



## **Managing Access to the GB Transmission System**

**Follow-up from the 22 / 23 February 2006 Access Seminars**

**13 April 2006**

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## Executive Summary

In February 2006 National Grid held User Seminars in Glasgow and London to discuss with interested parties a range of issues surrounding the management of access to the GB transmission system and the means by which this could be developed in the future.

This document sets out the high-level issues National Grid has drawn from feedback from these events and the areas of work that we believe could be taken forward were Users to see merit in these. Five potential areas of development have been established:

- the arrangements for seeking financial commitments from Users seeking new access rights and the appropriate allocation of risk between National Grid, Consumers and Users;
- the provision of enhanced information to the marketplace;
- the reallocation of capacity rights;
- the means by which the contractual terms of bilateral agreements may be modified, for instance, to change connection dates; and
- the provision for access prior to the completion of the network reinforcements needed to be compliant with the GB Security and Quality of Supply Standards.

Some of these areas for potential development can be taken forward by National Grid but others, for example, the development of access arrangements prior to the completion of the necessary reinforcements, and certain forms of Users Commitment, have significant interactions with the Transmission Price Control Review, which is being led by Ofgem.

Comments have been requested and these should be received by 12 May 2006.

## Introduction

### Background

- 1 The arrangements put in place for the transition to BETTA, in combination with various environmental targets and incentives, has resulted in a large volume of applications for connection and use of the GB transmission system. The capacity of these projects in Scotland, which totals 13.5GW, far exceeds the existing transmission system capacity. As a result it is likely that most projects will require significant transmission reinforcements to be completed before firm access can be provided. Furthermore, the existing system capacity is already virtually full in Scotland and northern England.
- 2 In Scotland, since April 2005 National Grid and the Scottish TOs have assessed a large volume of applications and, as of 7 April 2006, National Grid had made offers for some 13.2 GW of generation represented by 168 individual sites / projects. The connection dates offered extend out to 2015 and beyond, to enable the necessary network reinforcements to be completed prior to the allocation of access rights (i.e. an “invest then allocate” approach).
- 3 In England & Wales, there has also been a significant volume of applications and at mid-February in excess of 20GW of offers had been made with connection dates extending out to 2010. As with Scotland, a number these projects are located in geographically similar areas, for example, the north-east of England and the Thames Estuary.
- 4 The rules governing the transition to BETTA defined, amongst other things, the order in which the applications for offers should be processed and the generation background that should be considered when assessing applications. It was intended that the transition period should not last indefinitely and, once all first offers have been made for applications in Scotland using the arrangements for transition, the transitional period would be concluded.
- 5 Currently many of the projects, particularly in Scotland, have yet to receive planning consents and are nervous about accepting the liabilities associated with Final Sums. This, taken together with sequential processing of applications, has resulted in some projects that have consents and are in a position to proceed with connection having a later connection date than projects that do not have consents. This may not facilitated the earliest connection possible.

### Existing arrangements for managing access

- 6 Prior to BETTA go-live National Grid, in conjunction with the Scottish TOs, developed arrangements to facilitate processing and managing the vast volume of applications for offers (and signed and unsigned existing offers), whilst ensuring that the associated network investments remain consistent with transmission licence requirements. This included consideration of the most appropriate ways to:
  - identify the efficient and economic level of network reinforcements;
  - seek financial commitment from Users triggering reinforcements; and

- optimise reinforcements as the generation background changes.
- 7 To facilitate this, the concept of clustering / grouping projects was introduced. This allows applications that are geographically and electrically close and seek similar connection dates to be considered at the same time rather than sequentially and, in doing so, arrive at a more efficient and economic solution while also reducing interactivity between applicants.
  - 8 The clustering of projects supported arrangements introduced to share the security provided, when necessary, for the financial commitment made by Users to these investments – the so-called Final Sums arrangements. This replaced an arrangement whereby the first User to trigger a reinforcement would bear 100% of what is often a very large liability, and reflected in any security posted, while other Users that also benefited from the investment would make no contribution. In the context of facilitating the growth of small renewable generation and to avoid large fluctuations in liabilities where the first-comer deferred its connection date and passed on the entire liability, it was felt that a sharing approach would be more equitable.
  - 9 The present Final Sums arrangements also have the effect that parties that are not ready to fully financially commit to reinforcements will seek to defer the date of their connection (and hence delay the onset of Final Sums) or will seek to terminate their agreement. Consequently, it is reasonable to expect that a number of projects will not proceed in the timescales detailed in their offers if they are not ready to proceed (for example, because consents have not been granted). A process of sequential re-allocation of capacity was developed to enable other projects to move forwards to fill the “gaps” created by other Users changing their requirements, to allow those projects that are ready to proceed the earliest opportunity to do so.
  - 10 In response to requests by Users, National Grid has recently published a document, “Clustering, Shared Liability for Final Sums and Termination” (the “Principles” document). It explains in more detail the principles discussed above and can be found on National Grid’s industry website<sup>1</sup>.

