

From: Malcolm Taylor [mtaylor@aepuk.com]
Sent: 18 September 2002 18:52
To: Friend, David; Dunn, Richard; 'phil.russell@txu-europe.com'
Cc: Keith Miller (E-mail)
Subject: TASG Report Comments

Chaps,

I would like to make the following brief comments on the TASG report:

- 1) There are 3 types of generator:
 - a) Licensed grid-connected
 - b) Licensed embedded
 - c) License exempt embedded

The TASG needs to develop solutions that are robust and non-discriminatory with respect to all. In this regard, I believe we have begun the task on a), have not addressed b) and as yet are not adequately dealing with c). In the case of c) we need to note recent BSC Mod proposals.

- 2) The recent CAP 043 essentially only deals with a) above. Insofar as it does not deal with the other issues it will be inadequate. Also, if there are any monetary consequences of utilisation, or not of entry capacity, then this will be rightly seen as undue discrimination. Similarly, to impose some penalty/incentive system on generators, but not on the demand side, simply because our thinking is not yet well enough advanced to sort it out for the demand side will not do. Again that would rightly be challenged as undue discrimination.
- 3) Investment Criteria: It may be argued that this is outside the ToR of the TASG, but it has not as yet been discussed in any of the charging fora. Without a better understanding of the way forward on the criteria for system reinforcement, this whole exercise risks being completely irrelevant, as the whole point of change from the status quo is to evolve towards a system in which efficient investment delivers the new network required for the radically different pattern of generation and demand.
- 4) Other CAPs: At the last CUSC Charles indicated NGC were thinking about 3 building-block amendments. of these only one, CAP043 has been put forward so far. How is it intended to progress the other issues?:

Process for swapping capacity at a node. Probably not within a zone and certainly not between zones;

Potential compensation mechanisms for breaches of rights such as transmission system failure. Only on the generation side and covering transmission system failure. Not constraints. Embedded licensed generation only so far as export across the grid is concerned.

That's all so far. See you on 14th October

Kind Regards
Malcolm Taylor
Electricity Market Adviser
Association of Electricity Producers

From: Keith Buckley [keith.buckley@AES.com]
Sent: 20 September 2002 14:15
To: Friend, David
Subject: Comments on Transmission Access Rights

As a CCGT station our output can vary between 700MW and 600MW dependent on weather conditions, time of year etc. Buying access rights for long timescales in the future with any accuracy would provide Medway Power Limited as an IPP with additional risk and costs on top of those already imposed under NETA. Mention is made of being able to trade these access rights but immediate problems would be credit and the cost of setting up such systems and who/how would we be able to trade such rights. Trading access rights has the potential for compounding the credit support difficulties experienced by smaller generators within the industry, eventually resulting in less players in the market and requirements in what is already a very difficult environment for generators. By paying for access charges this would be our intent to generate up to a maximum point per period and not necessarily what we do in real time.

Considering the points made above Medway Power Limited would like the following to be considered:

- i. Unused access rights, how would we deal with those not used.
- ii. Would an alternative be to consider a longer term access agreement to the transmission system as giving the investment signals NGC require. Access right could then be tailored to the shorter term reducing exposure.
- iii. It may be possible to base access rights on the forecasts we make to NGC under the grid code.

Keith Buckley

Medway Power Limited

Direct Number 01634 273013
Switchboard 01634 272222
Mobile 077644012932

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7539

353637

networks.co.uk

Aquila Networks plc
Toll End Road
Tipton
DY4 0HH
Telephone: 0121 530

Switchboard: 08457

Fax: 0121 530 7573
richard.smith@aquila-

aquila-networks.co.uk

25 September 2002

David Friend
The National Grid Company
National Grid House
Kirby Corner Road
Coventry
CV4 8JY

Dear Mr Friend

Comments on the Report from the Transmission Access Standing Group August 2002

The Transmission Access Standing Group (TASG) has outlined several proposals for the enduring charging of access to NGC's Transmission System for the purposes of transporting electricity to Distribution systems and ultimately, consumers. Our views on the report centre on the areas that directly affect us in our capacity as the owner and operator of a Distribution Network. This especially relates to the contract options relating to Demand/Exit.

Our underlying view is that as all costs in the industry end up with the end customer, it is appropriate that any costs incurred in the supply chain should go as directly as possible to the customer, unless there are efficiencies or price signal benefits to be gained from passing them through an intermediary. This, coupled with the supplier hub principle, leads us to the conclusion that suppliers should pay any demand/exit access charges directly unless there is a strong case otherwise.

Case 1 suggests that distributors should contract for demand/exit capacity. We believe this proposal will both remove any price signals from transmission access and also add unnecessary administration and cost into the process.

Transmission access is based on energy related requirements (capacity and units) and distributors currently have no part in the trading of these. If distributors

are introduced into this element of the supply chain and no further changes are made then the costs will be simply passed through to all suppliers as part of DUoS charges with no price signals, effectively defeating any supposed benefits of transmission access. If further changes were made such as the suggestion in the paper of an incentive scheme, then it needs to be asked if involving the distributor would actually add any benefit.

To be effective the operator of an incentive scheme should be capable of controlling or significantly influencing costs such that benefit can accrue to a successful operator. In the case of transmission access it is difficult to see what costs, if any, a distributor can influence. In addition as distributors do not currently undertake any similar work, additional resources of new skills would be required. Also the billing systems currently operated by distributors are not capable of providing suitable price signals to suppliers as would be necessary for the effective operation of such a scheme. Significant additional investment would be required. As such we believe that to make distributors liable for demand/exit transmission access charges is both costly and ineffective.

In our view NGC have greatest control over the costs of the capacity which will be traded and so a solution where NGC are incentivised to manage the capacity is likely to be the most efficient. It may also be appropriate to include costs currently allocated to exit charges into the process to incentivise minimisation of these as well. As such we believe that either case 3 or 4 should be used as the basis of moving forward.

We recognise that as customers change suppliers, it may be difficult for suppliers to manage their capacity requirements. To resolve this two options may help. Firstly if NHH traded sites were excluded it would remove the greatest part of the uncertainty. Capacity for these sites could be allocated. Secondly some larger customers may wish to retain their own access rights. This could be achieved by a certificate transferable when they change supplier.

We hope our comments help move the debate forward.

Yours sincerely

Richard Smith
System Commercial Manager



National Grid Company plc
National Grid House
Kirby Corner Road
Coventry

For the Attention of David Friend
- Commercial

energy management group

Charter Court
50 Windsor Road
Slough
Berkshire
SL1 2HA

Tel. (01753) 758051
Fax (01753) 758170
Our Ref.
Your Ref.
20 September 2002

Dear David,

Re: Consultation by the Transmission Access Standing Group

Thank you for the opportunity to comment on the report prepared by the CUSC Transmission Access Standing Group. British Gas (BGT) recognises that a significant amount of effort has been put in by the group to move the topic to this stage. However, we believe that there is a significant amount of outstanding work to be carried out to complete the work identified in the group's Terms of Reference as provided by the Amendments Panel. We note in particular that there is little substance as yet on the demand side (notwithstanding the detail in the report) which of itself must be half of the regime finally introduced. Similarly on the supply side, whilst there has been more work carried out, we believe that most of it is still at a high level with a large number of detailed and substantive questions unanswered. We therefore look forward to the continuing debate by the group, recognising that it will need a lot of effort and co-operation if the Ofgem desire for a regime to be implemented in April 2003 is to be achieved.

