2008 submission we stated that our members believe that they have secured evergreen transmission access rights and that NGET has no ability to remove those rights without legislation and significant compensation. This view has not been changed by debate on the CAP165 – Finite Long-term Entry Rights proposal. We remain disappointed in the fact that Ofgem continues to refuse to enter further dialogue on this issue within the Working Groups. We have still to debate the issue of removal of rights and transition to a new regime despite the fact that we know that there are a great many Bilateral Agreements between NGET and individual power stations that will have to be unravelled should the Authority approve implementation of this proposal. We remain unconvinced that it is within the scope of this suite of amendments to change them.

7. Having considered the matter we do not think that CAP165 would increase the efficiency of planning and operation of the Great Britain electricity system. It would make planning of the transmission system easier but in general the financial impact of power stations being less able to optimise their closure decisions would have a greater impact on both the cost of operation and the security of supply. Allowing power stations to make closure or mothballing decisions at short notice, whilst making it harder to plan the transmission system, maximises security of supply and minimises the cost of providing any given level of security of supply. Changing the rules so that generators had to commit a number of years ahead would result in either an increased probability of there being insufficient plant available or plant being kept open unnecessarily, with the costs of so doing ultimately falling on the electricity consumer.

8. In conclusion our members propose the following:

CAP161 – System Operator release of Short-term Entry Rights	
Reject the original	Split views on the merits of the alternatives
CAP162 – Entry Overrun	
Reject the original	General member support for the alternative
CAP163 – Entry Capacity Sharing	
Reject the original	General member support for the alternative
CAP164 – Connect and Manage	
Reject the original	Tentative member support for the alternative pending further work
CAP165 – Finite Long-term Entry Rights	
The Association does not support this proposal or any alternative	

9. If you wish to discuss any aspects of our response further please contact Barbara Vest, Head of Electricity Trading on 07736 107 020

Welsh Power Group Limited,
West Nash Road, Newport,
South Wales, NP18 2BZ
Tel: +44 (0)1633 294140
Fax: +44 (0)1633 294141
info@welshpower.com

Bali Virk
National Grid House
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA

12 December 2008

Dear Bali

Connection Use of System Code Amendment Proposals CAP161-165

Welsh Power welcomes the opportunity to comment on these CUSC modification proposals. As the owners of an existing coal fired plant, Uskmouth Power, and the developers of a new CCGT power station, Severn Power, Welsh Power believes that transmission access is vital to securing the GB electricity market in both the short and longer term.

For the record, Welsh Power would like to state that we believe that we currently have rights of access to the transmission system that are ours, subject to the payment of the associated charges, until such time as we chose to hand those rights back to NGC. In the case of our new development, Severn, we believe that our construction and connection agreement is very clear in that we are underwriting the costs of securing a new connection and access to the transmission system, again on the basis of a long term firm right. We do not think Ofgem has made a robust case that these rights were not firm right and could at any time be removed from us.

Welsh Power believes that there are potential benefits with regards to these new access products of CAP161 – System Operator (SO) Release of Short-term Entry Rights, CAP162 – Entry Overrun and CAP163 – Entry Capacity Sharing. These products could lead to additional generation on the transmission system within the short-term.
With regards to CAP161, Welsh Power supports WGAA1, nodal 5 week and 2 day head auction, provides access to the system in the short-term whilst not unduly increasing operational costs borne by other Users. The SO has greater knowledge of potential constraints on the system as a consequence of Users applying for short-term capacity 5 weeks ahead.

Similar to the rational of supporting the nodal approach for CAP161, we believe for practical reasons it is only possible to support the implementation of CAP162 WGAA1, implementation of overrun with rights defined and settlement based on a Power Station level. Working group 3 clearly highlighted the significant problems associated with the zonal approach of entry overrun. The access product CAP163 will also require implementation on a node to node basis and therefore Welsh Power supports the WGAA. This alternative shall facilitate the implementation of sharing entry capacity rights on both a short-term and long-term basis without leading to excessive socialised constrain costs.

The original CAP164 – Connect and Manage proposal is not supported by Welsh Power. However, we do support the WGAA which seeks to mitigate the additional costs associated with the original connect and manage imposed on third parties but provides firm access at an ex ante price in fixed timescales. We believe that this alternative should be further developed, focusing on the charging methodology and the implications on the revenue flows.

For CAP 165 Welsh Power does not support the modifications as we do not believe that they better facilitate the CUSC objectives. However, compared to the original modification Welsh Power supports WGAA4 as we agree a 15 month notice period strikes a better balance between notice to the TO and generator flexibility in deciding when to close plant. We also support WGAA7, again compared to the original modification, as it aimed to strike a better balance of risk between the generator and the TO. Had the group had more time we could have considered merging some of the alternates to make one better overall modification. While this can be done with subsequent modifications this would not have been our preferred route.

Welsh Power would note that the modifications do not overcome the fundamental problem of getting the TOs to deliver firm connection rights in a timely manner. Welsh Power does not believe that the existing arrangements are perfect, but they seem to have delivered much of what CAP165 aims to achieve. What Ofgem needs to consider is how much reinforcement work TOs should make on a more speculative basis without firm signals, but based on reasonable forecasting of where new build generation is likely to appear. At the present time the forecast need for new build would appear to make some advanced investment a prudent rather than speculative activity. Access to the transmission network should not have become the biggest issue in the development of a new power station.

If you would like to discuss any of the points raised please contact myself or Lisa Waters on 020 8286 8677.

Yours sincerely

Rebecca Williams
Head of Trading

Bali Virk
Electricity Balancing and Codes
UK Transmission - Commercial
National Grid House
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA

Centrica Energy
Maidenhead Road
Windsor
Berkshire SL4 5GD
www.centrica.com

01753 431000

12 December 2008

Dear Bali,

Re: Centrica response to the CAP161-164 company consultations

Centrica welcomes the opportunity to respond to the CAP161-164 company consultations. We will submit our response to the CAP165 company consultation separately.

This response consists of two parts: general comments and specific comments on the CAP161-164 modification proposals. Due to the short timescales, we have had to limit our response to high-level comments. We therefore reserve the right to raise further issues in our response to the Ofgem Impact Assessment to be published in spring 2009.

General comments
As mentioned in our earlier response to the working group consultations, we believe that the working groups and the Panel have not had sufficient time to fully assess the suite of transmission access related modification proposals raised by National Grid. They have a duty to fully develop and consider modification proposals and we regret that they have not been able to do so.

We are concerned about the limited analysis carried out on the interaction between the different proposals and the limited cost-benefit analysis carried out to date. In addition, we believe more time should have been allowed for the development of alternative modification proposals, in particular with regards to CAP164 (see below).

We would also like to note that the working groups have not had the opportunity to collectively discuss the legal text and that the company consultations provide very little time to comment in detail on the substantive changes to the CUSC.

Finally, we welcome National Grid's initiative to develop the changes to the charging methodology in parallel with the CUSC modification process. However, the proposed changes to the charging methodology are plentiful and are still work in progress which means that parties are required to take a view on the CUSC modification proposals without knowing the full consequences and implications.

