



The National Grid Company, CUSC Signatories and  
Other Interested Parties

*Bringing choice and value  
to customers*

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10 September 2004

Dear Colleague,

**Amendment to the Connection and Use of System Code (CUSC) - Decision and Notice in relation to Proposed Amendment CAP070: Short-Term Firm Access Service**

The Gas and Electricity Markets Authority (the Authority) has carefully considered the issues raised in the Amendment Report<sup>1</sup> in respect of Amendment Proposal CAP070 *Short-Term Firm Access Service* and the Alternative Amendment Proposal *Short Notice Short-Term Firm Access* (collectively referred to as the Proposals).

The National Grid Company plc (NGC) recommended to the Authority that either the Amendment Proposal or Alternative Amendment Proposal should be approved.

Having carefully considered the Amendment Report and NGC's recommendation and having regard to the applicable CUSC objectives and Ofgem's wider statutory duties, the Authority has decided to direct that the Alternative Amendment Proposal CAP070 be made to CUSC.

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

This letter explains the background to the Proposals, and sets out the Authority's reasons for its decision. This letter constitutes notice by the Authority under section 49A of the Electricity Act 1989 in relation to the direction.

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<sup>1</sup> CAP070 Amendment Report dated 19 July 2004.

## **Background**

Under the current arrangements a generator can request a change to its Transmission Entry Capacity (TEC) holding in writing to NGC not less than five business days before the intended date of effect in any financial year. NGC must make an offer within three months, or as soon as practicable. CAP043 – *Transmission Access - Definition* clarified that a generator's TEC requests must be able to accommodate any ancillary services that the generator is contracted or obliged to provide to NGC.

The Amendment Proposal (as discussed in detail below) was proposed by NGC and submitted to the Panel for consideration on 23 January 2004. The Panel determined that the Amendment Proposal should be considered by an industry working group (the Working Group). The Working Group considered both the original Amendment Proposal and the Alternative Amendment Proposal, and, recommended that they should both proceed to wider consultation.

The majority of the Working Group preferred the Amendment Proposal to the Alternative Amendment Proposal. However, the Working Group could not agree whether the Proposals better facilitated the achievement of the applicable CUSC objectives.

NGC determined that a change to the charging arrangements would be necessary to facilitate the introduction of any short-term access product and NGC consequently conducted charging consultation UoSCM-M-13, in parallel with consultation on the CUSC. The UoSCM-M-13 consultation closed on 7 July 2004<sup>2</sup>.

NGC's consultation paper on the Proposals was issued on 28 May 2004 with responses invited by 2 July 2004. NGC submitted the Amendment Report to the Authority on 19 August 2004.

## **GB Consultation**

Ofgem undertook a GB-wide consultation on the Proposals on 19 August 2004 and sought views on the final Amendment Report in respect of CUSC. The GB-wide consultation was undertaken in the light of the proposed introduction of the British Electricity Transmission and Trading Arrangements (BETTA) pursuant to the Energy Act 2004. Responses received to the GB-wide consultation are summarised below and are available on the Ofgem website.

## **The Amendment Proposal**

The Amendment Proposal seeks to introduce a short-term access service such that generators would be able to request Short-Term Transmission Entry Capacity (STTEC) which would be available for a period of four weeks. Under the proposal, generators would request STTEC not less than six weeks prior to the period of use and NGC would confirm four weeks ahead of use whether the request had been accepted. Successful applicants would be able to generate against their allocated short-term access right on a firm basis.

Under the Amendment Proposal annual TEC offers and acceptances would remain the primary access product for generators. A natural check on an excessive number of applicants for STTEC would be provided by both the charging methodology and the application fee. Applications for STTEC would be dealt with on a first come first served basis. No STTEC application would be

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<sup>2</sup> The consultation document in regard to UoSCM-M-13 is available at [http://www.nationalgrid.com/uk/indinfo/charging/pdfs/UoSCM-M-13\\_Short\\_Term\\_Access%20.pdf](http://www.nationalgrid.com/uk/indinfo/charging/pdfs/UoSCM-M-13_Short_Term_Access%20.pdf)

granted if NGC anticipated that it would lead to the creation or exacerbation of a system constraint.

### **The Alternative Amendment Proposal**

The Working Group Alternative Amendment Proposal proposed the modification of STTEC to a more flexible short-notice, short-term firm (SNSTF) product. The SNSTF product would be available for a period of 28, 35 or 42 days. Generators would be able to request SNSTF two weeks prior to the period of use and NGC would need to confirm its acceptance of an offer not later than one week ahead of use. The generator would have one day to accept NGC's decision.

### **Respondents' views**

Respondents' views are summarised and contained in the Amendment Report in respect of the Proposals. Several respondents expressed concern about the accompanying charging methodology proposal, UoSCM-M-13.

#### *The Amendment Proposal*

NGC received ten responses to the consultation in respect of the Proposals. One of the responses supported the Amendment Proposal. One respondent was in favour of the Alternative Amendment Proposal. Eight respondents did support the Proposals, although two of these indicated support for the principle of introducing a short-term access product.

The majority of respondents considered that STTEC would not contribute to facilitating competition.