We would suggest that to achieve progress and focus on the outstanding areas of work it would be useful for the Terms of Reference to be revised and reapproved by the CUSC Amendment Panel. We also believe that it would be useful if the Group was able to provide a single strawman as output for further discussion.

Turning to the specifics of the report we offer the following comments on topics raised.

- a) Deep vs. Shallow Charging – as this has already been the subject of an Ofgem view in support of shallow charging, we see no merit in re-opening this particular issue.

- b) BSC vs, CUSC – the inability of the electricity industry to be able to debate issue which cross more than one contractual document is a frustrating. However, when an issue such as Transmission Access arises, which is essentially a CUSC related issue, we believe that all the practical concerns should be addressed within the one document and not spread across the piece. We would therefore expect all payments to and from parties for the provision of or failure to provide access, should be addressed within CUSC and not involve the BSC or any other documents.
- c) Trading – the basis of a competitive access regime must include trading and therefore the product must have a value to more than one party. Definitions etc. must follow this approach to allow a transparent market to be created. Solutions that involve bilateral deals between NGC and only one party should be discouraged. Without this competitive valuation of access rights, Ofgem's expectation that the new regime will provide investment signals to NGC will not be met.
- d) Demand Side Issues – So far the demand side debate has been fairly limited (despite the detail in the report) and has not involved much input from DNOs and end consumer representatives. Since the concepts on the table at the moment have significant implications for these parties (including potentially a set of additional charges to pay for agents) it is essential that they are fully engaged in the debate. Similarly the realities of the current contractual chain between industry parties and their respective roles needs to be recognised to ensure the optimum solution (ie. Suppliers portfolios at each GSP may be changing on a daily basis, even when the total GSP position may not change at all).

In conclusion we believe that the final output from the Group should be judged against the CUSC Terms of Reference and the Ofgem vision as identified in their previous documents, to assess whether the group has performed its obligations.

In the interim, we note that the Panel agreed that NGC should move ahead and raise an Amendment Proposal (CAP043) to instigate some of the changes envisaged by the group. Whilst as we note above, there is a tight timescale for these changes to be considered and implemented, we are concerned with a piecemeal approach being adopted as we believe that a holistic view of the total solution is required before any decisions can be taken on individual elements. The approach being adopted runs the risk of either duplication of effort (through two groups looking at the same issue) or elements being missed.

We trust that you find our comments useful. Should you wish to discuss any item further, please do not hesitate to contact the undersigned.

Yours sincerely,

Simon Goldring
Transportation Manager

BOC PROCESS GAS SOLUTIONS' (BOC) RESPONSE TO "REPORT FROM THE
TRANSMISSION ACCESS STANDING GROUP, AUGUST 2002"

BOC does not wish to respond in detail on the all aspects of the report and is restricting its response to general comments. These are as follows:-

1. BOC would not be in favour of changes to charging methodology which introduce a greater degree of complexity unless it was clear that this would be to the benefit of the final customer. No obvious benefits appear in the report.
2. BOC views with some scepticism the introduction of a) the trading of secondary trading of access rights and b) the introduction of overrun charges.
3. BOC believes that an increase in complexity will increase transaction costs and is likely to allow the supply side of the electricity industry, who's resources greatly exceed that of customers, a opportunity to obfuscate to customers' disbenefit.
4. Comments 1 and 2 above are especially deeply felt in relation to the "Demand Side Model" where the supposed cure looks much worse than the disease.
5. BOC would like to retain the "Triad" system. BOC believes the present Triad system works well in providing financial encouragement for customers' flexible plant which makes an electrical demand to leave the system at the time of expected system peaks. Indeed this is the most active demand response in the present arrangements, also in order to attempt to achieve the 3 system peaks customers will expect to respond on about 20 occasions. Customers are able to respond directly to simple economic messages indicated with manageable notice period.
6. BOC welcome's the more flexible governance structure of the electricity supply industry when compared with the old Pool and Settlement Agreement arrangements. However, having said this it is very difficult to understand how dealing with fundamental issues of this nature only by modifications to the CUSC process will encourage and deliver sufficient customer input. BOC feels that Ofgem should play a greater role in highlighting important issues and gathering customer views in a way that does not fetter Ofgem's discretion.

Hugh Mortimer, 19 September 2002

David Friend
National Grid Company plc
National Grid House
Kirby Corner Road
Coventry
CV4 8JY

20th September 2002

Dear David,

CONSULTATION BY TRANSMISSION ACCESS STANDING GROUP

Thank you for the opportunity to comment formally on the TASG report British Energy has the following comments.

Key Points

- **While the TASG has made some good progress the proposals set out in the report are not sufficiently detailed enough to support a CUSC amendment proposal.**
- **The developments set out in the TASG report should be seen in the context of a package of reforms and should be taken forward on this basis. Specific amendments to the CUSC should not be pursued in isolation.**
- **The work of the group has been somewhat hampered by the governance arrangements, which make a holistic approach to transmission access reform difficult and may yield an inefficient solution.**
- **While the group has been able to define the generation side of the access regime in greater detail some important gaps still exist notably the treatment of transmission failures.**
- **Much work still remains to be done to develop a workable demand side model.**

As a general observation we believe that the report accurately reflects the discussions held at the various TASG meetings. Any significant reforms to transmission access is likely to be complex and as such should only be undertaken in response to a clear and demonstrated need. While we have and continue to participate fully in these developments we are still not convinced that a case for reform has been made.

The group has made some good progress in defining the issues much more work remains to be done before a CUSC amendment could be proposed. In many important areas the group has only discussed the high level principles. This is particularly true in the context of the demand side arrangements.

It is also important to recognise that each of the elements of the proposed scheme was seen in the context of an access regime as a whole. To extract individual elements of the proposals set out in the report and to seek to pursue them as individual CUSC amendments seems to us inappropriate. The proposals set out in this report should be seen in the context of a package of reforms, which should be progressed in parallel.

The work of the group has also been somewhat hampered by the governance arrangements that appear inefficient given that they prevent a holistic approach to the problem. For example charging issues have a clear interaction with transmission access as does the treatment of transmission faults and any associated compensation under a firm access regime. However the former is governed by the Charging Principles Methodologies under NGC licence while the latter is also being pursued under the BSC.

It is clear that the group was able to define the elements of a firm access regime for the generation side more precisely than for the demand side where a number of possible outcomes exist. But even here important issues such as compensation for interruption to the transmission system has not been satisfactorily addressed. Much more work is needed on the demand side alternatives if a two-sided firm access market as envisaged by Ofgem is to be developed. It is in this area that much of the group's future activities will need to be focussed.

I trust you will find these comments helpful. Please feel free to contact me on 01452 654182 at the office or via email at john.capener@british-energy.com .

Yours sincerely

John Capener
Head of Trading Arrangements and Network Access

19th September 2002

Mr David Friend
Transmission Access Standing Group
National Grid Company
National Grid House
Kirby Corner Road
Coventry
CV4 8JY

Kings Buildings
Smith Square
London SW1P 3JJ

Telephone: 020 7834 3399
Fax: 020 7834 4469

Direct phone: 020 79636718

Direct fax: 020 7834 8587

e-mail: siddallr@cia.org.uk

www.cia.org.uk



CHEMICAL INDUSTRIES
ASSOCIATION

Dear Mr Friend,

I am writing in response to the consultation on the TASG's final report, which was published on 7th August. The chemical industry continues to be the largest user of electricity in the manufacturing sector, accounting for 20%, which is approximately 6% of total UK supply. The sector uses some 23000GWh annually, of which approximately 15000GWh is purchased from electricity supply companies at a cost greater than £450m. CIA therefore welcomes this opportunity to provide input to the TASG.