CAP161-163 Short-term products

Centrica supports, in principle, the introduction of the short-term products (CAP161-163). Sufficient take-up could result in more efficient use of the existing transmission capacity (CUSC objective (a)), as well as increased competition because more generators might be able to connect to the system (CUSC objective (b)).

As we have mentioned in our response to the working group consultations, we believe the short-term products will be of limited use to developers who do not yet have a transmission connection (conventional and renewable) as they need a bankable long-term access product to ensure project finance.

The short-term products may be of use to existing conventional and renewable players, for example as replacement for some of their existing TEC holding. However, the nature of the auctions (CAP161) and the ex-post charging mechanism (CAP162) mean that users are subject to significant (price) risks when relying on these short-term products for access to the transmission system. In addition, there is no guarantee that these short-term products will not be withdrawn at some point in the future.

Considering the above, we believe that the take-up of the short-term products CAP161-162 will be limited and we assume the same will be true for CAP163 (TEC sharing). In our view, TEC sharing is most useful and bankable for portfolio players who happen to have the right generation in the right location. The key solution to the GB Queue remains investment in the transmission system and changes to the planning process. The short-term products (CAP161-163) will therefore only play a minor role in enabling more generators to connect to the transmission system and for that reason we believe that CAP161-163 – if approved – should be implemented based on simple methodologies and limited take-up to avoid unnecessary spend.

The question is whether National Grid should carry out IT work and perhaps start recruiting before the Ofgem decisions on CAP161-166 to allow for an April 2010 implementation date. We would be happy for National Grid to carry out further IT analysis between November 2008 and March 2009 as mentioned in the consultation documents. However, as a general rule we are not supportive of significant spend before actual Ofgem decisions, particularly as it is not expected that all transmission access related modification proposals will be approved. Therefore, we believe a later implementation date of April 2011 is more appropriate, but we recognise the need to identify ways of bringing this date forward should opportunities arise. This would give National Grid and the industry more certainty in terms of requirements, not least because the Ofgem Impact Assessment would allow for a more substantive assessment of the potential usage of the (combination of) short-term products.

Assuming the benefits of the short-term products outweigh the implementation costs, Centrica would support – subject to satisfactory charging and SO incentive arrangements – the nodal alternatives of CAP161-163 as a “no regret” option for making better use of the existing transmission capacity. We accept that the zonal options cannot be implemented without the risk of unacceptable constraint costs. Of the nodal alternatives for CAP161, Centrica would support WGAA1 and not the WGAAs which include CLDTEC. This product seems to be developed for a specific user and we do not believe that is appropriate. In addition, CLDTEC requires National Grid to take a long-term view on operational costs which if underestimated would expose third parties to higher constraint costs.

CAP164 Connect & Manage

Centrica believes the original Connect & Manage (C&M) proposal would allow for timelier connection of both renewable and conventional generators and improved investment signals. It would also encourage the development of operational measures to make better use of the existing transmission system. Overall, however, we do not believe that the proposal better facilitates the applicable CUSC objectives because of the expected increase in constraint costs which are smeared across all users.

An alternative proposal (WGAA) has been developed which targets the increase in constraint costs on parties that take up C&M. This alternative proposal provides a firm connection date and an ex-ante charge based on the estimated increase in constraint costs prior to the date on which the wider works are expected to be completed.

Because of time constraints, WGAA has been developed by a sub-group at a single meeting with limited discussion by the wider working group. An assessment of the potential take-up of WGAA, a cost-benefit analysis and an assessment of the risk of National Grid underestimating constraint costs has not been carried out. WGAA has significant charging and revenue flow implications which also still need to be considered. Without this analysis, we find it difficult to judge whether WGAA with targeted costs would indeed better meet the applicable CUSC objectives. However, in the absence of an alternative, we support WGAA as the most credible option.

Regarding the latter, we are disappointed that no further time was provided to develop a credible alternative. The options currently on the table are at both ends of the spectrum (fully socialised or fully targeted costs). We believe there is merit in developing an alternative that would address the issue of constraint costs as well as allow a greater number of generators an earlier connection to the transmission system. Unlike the short-term products, this could actually help to meet the government's renewables targets.

As mentioned above, we do not support significant spend before the actual Ofgem decision on the transmission access related modification proposals, in particular as it is expected that not all transmission access related modification proposals will be approved by Ofgem and money might be wasted. We therefore believe a later implementation date of April 2011 for WGAA is more appropriate, but we recognise the need to identify ways of bringing this date forward should opportunities arise.

If you have any questions regarding this response, please do not hesitate to contact me.

Kind regards,

Merel van der Neut Kolfschoten
Centrica Energy

First Hydro Company
Bala House
Lakeside Business Village
St David's Park
Deeside
Flintshire
CH5 3XJ

Tel + 44 (0)1244 504 600
Fax + 44 (0)1244 504 613
www.ipplc.com
www.mitsui.co.jp

First Hydro Company is part of a joint venture between International Power plc and Mitsui & Co., Ltd.

Patrick Hynes
Electricity Charging & Access Development
National Grid Electricity Transmission PLC
National Grid House
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA

10th December 2008

Patrick.hynes@uk.ngrid.com

Dear Patrick

CAP 162 Entry Overrun

International Power (IPR) is responding to your consultation on behalf of First Hydro Company, Saltend Cogeneration Company Ltd, Rugeley Power Ltd, Deeside Power Development Company Ltd and Indian Queens Power Ltd.

We have reviewed our response to the initial consultation submitted on the on the 31st October 2008 and wish it to be carried forward to this consultation. We believe that it covers all of the substantive issues and don't wish to make any further points other than to re-iterate our support for the Simple Methodology for the calculation of overrun.

We hope that these comments are useful.

Yours sincerely,

Simon Lord,
Transmission Services Manager

E.ON UK plc
Westwood Way
Westwood Business Park
Coventry
CV4 8LG
eon-uk.com

Paul Jones
024 76 183 383

paul.jones@eon-uk.com

Bali Virk
UK Transmission Commercial
NGT House
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA

12 December, 2008

Dear Bali,

CAP162 - Transmission Access – Entry Overrun – Company Consultation

Thank you for the opportunity to respond to the above consultation. This response is made on behalf of E.ON UK plc. Many of our comments on this amendment have already been made in our response to the last consultation. We support the introduction of an overrun product, but believe that the charging for this will be crucial.

Indeed there is little we can add to our last response in the context of the pure CUSC change itself. The vast majority of the substantive points to be made in respect of the overrun product relate to the charging options which are being pursued under the governance of the charging methodologies. The decision under the CUSC is whether or not to implement an overrun product, which we support.

Overrun should be regarded as a facilitating product rather than a primary access product in its own right. Most developers would not wish to commit to building a new power station and rely on overrun to provide access to the transmission system. Therefore, we believe that long term rights will continue to be the primary source of access for generators. However, overrun does have a value in relation to other proposed amendments such as Entry Capacity Sharing CAP163. It also has some benefit as a standalone product. At present, if a generator overruns its access rights the only recourse under the CUSC is to initiate breach proceedings. This ultimately can result in the de-energising of the generator's station or stations, and/or loss of its licence. This is somewhat a cumbersome process to use, particularly if a commercial alternative could be derived instead.

