

AMENDMENT REPORT

CUSC Proposed Amendment CAP071

Development of a Maximum Generation Service

The purpose of this report is to assist the Authority in their decision of whether to implement Amendment Proposal CAP071

Amendment Ref	CAP071
Issue	1.0
Date of Issue	5 August 2004
Prepared by	National Grid

I DOCUMENT CONTROL

a National Grid Document Control

Version	Date	Author	Change Reference
Draft	26 July 2004	National Grid	Draft for Industry comment
1.0	5 August 2004	National Grid	Formal version for submission to the Authority

b Document Location

National Grid Website: <http://www.nationalgridinfo.co.uk/cusc/index.html>

c Distribution

Name	Organisation
The Gas and Electricity Markets Authority	Ofgem
CUSC Parties	Various
Panel Members	Various
National Grid Industry Information Website	

II CONTENTS TABLE

I	DOCUMENT CONTROL	2
a	National Grid Document Control	2
b	Document Location	2
c	Distribution	2
II	CONTENTS TABLE.....	3
1.0	SUMMARY AND RECOMMENDATION	4
2.0	PURPOSE AND SCOPE OF THE REPORT	5
3.0	THE PROPOSED AMENDMENT.....	6
4.0	WORKING GROUP ALTERNATIVE AMENDMENT PROPOSAL	9
5.0	IMPLEMENTATION AND TIMESCALES	11
6.0	IMPACT ON THE CUSC	11
7.0	ASSESSMENT AGAINST APPLICABLE CUSC OBJECTIVES.....	11
8.0	IMPACT ON CUSC PARTIES	11
9.0	IMPACT ON CORE INDUSTRY DOCUMENTS	11
10.0	VIEWS AND REPRESENTATIONS.....	12
11.0	NGC RECOMMENDATION	19
12.0	COMMENTS ON DRAFT AMENDMENT REPORT	19
	ANNEX 1 - AMENDMENT PROPOSAL FORM.....	21
	ANNEX 2 – COPIES OF REPRESENTATIONS RECEIVED TO THE ORIGINAL CONSULTATION	25
	ANNEX 3 – COPY OF COMMENT RECEIVED ON THE DRAFT AMENDMENT REPORT.....	35
	Ancillary documents:	
(i)	Legal Text to give effect to CAP071 Amendment Proposal	
(ii)	Legal Text to give effect to the Working Group Alternative Amendment Proposal	
(iii)	CAP071 New Definitions	
(iv)	Maximum Generation Service Agreement	
(v)	Proposed Format of Information	

1.0 SUMMARY AND RECOMMENDATION

- 1.1 CUSC Amendment Proposal CAP071: Development of a Maximum Generation proposes to improve the efficiency and effectiveness of the current Maximum Generation arrangements introduced for Winter 2003/4 as follows:
- Maximum Generation Service (MGS) would continue as an Emergency Service only and be defined as the additional output offered over and above the normal commercial operating range of a Balancing Mechanism Unit (BMU) as defined by Registered Capacity (RC);
 - Reasonable endeavours approach to delivery at a point where the BM Unit is operating at a level equal to Maximum Export Level (MEL) and in order to avoid the potential for discrimination and manipulation, payment for delivery, where the MEL of a BM Unit was operating at a level equal to its RC, would be guaranteed in full. If a BM Unit was operating at a MEL less than RC, the BM unit would be guaranteed payment for the lower of the volume delivered or X % of RC. X was not defined as part of the Amendment Proposal. Payment for delivery over and above X % would be subject to an appeals mechanism; and
 - Full transparency of the service would be available, with publication of prices and volumes on an ex ante and ex post basis.
- 1.2 CAP071 was proposed by PowerGen on 18 March 2004 and submitted to the Connection and Use of System Code Amendments Panel (CUSC) for consideration at its meeting on 26 March 2004. The Amendments Panel determined that it should be sent to a Working Group - the Balancing Services Standing Group (BSSG) – for development. As part of its report¹ to the May CUSC Amendments Panel meeting the Working Group submitted an Alternative Amendment for consideration as part of the consultation. The Panel accepted the report and determined that CAP071 and the Working Group Alternative Amendment should proceed to a period of wider industry consultation by National Grid (NGC).
- 1.3 CAP071 consultation document² was circulated on 28 May 2004 to CUSC parties, Panel members and interested parties, with comments requested by 5 July 2004. Six responses were received to the consultation: two against the Proposal and four in favour of the Proposal and more specifically the Working Group Alternative Amendment.
- 1.4 An additional CAP071 consultation document was issued on the 8 July with comments requested by 22 July. This consultation related specifically to the legal text supporting the amendment of CAP071 and the Working Group Alternative Amendment Proposal. One response was received confirming the respondent's views to the original consultation.