First, the chemical industry has major concerns about the principle of a market in electricity capacity. We do not believe the perceived benefits will be achieved in practice, due to the potential for dominant players to distort price signals; and the extra transactions that would be created, along with their associated costs.

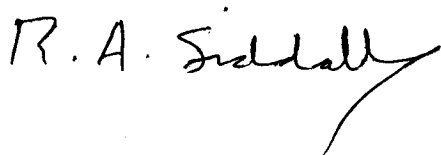
Aside from fundamentals of reform, our primary concern is the further erosion of demand-side involvement, due to the loss of the *triad* mechanism. The *triad* system works well for industry by providing a simple signal to shed load, which is rewarded by a reduction in capacity charges. Although no system is likely to be perfectly cost-reflective, *triads* are basically so, because behaviour associated with capacity, and capacity charges, are

linked. We note the options set-out on p.13 of the TASG's report, and especially the conclusion that the current *triad* would, by necessity, become obsolete in any system where exit capacity is sold ex-ante, unless capacity were defined in such a way as to avoid this. Such a situation would cause us considerable concern. Not only would it reduce (at a stroke) the potential for industry to play in the electricity market, but it would also result in a load increase of approximately 2GW on the grid at peak time. In a recent NGC paper titled "*Demand TNUoS charging for the UK-France interconnector: summary and conclusions of responses.*" NGC confirms peak system load as one of the main drivers for network investment and also concludes "National Grid is satisfied, therefore, that the Triad method of demand TNUoS charging is one cost-reflective method of reflecting peak demand conditions and its application to all half-hourly metered demand users is non-discriminatory". We acknowledge that, theoretically, *triads* could be replaced by another method by which end-users can offer load shedding services, but warn that it is highly unlikely that chemical producers would be interested in playing unless it were extremely simple in design and gave a clear signal to which they could respond. Our members business is chemical manufacture: not electricity capacity trading, and very few have the luxury of an employee dedicated to energy matters.

In conclusion, CIA's preference is to maintain the current *triad* system. We believe that it offers a simple system that encourages industry involvement, while maintaining reasonable cost reflectivity. We do not support moves away from this at present.

I hope these comments are helpful and would be pleased to discuss them in detail at your convenience.

Yours sincerely,

A handwritten signature in black ink that reads "R. A. Siddall". The signature is written in a cursive style with a long, sweeping tail that extends downwards and to the right.

Robert Siddall
Utilities Policy Manager

Heath Farm Cottage
Paston
North Walsham
Norfolk
NR28 0SQ
Office: 01692-407865
Fax: 0870-1245185
e-mail: CornwallN@aol.com

20 September 2002

Phil Russell

Independent Chair
TASG

c/o David.Friend @uk.ngrid.com

Consultation By The Transmission Access Standing Group

This letter is in response to the consultation paper from the Transmission Access Standing Group (TASG) released August. It is a personal response, as a participating member of TASG, and does not purport to represent the interests of any market participant. Inevitably, given the recent introduction of CAP43 by NGC, this letter also comments on the likely way forward.

I strongly support the work of the group and the broad direction taken. Transmission access remains a key market development issue without resolution of which the NETA market design will remain incomplete. In the light of the many TASG meetings, however, it is disappointing that TASG has not as yet been able to reach clear conclusions or make specific recommendations. I also consider that as the report currently stands the thinking of the group falls well short of the type of package solution that would meet the criteria set down in Ofgem's Revised Proposals of February and which formed the starting point for TASG's terms of reference.

As a minimum, the transmission access workstream should aim to ensure that:

- generators see a reasonable degree of choice in the level of transmission service they obtain from NGC, including the option of firm access;
- market participants have options to enter into fixed price, fixed duration arrangements with National Grid in the same way that counterparties to a deal for energy can fit the circumstance to their bilateral contract; and
- further thought is directed at how demand participation (or exit rights) can be accommodated consistently within a more comprehensive firm access model.

I comment more fully on each of these issues in turn below.

Firm access

The concept of firm access, and the availability of compensation in the event that energy transactions are curtailed or delivered lower than contracted performance, is fundamental in a decentralised electricity market. The TASG proposes some principles in this area but the thinking still falls short of a coherent system of property rights. It is also disappointing that only part of the TASG's thinking has been picked up by NGC in CAP43. Definition of entry access for generation capacity is the first, but by no means only, step in a series of necessary changes. From a process perspective, it would seem sensible to scope the package rather than introduce changes piecemeal without a clear understanding of the end point. As matters stand, and as a

consequence of the process proposed by NGC and endorsed by the CUSC Panel, some relatively minor definitional changes are proposed but further material change now seems unlikely prior to April 2004. In reality, this phased approach suggests significant change is now unlikely until September 2003 at the earliest. Given the undesirability of changes to TNUoS charges mid-year, April 2004 appears to be the logical implementation point.

Commercial Choice

The TASG in its discussions set great store on two parallel concepts:

- optionality; and
- the desirability within an optional framework of choice over service definition.

The proposal put forward by NGC provides limited choice to generators over entry access capacity only and is limited to the financial year ahead, thus falling well short of the desired outcomes set even by TASG. Generators also seem to lose the option of capacity nominations beyond the immediate year end and are arguably in a worse position under NGC's proposals than they are at present.

Demand Participation

There has been a distinct reluctance throughout the TASG process, and this is reflected in the August report, to extend meaningfully the access concept to demand. In a competitive supply market, it is fundamental that suppliers can acquire firm rights should they wish to and also trade them to match changes to their commercial positions. Large customers might also find this option of value, and it might enable them to trade interruption. None of the demand "options" considered by TASG substantively address the issues, and the only realistic option consistent with achievement of the objectives is option 4.

Unfortunately option 4 is not sufficiently clearly delineated in the TASG paper, and has been drafted in such a way as to immediately deter sensible consideration because of the inappropriate and unnecessary references to removal of triad charging. Whether the triad is a meaningful mechanism under an explicit access regime is separate from the question of whether demand should be able to subscribe for firm rights. I also believe it to be unnecessary to route rights through distributors as it simply adds a further layer of complexity without any obvious compensating benefits. Options 1 and 2 seem to me to be little more than complex cost allocation mechanisms.

Some further thoughts on a possible way forward on demand are attached as an appendix.

Summary

In summary it is evident that the work of TASG is far from complete. NGC's response in the form of CAP43 is thoroughly inadequate. There remains, in my view, a significantly further way to go before the transmission access workstream begins to measure up to the reasonable and necessary task that has been set.

Nigel Cornwall

cc: Sonia Brown, Ofgem

Appendix

Accommodating the Demand side within a Transmission Access Model – Some thoughts for discussion

The key points of the proposal for demand below are:

- firm demand side rights should be available but optional
- rights should be MW based and correspond to some form of nominated annual maximum demand
- rights should be defined and subscribed for ex ante
- rights should be tradable at the holder's discretion
- firm and non-firm rights could be available
- any demand side model should identify where the role of the TO stops and where that of the SO commences
- creation of any intermediary role, such as the GSP agent, is unnecessary
- output measures consistent with the total rights available should be established and entrenched in the transmission licence
- rights do not transfer with the customer.