Therefore, we support the principle of introducing an overrun product. Our detailed views on the charging for such a product will be made in response the consultation process under the charging methodologies. However, our present preference would still be for the simple charging approach.

Implementation timescales – We would support the view of the working group regarding the implementation approach for CAP162.

I hope the above comments prove helpful.

Yours sincerely

Paul Jones
Trading Arrangements

Alcan Aluminium UK Limited
Lynemouth Smelter
Ashington
Northumberland, NE63 9YH
England
T +44 (0) 1670 393742
F +44 (0) 1670 393546

Bali Virk
NGT House
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA

11 December 2008

Dear Bali

Response to National Grid's Consultations re CAP161-CAP165

Rio Tinto Alcan welcomes the opportunity to respond to National Grid's consultations in relation to CUSC Amendment Proposals CAP161-CAP165.

Rio Tinto Alcan undertakes aluminium smelting activities at sites connected to the Northern Electric Distribution and Scottish Hydro-Electric Distribution Ltd networks. We have only a peripheral role in the electricity market and we are not CUSC parties. In this context, our primary concern is the security of electricity supply to our smelters. However, these proposals have the potential to affect this and so to impact upon our operations considerably. Therefore, Rio Tinto Alcan's specific and unique position must be considered during the evaluation of these proposals.

We are concerned that the changes to the transmission access arrangements proposed under CAP161-CAP165 may undermine Rio Tinto Alcan's property rights in relation to firm access to the transmission and distribution system. We believe that our sites must have their rights recognised and preserved in the context of any reforms to the transmission access arrangements. Considerable investment has been undertaken at these sites on the basis of the present arrangements, delivering benefits to the system as a whole without imposing any quantifiable cost on the transmission system. In order to maintain this situation, we believe that the enduring arrangements should ensure that our rights are maintained. We consider that this is justifiable as due discrimination, as the unique nature of our operations means that our situation is sufficiently distinct from that of other parties to warrant different treatment.

Whenever, as is the case with the CAP161-CAP165 proposals, there is the potential for the transmission access arrangements to be revised, the specific impact upon Rio Tinto Alcan, given the unique nature of its sites, must be specifically assessed in a careful and thorough manner. Therefore, we would expect explicit consideration to be given to the impact of these proposals (and of any subsequent proposals in relation to transmission access arrangements) upon Rio Tinto Alcan's position.

We are keen to work with National Grid and the electricity industry in developing appropriate transmission arrangements for our sites following the conclusion of the Transmission Access Review. To that end, we would welcome the opportunity to participate further in the process to ensure that our needs are taken fully into account in the development of the enduring arrangements.

.

Rio Tinto Alcan

Bob Nicholson
Power Commercial Manager

British Energy

Bali Virk
Electricity Balancing and Codes
National Grid Electricity Transmission Ltd
National Grid House
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA

12 December 2008

Dear Bali

British Energy response to the company consultations for CUSC amendment proposals 161 - 163

The British Energy group of companies welcomes the opportunity to respond to the above consultations. British Energy own and operate eight nuclear power stations as well as Eggborough Power Station (a large coal plant with two units fitted with FGD) and four small embedded gas generator sites. Two of our nuclear stations are located in Scotland accounting for approximately 2300MW of capacity. We also have interests through a joint venture in developing an island windfarm in Scotland.

It is important to note that during our contribution to the CUSC working groups we put aside our belief that we have enduring transmission access rights in order to facilitate the Transmission Access Review (TAR) process. As you know we do not accept that this is correct and our right to raise this very important aspect is reserved.

We support the implementation of these short term measures (CAP161-163) which allow users to choose a right of access to the transmission system from a number of options over different timescales. These short term measures will allow the SO to make more efficient use of the existing transmission assets and will facilitate competition in the generation market by providing more flexible means for access to the system. Whilst some industry parties may have concerns over detailed aspects of the short term measures we believe that, providing SO incentives are aligned these can be implemented for April 2010. However we would ask that as take up of the short term measures advances that the effectiveness of these changes is continually monitored and reviewed so that improvements can be made via the usual CUSC amendment process.

For each of these CUSC amendments we agree that the issues associated with the zonal definition of access rights are too great to allow us to support the Original proposals. We therefore support the implementation of these amendments on a nodal basis.

Following any implementation of CAP161 - 163 we would fully support a review of the process to consider the uptake by industry and other specific areas for possible development, e.g. timescales of access release (day ahead) and a seven day a week auction rather than five day a week auction for SO release; an analysis of the charging arrangements for Entry Overrun and publication of information in respect of TEC sharing arrangements.

We agree with an implementation date of April 2010 for all these proposals subject to National Grid's IS developments and the considerations of the working groups. It is our view that robust charging arrangements should be in place prior to implementation of CAP161 - 163. To minimise the impact on industry, charging amendments must be addressed on a financial year basis and this is a key consideration for the implementation date of CAP161 – 163. Further, we don't believe that the assessment of the long-term measures for access should impact the timescales for implementation of CAP161-163.

British Energy
GSO Business Park
East Kilbride G74 5PG

T +44 (0)1355 846000
F +44 (0)1355 846001
www.british-energy.com

Our specific comments on the company consultations for CAP161-163 are set out below.

CAP161
British Energy believes that CAP161 which introduces the release of access in shorter timescales (< 1 year) allows the SO to make more efficient use of the transmission system and will facilitate competition in the generation market by providing more flexible means for access to the system.

The use of all options presented in this report have merit and for this reason we support Working Group Alternative WGAA3 incorporating 2 day ahead, 5 week ahead and CLDTEC options for nodal access.

WGAA3 provides options to generators in differing timescales and enables alignment of access with energy trading strategies, thereby promoting competition. These options provide a signal to the market on the amount and location of access available in the short term.

We feel that CLDTEC presents an option for access which allows the generator a clear view of price and value ahead of provision of access and is more flexible than the existing LDTEC and STTEC options for access.

In our response to the working group consultation we noted that industry had not had the opportunity to comment on the principles of the SO Release Methodology. Having now had that opportunity we agree with the views of the working group in relation to the objective function; that the primary objective be based on price alone. This will minimise the complexities faced by Users in constructing their bids and removes the element of cross-subsidy for maximising capacity released. We further agree that governance of the methodology should ultimately be within the CUSC.

CAP162
British Energy believes that CAP162 Entry Overrun provides flexibility to generators in the way that they access the system and delivers a capacity imbalance mechanism to the generation market. CAP162 should be a priority for implementation as it ensures that the other short term measures operate efficiently.

This amendment clarifies an uncertain area of the CUSC where consequences of TEC breaches are not robustly defined.

We support the implementation of Working Group Alternative Amendment for the introduction of Entry Overrun on a nodal basis.

In our response to GB ECM 14 “consequential charging amendments under CAP161 – 164” we give our support to the implementation of the Simple overrun pricing methodology as we believe it represents an appropriate balance between cost reflectivity and transparency. We favour the transparency of this option due to the ex-ante publication of scalars. We do not support the marginal methodology for overrun pricing.