NGC Recommendation

- 1.5 We believe that both the original Proposal and the Working Group Alternative Amendment Proposal better facilitate the Applicable CUSC Objectives and that both would provide an enduring MGS that would address the concerns which arose during the consultation for the service subsequently put in place for Winter 2003/04. In particular, NGC supports the view that MGS should remain as an Emergency Service and believes that the Proposal and the Working Group Alternative Amendment Proposal would both mitigate the opportunity to either manipulate monies received, or, to discriminate in favour

¹ Report submitted by the Balancing Services Standing Group acting as the CAP071 Working Group to the May CUSC Amendments Panel.

² www.nationalgridinfo.co.uk/cusc/index/html

of one participant or another. By facilitating an enduring MGS, NGC believes that the market would receive the appropriate signals in emergency circumstances to provide additional generation on a reasonable endeavours basis, thus furthering the efficient use of the System. The provision of a clear framework for MGS would better facilitate competition in the generation of electricity.

- 1.6 However, given the complexity surrounding the payment for the provision of MGS and the need to re-introduce the term "Registered Capacity" into the CUSC to facilitate the payment mechanism proposed in CAP071, NGC recommends the implementation of the Working Group Alternative Amendment. NGC believes that this Alternative, based on Connection Entry Capacity (CEC) and the determination of an appropriate value of "X = 3", would better facilitate the Applicable CUSC Objectives compared to the original as it would fulfil the same principles but in a simpler manner more consistent with the current baseline of the CUSC.
- 1.7 In order to ensure that contracts for the revised MGS are in place in sufficient time to enable delivery for Winter 2004/5, NGC recommends that, if an Authority decision is received on or before 17 September 2004, CAP071 or the Working Group Alternative Amendment Proposal is implemented on 1 October 2004. If an Authority decision is received after 17 September 2004, the NGC recommends that this Proposal is implemented 10 business days after that decision is received.
- 1.8 Implementation of CAP071 or the Working Group Alternative Amendment will require a number of consequential changes to other documents, such as the Grid Code and the Transmission Licence Special Condition AA4 Licence Statements. NGC has consulted on all changes associated with CAP071 in parallel. These will be presented to Ofgem to enable a simultaneous consideration.

2.0 PURPOSE AND SCOPE OF THE REPORT

- 2.1 This Amendment Report has been prepared and issued by NGC under the rules and procedures specified in the CUSC as designated by the Secretary of State. It addresses issues relating to the provision of an enduring MGS for Winter 2004/05 onwards.
- 2.2 Further to the submission of Amendment Proposal CAP071 (Annex 1) and the subsequent wider industry consultation that was undertaken by NGC, this document is addressed and furnished to the Gas and Electricity Markets Authority ("the Authority") in order to assist them in their decision whether to implement Amendment Proposal CAP071 or the Working Group Alternative Amendment.
- 2.3 This document outlines the nature of the CUSC changes that are proposed. It incorporates NGC's recommendations to the Authority concerning the Amendment. Copies of all representations received in response to the consultations have also been included and a 'summary' of the representations received is also provided along with NGC's views. Copies of consultation responses are included as Annex 2.
- 2.4 This Amendment Report has been prepared in accordance with the terms of the CUSC. An electronic copy can be found on the National Grid website, at <http://www.nationalgrid.com/uk/indinfo/cusc>

3.0 THE PROPOSED AMENDMENT

Background

- 3.1 In September 2003, NGC introduced a new balancing service in the form of a MGS for the Winter 2003/04. This service is contracted for on a bilateral basis and is provided via an Emergency Instruction as set out in BC2.9 of the Grid Code. It enables NGC, as the System Operator, to gain access to additional energy over and above the normal operating range of a generating unit at a time of system stress.
- 3.2 At the time of development, Ofgem indicated its preference for a more enduring solution that sought to address the concerns raised as part of the consultation process, such as:
- the transparency associated with the procurement and utilisation of the MGS;
 - the use of the Applicable Balancing Service Volume Data (ABSVD) process; and
 - the need to develop a more enduring solution via the current electricity Industry Codes.
- 3.3 In response to these concerns, discussion took place at the January meeting of the Balancing Services Standing Group (an Industry Standing Group established by the CUSC Amendments Panel) as to the best method of securing a more enduring solution. A Position paper³ detailing the outcome of this consideration was presented to the February CUSC Amendments Panel which identified the following key high-level principles to be followed with respect to any potential solution:
- A formal MGS threshold level is required which would be defined on a BMU basis;
 - A defined data submission route should be established under the GC;
 - MGS indicative volumes should be reflective of the technical characteristics of the plant and varied infrequently;
 - Transparency of MGS utilised prices and volumes is important and should be published on a BMU basis;
 - Provision of MGS should not lead to imbalance exposure;
 - A description as to when MGS would be utilised should be included, along with an obligation to secure its use only in emergency conditions; and
 - Advance notification of a MGS instruction should be provided where possible.
- 3.4 The BSSG additionally identified that a number of other Industry documents as well as the CUSC would probably require consideration in order to reflect an enduring MGS.
- 3.5 Subsequently, CAP071: Development of a Maximum Generation Service was raised by PowerGen and presented to the March CUSC Amendments Panel meeting which formally directed the BSSG to act as a Working Group to consider the Proposal. The BSSG was issued with Terms of Reference and requested to produce a Working Group Report for presentation to the May CUSC Amendments Panel meeting.