### **Access Seminars**

- 11 These areas were also discussed by National Grid with the industry in two Access Seminars held in February 2006. These provided National Grid an opportunity to explain to Users the existing GB access arrangements and potential ways that these could be enhanced in the future. It also enabled Users to express their concerns about the access arrangements and indicate how these should be reformed in the future.

### **Scope and format of this document**

- 12 This document presents the conclusions drawn by National Grid following the Access Seminars and reflects the feedback we have received from Users. It sets out National Grid’s proposed next steps and seeks views on these.

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<sup>1</sup> <http://www.nationalgrid.com/uk/Electricity/gbagreements/>

- 13 Five potential areas for development have been identified:
- the arrangements for seeking financial commitments from Users benefiting from transmission reinforcements and the balance of risk between National Grid, Consumers and Users (including those already connected and those with a signed offer);
  - the provision of enhanced information to the marketplace;
  - the reallocation of capacity rights;
  - the means by which the contractual terms of bilateral agreements may be modified, for instance, to change connection dates; and
  - the provision of access rights prior to the completion of the identified transmission reinforcements (so called non-firm or less-firm rights, but hereon in referred to as “non-TEC” rights).
- 14 Initiatives in some of these areas could be developed and introduced prior to completion of the work that Ofgem has initiated as part of the Transmission Price Control Review, which is unlikely to deliver changes in the timescales needed by some Users. Clearly, the speed at which other changes can be introduced will depend on whether or not changes to the commercial framework are required and the level of industry support the changes receive.

## User Commitment and the Balance of Risk

### Why is User Commitment needed?

- 15 Where National Grid makes an offer for connection and / or use of system and this has identified an investment need, then the User will be required to indemnify National Grid and the end consumers against the project specific risk that they fail to complete their development so resulting in unnecessary transmission investment costs. If such underwriting were not required then, in the event that a developer's project did not go ahead, the cost of the associated abortive transmission investment would either represent a loss to National Grid or would ultimately fall on end consumers.

### Balance of risk between parties

- 16 The user commitment model presently used by National Grid is the Final Sums model, which has been used in various forms since 1990. In essence, it requires Users that trigger the need for investments to financially commit to all the investments undertaken either for its sole use or shared amongst a limited number of Users. Consequently, Users bear the entire risk that investments might be stranded until the Final Sums liability falls away at completion of the construction works for the Users.
- 17 However, many Users have expressed concerns about the financial exposure they face. Specifically:
- (a) until a User has received the necessary consents for its project and obtained financial closure, the requirements of Final Sums are often too great to bear (regardless of the viability of the project). This is amplified if the User's project timescales diverge from the agreed completion date in the offer and for transmission works with long lead times;
  - (b) the liability and/or the security posted for Final Sums may be volatile and uncertain due to third-party changes and hence increasing or decreasing the proportion of the shared liability that each User is exposed to; and
  - (c) that National Grid (and the TOs) take no risk and are not incentivised to promptly provide transmission access.
- 18 In more normal circumstances a User could mitigate the timing risk by submitting a Modification Application to push-back its completion date and reduce the rate at which the Final Sums liability increases. However, the sheer volume of projects seeking connection presently means that opportunities to delay a year or two are likely to be very rare. This is due to TO and manufacturer resources already being committed to other projects as well as the transmission outage programme being full (of outages needed for construction of new connections for other projects). Additionally, as the transitional arrangements have ceased, the application would be assessed as if it were a new application. Consequently, a request for a deferral of a project connection date by one year may be met with an offer of deferral by many years – in effect the User goes to the back of the queue.
- 19 Attention has therefore focused on alternative means to obtain commitment from Users that provides them greater certainty of their liability and does not

necessarily expose Users to significant financial risk prior to consents being received. However, if the risk of stranded costs does not lie with the User, then it must rest with either National Grid or be passed through to the consumers.