CAP163
British Energy supports the implementation of access sharing on a nodal basis and we believe that it will be most effective if the arrangements are clear and simple as this will allow generators to make advance decisions about their access holdings. We therefore support the implementation of the Working Group Alternative Amendment.

The working group developed three nodal alternatives for access sharing:

(i) exchange rate based on ex post overrun prices
(ii) application for a fixed point to point exchange rate
(iii) point to point (1:1) access right provided in investment timescales.

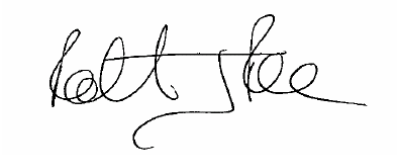
We do not support (i) exchange rate based on ex post overrun prices. Parties who share access will make arrangement potentially well ahead of real time. If sharing of access is to be promoted as a way of delivering TAR then those parties need to be aware of the amount of capacity shared ex ante.

We support (ii) application based fixed point to point exchange rate, as it is user led, removes the risk of constraint costs and cross-subsidies that zonal access could introduce.

We support (iii) the application based and user led point to point (1:1) access right provided in investment timescales. This allows the user to signal where the TO should be investing.

If you have any comments or questions relating to our responses please contact me on 01452 653170.

Yours sincerely



Rob Rome
Head of Transmission & Trading Arrangements

SCOTTISHPOWER
Energy Wholesale

Electricity Charging & Access Development
National Grid Electricity Transmission plc
National Grid House
Warwick Technology Park
Gallows Hill
Warwick

12 December 2008

Dear Sirs,

Response to the Company Consultation Document
CAP162 Transmission Access – Entry Overrun

Thank you for the opportunity to respond to this Company Consultation Document. This response is submitted on behalf of ScottishPower Energy Management Ltd, ScottishPower Generation Ltd and ScottishPower Renewable Energy Ltd.

ScottishPower supports the proposed amendment and Working Group Alternative Amendment 1 in particular, as part of an incremental change approach to transmission access.

Across all the proposed amendments (CAP161-165) ScottishPower would have preferred to see a zonal approach adopted as this would facilitate greatest use of the existing transmission system and greatly simplify the access products available to users. We note National Grid's concerns that large zones may result in an increase in constraint costs but have concerns that the adoption of a nodal approach may reduce the utilisation of the access products proposed.

The Overrun product alone will not facilitate the connection of additional renewable generation as envisaged under the TAR Final Report as it does not provide sufficient certainty of access ("bankability") to enable a developer to secure financial backing. However, in conjunction with other proposals and as part of an incremental change model SO release could help facilitate a change in the way both existing and new generators secure their access requirements.

ScottishPower envisages that the take-up of overrun will be very limited as ex-post pricing will make it impossible for users to make an informed economic decision whether to run their generation plant in excess of the contracted access capacity. Over time, users may develop sufficient confidence in the prediction of constraint incidence to make limited use of overrun in areas with very low constraint costs. This would obviously preclude the use of overrun in areas such as Scotland where renewable resource is high but constraint incidence is also high and will thus fail to achieve the connection of additional renewable generation as envisaged in the Final TAR Report. In the longer term, with significant connection of renewable generation with firm access, it may become attractive for thermal generation to utilise overrun to access the transmission system when renewable generators are unable to generate.

To achieve "bankability" and deliver the aims of TAR, the overrun price should be transparent and predictable otherwise Users will avoid its use. None of the methodologies described in the Consultation Document sufficiently demonstrate these attributes.

Cathcart Business Park, Spean Street, Glasgow G44 4BE
Tel: 0141 568 4469 Fax: 0141 568 4939
www.scottishpower.com

SCOTTISHPOWER
Energy Wholesale

Charging Methodology

ScottishPower acknowledges that development of the charging methodology for overrun is not part of this CUSC consultation process and has expressed its support for ex-ante pricing based upon the Simple Methodology in the relevant charging methodology pre-consultation (GB ECM-14).

Implementation

Overrun provides an alternative to breach of the CUSC for parties who exceed their contracted access capacity and therefore facilitates the use of other short-tem products such as TEC sharing (CAP163) and SO Release (CAP161) without fear of the consequences currently contained within the CUSC for exceeding TEC. Indeed, without an overrun product, it is difficult to see how users could make use of a combination of long and short-term products with confidence. We would therefore recommend that CAP162 Working Group Alternative Amendment 1 is implemented simultaneously with the implementation of CAPs161, 3 and 4.

I hope you find these comments useful. Should you have any queries on the points raised, please feel free to contact us.

Yours faithfully,

James Anderson
Commercial and Regulation Manager

National Grid Company
NGT House
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA

bali.virk@uk.ngrid.com

By 12th December 2008 (include "CAP 162" in e mail subject line)

Dear Sir,

Response to consultation on CAP 162

The Renewable Energy Association is pleased to be able to offer its comments on your consultation on CAP 162. As you are aware our members work on all types of renewable power and heat projects and obtaining more timely access to the transmission system is one of the key issues that if achieved would help our aim and that of the Government of reducing CO_2 emissions.

As you are aware we responded to the Working Group Consultation and although there has been some refinement to the proposed amendment since then it remains essentially the same and our views on it are therefore unchanged. For ease of reference for the Authority when considering the final report and submissions on it we will repeat these views here.

We are supportive of the proposal to introduce a transmission capacity overrun charge. Given that the intention (at least for the non-marginal charging options) is for other users to be left whole, there should be no objection to it from parties who do not intend to use it. It facilitates a number of other proposed products and provides contestability with sharing with other users and obtaining additional short term firm capacity from the system operator. It is unlikely that any new project would rely on it as a product to provide its transmission access but its existence ought to encourage existing old low load factor generation to give up TEC, either with a view to using overrun directly or more likely one of the other proposed new products that are facilitated in some way by overrun and thereby free up TEC for new projects.

Although what type of charging arrangement to have for overrun is a matter for the charging consultation we do not favour the marginal cost methodology. The reason for that is that unlike the simple and cost reflective methodologies the marginal approach is not set to recover the total cost of overrun but rather to give short term price signals on capacity usage that are compatible with the long term signals given through TNUoS charges. As we do not think that it will be extensively used as a primary alternative to TEC, and instead its value lies in it providing contestability against other new products, the main objective is to leave other users whole, rather

than giving short term price signals. The simple and cost reflective methodologies aim to do just that.

We see no reason to charge for overrun on a zonal basis, as if parties want to share capacity amongst a group of stations then this is best addressed through TEC sharing as proposed by CAP 163. We therefore think that CAP 161 Working Group alternative amendment proposal best facilitates the CUSC applicable objectives and facilitates them better than the status quo.

Please let us know if you would like to discuss any aspects of this letter further.

Yours faithfully,

Gaynor Hartnell
Director of Policy,
REA/

bali.virk@uk.ngrid.com

Dear Bali

Transmission access review – Company consultations on CAPs 161-165

Immingham CHP LLP welcomes the opportunity to respond to National Grid's consultations on the first five of the six Transmission Access Review change proposals to Cusc raised by National Grid.