³ http://www.nationalgrid.com/uk/indinfo/cusc/mn_working_balancing.html

The Proposal

- 3.6 This Section outlines the original CAP071 Proposal and also how it was developed by the BSSG at the Working Group stage. It should be noted that the BSSG support for the details of the Proposal was unanimous.
- 3.7 The Amendment Proposal CAP071 proposes that the definition of the MGS should be the additional output over and above a BM Unit's normal commercial operating range. For this purpose, the output is deemed to be the equivalent of RC, as defined in the GC which states that:

*“in the case of a **Power Station**, the maximum amount of **Active Power** deliverable by the **Power Station** at the **Grid Entry Point** (or in the case of an **Embedded Power Station** at the **User System Entry Point**) as declared by the **Generator**, expressed in whole **MW**. The maximum **Active Power** deliverable is the maximum amount deliverable simultaneously by the **Generating Units** less the **MW** consumed by **the Generating Units**..... In producing that **Active Power**.”*

- 3.8 In order to facilitate the reasonable endeavours obligation with respect to service provision, and the non-firm nature of actual volumes capable for delivery, the volume contracted would be agreed on a bilateral basis between the User and NGC. In order to ensure that the volumes associated with the MGS are not used as part of everyday operation, the said volume should only be factored into emergency operational planning procedures.

Utilisation

- 3.9 As part of the contract negotiation, a User should declare an indicative availability of MGS to NGC. This indicative volume should then be re-declared, in accordance with the provisions of the CUSC, should the User become aware of a change in the availability of the service. Continuous weekly re-declaration of the service was deemed to be impractical, therefore the last submission received would be taken as deemed availability if no resubmission was received.
- 3.10 MGS is to be provided on a BMU basis on a reasonable endeavours basis with delivery to be as much as practicably possible. The service would be instructed via an Emergency Instruction, in accordance with BC2.9 of the GC, with a maximum usage time following instruction of 2 hours. Any re-submission of a MEL associated with the instructed unit, once MGS has been instructed, will result in a deemed cease in terms of provision of MGS. Further provision of MGS after this point would then require a new instruction.
- 3.11 Compliance with the ABSVD statement to remove any exposure to imbalance would be compulsory.
- 3.12 As MGS is defined as an emergency action, the existing Balancing and Settlement Code (BSC) Section requirements for credit cover (K3.4.4), with respect to emergency actions, ensures that any volume delivered as MGS will not affect BSC credit cover calculations.

Price Submission

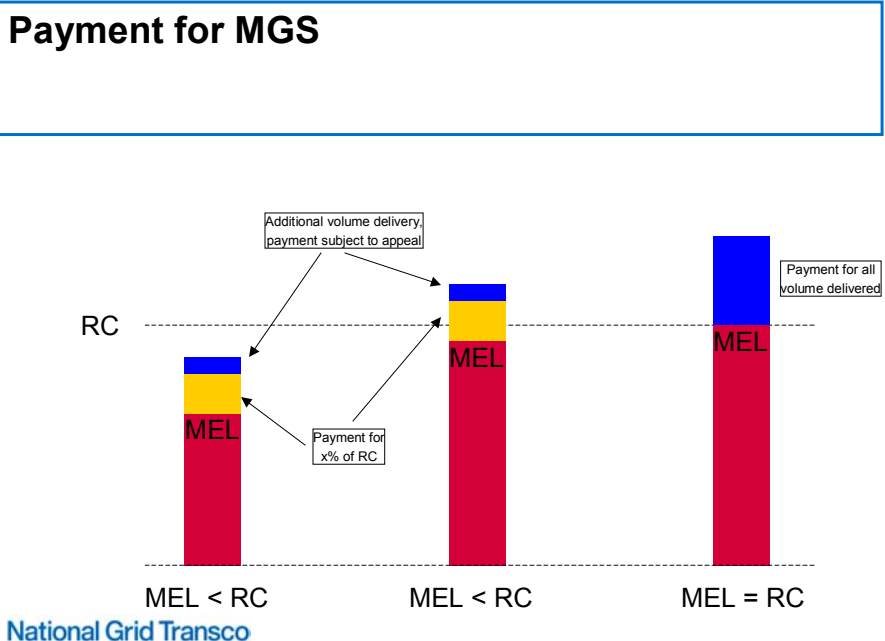
- 3.13 Prices for MGS will be agreed in £/MWh format on a bilateral basis and detailed in a Commercial Services Agreement. Price changes would be

notified no more than once a month and such notification would be provided by 15th of the month for application from 1st of the following calendar month.

