



Direct Dial: 020 7901 7389
20 September 2004

National Grid Company, CUSC Signatories and
Other Interested Parties

Your Ref: CAP071
Our Ref: IND/COD/CUSC/CAP071

Dear Colleague

Amendment to the Connection and Use of System Code (CUSC) - Decision and Notice in relation to Amendment Proposal CAP071 – “Development of a Maximum Generation Service”

The Gas and Electricity Markets Authority (the Authority¹) has carefully considered the issues raised in the Amendment Report² in respect of Amendment Proposal CAP071 – “Development of a Maximum Generation Service”.

National Grid Company plc (NGC) recommended to the Authority that Working Group Alternative Amendment CAP071 be implemented. In the event that the Authority approves either original Amendment Proposal CAP071 or Working Group Alternative Amendment Proposal CAP071, NGC recommended that:

- ◆ if the Authority decision is received on or before 17 September 2004, implementation should occur on 1 October 2004; or
- ◆ if the Authority decision is received after 17 September 2004, implementation should occur 10 business days after the decision is received.

Having carefully considered the Amendment Report and NGC’s recommendation and having regard to the Applicable CUSC Objectives and the Authority’s wider statutory duties³, the Authority has decided to direct a modification to the CUSC in respect of the Working Group Alternative Amendment.

A separate letter contains the direction to NGC to modify the CUSC in accordance with the Working Group Alternative Amendment.

¹ Ofgem is the office of the Authority. The terms “Ofgem” and “the Authority” are used interchangeably in this letter.

² CAP071 Amendment Report dated 5 August 2004.

³ Ofgem’s statutory duties are wider than the matters that NGC must take into consideration and include, amongst other things, social and environmental guidance provided to Ofgem by the government.

This letter explains the background to Amendment Proposal CAP071, as described in the Amendment Report, and sets out the Authority's reasons for its decision.

This letter constitutes the notice by the Authority under section 49A of the Electricity Act 1989 in relation to the direction.

Background

In September 2003, NGC proposed the introduction of a new balancing service in the form of a Maximum Generation Service (MGS) to enable NGC as System Operator (SO) to gain access to additional energy over and above the normal operating range of a generating unit at times of system stress. MGS would be contracted for on a bilateral basis and provided via an Emergency Instruction as set out in section BC2.9 of the Grid Code (GC). At the time of development, Ofgem and market respondents expressed concerns mainly with regard to:

- ◆ the transparency associated with the procurement and utilisation of MGS;
- ◆ the need to ensure MGS which would not give rise to undue discrimination and/or would not undermine the firm commercial nature of other products such as Transmission Entry Capacity (TEC);
- ◆ the use of the Applicable Balancing Services Volume Data (ABSVD)⁴ process; and
- ◆ the need to develop a more enduring solution via the current electricity Industry Codes.

In November 2003, having evaluated these concerns against the potential benefits of the proposal, Ofgem approved the introduction of MGS on an interim basis to apply over winter 2003/04, with NGC making a commitment not to use the service beyond March 2004. In approving the proposal, Ofgem considered that it would be appropriate for a more enduring solution to be developed.

In response to the concerns outlined above, in January 2004 the Balancing Services Standing Group (BSSG) undertook to develop an enduring solution. Following the BSSG's discussions, on 18 March 2004, Powergen UK plc (Powergen) submitted Amendment Proposal CAP071.

The original Amendment Proposal

Amendment Proposal CAP071 aims to establish enduring arrangements for the provision of MGS. The Proposer considered the Amendment Proposal would better facilitate achievement of both of the Applicable CUSC Objectives⁵ as it would provide the market with appropriate

⁴ The Applicable Balancing Services Volume Data Methodology Statement can be found at:

http://www.nationalgrid.com/uk/indinfo/balancing/pdfs/ABSVD_v1_1_281103.pdf.