Our views remain unchanged since responding to the working group consultations, which closed at the end of October. We therefore take this opportunity to reiterate and stress some key points, both the respect of general comments and in regard to the individual proposals.

In terms of the approach being adopted:

- It is essential that existing transmission access rights are respected in any changes made. Generators with bilateral connection agreements with National Grid have evergreen rights to use transmission capacity in return for securing the necessary investment and guaranteeing usage payments, and National Grid has no ability to remove these without legislation or our agreement and appropriate compensation. This issue has not yet been explicitly addressed by the assessment processes and needs immediate consideration;
- The process for such a significant industry change has been profoundly inadequate. Insufficient time has been allowed for development and proper assessment of the proposals and we remain concerned about the assessments' overall robustness and thoroughness, particularly in respect of alternative proposals. Most crucially, there still has been little meaningful cost/benefit analysis conducted, with this focussed on direct costs to National Grid and even this is at a very high level. This lack of necessary detail, exacerbated by the short consultation timescales, means that it is essential that Ofgem should carry out full impact assessments on all these proposals before it is able to make any decisions; and
- The rushed process to meet an arbitrary external timetable has meant that only large integrated players have had the resources to influence the proposals through populating the working groups and to properly assess them, and educational sessions for the wider industry have been limited, late and very superficial.

In respect of the individual proposals:

- We support the principle behind *CAP161 Short-term entry rights,* but we still consider that more focussed analysis is required to more fully define the solution and demonstrate the benefits, especially on the interaction with more robust solutions than the current short-term access products available to the market. To deliver real benefits more consideration is needed of how incremental release can be facilitated up to the day or week of release. We would also prefer to see an alternative whereby rights holders are encouraged to release unused rights, rather than one that relies solely on the judgement of the system operator that surplus rights may exist;
- We support the principle behind *CAP162 Entry overrun* provided that it does not compromise the "ticket-to-ride" principle. Holders of existing rights should not be adversely impacted in the event of aggregate zonal rights being exceeded and, if they are, full economic compensation should be provided where the holder intended to use those rights. The

charging mechanism should be kept as simple as possible and avoid interaction with the BSC arrangements and systems, which would introduce a significant level of unnecessary complexity and cost;

- We support the principle behind *CAP163 Capacity sharing*. We consider that National Grid may have to assist in matching parties, and the alternative involving the open sharing model may also have merit provided the right holder is agreeable to trading the rights or does not use them;
- We consider that *CAP164 Connect and manage* offers **the best short-term option** for meeting the Government's objectives, optimising existing capacity and expediting clearance of the queue. We think that the consultation report understates the increased efficiency that would arise from more efficient, low-carbon plant getting onto the system sooner and the greatly increased certainty this proposal would bring to developers, with real benefits to security of supply going forwards;
- Unlike CAP161-163, CAP164 would facilitate developers with greater investment certainty because it permits the offer of bankable capacity and would also deliver firmer connection dates; and
- We strongly oppose *CAP165 Finite long-term entry rights*. This proposal is driven by ideology and the defect has still not been properly defined. We consider that requiring grid users to resubscribe to rights they already hold under contract is unlawful and entails misappropriation of existing property rights held by connected parties and does not include an appropriate compensation mechanism. It is a "sledge-hammer to crack a nut" and as such is not proportionate, and obvious alternatives to incentivise the release of unused TEC—such as administering an under-use charge—have not been considered.

If you have any questions on this response or require further views, please do not hesitate to contact me.

Kirsten Elliott-Smith

Scottish and Southern Energy

Grampian Hse
200 Dunkeld Road
Perth
PH1 3GH

Hêdd Roberts
UK Transmission Commercial
National Grid House
Warwick Technology Park
Gallows Hill
WARWICK CV34 6DA
Warwickshire

Telephone: 01738 457377

E:mail: garth.graham@
scottish-southern.co.uk

Our Reference:
Your Reference:

Date : 12 December 2008

Dear Hêdd,

Company Consultation Documents for CAPs 161, 162, 163, 164 and 165

This response is sent on behalf of Keadby Generation Ltd.; SSE Energy Supply Ltd.; SSE Generation Ltd.; Medway Power Ltd.; Slough Energy Supplies Ltd.; Airtricity Ltd. and Airtricity Generation (UK) Ltd.

We welcome the opportunity to respond to these five CUSC Amendment Proposal Company Consultations. As you may recall we provided comments, via both a covering letter (dated 31st October 2008) and the appropriate pro-forma, for the previous (Working Group) consultation at the end of October. This letter draws upon our previous comments whilst taking account of (a) the Working Group Alternative Amendments (b) the Working Group Recommendations and (c) the initial National Grid view.

General observations

As noted previously, Scottish and Southern Energy (SSE) has supported the Transmission Access Review (TAR) that was initiated by the UK Government and Ofgem last year. Throughout this process, we have argued that the key elements for a successful transmission access regime are clear, proportionate commitment from Users of the GB

transmission system and cost-reflective, stable and predictable charges for access and use of the transmission system. As a consequence, we have favoured the 'Connect and Manage' type of approach for new Users (akin to that proposed under CAP164).

It remains our view that 'Connect and Manage' (be that in the form of the 'original' or the 'alternative') should form the core of any transmission access regime. In exchange for a strong, but proportionate, User commitment from applicants, National Grid should be obliged to provide a firm connection date that is no later than four years after that User commitment. This would provide strong and meaningful investment signals for both new generation and network infrastructure.

In relation to the proposals for short term access products, in general we understand and support the principle that underlies CAPs 161, 162 and 163. These products would supplement those existing short term access products (STTEC, LDTEC, TTECE and TEC Trading). As was illustrated through discussions in the Working Groups, these existing products have been little used and this is an issue that should be addressed upfront in relation to these new short term access products. We note that, by providing access to the GB transmission system within operational timescales, the network capacity utilised through these access products will sit outwith the system planning assumptions. Given this, we expect these new short term access products, if implemented, to be largely used by existing Users, to 'top up' their firm access rights, rather than by new Users.

We lament the fact that the Working Group was unable to undertake an assessment of the possible usage of these short term access products. This would have allowed a meaningful cost benefit analysis and impact assessment to be undertaken. We consider that without this cost benefit analysis, the process of consideration and assessment of the proposals is incomplete. It is important that the potential benefits are assessed before implementation costs are incurred (for example, investment in costly IT systems). This has limited our ability to decide as to whether or not these Amendments better facilitate the CUSC objectives.

In relation to the proposal for new long term access products, we remain unconvinced that there is a meaningful defect to the CUSC that requires the major change to the transmission access regime proposed by CAP165. We note the limited time available to the industry to debate this issue (and support comments made in the Working Group and elsewhere on the impact of the short timescales on the quality of the report). However, based on the evidence presented to date, we continue to believe that existing Users have evergreen rights to use the transmission system so long as they comply with their contractual obligations. This, in our view, means that CAP165 (and CAP166) is not a valid Amendment Proposal.