In summary respondents suggested that

- increased uncertainty resulting from the use of temporary transmission access could lead to short-term price spikes
- STTEC may allow price manipulation by generators who could apply for STTEC without using it and block-book transmission capacity months ahead
- NGC could not be sure that a generator with STTEC would make itself available at times of system stress
- STTEC would result in the cross subsidisation of peaking generation by base load generation
- short-term access would not lower barriers to entry since electricity generators would be unwilling to operate only for part of the year
- potential reductions in TEC and the subsequent use of STTEC as top-up would provide misleading investment signals
- the implementation of CAP070 may have a negative effect on security of supply because the possibility of booking less annual TEC would result in more uncertainty in the levels of plant availability at times of unexpected system peak (for example in summer)
- STTEC was too restrictive, especially because of the long notice period and that the product would not facilitate the return of mothballed plants, and
- the process for assessing applications should be based on clear and consistent criteria based on the relevant licence objectives.

The respondent who supported the Amendment Proposal suggested that any potential adverse effects resulting from the implementation of the product should be closely monitored and the rules governing STTEC should be updated if necessary.

#### *The Alternative Amendment Proposal*

A number of respondents did not support either the original Amendment Proposal or the Alternative Amendment Proposal. They suggested that the introduction of STTEC or SNSTF would damage competition by cross subsidizing market entry for certain classes of generators, who would no longer be charged for the full costs that they had imposed on the transmission system. One respondent said that the original Amendment Proposal and the Alternative Amendment Proposal would be discriminatory and would not provide a product that would be useful to the majority of generators.

One respondent was in favour of the Alternative Amendment Proposal and said it would better facilitate effective competition by enabling additional generation to be made available at shorter notice. The respondent considered that the Alternative Amendment Proposal was less restrictive and that it would allow plants with both long and short technical lead times to return to the market to take advantage of STTEC.

#### **Responses to GB-wide consultation**

There were four responses to Ofgem's GB-wide consultation. One respondent supported the extension of the Amendment Proposal on a GB-wide basis.

Respondents who were against the Amendment Proposal reiterated the concerns raised as part of the CUSC consultation. They considered that the Amendment Proposal would be discriminatory and there would be a need to ensure that TEC applications took precedence in the event of interactions with STTEC applications.

One respondent noted that a reference to the processing of STTEC applications should be added to the System Operator-Transmission Owner code in order to help deal with any simultaneous TEC and STTEC applications.

Respondents also expressed concerns with regard to the extension of the proposed charging methodology on a GB-wide basis.

#### **NGC's recommendation**

NGC recommended to the Authority that either the Amendment Proposal or the Alternative Amendment Proposal be approved with an implementation date of 20 September 2004 for the service to start on 1 November 2004.

NGC considered that the Amendment Proposal would enable it to better discharge its obligations to operate an economic and efficient system by reducing any perceived barriers to entry for market participants seeking access to the transmission system for a short finite period thus improving security of supply.

Furthermore NGC considered that STTEC and SNSTF would contribute to the better accomplishment of the applicable CUSC objectives. NGC considered that STTEC and SNSTF

should enable more generation access to the system, particularly at times of system stress, and therefore it would enhance competition between generators.

### **Ofgem's view**

There is considerable merit in products such as STTEC and SNSTF which have the potential to:

- provide generators with the choice between longer-term access arrangements and flexible short-term transmission access products
- lower a potential barrier to entry for generators, especially for mothballed plant, and
- enhance effective competition by introducing flexibility for plant to respond to market conditions, especially during winter periods where there may be tight reserve margins.

The introduction of STTEC or SNSTF should not result in less annual bookings of primary TEC product. The proposed application fee for short-term entry capacity products provides a natural check on excessive use of STTEC and SNSTF, given the proposed maximum duration time of 42 days of usage, it would be more cost effective for generators to buy annual TEC rather than STTEC periods.

Ofgem acknowledges concerns raised by respondents that STTEC may be used as a price manipulation tool and for anti hoarding measures. There are a number of provisions under the proposed framework for STTEC which could reduce the incentive for generators to block-book transmission system entry capacity. Ofgem considers that the application fee, access charge and NGC's case by case system security assessment of each application should mitigate the ability of generators to distort effective use of the transmission system or effective competition.

NGC would have discretion when considering each STTEC or SNSTF application. Therefore any generator applying for short-term access arrangements would need to recognise the potential loss of revenue if its application was unsuccessful. It could be argued that giving NGC such discretion would be inconsistent with its licence obligations. Nevertheless it is Ofgem's present view that NGC's discretion to offer STTEC or SNSTF is complementary to the existing connection and use of system terms. Although the CUSC modification proposal gives NGC the discretion with respect to considering applications for STTEC or SNSTF its licence obligations with respect to non discrimination would apply to this process.

If NGC allocates STTEC and SNSTF in line with the proposed amendment to the CUSC, then all reasonable requirements for short-term entry capacity products should be met. Ofgem will look to NGC to provide transparency and to exercise due diligence within the STTEC and SNSTF application process. If an applicant has concerns about the application and allocation process, it can refer the matter to the Authority under the current CUSC dispute resolution provisions.

On balance the increased flexibility associated with the Alternative Amendment Proposal better facilitates the achievement of the applicable CUSC objectives and NGC's licence obligations to facilitate effective competition in generation.

### **The Authority's Decision**

The Authority has therefore decided to direct that the Alternative Amendment Proposal, as set out in the Amendment Report, should be made and implemented. A letter directing implementation will accompany this decision letter.

Please contact Tolani Azeez on 020 7901 7043 if you have any queries in relation to the issues raised in this letter.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'A Walker', written in a cursive style.

**Andrew Walker**

**Director, Transmission Networks Regulation**

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