The ABSVD Methodology Statement sets out information on those balancing services that will be taken into account under the Balancing Settlement Code (BSC) for the purpose of determining imbalance volumes. At present, the inclusion of any Applicable Balancing Service is at the discretion of the Lead Party of the relevant BMU. The purpose of submitting information on Applicable Balancing Services to NGC is to transfer the service provider's imbalance volume to NGC's energy account, thereby nullifying the service provider's imbalance exposure.

⁵ The Applicable CUSC Objectives are defined in Standard Condition C10.18 of the licence to transmit electricity treated as granted to NGC under Section 6 of the Electricity Act 1989 (the "Transmission Licence") and are:

signals to provide additional generation on a reasonable endeavours basis and would serve to increase the security of supply in an efficient manner. The Proposer additionally considered that Amendment Proposal CAP071 would provide a clear framework for MGS, thereby enhancing market certainty with regard to processes, responsibilities and remuneration, as well as improving transparency.

Description of the Maximum Generation Service

The original Amendment Proposal has five specific elements:

- ◆ MGS is defined as the additional output offered over and above the normal operating range of a Balancing Mechanism Unit (BMU) as defined by a limiting technical parameter, namely Registered Capacity (RC)⁶;
- ◆ MGS would continue to be used only as an Emergency Service and would be utilised in accordance with the CUSC. In order to ensure that MGS volumes were not used as part of everyday operation, the BSSG also noted that MGS provision should only be factored into emergency operational planning procedures, and not as part of the normal operational planning procedures as documented in NGC's Seven Year Statement (SYS)⁷;
- ◆ a reasonable endeavours commitment to delivery at a point where the BMU is operating at a level equal to MEL;
- ◆ in order to avoid the potential for discrimination and manipulation, payment for delivery where the MEL of a BMU that was operating at a level equal to its RC would be guaranteed in full. If a BMU was operating at a level below RC, the BMU would receive guaranteed payment for the lower of the volume delivered or a pre-determined "x" per cent of RC. "X" was not defined as part of the original Amendment Proposal. Payment for delivery over and above "x" per cent of RC would be via an appeals process; and
- ◆ advance notification of MGS instruction should be provided where possible.

(a) the efficient discharge by the licensee of the obligations imposed upon it under the Act and by this licence; and

(b) facilitating effective competition in the generation and supply of electricity, and (so far as consistent therewith) facilitating such competition in the sale, distribution and purchase of electricity.

⁶ Defined in the Grid Code as: "(a) In the case of a Generating Unit other than that forming part of a CCGT Module, the normal full load capacity of a Generating Unit as declared by the Generator, less the MW consumed by the Generating Unit through the Generating Unit's Unit Transformer when producing the same (the resultant figure being expressed in whole MW).

(b) In the case of a CCGT Module, the normal full load capacity of a CCGT Module as declared by the Generator, being the Active Power declared by the Generator as being deliverable by the CCGT Module at the Grid Entry Point (or in the case of an Embedded CCGT Module, at the User System Entry Point), expressed in whole MW.

(c) In the case of a Power Station, the maximum amount of Active Power deliverable by the Power Station at the Grid Entry Point (or in the case of an Embedded Power Station at the User System Entry Point), as declared by the Generator, expressed in whole MW. The maximum Active Power deliverable is the maximum amount deliverable simultaneously by the Generating Units and/or CCGT Modules less the MW consumed by the Generating Units and/or CCGT Modules in producing that Active Power."

⁷ The 2004/05 SYS can be found at:

http://www.nationalgrid.com/uk/library/documents/sys_04/default.asp?action=&sNode=SYS&Exp=Y

Utilisation

The volume of MGS contracted is agreed on a bilateral basis between the User and NGC. As part of the contract negotiation, a User should declare an indicative availability of MGS to NGC. This indicative volume should then be re-declared in accordance with the provisions of the CUSC, should the User become aware of a change in the availability of the service. However, it was decided that continuous weekly re-declarations would not be practical, and therefore the last submission received would be taken as deemed availability.