The demand side should be able to acquire rights on an equal footing to generation, but that this **availability of rights should be optional**. This facility goes beyond “political correctness”, and there are at least three particular types of situation where demand would consider this facility desirable:

- directly connected customers who wished to hedge transmission costs
- suppliers who have customers who seek similarly firm rights as a means of backing off risk with their customers
- suppliers developing teleswitching and load management programmes with customers, who in turn are more likely to be HH rather than NHH customers and who wish to see a commercial value from such controllable interruption.

Such rights might also be sought by suppliers with embedded generation qua negative demand, and this issue is sufficiently important to require separate thought.

Rights should be MW based. Not least this is the only sensible means for linking rights to outputs that will eventually underpin NGC's transmission revenue entitlement under its price control. This area of outputs is an important omission from the TASG. In this context TASG needs to consider carefully how applicable the measures recently adopted in the Transco licence are.

The main difference in the approach between explicit and implicit rights debated in the TASG is that explicit rights are defined ex ante and are tradable; implicit rights are defined after the event and are not. The main point of difference with my view of the world in support of ex ante rights is with regard to the creation of rights. The concept of optionality, linkage with the price control and the imperative of enabling bidding back interruption means that **rights must be defined and subscribed for ex ante**. Vesting a right after the event seems to me to be a tortology, and it provides no basis for compensation – which seems to me to be one of the main benefits of firm access which will in turn underpin the incentive to invest.

All rights should be tradeable, and from the demand side's perspective this facility is one of the main benefits as it enables a means of reallocating rights to system use where customers have been gained or lost within year. Rights also have to be tradable if the holder is to be able to sell them back to NGC in the event that transport is restricted or onwards to another participant. The point of a right is that it confers some benefit. This does not mean that all rights have to be the same – in fact the use of **differential service levels** under PJM provides a good example of a functioning market where different rights confer different services and charged for accordingly.

The issue of establishing definitive answers to how the **rights might be traded** is not so critical at this stage, provided some simple principles can be established. The main point is that it is the SO who facilitates trades and who would see an incentive on its wider constraint management activities (not the TO). In previous work, I have advocated the concept of constraint resolution services, which is little more than a balancing service with bells and whistles, but which would be more open than some present arrangements which seem largely opaque. The SO could manage a bulletin board where surplus or shortfall positions could be matched. The SO would need this information anyway to understand what constraints management options are available. In the event there was a real problem on the system in the run up to real time and existing options were not considered sufficient, the SO could also call for incremental and decremental access but this would only represent a medium term development direction if there emerged a real need for such a service. In this context, a combination of constraints costing £10-15m per annum and the availability of counterpurchase through the Balancing Mechanism might dissipate the need for such a service.

There could be a distinction between **firm and non-firm rights**. If so, the **price of firm and non firm rights** have to be different, the difference being likened to an insurance premium. Obviously physical delivery cannot be guaranteed but a firm right is associated with guaranteed financial compensation in the event of non delivery.

The **creation of any intermediary role is necessary** and in the time scales available to TASG is probably undesirable. Any legally separate role suggests a commercially separate entity. A more important institutional question is the need to properly **identify where the role of the TO stops and where that of the SO commences**. The rights at a GSP Group should be defined and each supplier or directly connected customer should have a right to subscribe for the rights up to its reasonable maximum demand. Over the longer term, the level of rights created would need to be tied to the price control determination of revenues, and corresponding **output measures established**. In practice I think it unlikely that much demand will subscribe, at least at the outset especially if there is no comparable firmness at the distribution level. But the rights definition must be compatible with evolution to an arrangement in which firm access is the norm.

Finally, rights should attach to the contracted grid user and **rights do not transfer with the customer**. A supplier with a new customer can opt for a higher MDE but at its discretion. But the concept of a supplier losing rights as a consequence of having fewer customers because his customer has moved seems inequitable. It would also commercially emasculate the role of the supplier.

Mr. Phil Russell
Chairman of TASG

20th September 2002

Dear Phil,

Consultation Response on 'Report from the Transmission Access Standing Group'

On behalf of EdF Trading Ltd and EdF (Generation), we (Nick Frydas and Steve Drummond) have reviewed the report from the TASG and offer the comments set out below. We recognise that in the main these are points of accuracy on the report itself and that it is not possible to change the content now. However, by making them, we wish to illustrate our desire for interconnector issues to be fully considered in any way forward.

Points of Accuracy

1. Table of Contents
 - There should have been separate heading under Section 6 on Interconnectors. It warranted a separate presentation at the TASG and there is widespread recognition that any application to interconnectors has to be viewed very carefully. Maybe there weren't any solutions offered as yet, similarly for the embedded generation or directly connected demand, but to omit it is to be too dismissive, given that any new model has to work for interconnectors as well.

2. The Work of the Standing Group
 - The paragraph on the third meeting could have made reference to the Status Quo presentation, which offered another viewpoint and (more importantly perhaps) also elicited the discussions on Deep Connections, Standards of Security and Constraints Costs.
 - Part of the importance of the presentation on the European Perspective was its relevance due to the presence of the interconnections with France and Ireland. Also, that the UK was very advanced in its approach competitive markets compared with the rest of Europe.

3. The Driver for Changes to the Contractual Framework
 - The opening paragraph gives the wrong impression ie that Ofgem believe that the current generation rights are firm. It was the TASG, including NGC, that believed that the generation rights are already largely firm. Furthermore the last sentence should have stated more clearly that 'in line with Ofgem's desires, the industry is seeking to move towards the more dynamic approach to transmission charging and that the TASG has characterised this in the diagram below'.
 - The last sentence in paragraph 3 states that the Group recognised Ofgem's stated position on Deep Connections and therefore elected not to discuss the option further. This was not the case as we recall and, were it to be so, it would be astounding, as it could be argued that it is cost-reflective, efficient, non-discriminatory and transparent methodology for charging out new investments, as required by Ofgem. It is appreciated that such an approach may still not be acceptable, for specific practical reasons or because of the implications for new entrants (particularly renewables at this time). This then needs explicit recognition and acceptance by Ofgem and the industry, especially as it has an impact on the rest of the industry. It is a useful comparator, should we have a 'rights' system introduced that allows the value of the full marginal transmission investment costs to be reflected.

