



Direct Dial: 020-7901-7050

11th November 2005

The National Grid Company, CUSC Signatories and
Other Interested Parties

Our Ref: GB-ECM-01

Dear Colleague

**Decision in relation to Connection Charging Methodology Modification Proposal GB ECM-01:
one-off charges for system to generator intertripping schemes.**

The Gas and Electricity Markets Authority (the 'Authority')¹ has carefully considered the issues raised in the Conclusions Report² in respect of the proposed Connection Charging Methodology Modification Proposal (GB ECM-01): One-off charges for system to generator intertripping schemes (the 'Proposal').

National Grid Electricity Transmission ('NGET') submitted the Conclusions Report to the Authority on 14 October 2005 and recommended to the Authority that the Proposal should not be vetoed and that, therefore, the connection charging methodology be amended to clarify the treatment of one-off charges arising as a result of the installation or operation of an intertripping scheme; ensuring no ambiguity between the connection charging methodology and the CUSC, as amended by CAP076: Treatment of System to Generator Intertripping Schemes.

Ofgem has decided **not to veto** the Proposal. The modification will therefore be implemented on 1 December 2005 as set out in the Conclusions Report.

This letter sets out the background to and explains the Proposal, reports on respondents' views and sets out reasons for Ofgem's decision.

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

² Conclusions Report, Modification Proposal to the Connection Charging Methodology, GB ECM-01: One-off charges for System to Generator Intertripping Schemes, dated 14 October 2005.

Background

One-offs

In accordance with Chapter 3 of the Statement of the Connection Charging Methodology, 'one-offs' are defined as charges levied on users for works on the electricity transmission system associated with the provision or modification of a connection, which although directly attributable to the connection, may not give rise to additional connection assets. Liability for such charges is established in accordance with the principles which are set out in section 3.2 of the Statement of the Connection Charging Methodology. The principles of liability for one-off charges are set out as follows:

- ◆ where a cost cannot be capitalised into either a connection or infrastructure asset, typically, a revenue cost
- ◆ where a non-standard incremental cost is incurred as a result of a User's request, irrespective of whether the cost can be capitalised; and
- ◆ termination charges associated with the write-off of connection assets at the connection site.

CAP076

In August 2004, NGET proposed CUSC Amendment Proposal CAP076 Treatment of System to Generator Intertrips. The amendment, which was approved on 10 June 2005³, improved and clarified the contractual framework between NGET and generators regarding the switching on and operation of intertripping schemes and introduced an administered pricing mechanism within the CUSC for certain categories of intertrip. NGET identified four different types of system to generator operational intertripping schemes and proposed making provision for specific payments in the CUSC in relation to each of these categories of intertripping scheme. The four different categories of system to generator operational intertripping schemes which NGET identified are as follows:

- ◆ Category 1 – a scheme arising from a variation to connection design consistent with the criteria specified in the Security and Quality of Supply Standards (SQSS)
- ◆ Category 2 – a scheme required to alleviate the overload that could occur on a circuit that connects the group⁴ containing the generator to the rest of the system

³ The amendment report and decision letter in regard to CAP076 are available from <http://www.nationalgrid.com/uk/Electricity/Codes/systemcode/amendments/viewbyamendments/>

⁴ The GB transmission system sub-stations bounded by the faulted circuit(s) and the overloaded circuit(s).

- ◆ Category 3 – a scheme installed as an alternative to reinforcement of a third party system where the scheme removes overloads on the third party system, e.g. DNO system; and
- ◆ Category 4 – a scheme installed at the request of NGET under the circumstances when the generator would be disconnected from the transmission system and where the use of such a scheme would be beneficial to facilitate the timely restoration of critical circuits.

The Proposal

Consequent to the Authority's approval of CAP076, the Proposal seeks to modify the Statement of the Connection Charging Methodology such that it is consistent with the revised clarification and categorisation of generator intertripping schemes introduced into the CUSC by CAP076.