MGS is to be provided at the BMU level under a reasonable endeavours obligation with delivery to be as much as practically possible. MGS would be instructed via an Emergency Instruction, in accordance with section BC2.9 of the Grid Code, with a maximum usage time limited to two hours following instruction. In order to simplify the settlement process, it was agreed that once MGS has been instructed, any re-submission of MEL associated with the instructed unit will result in a deemed cease in terms of provision of MGS. Further provision of MGS beyond this point would then require a new instruction.

It was agreed by the BSSG that MGS must comply with the ABSVD Methodology Statement.

Price submission

Prices would be agreed in £/MWh format on a bilateral basis and detailed in the Commercial Services Agreement. Price changes would be notified no more than once a month and such notification would be provided by the fifteenth calendar day of the preceding calendar month for application from the first calendar day of the following calendar month.

Settlement

Original Amendment Proposal CAP071 proposes that any payment for MGS, under conditions where MEL is below its normal operating range, should be capped at "x" per cent of RC in order to avoid payment being received for volumes which would usually be considered to be within a station's normal commercial operating capability. It was recognised that this mechanism was developed to address concerns regarding potential discrimination between commercial mechanisms and the emergency MGS procedures.

Having undertaken analysis of the average indicative volumes contracted under the existing MGS Agreement, a likely value for "x" was determined as being 3 per cent. The BSSG noted that there are some contracts that stipulate volumes greater than this, which influenced its decision to allow "x" to be varied by agreement with NGC.

Appeals process

For any volume delivered over and above 3 per cent of RC, or any otherwise previously agreed figure of RC with NGC, a dispute must be raised within 10 days of receipt of the "Final Monthly Statement". The User and NGC would have 10 days to resolve the dispute, failing which it would be referred to Ofgem as a Charging Dispute. Following the outcome of the referral to Ofgem, the agreed volume would be settled as part of the next available settlement run. The outcome of a dispute would be published in accordance with the general publication principles associated with MGS.

Information publication and transparency

In practice, five calendar days following initial contract signature, and thereafter five calendar days following the fifteenth calendar day of the month prior to utilisation, all prices, RCs, indicative volumes and the value of “x” (if different to 3 per cent) would be published on a BMU basis. It was envisaged by the BSSG that publication of such data would be on NGC’s website⁸.

Where possible, close to real time information of any instruction to begin provision of MGS would be provided on the Balancing Mechanism Reporting Service (BMRS) website⁹. Such a notice would contain details of the BMU instructed, the start and cease times and the indicative volume contracted for the unit. However, the BSSG acknowledged that in times of system stress this may not be possible.

Post event, details of the BMU instructed, the start and cease times plus the applicable price and volume delivered would also be published on NGC’s website.

Cost impact

Whilst there was little discussion of the potential financial ramifications of the original Amendment Proposal, it was noted that there would be no substantial I.T. development costs as a result of implementation. Small costs were identified pursuant to updating the relevant section of NGC’s website.

Alternative Amendment Proposal

The Working Group agreed that on the basis of the Amendment Proposal, CAP071 would better facilitate achievement of the Applicable CUSC Objectives. During consideration of the original Amendment Proposal, the BSSG identified an alternative methodology for payment and hence a Working Group Alternative Amendment (WGAA). The BSSG believed that the WGAA would better facilitate achievement of the Applicable CUSC Objectives, more effectively than the original Amendment Proposal, and unanimously voted to adopt the changes set out below.

Working Group Alternative Amendment

The WGAA differs from the original Amendment Proposal mainly in the manner in which remuneration is calculated. It was noted that calculation of remuneration on the basis of a pre-defined percentage of RC would require re-introducing the RC parameter into the CUSC, as it was removed as part of Approved Amendment CAP043 – “Transmission Access – Definition”¹⁰.

As part of its discussion, the BSSG identified that Connection Entry Capacity (CEC) was a proxy for RC and had the advantage of already existing within the CUSC, and could be utilised purely

⁸ Found at www.nationalgrid.com/uk/

⁹ Found at www.bmreports.com

¹⁰ The amendment proposal can be found at:
http://www.nationalgrid.com/uk/indinfo/cusc/mn_amendment_material.html

for payment purposes in order to derive a value for “x”. Following discussion by the BSSG, it was unanimously agreed that WGAA should be based on CEC as this would represent the technical capability of the connection assets, which may be higher than RC.