Notwithstanding our comments above, we note in relation to CAP165 that the debate in the Working Group, up to October, had been over the duration of access rights and was very much focused on providing network investment signals. We believed that this approach was unbalanced and did not give due regard to the potential impact on Users' decisions. In particular, we were mindful of the older plant currently on the system and the number of opted-out units, which prompted our questions, in October, "What would be the commercial decisions made by these Users if they were required to secure a future numbers of years of transmission access?" and "In particular what would the detrimental impact be on security of supply if this Amendment was implemented?". As a consequence, we submitted a Working Group Consultation Alternative Request (for CAP165 only) which became WGAA4.

Comments applicable to CAPs 161, 162, 163, 164 and 165

As noted previously, many of these Amendment Proposals would 'lock-in' the current **TNUoS charging methodology**. We strongly believe that the current charging methodology is undermining UK Government policy by sending a signal not to invest in new generation in those areas with an abundance of natural renewable resource. Developing an access regime that has, at its core, this charging regime is clearly an issue given the extreme price signals of TNUoS at the margins of the system, and the volatility and unpredictability of the methodology. Not only would this reduce the value of the access product in large parts of the country, greater and prolonged exposure to TNUoS would increase risk and hence cost to Users. We are disappointed that the Working Groups were unable to consider the potential impact of this approach on the decisions of Users with respect to the utilisation of these transmission access products.

We continue to have concerns that the proposed changes are not conducive to facilitating the required **investment signals** for both generators and transmission system owners. For example, whilst it is inherently correct that the SO releases any spare capacity in the short term and therefore that CAP161 (SO Release) is a useful product, it cannot provide the necessary longer term certainty for generators or transmission system owners to invest in new capacity. Equally, if a User opted to gain access through short term products (feasible for low load factor plant in unconstrained zones), then this would move that User out of the system planning timescale.

"Spare" capacity is fundamentally driven by the longer term suite of incentives on transmission providers to invest in infrastructure and without proper consideration of how this is supported by additional new shorter term measures, there is significant potential for inefficient outcomes.

Conversely, the intention behind CAP165 of removing the existing transmission access rights of generators (both new and existing) is a hugely damaging development as far as investor certainty is concerned and, at the very least, will increase industry costs by the necessary inclusion of additional risk premia in business plans whilst also being detrimental to the security of electricity supplies.

We are disappointed that the Working Group was unable to fully address the **treatment of negative zones** when considering the impact of these five proposals, rendering both the analysis and consideration incomplete. As we previously noted there is the potential for perverse outcomes, particularly in the use of short term products, in negative zones and this should have been explored by the Working Group. We also noted the evidence presented to the Working Groups that the cost of connection in negative zones can be substantial (for example, around London). It is clearly inappropriate to require no User commitment from Users in these areas requiring, in effect, Users in positive zones to underwrite and cross-subsidise the required network investment in negative (as well as positive) zones. We hoped that this concerned would have been rectified in the Final Working Group Reports issued to the CUSC Panel – it has not.

We continue to believe that it is important that the new transmission access products are both **easily tradable and available in sufficient volumes** to provide the required benefits for Users. If parties are expected to rely on the current (baseline) CUSC arrangements for trading (as per the CAP68/CAP142 arrangements) for the new products then, based on the history to date, this is highly unlikely to happen. We continue to believe that the tradability elements of the five proposals still need to be developed and this will now, unfortunately, have to wait till after they are implemented.

Our concern at the lack of details on how these changes will impact on / consider the implication for **distribution-connected generation Users** remain.

The proposed changes have not fully addressed what will happen at times of **network unavailability**. Notwithstanding our comments on our existing rights, under the proposed new regime transmission access rights will be sold. As such the purchaser will, correctly, expect to be fully compensated if and when those rights are withdrawn.

We are very disappointed that the proposed approach with the five Amendments does not, at present, seem to permit Users the **right to appeal** to the Authority for a determination in the event of the GBSO taking actions, under any of the proposals, which are contrary to the requirements of the CUSC. For the avoidance of doubt, it should be made clear, with all five changes, that applications for these new access products should be treated as variations to connection agreement and that the associated disputes process will apply. Furthermore,

where a User believes that the GBSO has not acted in accordance with the CUSC requirements then it can seek a determination from the Authority. We would therefore urge the Working Group; in accordance with section 8.17.8 of the CUSC; and the Working Group Recommendation (see, for example, paragraph 1.6 of the CAP165 report) to ensure that the final legal text clearly permits a User the right to appeal to the Authority.

We are disappointed that a **cost benefit analysis** has not been completed for all five proposals and that the associated 'Post Implementation Evaluation' criteria have not been set out. This is a significant and fundamental omission from the process, particularly for such radical proposals.

As we have noted previously, discussions were held in the Working Groups as regards the **transmission access rights of existing Users**. For the avoidance of doubt, as both an existing User and a party with considerable 'new' capacity under development (for which we hold rights for transmission access via our signed contractual agreements with the GBSO) we believe we have contractual evergreen rights to use the GB transmission system so long as we continue to pay all the charges associated with our contractual obligations. Nothing in this letter should be taken as either an acceptance of, or support for, the unilateral removal/reallocation of these existing rights by us.

Implementation Date & Arrangements

We have two concerns regarding the proposed implementation of these five Amendment Proposals.

First, we note that the five consultation documents (in discussing Implementation Dates) are based on the publication of a decision from the Authority around June 2009. However, since the publication of these consultation documents the Authority has encouraged the CAP166 Working Group to extend its timetable by two months, which both the Working Group and CUSC Panel acquiesced too. This will, presumably, delay the Authority's June 2009 decision date to September 2009.

Second, whilst we would like to see implementation of CAPs 161-164 as soon as possible, we believe, that the suggested steps outlined in the "Impact on IS Systems and Resources" section of the consultation documents and especially the seventh paragraph of that section of these documents constitute 'developing the Amendment Proposal'.

An example of this would be the suggested step (in paragraph 8.7 '3' [CAPs 161-163] / paragraph 7.6 '3' [CAP164] / paragraph 7.5 '3' [CAP165]) of identifying the combination of CAPs 161-166 that is to be implemented. In our view this work can only proceed once the Authority has issued its final decision on CAPs161-166. Making this information available to

the Authority and CUSC Parties (as proposed in the subsequent paragraph of that section of the report) does not make such work 'acceptable'.

Whilst the Authority, as part of its Regulatory Impact Assessment, may seek views/information from interested parties on each of the individual Amendment Proposals neither the Authority, or any CUSC Party (including National Grid) can develop or in any other respect define / expand / evolve / progress / amplify / elaborate / enhance / grow / advance these five Amendment Proposals over and above what is set out in the Final Amendment Reports sent by the CUSC Panel to the Authority.

For the avoidance of doubt, we do not support any work on developing*[1] any of these Amendment Proposals beyond what is in the Final Amendment Reports issued to the Authority. This is because we believe that if further development* were to occur then the Authority would be opining on an Amendment Proposal which was materially different to that considered and assessed by (i) the Working Group (ii) CUSC Parties and (iii) the CUSC Panel.