Settlement of MGS

- 3.14 Any payment for MGS, where provision is at a MEL below its normal operating range (RC), should be capped by X% of RC in order to avoid payment being received for volumes which would normally be considered to be within a station's normal commercial operating capability. This mechanism would address concerns on discrimination between commercial mechanisms and the emergency MGS procedures that were put in place for Winter 2003/04.
- 3.15 X should equal 3, unless otherwise agreed by the User and NGC within bilateral arrangements. This decision, which was unanimously supported by the BSSG, was based upon an analysis of the average indicative volumes contracted under the current Maximum Generation Service Agreement (MGSA), however, there are some volumes which are greater than this, reflecting different plant technology types, and hence the decision to allow X to be varied by agreement with NGC.
- 3.16 Additionally:
- Maximum Generation payment = metered Maximum Generation volume * Energy Payment Fee
 - Where the BMU in question is operating at a level where MEL is equal to RC, payment of the entire volume delivered above MEL will be guaranteed.
 - Where the BMU in question is operating at a MEL below RC, automatic payment of volume delivered will be capped at 3% of RC as defined in the CUSC, or such other percentage if agreed between NGC and the User.
 - Volume delivered over and above 3% of RC will be remunerated subject to an appeals process.

3.17 This is illustrated diagrammatically as follows:



- 3.18 The payment mechanism would form part of CUSC.

Appeals Process

- 3.19 For any volume delivered over and above 3% of the RC, or any otherwise agreed figure, where the provider believes that payment is appropriate, a dispute must be raised within 10 business days of receipt of the "Final Monthly Statement". The User and NGC would have 10 days to resolve the dispute, failing which it would be referred to Ofgem as a Charging Dispute. Following the outcome of the referral to Ofgem, the agreed volume would be settled as part of the next available settlement run. The outcome of a dispute would be published in accordance with the general publication principles associated with the MGS as detailed below.

Information publication and transparency

- 3.20 An appropriate information publication and submission process would be required to support CAP071 to ensure maximum transparency of the prices, volumes and utilisation of the service. Once submitted, all details associated with the provision of the MGS would be published.
- 3.21 In practice, five days following initial contract signature, and thereafter five days following the 15th day of the month prior to utilisation, all prices; RCs; indicative volumes and the value of X (if different to 3%) would be published on a BM Unit basis. Publication of such data would be on a dedicated page on the National Grid Information Website.
- 3.22 Where possible, as close to real time, transparency of any instruction to begin the provision of MGS would also be provided. It is envisaged that such a notice would occur on the System Warning Screen of the Balancing Mechanism Reporting System (BMRS) and would contain details of the BM Unit instructed, the start and cease times and the indicative volume contracted for that unit. However, in times of system stress, this might not always be possible.
- 3.23 Post event, details of the BM Unit instructed, the start and cease times plus the applicable price and volume delivered would also be published on the NGC Information website. This would be provided not later than the 10th Business Day of the month following instruction.
- 3.24 An example of the information and the format to be published is contained within Ancillary Document (v).

4.0 WORKING GROUP ALTERNATIVE AMENDMENT PROPOSAL

Background

- 4.1 During analysis and consideration of the Amendment Proposal, the Proposer of CAP071 identified an alternative methodology for payment. The Proposer believed that this would better facilitate achievement of the Applicable CUSC Objectives than the original Amendment Proposal. The BSSG developed this alternative, which is described below, and adopted it as a formal Working Group Alternative Amendment to CAP071. Again it should be noted that the BSSG support for the Working Group Alternative Amendment was unanimous,

and furthermore, the preference of the BSSG for the Working Group Alternative Amendment Proposal over the original Proposal.