The use of CEC eliminates the complex nature of adjusting the arrangements under circumstances where generation exceeds RC, as it should be impossible to deliver volumes beyond CEC. Instead, the methodology treats all volumes above MEL as Maximum Generation, with there being guaranteed remuneration up to 3 per cent of CEC. Whereas the original Amendment Proposal differentiated the volume to be paid based on the relative positions of MEL and RC, it was agreed by the BSSG that payment should be against the lower of the volume delivered or “x” per cent of CEC, where “x” equals 3 per cent unless otherwise bilaterally agreed between the User and NGC.

The BSSG submitted its final report on 6 May 2004 for consideration at the CUSC Panel meeting on 21 May 2004. The CUSC Panel endorsed the Working Group Report and determined that the Alternative Amendment should proceed to wider industry consultation.

Impact on other documents¹¹

As part of its discussions, the BSSG identified a number of changes to other industry documents that would be required as a result of the implementation of Alternative Amendment CAP071. These are summarised below.

Grid Code

Several housekeeping changes would be required to the Grid Code in order to remove references to the MGS Agreement, whilst the proposed provisions are transferred into the CUSC. The changes necessary to align the Grid Code with the CUSC affect section BC2.9.

Amendments have been proposed to the system warning section under OC7.4.8.5 which details the requirements for the NGC System Warning – Inadequate System Margin. It is proposed to include a formal notice that MGS may be required during the period in which the Notification of Inadequate System Margin (NISM) applies. For the avoidance of doubt, under this proposal an Emergency Instruction for MGS may be issued in the absence of a NISM.

Transmission licence special condition AA4 statements¹²

Procurement Guidelines

The changes proposed in relation to the Procurement Guidelines (PGs) reflect the transfer of the MGS arrangements into the CUSC. There is one new addition to the PGs in the form of proposed ex ante and ex post information provision associated with MGS.

¹¹ For the avoidance of doubt, this letter does not in any way constitute a decision on any document other than that which forms the title of this decision letter.

¹² Details of NGC’s AA4 consultation in relation to Amendment Proposal CAP071 can be found at: http://www.nationalgrid.com/uk/indinfo/balancing/pdfs/071_Consultation_Document.pdf

Balancing Principles Statement

The main changes proposed to the Balancing Principles Statement (BPS) are intended to offer further clarification as to how and when MGS will be utilised. In particular, the changes propose that where possible, MGS will be utilised prior to any instruction to instigate Demand Control measures as detailed in the Grid Code.

Applicable Balancing Services Volume Data Methodology Statement

NGC has consulted on two versions of the ABSVD Methodology Statement as a result of the differing payment mechanisms included in the original Amendment Proposal, and the WGAA. For the avoidance of doubt, the proposed drafting to be included within the CUSC will make compliance with the ABSVD Methodology Statement compulsory for MGS going forward.

A number of consequential changes to both versions have been proposed to the ABSVD Methodology Statement to reflect the transfer of the MGS arrangements into the CUSC. Changes have also been proposed in respect of the volume calculation to determine the appropriate Applicable Balancing Service (ABS) volume.

For the version of the ABSVD Methodology Statement that accompanies the original Amendment Proposal, the ABS volume would be determined as the lower of the volume delivered or "x" per cent of RC of the BMU in question. Any volume that is delivered in excess of RC would not be treated as an ABS volume until the appeal process as detailed in the CUSC results in a positive outcome.

For the ABSVD Methodology Statement that accompanies the WGAA, the ABS volume would be determined as the lower of the volume delivered or "x" per cent of the CEC. Any volume that is delivered in excess of CEC would not be treated as an ABS volume until the appeal process as detailed in the CUSC results in a positive outcome.