- 20 Meanwhile, Ofgem, in its third Consultation on the Transmission Price Control Review, has made the following statement:

*Para 3.30:*

*“Specifically, we would like to explore in more detail options which require a lower (and more stable) level of commitment during the period before TEC is granted (possible front-loaded to deter speculative applications), combined with a continuing commitment once TEC has been granted. We recognise that this involves, during the construction phase of connection, a degree of risk being transferred from generators to consumers.”*

- 21 On this basis it is appropriate that the balance of risk between different stakeholders is examined. Alternative commitment models are being considered by the Access Reform Options Development Group (ARODG) convened by Ofgem to develop the options for user commitment in the context of the Transmission Price Control Review. It is against this background that National Grid is examining urgently whether an alternative Final Sums methodology should be introduced under the existing framework on an interim basis until the completion of the ARODG work and the Transmission Price Control Review. One of the purposes of this document is to seek Users' views on this issue.

#### **Alternative forms of Final Sums**

- 22 A number of alternative arrangements have been identified which all assume that the existing approach of completing transmission investment in advance of providing firm access rights continues. These include:

- (a) arrangements where the Final Sums Liability (FSL) is related to the costs incurred to provide the reinforcements. These options include:
  - (i) the existing arrangements albeit that only x% of the project-specific costs form part of the FSL; or
  - (ii) a reduced financial liability prior to consent (or any other suitable milestone such as letting of major contracts) being received for a User's project. This could, for example, be a fixed generic £/MW FSL. After the key milestone the existing methodology could be applied but the total liability fixed at a defined point in time<sup>2</sup>; or
  - (iii) a reduced financial liability prior to consent (or any other suitable milestone such as letting of major contracts) being received for a User's project. This could, for example, be a

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<sup>2</sup> This is similar to a proposal suggested by E.ON. The initial period of design, development, consenting etc is covered by a generic £/MW liability. Thereafter the FSL is based on the investment costs identified during that initial period of the project but frozen (so that it does not alter as a result of the actions of other parties) for the remainder of the project through to completion.

fixed generic £/MW FSL. After the key milestone the existing methodology could be applied to determine the FSL, which could vary during the remainder of the project<sup>3</sup>; or

- (b) generic arrangements that divorce the calculation of the FSL from the project-specific costs. These options include:
    - (i) a FSL based on a £/MW rate universally applicable;
    - (ii) a FSL based on a £/MW rate that varied vary with location;
    - (iii) a simple fee sufficiently large to demonstrate commitment; or
    - (iv) a £/MW fee prior to transmission infrastructure consents, followed by a fixed liability calculated according to a £/MW figure, which grows according to a pre-defined s-curve.
- 23 Where FSLs are asset related then Users' liabilities will constantly change as the TOs incur costs and liabilities although the total liability may have been capped at an earlier point in time (for instance, in 22(a)(ii) above). The Users' FSL may be different (lower or higher) to any security that they have put in place. In the event that a User terminates, if the assets are capable of being reused then the FSL will reduce accordingly. If they are not able to be re-used then the User bears the cost, whatever it turns out to be i.e. the FSL is what it is.
- 24 Where FSLs are not asset related but are generic and thus fixed, the Users' risks are capped. Regardless of what the actual abortive costs of transmission reinforcements turn out to be, or whether any assets can be reused elsewhere on the system, Users will not be exposed to any increase in their liability above the fixed FSL. If such a model were adopted, it is for consideration as to whether the FSL should crystallise upon termination irrespective of the actual transmission investment costs incurred or future use (or not) of the assets. If upon termination the FSL crystallises regardless, then it would represent a "termination charge". Money received in this way could be pooled to offset the cost of abortive works wherever they have occurred.
- 25 The above represent only a few of the options that could be considered. A range of options are available that would transfer the risk between different parties and transfer this risk at different times of the programme of works. It is for consideration, however, whether it is appropriate that risk be transferred, in part at least, to National Grid or to consumers and Ofgem will need to take a view on this and ultimately support any proposal if it is to be implemented. Some of the above suggestions appear to line up with the recent comments made in Ofgem's third Consultation on the Transmission Price Control Review.

### **Governance of FSL Methodology**

- 26 Users have also expressed concern that the arrangements for Final Sums are not clear. National Grid has sought to address this (at least partially) via the recently published "Principles" document. Additionally there is concern that the

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<sup>3</sup> This is similar to an approach suggested by the Scottish Renewable Forum and British Wind Energy Association.

Final Sums arrangements are not subject to formal governance provisions, such as those employed for changes to the CUSC or the Charging Methodologies. However, National Grid believes that there may be merit in it preparing a “Final Sums Methodology”, which could be approved by Ofgem, to describe explicitly the requirements of Final Sums and the way it is determined. To formalise this, there would be benefits if this were eventually woven into the commercial framework.