Description

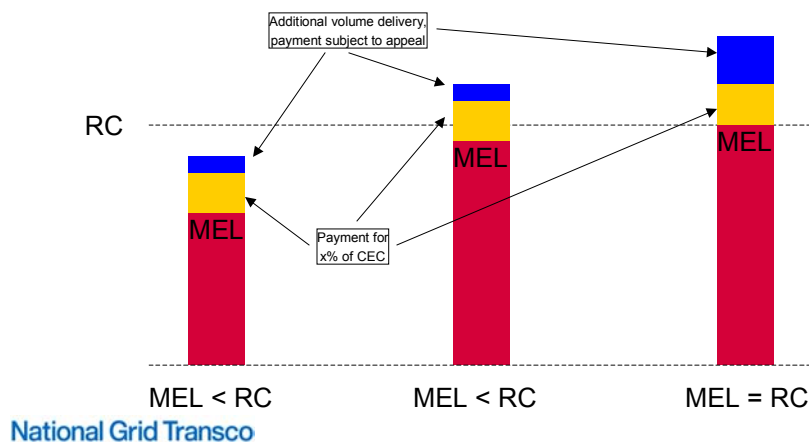
4.2 Following discussion, the BSSG agreed that the Alternative Amendment Proposal would better meet the Applicable CUSC Objectives and the following changes were unanimously adopted in a Working Group Alternative Proposal:

4.2.1. The Connection Entry Capacity (CEC) would be utilised, purely for payment purposes, in order to drive the amount of MGS that is due for payment. The BSSG noted that provided the value attributed to X is approximately correct, the use of CEC would provide appropriate volumes for payment.

4.2.2 Payment should always be against the lower of volume delivered or X% of CEC, where X remains equal to 3 (unless otherwise agreed between the User and NGC) regardless of the position of MEL.

4.3 This is illustrated diagrammatically as follows:

Payment for MGS (WGAA)



4.4 The Working Group Alternative Amendment is identical to the original CAP071 Proposal in all other respects.

4.5 CAP071 new definitions are detailed in Ancillary Document (iii). It should be noted that a new definition will not be required for “Operational Day” should CAP047 be implemented, nor a new definition of “Registered Capacity” if the Working Group Alternative Amendment Proposal is implemented.

Cost Impact of CAP071 and the Working Group Alternative Amendment Proposal

4.6 It is not envisaged that significant IT development costs would be incurred by NGC as a result of the implementation of CAP071 or the Working Group Alternative Amendment Proposal. The only anticipated cost would be that of an additional web page on the NGC Information Website, plus some resource

cost to update the site as and when necessary. No significant development costs have been identified by potential service providers.

Legal Text

- 4.7 The legal text required to give effect to CAP071 and the Working Group Alternative Amendment Proposal are attached as Ancillary Documents (i) & (ii).

5.0 IMPLEMENTATION AND TIMESCALES

- 5.1 In order to ensure that contracts for the revised MGS are in place in sufficient time to enable delivery for Winter 2004/5, NGC recommends that, if an Authority decision is received on or before 17 September 2004, CAP071 or the Working Group Alternative Amendment Proposal is implemented on 1 October 2004. If an Authority decision is received after 17 September 2004, the NGC recommends that this Proposal or the Working Group Alternative Amendment is implemented 10 business days after that decision is received.

6.0 IMPACT ON THE CUSC

- 6.1 CAP071 and the Working Group Alternative Amendment Proposal seek to amend Section 4 of the CUSC.

7.0 ASSESSMENT AGAINST APPLICABLE CUSC OBJECTIVES

- 7.1 The Proposer, the Working Group and NGC believe that both the original Proposal and the Working Group Alternative Amendment Proposal better facilitate the Applicable CUSC Objectives. However, we believe that the Working Group Alternative Amendment Proposal would better facilitate the Applicable CUSC Objectives compared to the original Proposal as it would fulfil the same principles but in a simpler manner. By facilitating MGS, the market would receive the appropriate signals in emergency circumstances to provide additional generation on a reasonable endeavours basis. This would facilitate Paragraph 1 of Conditions C & F of National Grid's Transmission Licence "the efficient discharge by National Grid of the obligations imposed on it by the Act and the Transmission Licence".
- 7.2 The Proposer, the Working Group and NGC also believe that the provision of a clear framework for MGS should ensure an enhanced level of market certainty with regard to transparency, processes, responsibilities and remuneration. This would facilitate "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".

8.0 IMPACT ON CUSC PARTIES

- 8.1 The proposed Amendment would facilitate the ability of CUSC parties to provide a MGS.

9.0 IMPACT ON CORE INDUSTRY DOCUMENTS

Changes required to Core Industry Documents to give effect to the Proposed and Alternate Amendment

- 9.1 A number of consequential changes to other industry documents would be required as a result of implementation of CAP071 or the Working Group

Alternate Amendment Proposal. These are the Grid Code (GC), Procurement Guidelines (PGs), Balancing Principles Statement (BPS) and the Applicable Balancing Services Volume Data (ABSVD).

Summary of Other Consultations

9.2 NGC has consulted on all changes associated with CAP071 in parallel, thus allowing the Industry to consider all issues associated with the development of MGS at the same time and to allow the findings on the impact of all CAP071 consultations to be presented to the Authority for consideration at the same time.