Balancing Services Adjustment Data Methodology Statement

There are no proposed changes to the BSAD Methodology Statement. As provisions for the first MGS scheme are still within the BSAD Methodology Statement, the inclusion of MGS costs and volumes when calculating imbalance prices would remain. NGC considers that these provisions are appropriate to be carried forward to the enduring MGS and that no further changes to BSAD Methodology Statement are required.

Respondents' views

NGC issued a consultation paper on 26 May 2004 inviting responses from CUSC Parties and other interested parties. Views were requested by 5 July 2004.

There were six responses to NGC's consultation. Four respondents supported the proposed revisions, while the remaining two respondents were not supportive. The four respondents in favour of the proposed revisions considered that the WGAA better facilitated the achievement of the Applicable CUSC Objectives.

The respondents in favour considered that the proposed revisions would better facilitate achievement of the Applicable CUSC Objectives by assisting the development of effective competition. One respondent felt that the provisions would enable more efficient discharge of the System Operator's obligations. Several respondents considered that the revised reporting requirements would improve transparency and serve to enhance price signals. One respondent considered that the capping mechanism for payment would be effective at preventing manipulation of MGS.

The respondents in favour of the proposed revisions expressed a preference for the WGAA as it simplifies the payment mechanism and also removes the need to insert the RC term back into the CUSC.

One respondent who expressed broad support for the original Amendment Proposal considered, however, that the proposed revisions did not fully take account of the issues surrounding Interconnector Users. This respondent felt that using RC, as would be the case for the original Amendment Proposal would not be appropriate as it makes no allowance for market participants' Interconnector Capacity Entitlement (ICE), which is normally below a BMU's normal operating range. In addition, this respondent felt that the mechanism of capping automatic payment at "x" per cent of CEC would not encourage generation beyond that point and would create perverse incentives.

One respondent who was opposed to the proposed revisions considered that neither the original Amendment Proposal nor the WGAA offered an improvement over the mechanism that was in place over winter 2003/04. The respondent was concerned that the Amendment Proposal could encourage participants to withhold capacity in order to avoid paying TNUoS charges. This respondent also considered that the provisions of CAP071 may create gaming opportunities. It was also considered by this respondent that NGC can already access additional capacity and non-firm energy through existing provisions in the Grid Code and BSC. As a final point, this respondent felt that the charging process was cumbersome, and that removing this process in favour of allowing parties to bilaterally contract for the value of "x" would provide greater certainty for the System Operator over the volume of delivered energy. Of the two Amendment Proposals, this respondent favoured the WGAA.

Another respondent against the original Amendment Proposal and the WGAA considered that the service provided by MGS could already be delivered via BM acceptances, and felt that the proposed MGS would be considerably less transparent than BM activities. This respondent further considered that it was not appropriate for non-firm additional energy to not be liable for associated transmission charges and that this represented unfair support for MGS providers. However, it was considered that the costs of MGS actions should be fully fed through into cash out prices by the BSAD parameters.

Additional consultation document

NGC issued an additional consultation document on 8 July 2004 in which some minor errors in the original legal drafting were corrected. This consultation document sought views by 22 July 2004 on the revised legal text for the original Amendment Proposal and the WGAA.

There was one response to the additional consultation, in which the respondent directly repeated the views it conveyed in the original consultation.

GB consultation

Ofgem issued a GB wide consultation on CAP071 on 6 August 2004. Ofgem considers that it is generally appropriate to consult on BSC and CUSC change proposals on a GB wide basis following the Second Reading of the Energy Bill which introduced the Energy Act 2004¹³. All the responses to the GB consultation have been published on the Ofgem website.

There were two responses to the GB consultation, one of which repeated its response to the England and Wales consultation. The other respondent supported the inclusion of the associated CAP071 text into GB documentation.

Amendment Panel Members' views

No views were received from Panel Members.