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| <b>Q1</b> | What concerns do Users have with the existing Final Sums approach (level, volatility, timing, etc) and how do these concerns change during the connection process?  |
| <b>Q2</b> | To what extent would the options identified alleviate these concerns, and are there alternatives that Users believe should be considered?   |
| <b>Q3</b> | How should Final Sums be governed and would Users support the introduction of a Final Sums Methodology, approved by Ofgem, supported by appropriate changes to the commercial framework?                          |
| <b>Q4</b> | What do Users see as the key advantages and disadvantages to an “interim” Final Sums methodology being introduced to run until any enduring development arising from the ARODG work is established?               |
| <b>Q5</b> | What form should such an interim arrangement take (given the primary drivers of swift introduction and limited life), how soon should it be implemented, how should Users with existing agreements be dealt with? |

## Information Provision

This section considers the issues surrounding information provision. It discusses the information that is provided presently, the benefits that could be accrued if information provision was enhanced, and the means by which this could be achieved.

### Present arrangements

- 27 The existing information provisions are very limited. The Electricity Act, subject to the provisions of the CUSC, restricts the type of the information that can be published by National Grid and when it is allowed to do this. The table below illustrates the information that is currently made publicly available and that which is not.

	Provided	Not Provided
Applicant identity (no signed offer)		✓ (anonymous)
User identity (signed offer)	✓	
<ul style="list-style-type: none"> <li>• TEC</li> <li>• Site details</li> <li>• Connection date</li> </ul>	<ul style="list-style-type: none"> <li>✓</li> <li>✓</li> <li>✓</li> </ul>	
Users sharing reinforcements		✓
Capacity provided by shared reinforcements		✓
Interaction between shared reinforcements		✓

- 28 There is a significant amount of information that could, in theory, be made available to either the whole industry or a limited segment, for example, Users in a given group. It is for consideration, however, what benefit this would provide individual or groups of Users and whether this would outweigh the perceived drawbacks of releasing the information. For example, from a TOs' perspective this may complicate negotiations with equipment suppliers if particular information about major reinforcements were to be publicly available.

### Benefits of greater information provision

- 29 National Grid believes there could be a number of benefits associated with providing greater information about the identity of Users, clusters, and the interrelation between these. These can be characterised as:
- (a) facilitating Users to manage risk and identify opportunities for earlier connection dates; and
  - (b) facilitating novel connection arrangements based on the offers made.

### **Facilitating Users to managing risk**

- 30 There are potentially a number of benefits that Users would be able to accrue from the provision of certain information provision. For example, if the interrelationship between clusters were known by Users, they would be better able to understand the consequences of others Users terminating, such as the way in which the liability for Final Sums could change and whether or not there would be an opportunity available for an earlier connection date.

### **Facilitating novel connection arrangements**

- 31 A number of developers agree that difficulties getting planning permission are likely to result on not all projects proceeding within a group. However, for the purposes of network planning, National Grid and Scottish TOs are unable to make any determination of the likely number of projects that will proceed and therefore need to plan on the basis that all projects will proceed (however unrealistic this might actually be).
- 32 Against this background, were developers within a group prepared to identify themselves to (at least) other developers within the group, it may enable these parties to come to an understanding regarding the actual number of projects that will proceed and hence the "real" network capacity that would ultimately be required to be built. For example, if the members of a group were to agree that only 50% of the projects with signed connection agreements were likely to proceed (e.g. due to issues such as cumulative landscape impact) regardless of which ones actually proceed, then the group size, and hence the required investment, could be reduced to reflect this.
- 33 This could have the following benefits to Users within the cluster:
- (a) if less investment is required the Final Sums liability would be reduced;
  - (b) firm access rights might be provided at an earlier date (subject to the completion of any local connection) because construction of the transmission reinforcements could be easier (less extensive) requiring fewer system outages for the construction programme and securing of consents for a lesser reinforcement may be easier;
  - (c) alternatively, a more realistic assessment of the volume of capacity required could allow the remaining capacity provided by a reinforcement to be used to allow earlier connection for other parties currently subject to a further reinforcement (subject to the ability to complete the relevant local connection works). More users sharing the same reinforcement would reduce individual Users' shares of Final Sums liability.
- 34 If such arrangements were to be developed further it would be necessary to consider the contractual basis for this and the user commitment that would need to be made.

### **The framework for enhanced information provision**

- 35 There are several dimensions to any framework for enhancing the provision of additional information. Specifically:
- (a) whether arrangements should be compulsory or voluntary;

- (b) who should be required to provide information, and when;
- (c) who should be permitted to receive such information, and when; and
- (d) the information to be provided.