BETTA Impact

9.3 CAP071 is an England and Wales CUSC Amendment that is being progressed against the applicable England and Wales Objectives. However, at some point CAP071 would be consulted on as to whether it would be appropriate to implement on a GB basis, under BETTA. NGC foresees no significant issues in relation to CAP071 & BETTA.

Maximum Generation Service Agreement

9.4 As a result of the inclusion of provisions for MGS in the CUSC, a new MGSA will require implementation. An example of the proposed Agreement is illustrated in Ancillary Document (iv).

10.0 VIEWS AND REPRESENTATIONS

10.1 This Section contains a summary of the views and representations made by consultees during the consultation period in respect of the Proposed Amendment and the Working Group Alternate Amendment.

Views of Panel Members

10.2 No views were received from Panel members in their capacity as Panel Members.

Responses to Consultation

10.4 NGC received six responses following publication of the original CAP071 Consultation Document. Four supported the Proposal, two did not. The following table provides an overview of each representation. Copies of the representations are attached as Annex 2.

Reference	Company	Supportive	Comments
CAP071-CR-01	British Energy	No	<ul style="list-style-type: none"> • Would not better facilitate the Applicable CUSC Objectives. • Unconvinced that the service cannot be provided under the existing bid/offer process. • Would provide unfair support to Maxgen providers.
CAP071-CR-02	Centrica	Yes	<ul style="list-style-type: none"> • In favour of the Working Group Alternative Amendment on the grounds of efficiency. • Would better facilitate the Applicable CUSC Objectives. • Capping mechanism is an

			<p>integral part of the solution to prevent manipulation.</p> <ul style="list-style-type: none"> • Would welcome the ex-ante publication of information.
CAP071-CR-03	EDF Energy	Yes	<ul style="list-style-type: none"> • In favour of the Working Group Alternative Amendment as simpler to implement. • As it is proposed to use MGS under specifically defined emergency circumstances do not believe that it would be discriminatory to allow providers to breach their TEC.
CAP071-CR-04	PowerGen	Yes	<ul style="list-style-type: none"> • In favour of the Working Group Alternative Amendment Proposal. • Would enhance market certainty with regard to transparency, processes, responsibilities and remuneration. • Would facilitate appropriate signals to the market to provide additional generation on a reasonable endeavours basis.
CAP071-CR-05	RWE	No	<ul style="list-style-type: none"> • In support of the principle that the full capability of plant should be delivered to the System at times of stress. • Not clear that the proposed service achieves anything not already available under existing CUSC, GC, or BSC provisions. • Regards the appeal process as a cumbersome solution to the problem of over delivering energy. • Of the two approaches towards remuneration, in support of the Working Group Alternative Amendment.
CAP071-CR-06	Scottish & Southern Energy plc	Yes	<ul style="list-style-type: none"> • Believe that instead of relying just on RC, account should be taken of an Interconnector BM Unit's ICE. • Can see no reason why the maximum usage of time following instruction should be limited to two hours. • Do not agree with the proposed appeals process.

10.5 Respondents were asked to specifically consider and respond to the following five aspects:

1 In your view, does CAP071 better facilitate the Applicable CUSC Objectives

1.1 Four respondents considered that CAP071 Amendment Proposal would better meet the Applicable CUSC Objectives, as stated by the Proposer, whilst two respondents did not agree.

- 1.2 One respondent held the view that “it is not at all clear that the proposed maximum generation service achieves anything that is not already available under the existing provisions in the BSC, CUSC and Grid Code.”
- 1.3 Whilst the second respondent remained “unconvinced that this service cannot be provided by the existing bid/offer process under the BSC.”

NGC response to the points above:

- 1.4 NGC remains of the view that CAP071 better meets the Applicable CUSC Objectives and will represent an improvement over the interim solution. The original MGS Proposal and the improved mechanism proposed by CAP071 and the Working Group Alternative Amendment ensures that a robust, simple and transparent enduring mechanism is in place. We believe that CAP071 provides clarity on actions that will be taken in emergency circumstances, allowing for visibility of additional volumes available in times of an emergency.
- 1.5 Significant industry consultation and debate has taken place on MGS over the past eight months, including consideration for the provision of the service through existing or modified mechanisms within the BSC. A key element to MGS is its non-firm nature, whilst the BM is fundamentally based on the firm delivery of energy and the associated incentives in the form of imbalance prices to ensure firmness at all times. As this would be an extension of the provision of energy, it would not be possible to remove the subsequent imbalance exposure. Acceptance of offers in the BM assumes firm volume delivery with exposure to imbalance prices if the volume is not delivered. NGC remains of the view that a MGS solution via the BM/BSC would not provide the appropriate incentives given the non firm nature of service delivery.

