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value to customers*

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21 February 2002

Dear Richard

UoSCM-M-04: Chargeable Generation Capacity for Mothballed Generating Units

Ofgem has decided **not to veto** the proposed Use of System Charging Modification M-04 'Chargeable Generation Capacity for Mothballed Generating Units'. The modification will therefore be implemented on 1 April 2002 as set out in the Conclusions Report to the Gas and Electricity markets Authority (the 'Authority'), submitted by the National Grid Company plc ('NGC') 13 February 2002.

This letter sets out the background to the modification proposal, explains the proposed modification, reports on respondents' views and sets out Ofgem's¹ reasons for its decision.

¹ Ofgem is the office of the Authority. The terms 'Ofgem' and 'Authority' are used interchangeably in this document.

Background

The calculation of the Transmission Network Use of System ('TNUoS') charges for a BM Unit situated in a positive generation TNUoS charging zone is based on the highest Generation Capacity ('GC') registered from April to February. Submission of GC values to the Central Registration Agent ('CRA') is required by Section K.3.4 of the Balancing and Settlement Code ('BSC'). The GC values are submitted for each BSC season and cannot be reduced within a BSC season. Each BSC season runs for 3 months, starting 1 March, 1 May, 1 September and 1 December. The Spring BSC season covers 1 March until 31 May.

The BSC seasons are not currently aligned with NGC's charging year, which follows the financial year. A Generating Unit that generates in March and is subsequently mothballed for the entire following financial year will still be liable to pay TNUoS charges as the GC for April and May will be positive as a consequence of generating in March.

In accordance with Condition C7A.3(a) of NGC's Transmission Licence NGC issued a consultation document on 22 January 2002 for modification proposal UoSCM-M-04. The consultation document sets out proposed changes to the Use of System Charging Methodology to address the issue arising from the misalignment of the BSC seasons and the use of GC to calculate TNUoS charging liabilities.

On 21 January 2002 the Authority directed NGC under Condition C7A.3(d) of its Transmission Licence to undertake a shorter consultation period of 21 days on the modification proposal. The Authority directed a shortened consultation period so that market participants would have sufficient time for commercial decision making. In accordance with this direction, NGC invited responses to the consultation by 12 February 2002.

TXU Europe Energy Trading Ltd. submitted BSC Modification Proposal P64, 'Reduction of Values of GC to Zero within a BSC Season', on 14 January 2002. However, the proposer withdrew the Modification Proposal on 13 February 2002 before the BSC Panel had considered it. The proposer withdrew the Modification Proposal as he believed it did not properly address the defect of the BSC that the proposer was intending to address.

Proposed Modification UoSCM-M-04

NGC proposed to change the rules for calculating Chargeable Generation Capacity for mothballed Generating Units in positive charging zones. The proposed change would mean that a Generating Unit's Chargeable Generating Capacity would be set at zero if both of the following conditions are fulfilled:

- ◆ the Generating Unit does not generate in the months of April and May, i.e. the value of Metered Output ('QM') is zero for all settlement periods of April and May; and
- ◆ the Generating Unit submits a GC value of zero for the months of June to February.

The proposed change would therefore mean that Generating Units that are mothballed from April to February will not be liable for TNUoS generation charges for that financial year even if they were to generate in the preceding March and thus have a positive GC value for the Spring BSC season.

Responses to NGC's consultation

NGC received 8 responses to its consultation on UoSCM-M-04. All respondents agreed that the proposed modification should be made.

One respondent suggested to use the Maximum Export Limit ('MEL') instead of QM in the condition for April and May. They believed that this would avoid the possibility of generators submitting speculative offers in the Balancing Mechanism during April and May. Another respondent suggested that the basis for calculating the generation TNUoS charging liability should be the minimum of GC or MEL rather than GC as at present.

One respondent suggested the wording of the proposed modification should be more general so that it would not be necessary to change the Use of System Charging Methodology if the BSC seasons were to be aligned with the financial year in the future. Four respondents argued that it would be desirable to allow a reduction of the GC value to a non-zero value.

One respondent raised the issue of better alignment of notification dates relating to capacity notification and NGC's tariff derivation. Currently, generators must give NGC advance notification in December of their intended GC for the following financial year. NGC's charges are calculated drawing on these GC values. By 14 February, generators must submit their GC for the BSC Spring season. It was suggested that any changes in the GC data from the data submitted in December, as well as decisions to mothball generator units, could lead to over or under-recovery of NGC's charges. The respondent suggested that a closer alignment of the notification dates may reduce the likelihood of inaccurate recovery.

On the basis of the responses received, NGC did not make any changes to the principles underlying UoSCM-M-04. NGC made one change to the proposed modification UoSCM-M-04 to clarify that the modification is necessary because the BSC seasons are not aligned with the financial year.

Ofgem's views

Ofgem notes the concerns of respondents that the current notification dates for GC in the BSC are not aligned with the notification dates for indicative GC related to NGC's tariff derivations.

Ofgem believes that the proposed solution in UoSCM-M-04 would lead to better targeting of NGC's costs of running its Transmission System (the 'System') to those participants who use the System. Generators wishing to mothball their plant from 1 April until the end of February, but generate in the preceding March, will not be charged generator TNUoS charges for the financial year when the plant is mothballed.

Ofgem therefore agrees UoSCM-M-04 better achieves the relevant objectives set out in C7A.5(a) and C7A.5(b) of the Transmission Licence:

- ◆ 'that compliance with the use of system charging methodology facilitates effective competition in the generation and supply of electricity (so far as is consistent therewith) facilitates competition in the sale, distribution and purchase of electricity'.
- ◆ 'that compliance with the use of system charging methodology results in charges which reflect, as far as is reasonably practicable, the costs incurred by the licensee in its transmission business'.

Ofgem is aware that future changes to the BSC may require changes to the Charging Methodologies. Ofgem believes that such consequential changes should be addressed within appropriate timescales when such need arises.

Ofgem's decision

Ofgem has decided **not to veto** the proposed UoSCM-M-04. The modification UoSCM-M-04 will therefore be implemented on 1 April 2002 as outlined in the Consultation Report to the Authority.

Please contact me on the above number if you wish to discuss any of the issues in this letter.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Sonia Brown'.

Sonia Brown
Head of Electricity Trading Arrangements