36 If Users to see merits in enhancing the provisions for releasing information, contractual arrangements would need to be enshrined within the CUSC or, alternatively, in multilateral agreements between those Users and the National Grid that wished to share information. The latter route has the benefit that it allows enhanced information provision to remain voluntary and would not need a code amendment to be progressed. It has the disadvantage of additional complexity in managing the information and tracking those Users have consented to certain items of information being shared.

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| <p><b>Q6</b> Do Users see benefit in wider information provision arrangements and be prepared to release necessary information?</p> <p><b>Q7</b> Should such a process be facilitated by National Grid, or other industry bodies (such as the BWEA)?</p> <p><b>Q8</b> Should additional information on shared reinforcements (clusters) be published:</p> <ul style="list-style-type: none"><li>(a) to all Users, for example, in the Seven Year Statement;</li><li>(b) to all Users benefiting from the shared reinforcement; or</li><li>(c) only to Users benefiting from the shared reinforcement and who have agreed to share this information.</li></ul> <p><b>Q9</b> What are the advantages and disadvantages of each of the above and is there a preference for one particular approach? Please justify.</p> <p><b>Q10</b> How could Users with BELLA be incorporated in enhanced information sharing provisions, and what role, if any, would DNOs need to play in this?</p> <p><b>Q11</b> What additional information would be of use to the industry:</p> <ul style="list-style-type: none"><li>(a) capacity provided by a reinforcement;</li><li>(b) the identity of other Users subject to the reinforcement;</li><li>(c) relationships between reinforcements (for example, where reinforcements are sequential or consequential);</li><li>(d) other, please specify.</li></ul> |
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## Reallocating capacity rights

This section considers the means for selecting Users that may be able to take advantage of capacity rights if these are released by another User. The issues in the section will be of particular interest to Users in Scotland, as a result of the circumstances created by the transition to BETTA.

### Why do capacity rights need to be reallocated?

37 In the near future all parties in Scotland will have received their first GB offer with, in the most part, a proposed connection date. However, as Users terminate their agreements or change their requirements, this may create earlier opportunities for other Users to take advantage of the capacity released. This section explores two ways in which parties could be identified to take advantage of these opportunities.

### Sequential Re-Allocation

38 The method for identifying potential Users to bring forward is presently “Sequential Re-Allocation”, which was consulted upon with interested parties and concluded up on in summer 2005. The primary principle of this approach is that Users would be considered for moving forward in the order in which they signed their GB Offer. The location and timing of the User’s development would also be considered to ensure that it could physically use the capacity in the “gap” that had emerged, for example, that the local connection can be provided to the revised timescales. The first User in the sequence that satisfied this criterion would be provided the opportunity to change its bilateral agreement. In the event that there was residual capacity, the next User in the sequence would be approached and so on. In these instances, National Grid had intended to use Modifications Applications assessed against the same contractual background as the original application to change User’s bilateral agreement.

39 Whist this method has yet to be used a number of concerns have been raised with this approach. Specifically:

- (a) it does not remove the discrimination introduced by the BETTA transitional arrangements because:
  - (i) continued use of the transition contracted background favours a particular class of generation based purely on when its original application was made; and
  - (ii) selecting parties to move forward based purely on the date it signed an offer could discriminate against parties that signed later;
- (b) optimisation will take a number of “iterations” to arrive at an optimum ordering of projects and hence is likely to be slow because the process only considers the order in which offers were initially signed; and
- (c) viable projects (e.g. with planning consent) with distant connection dates may not quickly obtain an earlier date by virtue of the inefficiency of the optimisation process.

## Balanced Scorecard

- 40 National Grid, and the other TOs, believe there may be benefits in considering alternative arrangements for optimising projects use of capacity when “gaps” emerge. This is known as the Balanced Scorecard approach, which while also being sequential in nature could more efficient than the “pure” sequential approach.
- 41 A Balanced Scorecard approach uses a number of criteria to determine the order in which Users should be considered for an earlier connection date. It would score projects against the criteria and the overall score would decide the order in which generation projects were selectively offered an earlier connection date.
- 42 Ideally these criteria should be:
- transparent;
  - not capable of manipulation;
  - objective (and therefore measurable); and
  - consistent with the requirements of the transmission licences.
- 43 Several criteria could be used to consider the different qualities of a project. These could include, for example, possession of a range of consents (e.g. environmental, planning, etc); various location and timing aspects; and indicators of commercial readiness (e.g. land secured, contract let, etc).
- 44 Some of the most promising criteria are:
- (a) **impact on other projects** – this would identify whether or not moving a party to an earlier connection date would adversely impact the contracted positions of other projects.
  - (b) **consents obtained** – this would consider whether or not the developer had the necessary consents in place to allow construction to commence, which would include Section 36 and Section 37 consent.
  - (c) **location** – this would determine whether the earlier date is consistent with the capacity available and its location. For instance, are there other works needed that cannot be advanced so that the project seeking an earlier connection cannot benefit from the earlier date.
  - (d) **timing** – this would establish the extent to which the developer, the TO(s) and, if applicable, DNO(s) could realign their construction programmes to complete at the earlier identified connection date. For instance, an earlier date is of little value if a developer cannot be ready or the local network reinforcements cannot be completed.
- 45 The inclusion of multiple criteria within a balanced scorecard potentially provides a more project-focused approach to identify projects that have the ability to connect earlier. Greater focus still could be provided by placing higher importance of certain criteria. For instance, since an earlier connection date is only likely to be of use to developers whose projects are ready to proceed, of