2 In your view, does the Working Group Alternate Amendment Proposal better meet the Applicable CUSC Objectives.

- 2.1 Four respondents expressed the view that CAP071 Working Group Amendment Proposal would better meet the Applicable CUSC Objectives. As two respondents were not in favour of the Proposal a preference was not expressed, however, with regard to the specific area of remuneration one respondent expressed a preference for the Alternative Amendment Proposal’s proposed use of CEC.

NGC response to the above point:

- 2.2 Taking into account the complexity surrounding the payment for the provision of MGS and the requirement of the Original Proposal to reintroduce RC into CUSC, NGC considers that implementation of the Working Group Alternative Amendment Proposal would better facilitate the Applicable CUSC Objectives in a simpler manner than the original Proposal.

3 Do you agree that MGS should be classed as an Emergency Service? If not, please explain.

- 3.1 Three respondents confirmed their view that MGS should be classed as an Emergency Service, whilst two did not specifically comment.
- 3.2 One further respondent stated that “treatment of the Maxgen service as an Emergency Instruction will in fact damage competition as the full

costs that a Maxgen provider imposes on the transmission system will not be charged to that provider and will instead fall on other users.”

NGC response to the above points:

- 3.3 We concur with the view that MGS should remain as an Emergency Service as it is envisaged that it will be utilised on an infrequent basis at times when the System is under severe stress and after all other commercial mechanisms have been utilised. The very fact that the service only seeks to access generation which would not be made available on a commercial nature, further underlines the extraordinary nature of this service.
- 3.4 It is NGC’s view that CAP071 and the Working Group Alternative Amendment Proposal have been developed to remove/minimise the opportunity for a generator to avoid costs it imposes on the transmission. CAP071 and the Working Group Alternative Amendment Proposal place strict limits on the volume of MGS that will be automatically remunerated ensuring that it would be uneconomic for a generator to withhold “commercial” generation against the expectation of a MGS instruction.
- 4 CAP071 mechanism has been specifically designed to address concerns of discrimination and manipulation associated with breaching TEC and any delivered volume not being subject to TNUOS. Do you believe that the proposed mechanism in CAP071 and the Working Group Alternative Amendment address these issues?**
- 4.1 Three respondents stated that, in their view, the proposed mechanism within CAP071 and the Working Group Alternative Amendment Proposal would address these issues.
- 4.2 One respondent maintained the view that “By facilitating a scheme outside the Balancing Mechanism.....unfair support is given to Maxgen providers.....” .

NGC response to the above points:

- 4.3 We share the majority view that the CAP071 proposed mechanism would mitigate the opportunity to either manipulate the monies received or discriminate in favour of one participant over another.
- 4.4 It is NGC’s view that CAP071 and the Working Group Alternative Amendment Proposal have been developed to remove/minimise the opportunity for a generator to avoid costs it imposes on the transmission. CAP071 and the Working Group Alternative Amendment Proposal place strict limits on the volume of MGS that will be automatically remunerated ensuring that it would be uneconomic for a generator to withhold “commercial” generation against the expectation of a MGS instruction. Neither do we believe that the facilitation of MGS outside of the BM provides an unfair advantage. The opportunity to sign a MGS contract is open to all providers who are able to operate at a level above MEL.
- 5 Are there any specific areas in relation to CAP071 upon which you wish to comment:**

5.1 Description of MGS

- 5.1.1. Three respondents confirmed their agreement with the definitive description of MGS.
- 5.1.2. A further respondent, who was broadly supportive of the aims of CAP071, believed that “all producing BM Units should be treated as equals” and proposed that the definition of MGS should be “expanded to permit Interconnector BM Units to provide MGS” and provided additional wording in order to facilitate this.
- 5.1.3. One respondent believed that “the service as specified as the proposed amendment could encourage parties to withhold capacity in order to avoid TNUoS charges and may create gaming opportunities.”

NGC response to the above points:

- 5.1.4 MGS is targeted towards gaining access to additional generation that is not commercially viable for the generator to offer into the usual market mechanisms. It does not address the issue of how to handle spare capacity on interconnectors. We note the issue concerning Interconnector headroom capacity was raised recently in a Security of Supply consultation paper issued by Ofgem and do not consider these comments relate to a MGS.
- 5.1.5 It is NGC’s view that CAP071 and the Working Group Alternative Amendment Proposal have been developed to remove/minimise the opportunity for a generator to avoid costs it imposes on the transmission. CAP071 and the Working Group Alternative Amendment Proposal place strict limits on the volume of MGS that will be automatically remunerated ensuring that it would be uneconomic for a generator to withhold “commercial” generation against the expectation of a MGS instruction. We do not believe that MGS allows for the avoidance of TNUoS charges and therefore potential gaming. MGS will only be instructed on an emergency basis and will therefore not provide an opportunity to avoid TNUoS on either a regular or predictable basis.