4. Consideration of Transmission Access Schemes

- The definition of the generation/entry right mentions Maximum Export Capacity, but special consideration should be given to its applicability to Interconnectors because of superposition of trades.
- The participants rightly include Interconnector Owners, but in keeping with the comment above the arithmetic summation of the MECs for the IUs would have to be equal to or less than that for the IO.
- The debate so far has split the relationships into entry and exit or generation and demand, and we have tried to "shoehorn" interconnectors into generation or demand, but uncomfortably so. Would it be better to regard them separately as a class on their own in recognition of their different characteristics? Furthermore, in line with ETSO requirements, we must have a system that doesn't introduce or maintain 'pan-caking' of charges.
- On page 8, in discussing a request for new rights, another option would be for the entrant to operate on a non-firm basis until any necessary reinforcement works are complete. This would offer increased flexibility to the System Operator and additional revenue opportunities to the new entrant.
- Under 'Duration', special consideration will need to be given how Interconnector Owners obtain rights and for how long, bearing in mind that the auctions take place for the Interconnector capacity for as short a period as 1 day with a large combination of Interconnector Users. This will also include, in some circumstances, use by the System Operators themselves for system balancing purposes. Also, will Interconnector Users have a corresponding secondary trading model?
- On page 9 two options are referred to but there are of course others, for instance the deep connection model which gives a very clear nodal locational and cost reflective message.
- The last paragraph talks of locational BSUoS and the charging out of constraints, but again there is no mention of the debate that took place at the TASG during the Status Quo presentation about the difficulties of doing so. It is our contention that it is impossible to do so, because you can not identify the polluter, unlike the case for a new entrant and the marginal cost of transmission reinforcement.
- The diagram on Page 10 again illustrates that interconnectors are different and yet the report doesn't really bring this out. Any future discussion or work stream needs to recognise it more explicitly. The diagram by the way could have usefully included some explanation as to what it means.
- The same comments for the generation diagram apply to the diagram on Page 11. As for embedded customers and the relationship with DNOs, Interconnector Users need similar protection from the Interconnector Owner should it be deemed appropriate for Transmission Access charges to apply and to be passed through to the IUs. The ideal solution in our view is for the Interconnector Owner to take on the risk of any charges and not pass them through. The value would come from the intrinsic value of trading in the two markets either side of the interconnection.
- On Page 12, paragraph 2, there are parallels with what could be done for interconnectors. The IOs could take on the G & D charge risks (as mentioned above) and leave it the interconnector auctions to determine the level of payment based on the market price differential. Interconnector capacity thereby giving transmission capacity at the same time. It would also help avoid the 'pan-caking' issue when trading electricity across Europe.
- The last paragraph on page 12 stated that the majority of the TASG considered Case 3 was implementable by April 2003. Wasn't it only if was in an ex-post scenario?
- The last paragraph under Case 4 on page 13 also has parallels with Interconnector Users who will come and go and it is up to the Interconnector Owner to anticipate the likely need for rights in forthcoming timescales. However, it is difficult to see how the Interconnector Owner could do anything else other than seek the full two-way rights for the duration of the Interconnector project. A concern has to be whether any other

approach would discourage further interconnections and indeed use of current interconnections, which would be discriminatory and going against EC policies.

- Interconnectors also offer the ability to manage constraints and ideally this should have been explicitly referred to.

6. Additional Discussions

- The reference to interruptible rights should have extended into interconnectors, especially as it was raised as an issue in the interconnectors presentation.
- The European Presentation raised questions as to why there is a need to change when E&W has a secure system at low cost.
- The reference in 6.3 to interconnectors I believe is unnecessarily dismissive and at the very least deserved a paragraph to itself. This would then have made more sense of the separate identification of the 'treatment of interconnectors' under the final recommendations.

From a Wider Perspective

Having given the specific comments above, we would also make the following general points:

- The report is useful as an aide memoire of the discussions to date at the TASG.
- It also indicates that the conceptual thinking presented by Ofgem has been taken a step forward by the group, although it has to be said that there is a long way to go and it is only when there is more detail of how it will work, can any meaningful comment be given.
- As yet, the approach for the generation side of the market does not look too different from the current system, although it is noticed that the moment has been used to clarify definitions and to address mothballing and compensation issues.
- Bearing in mind the desire for both sides of the market to be active in the Transmission Access arena, then the demand side still lacks clear definition.
- Due risks should also be taken by the Transmission provider for transmission failure and we would hope that this is built in to any future model.
- Only once a model has been defined that addresses all the concerns of the participants (including of course interconnector owners/users), will it be possible to test whether there are overall benefits to be derived from this new system. We would hope that it is costed against the perceived benefits in due course.

We continue to offer our services to help and develop the Transmission Access proposals from an overall system perspective, but also providing an interconnector viewpoint. Our prime objective in doing this is to ensure that a fully inclusive system is adopted and that the interconnector issues are looked at in parallel and are used (alongside TUs, embedded gens etc) to test the appropriateness of any proposals, to ensure consistency and to see if special rules need to be created.

Should you have any queries on the above then please don't hesitate to contact either of us.

Yours sincerely

Steve Drummond

Nick Frydas

From: Simon Lord [slord@EdisonMission.Com]
Sent: 20 September 2002 14:38
To: Friend, David
Cc: Kevin Dibble; Libby Glazebrook
Subject: Transmission access consultation

I thank you for the opportunity to comment on the August TASG Report, I would make the following points on the many varied issues:-

Interaction between Connection Charges and the Transmission Charges. Connection charges are firm and are currently charged over 40 years, they confer on the user a right to be connected to the system. The transmission charges confer the right to use the system. Both of these rights are needed in order transfer energy from the Power Station to the system. The reports presents the possibility that a generator who has been paying connection charges over many years may lose its rights to Transmission if it does not pay for those rights for a period of time (refurbishment, mothball etc). It could then be faced with the possibility of paying for connection charges but with no right to use the system, as such we think that the interaction between the connection charges and the transmission charges need to be examined in further detail.

Zonal charges. The basis of charging for the transmission rights is currently on a zonal basis but we feel that consideration should be given to basing this change purely on capacity with no zonal effect. The reasoning behind this is that for new players the Transmission access cost although an ingredient in the decision-making process for the siting of new plant does not significantly influence it. Issues such as fuel source, planning consents etc are by far the major influencing factor. For existing players with no ability to re-locate power stations the zonal effect present no useful messages as the marginal cost of fuel will be the significant factor in closure decisions rather than Use of System.

Compensation for failure. Compensation for a transmission system failure should not be limited to purely traded volumes, significant loss could also occur through loss of income in providing Balancing Services, as such compensation for this loss should also be included. Pre-emption rights We believe that pre-emption rights should exist in circumstances where a generator who has a mothballed unit may be about to lose access to the transmission system as a result of NGC reallocating these rights. It may be the case that the generator made significant contribution to the cost of the original connection and it would seem unfair for the generator to lose the benefit of its contribution.

Simon F Lord
Ancillary Services Manager
Short Term Operations, Edison Mission Energy
0870-238-5501 or 07980 793692 Mob

Date

Our Ref

Your Ref

David Friend
National Grid Company



Dear David

Consultation by the Transmission Access Standing Group

We are pleased to have the opportunity to respond to the report from the Transmission Access Standing Group and provide our views on the ongoing development of Transmission Access arrangements.

London Electricity Group is not ready to give any firm views on the subject of Transmission Access other than that we do not wish to see complex and inefficient arrangements introduced. We are also against introducing increased short-term volatility in areas involving major long-term capital investment. Where we do give preferences below they do not indicate support for change. We will not give final views on Transmission Access proposals until we have seen full details and can judge them against the objectives and considered impact. In particular, we find it difficult to make a judgement on methodology without some guidance on what the impact would be on the costs of access to and use of the transmission network as well as a view on the likely interaction of Transmission Access arrangements with BETTA.

Objectives of Transmission Access

Among Ofgem's objectives for Transmission Access were the improvement of investment signals for NGC and encouragement of efficient location decisions for new generation. Whilst we agree with the need to provide appropriate investment signals for both NGC and new generation build, we are not clear how the proposed Transmission Access arrangements will improve these signals. The existing TNUoS charging structure has provided locational signals to the industry for many years and has arguably had some success in encouraging new generation to be sited in the South. Locational signals will in any case almost certainly be enhanced by locational transmission losses.