NGC's recommendation

NGC considers that both original Amendment Proposal CAP071 and the WGAA CAP071 would better facilitate achievement of the Applicable CUSC Objectives. However, given the complexity surrounding the payment for the provision of MGS and the need to re-introduce the RC term into the CUSC to facilitate the payment mechanism proposed in original Amendment Proposal CAP071, NGC recommends the implementation of the Working Group Alternative Amendment CAP071. NGC believes that this alternative, based on CEC and the determination of an appropriate value of "x" = 3 per cent, would better facilitate the Applicable CUSC Objectives compared to the original as it would fulfil the same principles but in a simplified manner more consistent with the current baseline of the CUSC.

In the event that the Authority approves either the original Amendment Proposal or the Alternative Amendment Proposal, NGC recommended that:

- ◆ if the Authority decision is received on or before 17 September 2004, implementation should occur on 1 October 2004; or
- ◆ if the Authority decision is received after 17 September 2004, implementation should occur 10 business days after the decision is received.

Ofgem's view

In reaching its decision to direct the original MGS scheme ahead of winter 2003/04, Ofgem took particular note of the arguments of NGC, as SO, in support of MGS for security of supply purposes. NGC stated in its 2003/04 Winter Operations Report¹⁴ that "supply security would be enhanced" if the proposed MGS was introduced for winter 2002/03. However, Ofgem noted in its decision letter to approve the original MGS scheme that it had concerns that the scheme contained deficiencies relating to potential discrimination, gaming opportunities and information

¹³ The Energy Bill received its second reading on 11 December 2003.

¹⁴ The Winter Operations Report was published on 14 October 2003 and can be found at:

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/4787_NGT_Winter_Operations_Report_Oct03.pdf

and transparency concerns. Ofgem indicated that the MGS scheme should only be considered as an interim service until an enduring solution could be introduced.

Subsequently, in preparation for winter 2004/05, Ofgem asked National Grid Transco (NGT) whether, in its opinion, there are adequate arrangements in place to ensure system security during the coming winter. Ofgem notes that in its Winter Outlook report¹⁵, NGT outlined that the level of gas and electricity supply security would be enhanced and the market would be better able to deal with low probability extreme conditions if an enduring MGS, such as that contained within CUSC Amendment Proposal CAP071, was implemented. NGT highlighted that this would continue to give it access to 'reasonable endeavours' generating capability of the order of a further 0.8 GW under emergency conditions.

Applicable CUSC Objective (a) - the efficient discharge by the licensee of the obligations imposed upon it under the Act and by this licence

While the original Amendment Proposal is an improvement over the previous scheme, Ofgem notes NGC, the BSSG and the majority of respondents to the consultation consider that the revised remuneration mechanism in the WGAA goes a long way to ease concerns over gaming. As MGS can only be invoked when a unit is operating at its MEL, and remuneration is automatically capped at 3 per cent of CEC, the scope for gaming is greatly reduced. The potential gains that could be made by attempting to artificially increase MGS eligible payment are considerably smaller than under the previous scheme due to this limiting factor on guaranteed remuneration and hence considerably weaken the incentives to adopt this strategy. Although Ofgem agrees with those respondents who considered that the remuneration mechanism proposed under the WGAA is likely to reduce the potential for gaming, we would welcome initiatives from NGC to completely remove this risk. Ofgem would ask NGC to continue to keep this issue under review and consider whether further improvements to this aspect of the arrangements could be made.

Ofgem recognises, however, that the proposal represents an improvement over the current arrangements and should improve the ability of NGC to efficiently discharge its statutory duties and licence obligations. Therefore, Ofgem considers that the WGAA would better facilitate the achievement of Applicable CUSC Objective (a), as it will establish arrangements to enable NGC to gain access to additional generation at times of system stress, thereby facilitating effective competition.