In addition to this, as we have noted previously, we are concerned by the suggestion, of approval (by the Authority) for expenditure (incurred by National Grid) being granted prior to the Authority approval of these CAPs161-166 changes. We believe such approval for expenditure, if given, would be tantamount to fettering the Authority's discretion on these CAPs161-166 changes.

It is neither efficient nor economic, either for National Grid or CUSC Parties, for resources to be utilised and costs incurred to further develop* an Amendment Proposal; over and above what is in the Final Amendment Report issued by the CUSC Panel to the Authority; prior to a decision being made on that Amendment by the Authority.

Furthermore, we do not believe there is the vires, under the CUSC, for such a step to be taken. If, despite our comments on this, work were to proceed in this way then we would expect to be able to charge National Grid, on a monthly basis, a reasonable fee (using the "NGC" fee structure/costs set out in Schedule 3 of the Statement of Use of System Charges) along with all associated expenses for all our time, effort, travel etc., on this area of work.

Comments on the Legal Text

In addition to the specific comments on the CAP165 legal text (see below) we have comments on the "Proposed New and Amended Defined Terms" that appear in the documents.

"Donating Sharing User" – no definition provided.

"LCN Transmission Reinforcement Work" – is this correct, noting, for example, the 'white blob' in the third line and "inclusion of substation work a substation"?

"Temporary TEC" – is this correct? "Temporary Donated TEC" is defined under the CUSC in MW terms (over the whole period?) whilst "Temporary Received TEC" appears to be defined under the CUSC in weekly MW terms.

We would therefore urge the Working Group; in accordance with section 8.17.8 of the CUSC; and the Working Group Recommendation (see, for example, paragraph 1.6 of the CAP165 report) to ensure that the final legal text address these points.

Comments on each CAP (161, 162, 163, 164 and 165) as regards the CUSC Applicable Objectives

Our specific comments on each of the five Amendment Proposals (as detailed in our completed pro-formas for each which accompanied our 31st October 2008 letter) remain valid: as these are already included within the 'Volume 2' of each of the five Final Amendment Reports to the Authority we have not repeated them here. However, these pro-formas should be read in conjunction with this letter.

Subject to the limitations imposed upon us (as outlined in this and our previous letter) we have assessed each of the five individual Amendment Proposals against the CUSC Applicable Objectives below.

CAP161

As noted above we welcome, in principle, CAP161 as it has the potential to release transmission access capacity which has, to date, being unavailable to market participants. However, as we have indicated previously, we have concerns regarding the CLDTEC product.

In addition, as with all the short term arrangements, it needs to be recognised that the introduction of short term products, such as CAP161, should not be at the expense of fit for purpose enduring access arrangements such as TEC (which are required to provide investment signals for the actual building of the transmission capacity upon which the short and long term depend).

[1] * Including, but not limited to, defining / expanding / evolving / progressing / amplifying / elaborating / enhancing / growing / advancing

We remain extremely concerned that little (arguably, no) work has been done to assess the potential usage of this short term access product. We are mindful of the perverse consequence of short term auctions at gas entry that, because of the low reserve price, has resulted in users' preferences in unconstrained zones to purchase entry capacity on the day. There are real and significant interactions between users' behaviour and the reserve price. We strongly believe that this issue needs further work and analysis before a decision on CAP161 is made.

We also note the potential costs to National Grid of implementing SO release of short term access. These costs should be subject to the usual regulatory rigorous assessment of efficiency and, furthermore, we believe there is merit in considering the scope to extend the SO incentive scheme to, for example, link expenditure to usage.

In regard to the proposed implementation date, we refer you to our comments above ("Implementation Date & Arrangements"). Given the restrictions imposed by the National Grid IS (IT) issues (plus the delay in the publication of a decision by the Authority from June to September 2009) we can only conclude that CAP161 will be implemented sometime beyond 1st April 2010 (as noted in paragraph 9.4 of the CAP161 document).

In terms of assessing CAP161 (Original and Alternatives) against the CUSC Applicable Objectives we have carefully considered the comments in section 7 of the CAP161 document and we have conclude, with regard to better meeting the CUSC Applicable Objectives, that:-

Original – not better than baseline.

WGAA1 – better than baseline and better than Original.

WGAA2 - not better than baseline and not better than Original.

WGAA3 - not better than baseline and not better than Original.

CAP162

As noted above we welcome, in principle, CAP162 as it has the potential to release transmission access capacity which has, to date, being unavailable to market participants.

In addition, as with all the short term arrangements, it needs to be recognised that the introduction of short term products, such as CAP162, should not be at the expense of fit for purpose enduring access arrangements such as TEC (which are required to provide investment signals for the actual building of the transmission capacity upon which the short and long term depend).

We remain extremely concerned that little (arguably, no) work has been done to assess the potential usage of this short term access product. There are real and significant interactions between users' behaviour and price, particularly in unconstrained zones and negative charging zones. We strongly believe that this issue needs further work and analysis before a decision on CAP162 is made.

Furthermore, given that there has been insufficient time to undertake a load flow modelling it has not been possible for us to assess the financial (and market) impact that CAP162 would have on us (and the wider market) in terms of, for example, BSUoS and RCRC. This has made it very difficult for us to assess, at this stage, what the impact on TNUoS that could arise from CAP162. There remains a real risk that significant under or over recovery may arise which could, in turn, result in (undesirable) cross subsidies from some CUSC Parties to other CUSC Parties.

We also note the potential costs to National Grid of implementing entry access overrun. These costs should be subject to the usual regulatory rigorous assessment of efficiency and, furthermore, we believe there is merit in considering the scope to extend the SO incentive scheme to, for example, link expenditure to usage.

In regard to the proposed implementation date, we refer you to our comments above ("Implementation Date & Arrangements"). Given the restrictions imposed by the National Grid IS (IT) issues (plus the delay in the publication of a decision by the Authority from June to September 2009) we can only conclude that CAP162 will be implemented sometime beyond 1st April 2010 (as noted in paragraph 9.4 of the CAP162 document).

In terms of assessing CAP162 (Original and Alternative) against the CUSC Applicable Objectives we have carefully considered the comments in section 7 of the CAP162 document and we have conclude, with regard to better meeting the CUSC Applicable Objectives, that:-

Original – not better than baseline.

WGAA1 – better than baseline and better than Original.

CAP163

As noted above we welcome, in principle, CAP163 as it has the potential to release transmission access capacity which has, to date, being unavailable to market participants.

As we have noted previously, we are mindful that the current (baseline) CUSC arrangements for trading (as per the CAP68/CAP142 arrangements) have proved to be of very limited use. It is therefore imperative that the new transmission access products are both easily tradable

and available in sufficient volumes to provide the required benefits for Users. CAP163 would, we believe, make a major contribution to the tradability and market liquidity of transmission access in the future. This is a very welcome development. However, we note that to be effective it will be necessary for realistic and timely 'exchange rates' to be provided by the GBSO. Significant variation from a 1:1 rate will undermine, perhaps fatally, the usefulness of CAP163.

Notwithstanding that, as with all the short term arrangements, it needs to be recognised that the introduction of short term products, such as CAP163, should not be at the expense of fit for purpose enduring access arrangements such as TEC (which are required to provide investment signals for the actual building of the transmission capacity upon which the short and long term depend).