which securing planning consent is a key element, it could be argued that this criterion should be considered first and the others used to differentiate between projects that have scored equally.

- 46 Nevertheless, the enhanced focus provided by this approach also has the potential to be viewed as unduly discriminatory and could also lack transparency. Specifically, consents are seldom granted without conditions being attached and some may be more or less onerous than others. Therefore, this would introduce a degree of subjectivity in determining who scored greatest.
- 47 However, the failure to use these or other similar criteria could result in uneconomic or inefficient investment and / or a failure to facilitate competition in generation due to failing to connect generation as early as possible.
- 48 Accordingly, National Grid perceives a need to balance a number of conflicting licence obligations. Against this background, unless Users universally agree to such a process, there may be merit in such criteria being enshrined within National Grid's licence or the CUSC, to provide a robust basis upon which this method could be employed in the comfort that it would not be considered by Ofgem to be unduly discriminatory.

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| <p><b>Q12</b> Are the advantages of a Balanced Scorecard approach such that this method should automatically be used rather than contacting Users on a sequential basis?</p> <p><b>Q13</b> If not, would the enhanced information provisions discussed earlier in this document better enable Users to identify opportunities for themselves and approach National Grid if they wished to take advantage of this?</p> |
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## **Mechanisms for changing Bilateral Agreements**

This section considers the ways in which a User's bilateral agreement can be changed. Again, the issues in this section are largely of concern to Users in Scotland, as a result of the particular circumstances created by the transitional framework.

### **Why changes to agreements may be required**

- 49 Changes to a User's bilateral agreement may be sought to enable a User to change some element of the design in its signed offer and / or to change the works and dates contained in that offer.

### **TEC Trades**

- 50 A number of Users have expressed interest in using the TEC Trading provisions to change the terms of their bilateral agreement. As noted at the Access Seminar, where the transmission system is not compliant with the GB SQSS a non-zero exchange rate is unlikely. Furthermore, the present provisions for TEC Trading only apply where at least one of the parties are physically connected to the transmission system.

### **Modification Applications**

- 51 A Modification Application must be submitted by a User where the change it is seeking to its agreement leads to a material change, as defined by the CUSC. National Grid's Transmission Licence describes the arrangements for processing applications. Other changes can be made to agreements on a bilateral basis, which is discussed later in this section.
- 52 All applications for offers made after 1 April 2005, including those made by National Grid in response to a Modification Application, are considered according to Standard Condition C8 ("Requirement to offer terms") and the other requirements to not discriminate between Users. Accordingly, the use of Modification Applications by Users wishing to change their agreement will result in an offer that recognises the need for reinforcements in England & Wales as well as on the former interconnector circuits where appropriate.
- 53 Arrangements were put in place for the transition to BETTA that allowed National Grid to not take account of the wider reinforcements outlined above. However, as this applied only to first offers, the transitional arrangements would need to be extended to allow the same approach to be applied to Modification Applications.

### **Implications of extending transition**

- 54 Extending the transitional arrangements would provide a clear framework against which Modification Applications could be assessed. However, it would extend the current inconsistencies of treatment that transition introduced for different categories of User. Specifically, it would enable Users that benefited from the transitional arrangements to continue to do so. This could result in a further "queue" of Modification Applications. Furthermore, it would not be likely to help to resolve the current queue since it would allow Users to defer connection dates, regardless of the viability of the project, which may restrict the opportunities for other projects.

- 55 In addition, the assumptions regarding the cost of transition, for example, congestion costs, could be invalidated. Accordingly, the benefits of using Modification Applications to change a User's bilateral agreement appear to be limited.