Applicable CUSC Objective (b) - facilitating effective competition in the generation and supply of electricity, and (so far as consistent therewith) facilitating such competition in the sale, distribution and purchase of electricity

In its decision letter for the original MGS scheme, Ofgem noted that it had concerns with the interactions between MGS and both TEC and TNUoS payments in terms of the potential for discrimination. Concerns in relation to discrimination arose both in the original MGS and the revised MGS described as part of Amendment Proposal CAP071 because a generator is permitted to exceed its TEC, without paying a commensurate amount in its TNUoS charges. However, it was recognised by respondents to the Amendment Proposal CAP071 consultation that concerns regarding discrimination were allayed as MGS is a defined service used in

¹⁵ 'Preliminary Winter Outlook Report – 2004/05', National Grid Transco, May 2004.

emergency situations only and not under normal commercial arrangements. Ofgem accepts this view and also notes the views of the BSSG and NGC that MGS as proposed under Amendment Proposal CAP071 can only be invoked by an emergency instruction, and, as such, can be considered separate to the commercial arrangements.

As mentioned previously, Ofgem's initial concern regarding MGS was that service providers were entitled to gain free access to additional TEC. However, the ability to effectively secure access to use the transmission system, even under emergency conditions, without paying any additional TNUoS charges could be considered analogous to the availability of a free interruptible transmission access product. If the service was used, some generators would be receiving additional TEC at no cost and at NGC's discretion.

Ofgem does not consider that the MGS arrangements give rise to undue discrimination, but notes that it is for NGC to ensure that, in accordance with condition C7 of its transmission licence, the arrangements that are in place are non-discriminatory, and that NGC's use of the service is consistent with the obligations placed upon NGC under its transmission licence, the CUSC and the Grid Code. NGC will, however, need to consider whether, given its licence and statutory obligations, such a service should be offered to other network users. Ofgem will continue to monitor NGC's utilisation of MGS such that it remains consistent with its transmission licence and the relevant industry codes.

In its decision letter for the first MGS implemented in November 2003, Ofgem also expressed that it had concerns regarding the transparency associated with the MGS proposals, particularly their impact on prompt price reporting and information provision more generally. Ofgem notes that as part of the original Amendment Proposal and the WGAA, steps have been taken to improve the information publication and submission process, in order to improve transparency of the prices, volumes and utilisation of the service. The BSSG agreed that in order to keep the service simple given its emergency nature and to avoid undue developmental costs, once submitted all details associated with MGS would be made public. Ofgem considers that publishing these parameters in accordance with both the original Amendment Proposal and the WGAA represents a considerable improvement in transparency. Ofgem considers that improved transparency in relation to MGS should be beneficial for competition in the provision of the service. Therefore, Ofgem considers that the WGAA would better facilitate the achievement of Applicable CUSC Objective (a) as it does not give rise to undue discrimination between different classes of Users, and ensures equal access to information on relevant MGS parameters.

For the above reasons, Ofgem considers that both original Amendment Proposal CAP071 and the WGAA CAP071 better facilitate achievement of the Applicable CUSC Objectives, but that the WGAA is superior to the original Amendment Proposal.

Other issues

Interconnectors

Ofgem also notes that MGS is intended to provide a route to obtain additional generation that is not commercially viable for a provider to offer into the usual market mechanisms. The scope of Amendment Proposal CAP071 is limited to this main premise, and does not therefore address wider issues, such as those relating to the capacity arrangements on the Interconnectors. Market

participants could consider and, if necessary, seek to amend perceived defects in the Interconnector arrangements via the normal governance mechanisms.

The Authority's Decision

The Authority has decided to direct NGC to implement the Working Group Alternative Amendment CAP071, as it considers that the amendment proposal better facilitates achievement of the Applicable CUSC Objectives as defined under Standard Condition C10.18 of NGC's transmission licence, and is consistent with the principal objective and statutory duties of the Authority. In particular, Ofgem considers that this CUSC Amendment Proposal would better facilitate discharge of the licensee's obligations and would better facilitate effective competition in the generation and supply of electricity. The Authority has therefore decided to direct that the Working Group Alternative Amendment CAP071, as set out in the Amendment Report, should be made and implemented. A separate letter contains this direction.

If you have any queries in relation to the issues raised in this letter, please feel free to contact Simon Bradbury on 020 7901 7249 or David Hunt on 020 7901 7429.

Yours sincerely

A handwritten signature in black ink, appearing to be 'Steve Smith', written in a cursive style.

Steve Smith

Managing Director, Markets

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