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6 July 2006

National Grid Electricity Transmission Company (NGET),
CUSC Signatories and Other Interested Parties

Our Ref: IND/COD/CUSC/CAP122

Dear Colleague,

Amendment to the Connection and Use of System Code ("CUSC") - Decision and Direction in relation to Proposed Amendment CAP122: "Change to the definition of Intertrip Payment for Power Park Modules".

The Gas and Electricity Markets Authority (the "Authority"¹) has considered the issues raised in the Amendment Report² in respect of Proposed Amendment CAP122: "Change to the definition of Intertrip Payment for Power Park Modules".

The CUSC Amendments Panel ("the Panel") recommended to the Authority that the Proposed Amendment better facilitated the achievement of the CUSC Objectives³ and should be approved. The Panel agreed with National Grid Electricity Transmission ("NGET") that the Proposed Amendment should be implemented ten working days after the Authority's decision.

Having considered the amendment report and the CUSC Amendment Panel's recommendation, as well as having regard to the CUSC Objectives and Ofgem's wider statutory duties⁴, the Authority has decided to direct a modification to the CUSC in line with the amendment proposal for CAP122.

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

² CAP122 Amendment Report dated 1 June 2006.

³ The CUSC Objectives are contained in Standard Condition C10 of the licence to transmit electricity treated as granted to NGET under Section 6 of the Electricity Act 1989 (the "Transmission Licence") and are:

(a) the efficient discharge by the licensee of the obligations imposed upon it under the Act and by this licence;
and
(b) facilitating effective competition in the generation and supply of electricity, and (so far as consistent therewith) facilitating such competition in the sale, distribution and purchase of electricity.

⁴ Ofgem's statutory duties are wider than the matters that the Panel must take into consideration and are explained in sections 3A – 3D of the Electricity Act 1989.

This letter explains the background to CAP122, and sets out the Authority's reasons for its decision. This letter constitutes notice by the Authority under section 49A of the Electricity Act 1989.

Background

CAP076: "Treatment of System to Generator Intertripping Schemes⁵" introduced the System to Generator Operational Intertripping Schemes (" the Schemes") into the CUSC. There are four categories of Scheme, two of which (categories 2 and 4) require NGET to make a payment to the Generator if the Intertrip Scheme is operated. Payment is required on a per Generating Unit basis in the event that the Intertrip Scheme is operated ("the Intertrip Payment"). The Intertrip Payment is intended to cover a number of costs associated with the operation of an intertrip including wear and tear arising from the trip, start up fuel costs to bring the Generator back onto the system and the impact that the trip has on the Generator's Equivalent Operating Hours.

The defined term "Power Park Module" was developed by a Grid Code working group and implemented in the Grid Code in timescales concurrent with CAP076. As such, Power Park Modules were not considered in developing the CAP076 Amendment Proposal. A Power Park Module is a collection of Non-synchronous Generating Units (for example a wind farm).

The Proposer of CAP122 expressed concern that, should a Category 2 or Category 4 Intertrip Scheme installed at a wind farm be operated, it could potentially be read from the existing CUSC text that the Generator should be paid on a per Generating Unit basis, not on a Power Park Module basis. The Proposer considered that a requirement to make an Intertrip Payment on a Generating Unit basis for a Power Park Module defeats the underlying philosophy behind CAP076.

The Proposed Amendment

CAP122 proposes to amend CUSC 4.2A.4 (c) and the associated terms within schedule 3 and 4 of Section 4 and the definitions, to limit the payment to one per Power Park Module per trip, instead of one payment per Generating Unit per trip.

The Proposer considers that CAP122 would ensure Intertrip Payments for when an Intertrip at a Power Park Module is operated are proportionate, would remove the risk of disproportionate costs to system users and is consistent with the underlying philosophy behind CAP076. The Proposer further considers that the Proposed Amendment provides greater clarity within the CUSC and includes reference to Power Park Modules and Non-Synchronous Generating Unit which were introduced to the Grid Code in summer 2005; therefore better facilitating CUSC Applicable Objective (b).

Respondents' views

⁵ The Authority's decision letter in regard to CAP076: "Treatment of System to Generator Intertripping Schemes" is available from <http://www.nationalgrid.com/NR/rdonlyres/1E0FF9A8-9B75-4312-B40C-DBD49DA6F49D/7096/CAP076D.pdf>

NGET issued a consultation paper for this Code amendment on 6 April 2006 inviting responses from CUSC Parties and interested parties by 5 May 2006.

NGET received three responses to the consultation in respect of CAP122, of which two supported and one opposed the Amendment Proposal.