### **Agreements to Vary**

- 56 An alternative, pragmatic approach would be to seek to make bilateral changes to a User's agreement via an Agreement to Vary, provided there were no material impacts on Transmission Licensees and other Users. Where such a change could not be made without an adverse impact on other Users, the request would be treated as a Modification Application and assessed against the enduring planning background.

### **Implications of this approach**

- 57 Such an approach would allow bilateral agreements struck during transition to be amended in a pragmatic manner. For instance, if a User wished to modify its connection date and this had no material impact on other Users (e.g. their connection date, capacity and other details) then the User's agreement would be amended. This would allow Users to be offered earlier connection dates where capacity became available as a result of other Users having terminated their agreements or reduced their TEC.
- 58 The CUSC defines a material effect as one that has an impact greater than £10k for Transmission Licensees or other Users. The majority of changes that require alterations to design will exceed this materiality threshold. Therefore, it may still be necessary to use the Modification process to understand the implications of the changes being sought and responded to within an understood framework, albeit with the any subsequent change to a bilateral agreement made via an Agreement to Vary.
- 59 Other Users may be affected to the extent that the need to secure their requirement to secure a Final Sums liability may change from the arrival or departure of other Users within a cluster / group, as described in the "Principles" document. This was expected when the revised arrangements were introduced. However, in many instances, this will be temporary as consequential changes to other Users' agreements may restore the original balance of the Final Sums liability. Nevertheless, a move to determining Final Sums liabilities that are not based of asset-specific costs would insulate Users within a cluster / group from changes from the make-up of the cluster / group.
- 60 In conclusion, it is National Grid's initial view that the use of Agreements to Vary is a pragmatic way to change bilateral agreements, to enable Users to take advantage of opportunities as these arise.

**Q14** Do Users support the use of bilaterally agreed changes to Users' Agreements over the existing Modification Application process to re-ordering the queue for transmission access, regardless of process used to identify candidates who may wish to take advantage of an opportunity?

## Non-TEC access rights prior to Network Compliance

This section explores the issues surrounding providing access rights to Users prior to completion of the network reinforcements required to be compliant with the GB Security and Quality of Supply Standards (GB SQSS).

### Firm access and Non-Firm access

- 61 National Grid presently provides Users, through TEC, a long-term right to flow up to a maximum amount of electricity onto the transmission system. If National Grid needs to remove this right, say to manage congestion, then the action is subject to a mutually agreed price (for example, a bid in the balancing mechanism). Alternatively, where a right is involuntarily withdrawn say, for example, by an unplanned transmission outage, compensation is provided according to pre-agreed arrangements. Firm access rights are typically provided to Users once the network meets the requirements of the GB SQSS and following a commitment by the User to pay access charges.
- 62 A non-firm right, in contrast, would allow National Grid to manage the network by withdrawing non-firm rights without compensation. Where this happens after gate-closure, the generator would lose the opportunity to generate and would be exposed to imbalances charges (if a bilateral energy contract had been struck). Conversely, while the opportunity to generate would also be lost if access was withdrawn prior to gate-closure, the generator could re-contract and therefore avoid imbalance. The existing access framework has not defined such rights.

### Existing arrangements

- 63 While non-firms rights have not been defined, limitations to firm access rights have been provided in some circumstances:
- (a) intertrips allow instantaneous withdrawal of rights; and
  - (b) short-term firm access may be provided on an opportunity basis.

#### Use of intertrips

- 64 An intertripping scheme allows generation to be automatically disconnected from the transmission system when certain, pre-defined events occur. Balancing contracts are struck with the holders of these schemes to avoid parties being imbalance and affecting cash-out prices.
- 65 National Grid anticipates making extensive use of intertrips to manage the capacity limitations on the Anglo-Scotland border and the north of England, to enable generation that was considered against the transitional background to connect before the network is compliant. However, the extent to which such devices can be used is limited by the maximum loss of generation allowed by the GB SQSS. This amount corresponds to 1320MW.
- 66 Extensive use of intertrips gives rise to a number of significant concerns, for example, the consequences if a scheme fails to operate; the impact of nuisance tripping; and the depletion of reserve and generation margin with the consequential negative impact on security of supply.

- 67 Against this background, National Grid believes it is unlikely that additional firm access rights could be provided by the use of additional intertrips and, even if it were feasible, there are a number of significant drawbacks of this approach.