NGET has considered the four categories of intertrip against the one-off principles outlined above to determine whether one-off charges should be levied. NGET concluded that, where an intertrip has been installed for the purposes of aiding system security, as is the case with categories 2 and 4, there is a wider benefit to the system which means that the costs of installing that intertrip system should be recovered via TNUoS charges. However, where an intertrip has been installed at the request of a user (e.g. to facilitate the earlier connection of a generator to the system), as is the case with categories 1 and 3, there is no wider benefit to the system and it is hence appropriate to levy one-off charges from the relevant user.

The Proposal expands paragraph 3.2 of the Statement of the Connection Charging Methodology to set out that from 1 April 2006 one-off charges will be levied by NGET on a user in the case of a category 1 or 3 intertripping scheme but will not be levied in the case of a category 2 or 4 intertripping scheme. In addition, the glossary of terms will be expanded such that each category of intertripping scheme is defined.

Respondents' views

NGET issued a consultation paper on its modification proposal to clarify one-off charges for system to generator intertripping schemes on 15 July 2005⁵. The paper invited responses from CUSC Parties and interested parties by 12 July 2005.

⁵ Paper is available on NGET's website at: www.nationalgrid.com/NR/rdonlyres/D1E906C5-AC6F-4BF1-8806-F7B11C15E5FB/1551/GBECM01FinalDraft.pdf

NGET received 3 responses to the consultation, of which 2 were broadly supportive of the proposal but sought clarification in a number of areas and 1 which sought greater clarification of the principles under which one-off charges are levied.

Further clarification was sought in a number of areas, including:

- ◆ whether there could be issues surrounding interactive offers and ensuring connecting parties did not pay for stranded assets
- ◆ whether the works required to provide an operational intertrip would be contestable
- ◆ whether, in relation to a Category 3 intertrip, a connecting generator could be given the option of paying for the reinforcement of the third party system rather than accepting an intertrip
- ◆ the principles under which one-off charges are made
- ◆ whether circumstances existed where an intertrip scheme would facilitate early connection
- ◆ the fact that Category 1 intertrips apply to a variation to connection design arising as a result of a User request; and
- ◆ whether more information on the technical definition of system to generator intertrip schemes could be made publicly available.

One respondent argued that there was no requirement in the CUSC on generators to pay the costs of third party works.

Another respondent argued that the implementation date of the modification should be delayed to 1 April 2006 to allow the impact of the change to be taken into account when setting the System Operator Incentive Scheme target.

A third party considered that the connection charging methodology should make provision for a refund in the event that a subsequent generator connects and makes use of the facility paid for by the initial generator.

NGET's view

In light of respondents' views, NGET has modified the Proposal in one area to clarify that the proposed charge for the installation of a Category 1 intertrip should only apply where the intertrip scheme is required as a result of a variation to the connection design arising as a result of a user request.

In relation to the other points raised by respondents NGET made the following points. First, in relation to the requirements of the CUSC, NGET noted that Section 6 removes any obligation on

NGET to compensate a user, while placing an obligation on new connectees to pay for third party works required as a result of that connection. Second, NGET noted that the costs associated with the installation of operational intertrips had no impact on the System Operator Incentive Scheme and thus that there was no reason to delay the implementation date of the modification to April 2006. Finally, in relation to the requirements for refunds for subsequent use of intertrips, NGET noted that Category 1 intertrips are not likely to be interactive as they are specific to individual users and any works required as a result of a subsequent application would be underwritten by the applicant. Equally in the case of Category 3 where intertrips may be installed as an alternative to reinforcement of third party works, the triggering user would be required to underwrite the costs of the intertrip. Consequently, in both cases there would be no impact on the initial generator and no basis for a refund.

NGET recommended to the Authority that the Proposal should not be vetoed and that the connection charging methodology should be amended as of 1 December 2005 to reflect the method by which the categories of intertrip introduced under CAP076 will be charged.

NGET considers that, in clarifying the method by which the four categories of intertrips defined under CAP076 will be charged, the Proposal will better facilitate achievement of the relevant objective that the connection charging methodology, as far as is reasonably practicable, takes account of developments in the transmission licensees' transmission businesses. In addition, in proposing that the charges will be based on the costs incurred when undertaking works, NGET considers that the Proposal meets the relevant objective that, as far as reasonably practicable, charges reflect costs incurred by transmission licensees in their transmission businesses⁶.