The respondent that opposed the Amendment Proposal considers that CAP122 would be arbitrary and discriminatory against Power Park Modules. The respondent suggested that a more equitable solution would be based upon £ per MW payment based on the registered capacity of the Generating Unit. The respondent suggested that CAP122 will incentivise wind farm operators to increase the number of Power Park Modules at a site in order to increase the number of Intertrip Contracted Units and hence the number of possible Intertrip Payments. The respondent further stated that the proposed link to the Bilateral Agreement within the definition of Intertrip Contracted Unit would allow National Grid to vary the definitions irrespective of the CUSC requirements.

The respondent in favour of the proposal who also provided detailed comments stated that CAP122 would ensure that the risk of disproportionate costs is reduced and refine the relevant CUSC definitions so the original intentions of CAP076 are realised. In addition, the respondent stated that there is a case to re-examine the payment level in light of the recent and future changes to the generation mix to ensure that Intertrip Payments for wind farms are cost reflective.

The respondents' views are summarised and contained in the Amendment Report in respect of CAP122.

CUSC Amendment Panel's recommendation

The CUSC Amendments Panel Recommendation Vote on CAP122 was conducted at the Panel Meeting on 19th May 2006. The Panel voted that CAP122 did better facilitate the Applicable CUSC Objectives and was better than the current baseline.

Eight of the Panel Members believed CAP122 better facilitated Applicable Objective (a), four of the eight Panel Members also believed CAP122 may also better facilitate Applicable Objective (b), while one Panel Member believed CAP122 better facilitated Applicable Objective (b) only.

The Panel agreed that CAP122 should be approved with an implementation date of 10 days after the Authority's decision.

A final Amendment Report was submitted to the Authority on 1 June 2006.

Ofgem's view

Having considered the Amendment Report, Ofgem considers, having regard to its statutory duties and the CUSC Objectives, that the Proposed Amendment would better facilitate the achievement of the CUSC Objectives.

Ofgem notes that CAP076 established a level of administered payment which was considered to be broadly reflective of the costs likely to be incurred as a consequence of

an Intertrip Scheme operating. Ofgem understands that the Intertrip Payment introduced by CAP076 was not intended to include any allowance for generator plant damage or other kinds of consequential losses that a Generator may incur as a result of the operation of an intertrip. Ofgem does not consider that it is appropriate for the level of Intertrip Payment to be influenced by the number of Non-synchronous Generating Units within a Power Park Module which has a Category 2 or Category 4 Intertrip Scheme.

Ofgem acknowledges that Power Park Modules were not considered as part of the assessment work carried out by the CAP076 Working Group. Ofgem notes that each generating unit within a windfarm is not generally considered as a single Balancing Mechanism Unit ("BMU") whereas each synchronous Generating Unit is generally treated as a single BMU. Ofgem further notes that in general, a Power Park Module is considered as a single BMU. Ofgem considers that consistent treatment of different types of BMU will better facilitate the achievement of CUSC Objective (b). Ofgem therefore agrees with the majority of respondents and the Panel that an Intertrip Payment should be paid on the basis of each Power Park Module and not for each Generating Unit within a Power Park Module.

The Authority considers that the Amendment Proposal reduces the risk of disproportionate costs being incurred by market participants as a result of an Intertrip operating. As such, the Authority considers that CAP122 is consistent with NGET's duties as set out in Section 9(2) of the Electricity Act 1989 (as amended by the Utilities Act 2000) to develop and maintain an efficient, co-ordinated and economical system of electricity transmission' and better facilitates the achievement of CUSC Objective (a).

Ofgem notes the range of views expressed by market participants during the development of CAP122. Ofgem notes that one respondent questioned whether the Intertrip Payment is cost reflective given recent changes to the generation mix. Ofgem would expect NGET to regularly review the validity of the Intertrip Payment provisions and where necessary bring forward change proposals, consistent with its obligations under the Act and licence.

The Authority's Direction

The Authority has decided to direct that CAP122, as set out in the Amendment Report, should be made and implemented.

Having regard to the above, the Authority, in accordance with Condition C10 paragraph 7(a) of the licence to transmit electricity granted to NGET under Section 6 of the Electricity Act 1989 (the "Transmission Licence"), hereby directs NGET to modify the CUSC in accordance with the Proposed Amendment as set out in the Amendment Report.

The modification is to be implemented and take effect from 10 business days after the Authority's decision.

In accordance with Condition C10 paragraph 7(c) of NGET's Transmission Licence, NGET shall modify the CUSC in accordance with this direction of the Authority.

If you have any queries in relation to the issues raised in this letter, please contact Mark Copley (Mark.Copley@ofgem.gov.uk) on 0207 901 7410 or Richard Miller (Richard.Miller@ofgem.gov.uk) on 0141 331 6013.

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