We also note the potential costs to National Grid of implementing entry access overrun. These costs should be subject to the usual regulatory rigorous assessment of efficiency and, furthermore, we believe there is merit in considering the scope to extend the SO incentive scheme to, for example, link expenditure to usage.

In regard to the proposed implementation date, we refer you to our comments above ("Implementation Date & Arrangements"). Given the restrictions imposed by the National Grid IS (IT) issues (plus the delay in the publication of a decision by the Authority from June to September 2009) we can only conclude that CAP163 will be implemented sometime beyond 1st April 2010 (as noted in paragraph 9.4 of the CAP163 document).

In terms of assessing CAP163 (Original and Alternative) against the CUSC Applicable Objectives we have carefully considered the comments in section 7 of the CAP163 document and we have conclude, with regard to better meeting the CUSC Applicable Objectives, that:-

Original – not better than baseline.

WGAA1 – better than baseline and better than Original.

CAP164

As noted above we very much welcome, in principle, CAP164 as it has the ability to make a major contribution to the release of transmission access capacity which has, to date, being unavailable to market participants. We also believe that CAP164 would send strong investment signals to both generation users and network businesses, 'freeing up' the current stagnation in the GB Queue.

We note that there has only been a very limited consideration by the Working Group of the Alternative (in the order of one business day by the sub group and less than this by the 'main' group). Notwithstanding this constraint the Alternative appears to be a welcomed enhancement of the 'Connect and Manage' approach which we wholeheartedly support.

We note National Grid's comment on the significant implications of the WGAA for the charging methodologies, and we agree that a transparent, bankable price for accessing the transmission system (prior to the firm access date) is key to the effectiveness of this option. There are also likely interactions between CAP164 and other access products and the operational management of system reinforcements. Further work and analysis is required in this area before a decision is made on CAP164.

In regard to the proposed implementation date, we note that CAP164 original could be implemented within ten business days after the publication of the Authority's final decision. Subject to there being no development of CAP164 from the submission of the Final Amendment Report to the Authority decision (see our comments above under "Implementation Date & Arrangements") we agree with this implementation date.

Concerning CAP164 Alternative, and the proposed implementation date, we refer you to our comments above ("Implementation Date & Arrangements"). Given the restrictions imposed by the National Grid IS (IT) issues (plus the delay in the publication of a decision by the Authority from June to September 2009) we can only conclude that CAP164 will be implemented sometime beyond 1st April 2010 (as noted in paragraph 8.8 of the CAP164 document).

In terms of assessing CAP164 (Original and Alternative) against the CUSC Applicable Objectives we have carefully considered the comments in section 6 of the CAP164 document and we have conclude, with regard to better meeting the CUSC Applicable Objectives, that:-

Original – better than baseline.

WGAA1 – better than baseline.

CAP165

As noted above we do not support CAP165 (either the original or WGAAs 1, 2, 3, 4, 5, 6 and 7) as we believe that they do not better meet the CUSC Applicable Objectives when compared with the current (CUSC) baseline.

However, WGAA4, which is aligned with the timescales for the similar product in the GB gas transmission access arrangements, does in our view better meet the CUSC Applicable Objectives when compared with the Original

Notwithstanding that, as we have noted previously, the unilateral removal of a property right (which is what the current TEC transmission access rights are) without full compensation is, we believe, illegal.

Furthermore, such a step would be hugely damaging to investor confidence. Generators, having signed their BCA etc., commit many hundreds of millions of pounds investment in their new power plant. It should be noted that this financial commitment, vis a vis the power station, dwarfs the financial commitment (underwritten in no small part by the generator) made by the GBSO. Over the next ten years or so it has been suggested that circa £100Bn of investment will be needed in new power station assets.

If, as is suggested with CAP165 (and 166) the transmission access rights of generators can, unilaterally, be removed (via a CUSC change) and reallocated via another means then there is nothing (in either the CUSC, Licence or Act) that prevents this happening in the future.

History has taught us; with, for example, the way the transmission access rights work within the GB gas market; that once this area is opened up for change it will be subject to 'tinkering' for many years to come. Such 'tinkering' causes increased uncertainty for investors leading to (i) reduced investment and (ii) increased risk premiums being applied to those investments that are made.

In regard to the proposed implementation date, we refer you to our comments above ("Implementation Date & Arrangements"). Given the restrictions imposed by the National Grid IS (IT) issues (plus the delay in the publication of a decision by the Authority from June to September 2009) we can only conclude that CAP165 will be implemented sometime beyond 1st April 2010 (as noted in paragraph 8.3 of the CAP165 document).

We have some concerns with respect to the proposed legal text and have provided some revised wording that we would urge the Working Group; in accordance with section 8.17.8 of the CUSC and the Working Group Recommendation (see, for example, paragraph 1.6 of the CAP165 report); to address, namely:-

> "the term "**Agreed TEC Period**", shall mean a **TEC Period** which is different to the **Default TEC Period** and which has been nominated by the **User** and which is no greater than [●] years and which when added to the period which the **User** has been connected to the **GB Transmission System** is not less than 8 years;"

In terms of assessing CAP165 (Original and Alternative) against the CUSC Applicable Objectives we have carefully considered the comments in section 6 of the CAP165 document and we have conclude, with regard to better meeting the CUSC Applicable Objectives, that:-

Original – not better than baseline.

WGAA1 – not better than baseline not better than Original.

WGAA2 – not better than baseline not better than Original.

WGAA3 – not better than baseline better than Original.

WGAA4 – not better than baseline better than Original.

WGAA5 – not better than baseline not better than Original.

WGAA6 – not better than baseline better than Original.

WGAA7 – not better than baseline better than Original.

Non physical players (CAP165)

Discussions were held within the Working Group on the possible involvement of **non physical players** with respect to these new access products (as recorded in section 4.6 of the CAP165 report). As the CUSC is currently constituted we do not believe it is permissible for non physical players to be involved in booking or holding transmission access rights. We understand that Ofgem and DECC (formerly BERR) have recently provided some comments on the issue as outlined in paragraph 4.6.2 of the CAP165 report. We note that, as drafted, CAP165 does not propose to change the CUSC to include for the involvement of non physical players. We agree with this for the reasons detailed in our 31st October 2008 letter.

Conclusion

We believe that CAP161 WGAA1, CAP162 WGAA1, CAP163 WGAA1 and either CAP164 Original or CAP164 WGAA1 are all better than the current (CUSC) baseline, in terms of better meeting the Applicable CUSC Objectives and should be recommended for approval by the CUSC Panel.

We believe that both the CAP165 Original and the Alternatives do not better meeting the Applicable CUSC Objectives when compared with the current (CUSC) baseline and therefore should not be recommended for approval by the CUSC Panel. However, CAP165

WGAA4, when compared to the Original, is better at meeting the Applicable CUSC Objectives.

I hope these comments will assist the Company and the CUSC Panel in their future deliberations.

Yours sincerely,

Garth Graham

Electricity Market Development Manager

Energy Strategy