Ofgem also cites the need for better management of Transmission Constraints. Transmission Constraints have always been a feature of the Transmission System although at present are a relatively small problem. NTS currently have a range of market tools available to allow them to manage Transmission Constraints. It is not clear how the proposed Transmission Access arrangements would improve the effectiveness or transparency of constraint management and we would be interested to see a more detailed consideration of this issue by the TASG.

In addition, we have strong reservations about using a single instrument to give both short and longer term signals and the dangers in this approach were illustrated in the LOLP mechanism.

We do not believe that the TASG Report has adequately addressed the question of the need for a change and specifically how any of the proposed changes would better meet the Applicable Objectives for the CUSC as set out in the Transmission Licence or the objectives for Transmission Access arrangements set out by Ofgem. We would hope that any further development of Transmission Access arrangements gives consideration to the need to deliver clear benefits over the present arrangements, particularly on the issues of investment signals, efficiency and competition.

Trading of Access Rights and Capacity Exchange Rate Mechanism

We are concerned at the practicality of Access Rights trading and an exchange rate mechanism for the trading rights between locations and cannot see there being a significant requirement for such a facility or any significant benefit for a party to buy rights from an existing party at a different node rather than obtaining rights directly from NGC. There are a number of details that we believe need further consideration/clarification:

- Who will facilitate the capacity exchange mechanism? SO or TO?
- How transparent will this process be?
- Will exchange rates be published in advance or calculated on an ad-hoc basis?
- How will this arrangement improve investment signals, efficiency or competition?
- Would NGC effectively become a single counterparty to all trades since they would have to approve every transaction?

Breaches of Rights

We agree with the principle that parties should not be able to gain financially through a breach of access rights. However, the TASG should give consideration to operational factors when defining the nature of any overcharges. For instance, it is not clear how any charges for breach of access rights would be applied to the situation where NGC issues a "Maxgen" instruction. Such situations should not result in charges for breach of rights.

If parties are paying charges for their access rights then there should be some corresponding mechanism of compensation in the event that access is not available. The TASG report notes current work being progressed under the BSC to deal with Interruptions and Transmission Failures. However, we do not believe that the BSC can adequately deal with all aspects of compensation for loss of transmission access and this issue should therefore be considered further by the TASG either in the form of an overall methodology for dealing with transmission failures and interruptions or as a complementary set of arrangements to exist alongside any arrangements that are eventually built into the BSC.

Pricing of Access Rights

We prefer Pricing Alternative 1, TNUoS charges based on capacity and location with non-locational energy based BSUoS charges. Careful consideration should be given to the development of any locational charges to ensure that the signals provided are consistent with other locational signals associated with the Transmission Network (e.g. Transmission Losses).

Demand Side Model

For the demand side in particular we have difficulty in seeing what benefits can be delivered by the introduction of Transmission Access arrangements. However, such arrangements could create additional risks and would increase the administrative burden on demand participants.

Case 1: DNO as GSP Group Agent

We agree that in some respects the DNOs are well placed to act as GSP group agents. However, in this role the DNOs would have little control over demand levels and would seek to pass through all costs to suppliers using the simplest basis for cost allocation and this may dilute signals to customers to manage load. There seems little that DNOs can do to manage any risk associated with NGC's failure to provide capacity. It seems unlikely that DNOs would see any real merit in taking on this role.

Case 2: GSP Group Agent

We do not believe that this approach would improve efficiency since it would just be adding an additional link in the chain. Again there are a number of details that need further consideration. The role of GSP Agent, especially in

that is expected to take on the risks associated with managing access rights would be similar to that of consolidator in the energy market. Experience has shown that this role may not be attractive to many participants who would prefer to manage their own access rights in house. Would there be more than one GSP Agent in each GSP Group? Would there be a default GSP Group Agent?

Case 3: NGC as GSP Group Agent

This option would appear to offer a relatively simple approach that is not a significant change from the present situation but would perhaps create a new opportunity for NGC to charge suppliers more for providing the function of GSP Agent. We believe that NGC would be best placed to efficiently manage the Transmission Access requirements for the GSP group as a whole, but the process of allocating rights and their associated costs to suppliers would require a consistent and transparent methodology. It must not be any more costly than the present system. An ex-post determination of Access rights would offer the simplest approach although this may not deliver the intended capacity signals to NGC and participants. The option for participants to purchase explicit rights ex-ante may provide the capacity signals, but why would participants choose to do this unless it was a cheaper option?

Case 4: NGC and Suppliers

This would place the risks associated with management of access rights with each individual participant, so there would be a reasonable degree of control by participants of their own contracting levels. This could have the effect of amplifying the size of forecasting errors compared with a centralised method for all participants within each GSP Group. The risks associated with forecasting errors between individual suppliers should not give rise to additional costs or charges, as it is the overall demand within the GSP Group that is the more important value for Transmission Network planning and operation.

Security Standards

It is not clear how Transmission Access arrangements would interact with security standards. In general, we believe that security standards such as P2/5 have ensured that appropriate investment was made in the transmission system and we would not wish to see their role diluted.

The way forward

It is our view that Transmission Access arrangements will have a significant impact across several governance structures and on the future BETTA arrangements. We acknowledge that TASG is restricted from the consideration of the overall implications of Transmission Access by the decisions of the Authority. But until there is opportunity to take a holistic view of the questions, any answers will almost inevitably be seriously flawed.

Yours sincerely,

Liz Anderson
Energy Strategy and Regulation

The work of this group was initiated in response to Ofgem's aspiration to establish a system of variable term, financially firm rights for Use of System and to improve NGC's investment signals and incentives, as outlined in their 'Transmission Access and Losses under NETA: Revised Proposals' Report published in February 2002. Limiting debate solely to the area of Transmission Access, the Transmission Access Standing Group (TASG) report outlines a number of high level potential solutions, however acknowledges that due to the complex nature of transmission access issues further significant development would be required, particularly within the demand side area.

Subsequent to the publication of this report National Grid Company plc (NGC) have proposed an amendment to the Connection Use of System Code (CUSC) in respect of Transmission Access arrangements affecting generation assets connected to the transmission network. In summary the amendment would facilitate the development of 'capacity' products and the introduction of 'Entry Access Capacity'. It is the intention that this amendment will be the first, in a range of proposals, to facilitate the transition from the current Transmission Access arrangements. The amendment is silent on the proposed treatment of demand side participants with regard to exit rights. We do not intend to comment on the merits of amendment CAP043 specifically within this consultation response, the route for input to this process is clearly defined within the CUSC, but will limit our response to the debate to date for the treatment of the Demand Side outlined within the TASG August 2002 report.

Transmission Access Proposals for the Demand Side

Discussions of proposals for the Demand Side Transmission Access arrangements were limited and as such there remain many issues yet to be addressed. Efforts must be made to ensure that there are opportunities for the demand side to participate, and receive appropriate reward for their performance, where they can assist NGC in the efficient management of the Transmission Network. Ofgem have often quoted the need to encourage and develop further opportunities for Demand Side Participation. Every effort should be made to ensure that the future involvement and utilisation of Large Industrial Users, who have proven their capability as significant load managers over previous Triad seasons, is not lost within this process of development and change.