Ofgem's view

In assessing the Proposal, the Authority must assess, in the first instance, whether it better facilitates achievement of the "relevant objectives" specified in NGET's licence. These are set out at footnote 6 above. If the Authority considers that the Proposal does better facilitate the relevant objectives, it must then consider whether that proposal is consistent with its legal duties and obligations, including those arising under European law.

⁶ The relevant objectives for the connection charging methodology, as contained in standard licence condition C6 of NGET's electricity transmission licence are:

- (a) that compliance with the connection charging methodology facilitates effective competition in the generation and supply of electricity and (so far as is consistent therewith) facilitates competition in the sale, distribution and purchase of electricity;
- (b) that compliance with the connection charging methodology results in charges which reflect, as far as is reasonably practicable, the costs (excluding any payments between transmission licensees which are made under and in accordance with the STC) incurred by transmission licensees in their transmission businesses;
- (c) that, so far as is consistent with sub-paragraphs (a) and (b), the connection charging methodology, as far as is reasonably practicable, properly takes account of the developments in transmission licensees' transmission businesses; and
- (d) in so far as consistent with the objectives referred to at paragraphs (a) to (c) above, that compliance with the connection charging methodology facilitates competition in the carrying out of works for connection to the GB transmission system.

Cost reflectivity

The Proposal is intended to ensure that one-off charges reflect the costs of installing intertrips. Where intertrip costs impact on a specific connecting generator (Categories 1 and 3) NGET has proposed applying a one-off charge. However, where it could be expected that works impact on more than one party and thus have wider system security benefits (Categories 2 and 4) NGET has proposed to recover the costs from all users via TNUoS charges. Therefore, given that the existing arrangements do not reflect the costs of intertrips then the proposals put forward by NGET, by introducing provisions to reflect those costs, can be considered to better facilitate achievement of the relevant objectives in relation to cost reflectivity.

Facilitate effective competition

Robust cost-reflective charging arrangements play an important role in promoting efficiency and facilitating competition, thereby protecting the interests of consumers. Therefore, to the extent that NGET's proposed treatment of intertrips is more cost-reflective it can be considered to have a positive impact on the facilitation of effective competition.

Taking account of developments in transmission licensees' transmission businesses

The Proposal is designed to take account of the CUSC Amendment Proposal CAP076, Treatment of System to Generator Intertripping Schemes by amending the connection charging methodology such that the treatment of one-off charges incurred in installing or operating an intertrip is clarified. This will ensure that there is no ambiguity between the administered prices introduced into the CUSC by CAP076 or the obligations between NGET and an associated generator regarding the arming and operation of an intertrip and the connection charging methodology. The Proposal can therefore be considered to take proper account of developments in transmission licensees' transmission businesses.

Facilitating competition in connections

The Authority considers that the proposal can be expected to have a minimal impact on the facilitation of competition in connections.

The Authority's legal duties and obligations

The Authority is required, in this regard, to protect the interests of consumers, wherever appropriate, by promoting effective competition. In this context, competition puts pressure on generators to be more efficient in their actions and to reflect savings in the pricing of their products to consumers. As noted above, Ofgem considers that the Proposal, if implemented, will have a positive impact on competition. Ofgem further considers the Proposal to be in the interests of consumers.

On the issue of system security it is noted that, given the magnitude of the costs involved, NGET's proposed treatment of intertrips should have little impact on security of supply. However, to the extent that the Proposal will lead to efficient investment decisions, it should have a positive benefit for system security.

In all other respects, Ofgem considers the Proposal to be consistent with the Authority's legal duties and obligations.

The Authority's decision

Ofgem considers that the Proposal would better facilitate achievement of the relevant objectives specified in NGET's licence and that it is consistent with the Authority's legal duties and obligations. The Authority has therefore decided **not to veto** the Proposal.

Please contact Grant McEachran on 0141 332 5647 or Mark Copley on 0207 9017410 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 'Robert Hull', with a horizontal line underneath.

Robert Hull
Director, Transmission

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