### **Short-term firm products**

- 68 A number of non-TEC access products have been developed that allow short-term firm access to be allocated by National Grid. These are Short Term Transmission Entry Capacity (STTEC) and Limited Duration Transmission Entry Capacity (LDTEC), which are described in the following table:

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	<b>STTEC</b>	<b>LDTEC</b>
Maximum duration of firm right	4, 5, or 6 weeks	45 weeks
Notice of firmness	1 or 2 weeks	7 – 45 weeks
Volume of capacity provided	Maximum MW	Profiled MW
Long-term rights (>1 year)	None	None

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- 69 These products are commercially firm at the point the rights are notified to the User as being firm. However, as shown above, the firm rights are limited in duration, capacity and the notice given for availability. Nevertheless, where these rights withdrawn, bilaterally agreed compensation is provided.

- 70 The opportunities for allocating short-term capacity are identified in operational timescales and premised on the basis that:

- allocation does not increase the level of transmission constraints and therefore the level of operational costs;
- the ability of TOs to take outages for construction or for maintenance is unfettered; and
- the provision of long-term firms rights is not delayed.

- 71 Against this background, and considering the likely use of intertrips, while additional products could be developed along the lines of STTEC and LDTEC, the additional capacity they could make available is limited by National Grid's ability to determine the availability of unused capacity in operational timescales.

### **Increasing short-term opportunities**

- 72 Two categories of models could be considered. These are:

- (a) alternative shorter-term firm products; and
- (b) arrangements to acquire access rights from existing Users.

### **Alternative short-term products**

- 73 If spare capacity were available it could be possible to design alternative shorter-term firm products to take advantage of this. Such products could take

a number of forms. For instance, access rights could be awarded or withdrawn with a defined notice period prior to gate-closure. Rights could be defined in terms of a committed number of limited running hours and / or capacity, or restricted periods in which access would not be available. In addition, there may be limitations on how far in advance such rights could be offered and, were this were to extend beyond the duration of access afforded by the existing short-term products, it may be necessary to obtain further derogations from the GB SQSS. The means by which short-term capacity would be allocated given the scarcity of these rights would also need to be considered, for example, whether rights should be allocated on a first-come-first-served basis or based on economic value.

- 74 If rights were to be withdrawn after gate-closure it could be possible to establish the price at which rights could be bought back (where a zero cost would effectively be a non-firm right). The wider implications of this, particularly on other transmission Users, would need to be considered further.
- 75 Clearly it is likely that the provision of additional short-term capacity, were this to exist, could give rise to additional costs. The equitable allocation of these costs between industry participants and consumers would also need to be considered.

**Acquire access from existing capacity holders**

- 76 In the absence of any significant amounts of spare capacity, access must be purchased from the existing capacity holders. In effect, parties either could buy access from existing TEC holders (say at the day-ahead stage) or pay the costs of the GBSO to purchase these rights (or the congestion costs) on their behalf. In both respects, significant design issues would need to be considered and solutions developed.

*Short-term trading of TEC (User purchases)*

To facilitate this, a market framework would need to be developed. This would need to consider the means by which exchanges rates were determined prior to trades taking place, to establish the capacity available to the purchaser after the trade; and the treatment of over-runs where both the vendor and purchaser used the same rights concurrently.

*GBSO provides rights reflecting short-run costs (GBSO purchases)*

This approach would require mechanisms to capture the defined costs incurred by the GBSO to purchase access rights and a suitable charging methodology to pass these costs through to the beneficiaries of the additional rights. It is also possible that this approach might impact on National Grid's cost recovery and this would need to be considered further.

- 77 The options providing access prior to completion of the works are being considered by ARODG. National Grid expects that this forum and any associated wider industry consultations will be used to develop these options further.

<p><b>Q15</b> Against this background, is there anything else Users would like National Grid to progress?</p>
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## Conclusions and Next Steps

- 78 Following feedback from Users at the Access Seminars held in February earlier this year, National Grid expects to take forward a number of areas as soon as possible. These are:
- (a) alternative arrangements for determining final sums liabilities;
  - (b) arrangements for reallocating capacity and changing bilateral agreements; and
  - (c) the means by which enhanced information provision could be facilitated.
- 79 National Grid expects a number of areas will be developed in the context of the Transmission Price Control Review and ARODG. These are:
- (a) wider forms of User Commitment beyond that provided by a Final Sums methodology; and
  - (b) arrangements for providing access prior to completion of the necessary transmission reinforcements.
- 80 National Grid would welcome views on any aspect of this conclusions consultation and, in particular, on the specific questions that have been raised. Responses should be received by 12 May 2006 and can be sent electronically to [Andy.Balkwill@uk.ngrid.com](mailto:Andy.Balkwill@uk.ngrid.com) or in writing to:
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National Grid House  
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Gallows Hill  
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- 81 All responses not marked confidential will be placed on National Grid's industry website.