Whatever the composition of the ultimate design however we are concerned that there will emerge a level playing field for all. Our overall aim must be to ensure that the proposed Transmission Access arrangements should not introduce discrimination between the large vertically integrated player, whose varied portfolio of customers enables a degree of flexibility within their risk management approach, over the specialist supply business with a small number of potentially unpredictable customers.

In addition the level of effort involved in supporting such arrangements should be proportionate to the benefits to efficiency that will be perceived to have been delivered.

The four case studies

One of the original questions posed was the role of the demand side in any issue that concerns the Transmission Network? Demand is not, in the majority of cases, connected to the Transmission Network. NGC is, in the main, connect directly to Generation Stations and Distribution Network Systems. For a time discussion concentrated on the relationship between NGC and Distribution Network Operators (DNOs) and resulted in the development of ‘Case 1 – NGC and Directly Connected Distribution Businesses’ contained within the TASG report. Enhancing the role of DNOs with regard to the forecast of Transmission Access requirements within their Grid Supply Point (GSP) Group and subsequently introducing a cost recovery mechanism from Suppliers within that GSP Group via their Distribution Use of System charges does sound initially simple and attractive. However, we believe that introduction of an additional, difficult to manage and audit cash-recovery process within this already complex and opaque route would simply be inoperable without significant Regulatory activity around allowable cost recovery mechanisms and incentive schemes.

‘Case 2 – NGC and a GSP Group Agent’ and ‘Case 3 – NGC as the GSP Group Agent’ introduce the option for creation of a GSP Group Agent to act as an intermediary for the procurement and allocation of Access Rights on behalf of Suppliers within each GSP Group. The thought process behind both options remain at a high level with much of the practical details relating to the Agent role, appointment, cost allocation and recovery route, yet to be developed. RWE TDL is yet to be convinced of the value added to the process in relation to the cost benefits adoption of such a proposal would deliver.

‘Case 4 – NGC and Suppliers’ states that Suppliers would purchase a defined capacity per GSP Group on an ex-ante basis and have the opportunity to trade those rights as their customer demand changes with other Suppliers within the GSP Group or with NGC to acquire previously unallocated rights. Bearing in mind that customer demand within each GSP Group is changing daily due to the weather, customer churn, and the performance of the Distribution Network, the daily administration of such a scheme would incur significant cost. How would such an approach benefit the consumer, who after all, would face the pass through costs? In addition, we have recently witnessed some significant business closures. Would the scheme enable offload to NGC of any rights no longer required by any Supplier within a GSP Group caused by business decisions out-with their control? Does this approach realistically assist competition? Constraint management is stated as a potential option, however to date there has been no debate on potential options for future development in this area.

Future Development

Overall, but not surprisingly, agreement on any of the options was not achieved within the TASG, as most of the detail is currently yet to be devised. However, as contractual negotiations between Consumers and Suppliers for Supply contracts starting in April 2003, and in some cases for October 2003, are currently well advanced, consideration of how and when to introduce any proposed changes to the Transmission Access and Charging Methodologies must be clearly indicated to the market as soon as possible. Uncertainty over potentially significant change within the cost allocation and recovery stream is likely to result in a higher forecast of costs. It is unacceptable that Customers should face the burden of inflated risk premiums to cover for regulatory uncertainty.

Competition within Supply must be fully supported by market trading arrangements. If it is the intention to deliver benefits from longer-term contracts to the generation side of the market, due consideration to facilitation of such developments must be discussed and introduced in parallel with the Demand Side of the market, in an appropriate timely manner. Where consumers can gain benefit from a longer-term contractual arrangement for Transmission Access then to restrain development would be deemed anti-competitive.

Our preference, on balance, of the four case studies explored to date would be for the case one scenario which outlines utilisation of the NGC and Directly Connected Distribution Businesses route, however we recognise there is much detail yet to be evaluated. RWE TDL supports further development in this area and that of provision for the opportunity of future Demand Side Participation and as such will endeavour to provide appropriate input to the process as and when able to do so.

John Over
Chief Executive

To: David Friend
National Grid Company plc
National Grid House
Kirby Corner Road
Coventry CV4 8JY

20th September 2002

*RESPONSE TO THE REPORT OF THE CUSC TRANSMISSION ACCESS
STANDING GROUP*

Dear David,

This response is provided on behalf of Scottish Power Generation Limited and ScottishPower Energy Retail Limited.

ScottishPower has followed the transmission access debate with interest and welcomes this opportunity to comment on the direction being taken in the further development of access arrangements. The fact that this debate is being taken forward in a separate forum from the considerations of transmission charging and the allocation of transmission losses is indicative of the inefficient governance arrangements to which the industry is now subject and is a cause of great concern to us. However, we note that the Group did consider the implications for charging of some of their ideas for possible access regimes and trust that the other forums will take appropriate account of these ideas in developing their own proposals.

In general terms, ScottishPower accepts that benefits could be gained from a system of tradable access rights. However, we have yet to see a coherent scheme under which such rights could be created, issued, valued, traded, and policed without the creation of a trading and settlement system for transmission rights which is likely to dwarf the NETA development. In an industry characterised by project lead times of 5-10 years and asset lives of 20-40 years the pursuit of a 'dynamic' access and charging regime seems somewhat pointless. We believe that the security standards should remain the basis on which transmission investment is committed, and see no obstacle to the introduction of interruptible access rights within this framework. The ability for parties with interruptible and non-interruptible rights to agree to operate within their total contracted access capacity would remove the need for short term trading of fragmented rights and should also be accommodated. Ultimately however, any changes to the transmission access arrangements should clearly demonstrate a benefit against the costs which would be incurred in introducing them.

Within this environment ScottishPower welcomes the decision that rights should be allocated rather than being auctioned. We believe that access rights should be available on a long term basis, if requested by the applicant, and with the

option to lock in the approximate level of charges for the duration of those rights. By this we mean that while the charges can fluctuate in line with the adjustments to the price control over the contract period, the party should not be subject to changes in charges because of the arrival (or departure) of other players. Similarly, we do not believe that the charges (which are essentially for cost recovery) should be based on artificially generated locational signals such as those produced by ICRP. Closure decisions do not reduce NGC's infrastructure costs and to impose on existing players a charge which has been calculated to deter the next connectee seems fundamentally wrong.

Yours sincerely,

Mike Harrison
Commercial Manager
ScottishPower Energy Trading Limited

Paul Jones
Trading Arrangements

David Friend
The National Grid Company plc
National Grid House
Kirby Corner Road
Coventry
CV4 8JY

20 September, 2002
Reference

Dear David,

Report from the Transmission Access Standing Group August 2002

I am writing in response to the consultation on the above report from the Transmission Access Standing Group (TASG). Powergen appreciates the complex nature of the work that has been undertaken by the TASG. The report appears to show that it will not be easy to introduce a fully workable system of tradable rights into the market.

Generation Entry Rights

Any liquid market will require a reasonable number of willing buyers and sellers of access rights. Given the locational nature of access rights in electricity the potential number of buyers and sellers for specific access rights is automatically limited. It is possible to lose the locational nature of the rights, but in doing so messages from the market about where new capacity is most needed would be watered down or lost. Cost messages about new capacity requirements is one of the reasons given for moving to a tradable system.

The TASG report suggests a system whereby someone who requires a new connection or increased capacity could purchase this from an existing user either at the same node or nearby. This sort of transaction would not occur often so NGC would not be able to rely on this to give signals as to where new investment is required. What the proposal really appears to do is to give the customer a choice about whether or not to ask for a new connection or to purchase a right from an existing user. It is not clear, however, what purpose this provides for the network and the market. For the proper trade-off to be made, the new entrant would have to be exposed to the full cost implications to the network of it having a new connection. It could then assess whether this cost was higher than acquiring the right from elsewhere and, if so, it would be sensible to do so, both for the customer and the network as a whole. Under a shallow system of charging new entrants are not exposed to the full costs of a new connection. We believe that the "shallowish" system which we presently have for charging is important and indeed the TASG report does not seek to move away from that. However, with a shallowish policy it is hard to see the benefit of introducing trading in the way proposed in the paper.

An alternative approach under the present arrangements, to achieve this same end, would be for NGC to contract with an existing user to reduce its capacity requirements as an alternative to reinforcing the system.

Powergen UK plc
Westwood Way
Westwood Business Park
Coventry
CV4 8LG

T +44 (0) 24 7642 4829

As NGC is incentivised to minimise the cost of building and operating the system, it is in a position to assess the full cost and benefit of doing so and therefore make the trade-off.

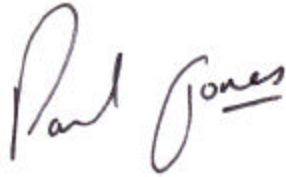
Demand Exit Rights

The main aspect of the proposals for exit rights appears to be the moving of the obligation to pay for transmission usage from suppliers to distributors. Whilst distributors are probably in a better position than suppliers to know the likely increase in demand on their systems, we believe that this information is already provided to NGC for planning purposes. We cannot see any great benefit of requiring distribution businesses to pay TNUoS, and instead see it as adding another layer of administration, as the costs will eventually be passed through to suppliers through DUoS. Indeed, with the general fragmentation of distribution systems through the addition of private networks, it is likely that this would even further increase the complexity of the arrangements.

Given the fluid nature of suppliers' demand portfolios, it is difficult to know how they can acquire rights ex ante without a significant trading system to allow surplus rights to be sold to those with insufficient rights. It has already been indicated through previous consultations on this issue that a complex system to track and settle rights would not be appropriate. Therefore, an ex post method to allocate demand rights is required. Of course, an ex post system is what is presently in place. We do not believe that any of the alternative methods suggested in the paper provide anything more than this.

In summary, we feel that it is probably not appropriate to fundamentally change the transmission access framework at this present time. There may be some changes which can be made to the structure of charging under the present framework, which provide some benefits. We recognise that these should be addressed under the present review of charging arrangements which is being undertaken by NGC and we will continue to provide our input to this process.

Yours sincerely,

A handwritten signature in black ink that reads "Paul Jones". The signature is written in a cursive style with a horizontal line under the name.

Paul Jones
Trading Arrangements

David.Friend@uk.ngrid.com

Transmission Access Standing Group (TASG) Report Consultation

TotalFinaElf Gas and Power (TFE GP) welcome the opportunity to respond to the above titled consultation. Despite the broad access arrangements being outlined for generation we note the proposals are currently in an early stage of development. Hence it is difficult to provide detailed comments; we therefore make the following observations:

- The desire for rationing of capacity with effective secondary trading at a common entry point that is used by a number of competing parties, such as in gas, is well understood. The need, however, to ration this capacity at numerous separate and discrete nodes where access to the capacity is predominantly by a single generation party is not clear. Particularly where the need for the level of that capacity is currently signalled well in advance of construction, depends upon the technical characteristics of the asset and is a function of the lifetime of the generation asset or the prevailing economic conditions. This, even with the proposed capacity exchange rate mechanism, raises significant concerns regarding the likely participation within the proposed secondary market.
- We note the constraint type contracts envisaged by Ofgem are, with the introduction of the Pre-Gate Balancing Mechanism Trade contracts (PGBT), to some extent in place and have facilitated the separation of energy imbalance and system/constraint costs. We also note that from a high in the early '90s constraint costs have reduced dramatically over time and are presently at an all time low.
- We recognise the issue of compensation to generators in times of network failure is currently being progressed via BSC modification proposals.
- It is not yet clear how the arrangements envisaged for generation would operate on the demand side of the market.

In summary, TFE GP consider the TASG report and the wider industry debate has not sufficiently articulated the inefficiencies present within the current access regime or the benefits associated with moving towards the arrangements proposed in Ofgem revised February proposals or TASG report. We consider the present mechanism serves the industry well in terms of providing NGC with appropriate signals for network investments and reinforcement. We therefore remain to be convinced of the benefits and urgency for changing the present arrangements. TFE GP therefore recommend any further development includes analysis that answers these questions; i.e. identifies the scope of the overall benefits that one would reasonably expect to offset the increased costs and complexity of new access arrangements being introduced.

Please call on 020 7318 6880 if you would like to discuss any of the above.

Regards,

Sharif Islam
Energy Regulation Manager

Teesside Power Limited's response to "Consultation by the Transmission Access standing Group"

Teesside Power Limited, TPL, welcomes the opportunity to provide its views on the TASG report on the range of options and issues for future Transmission Access arrangements. TPL has participated in the work of the TASG and, in general, considers that the standing Group has made significant progress in identifying a sensible approach to taking forward the proposals outlined in the 26th February Ofgem report. We generally concur with the Standing Group continuing to develop the different options set out in section 4 of the report.

We would, however, like to take the opportunity to provide some comments on particular aspects of the options discussed in the report, and the implementation of any agreed changes.

A fundamental feature of the new arrangements is the introduction of the concept of "firm" access rights, with the consequence of the introduction of compensation payments for withdrawal of access rights and overrun charges. This is an area which clearly needs substantially more detailed consideration to develop economically efficient arrangements. We also consider that further thoughts should be given to the governance arrangements, which appear somewhat confused with rights being defined under CUSC governance and compensation being defined under the remit of the BSC Panel.

The report recognises that consideration on pricing is still at an early stage. We would simply wish to comment at this stage that, because of existing contractual arrangements, this aspect is of particular importance to market participants which have more complex risk management contracts in place. Whilst we recognise that there are different governance arrangements currently in place, we also consider that this one area which cannot be considered in isolation from the other transmission related charges. Finally on this aspect of the report, we are unclear as to how the concept of "cost recovery" for constraints relates to the incentive mechanisms on NGC.

On the different options considered for dealing with demand, we feel that given the long term relationship between the asset owners, Case 1 is likely to form the basis of the most enduring configuration for transmission access. It is also the option which most closely reflects the arrangements proposed for generation.

Finally, having considered the report, we recommend that consideration should be given to extending the terms of reference of the TASG to require the standing Group to consider the implementation arrangements for any changes it proposes and the timing of those changes and also to undertaking a cost benefit analysis, consistent with good industry practice.

In conclusions, TPL considers that given the mature nature of the England and Wales electricity industry, the evolutionary approach to reform is more appropriate than a more radical approach. TPL fully recognises, however, that the nature of the changes are likely to have a more significant effect on the demand side of the market and hence, the implementation arrangements for any proposed changes need to be carefully considered to mitigate against the adverse impact of abrupt change.