5.2 Utilisation

- 5.2.1 Three respondents concurred with the views of the Working Group in that MGS should only be utilised as an emergency instruction after the System Operator had accepted all valid and feasible Bid-Offer Acceptances.
- 5.2.2 A second respondent queried the proposed maximum usage limitation period of two hours.
- 5.2.3 A further respondent reiterated its opposition to the introduction of a commercial MGS service, as originally stated in its response to the MGS implemented for Winter 2003/04. However, it also added that if CAP071 were implemented as an enduring service “we believe that it should only be called in emergencies and that the circumstances should be clearly prescribed” and advised that a suggested hierarchy had been included in its response to the Grid Code consultation on consequential changes arising from CAP071.

NGC response to the above points:

- 5.2.4 A period of two hours was selected as the maximum period of time a single Emergency Service Instruction could be maintained, following discussion on the part of all members of the BSSG. Provision across

timescales over the 2 hour period was considered that it could be onerous on plant to deliver above this duration. If a MGS provider was able to deliver for a longer period of time a further appropriate MGS instruction may be issued if required by the System Operator.

- 5.2.5 With regard to the issues concerning inclusion of a hierarchy within the GC these comments have been dealt within the associated Grid Code Consultation Report.

5.3 Price Submission

- 5.3.1 No specific comments were received.

5.4 Settlement of MGS

- 5.4.1 Four respondents commented specifically on this area:
- 5.4.2 One respondent stated, "as MGS is proposed as an emergency service we do not believe that it is discriminatory to allow providers to breach their TEC"
- 5.4.3 A second respondent expressed its view that "the solution chosen by the working group to cap the volume of MGS at 3 percent is a pragmatic approach, which where appropriate is supplemented by an appeals mechanism." This approach had allayed the respondent's previous concerns on the ability of Parties to manipulate the service.
- 5.4.4 The Proposer confirmed its belief that the provisions contained within CAP071 provide "suitable protection against manipulation or discrimination.
- 5.4.5 A further respondent, in line with its previous comment on the description of MGS, suggested that for the Interconnector only "instead of just relying on RC, that account is also taken account of Interconnector BM Unit's ICE."

NGC response to the above point:

- 5.4.6 Please refer to our responses in 5.1.4 and 5.1.5.

5.5 Appeals Process

- 5.5.1 Four respondents commented specifically on this area.
- 5.5.2 Two of these respondents believed that the supplementation of an appeals process would serve to mitigate against the potential for abuse of MGS.
- 5.5.3 One respondent did not agree with the proposed appeals process, citing that if a figure greater than 3% is agreed bilaterally between the User and NGT "then all payments due under such an agreement should be forthcoming". It believed that "It is total discriminatory to arbitrarily subject such payments to an appeals process."
- 5.5.4 A further respondent did not support the use of appeals as part of an enduring MGS process, stating that it was a "cumbersome solution to the problem of over delivering energy. We believe that the removal of this process will encourage parties to establish a robust percentage of RC/CEC in the MGS contracts and ensure that the SO has greater certainty over the energy that can be delivered. Increased flexibility could be provided by enabling parties to vary the percentage of RC/CEC factor on an operational basis either shortly before or at a time that the contract is called."

NGC response to the above points:

- 5.5.5 If an X figure other than 3% is agreed then payment will be guaranteed for up to X% of RC for CAP071 or X% of CEC for the Working Group Alternative Amendment Proposal.
- 5.5.6 We note the respondent's view that the removal of the dispute process would encourage more robust 'X' percentages. However, given that MGS will only be delivered in emergency circumstances NGC believes that it is vital to ensure there is a mechanism to facilitate payment for additional "emergency" energy if appropriate and the existing charging dispute mechanism with a decision by the Authority is the best way to achieve this.
- 5.5.7 It is our view that the use of an established CUSC dispute process for a service that is likely only to be used upon rare occasions is appropriate.

5.6 Information publication and transparency

- 5.6.1 Two respondents commented specifically on this issue.
- 5.6.2 One welcomed the introduction of improved transparency by the ex ante publication of submitted prices and volumes.
- 5.6.3 The second respondent commented that "Improved transparency.....serve to mitigate against the potential for abuse of this service."

NGC response:

- 5.6.4 We are of the opinion that the proposed information and submission process will ensure maximum transparency of the prices, volumes and utilisation of the service and help to avoid potential instances of manipulation and discrimination.

6 Proposed timescale for implementation

- 6.1 No comments were received on this specific aspect.

NGC response:

- 6.2 In order to ensure that contracts for the revised MGS are in place in sufficient time to enable delivery for Winter 2004/5, NGC recommends that, subject to the receipt of an Authority decision on or prior to 17 September 2004, CAP071 or the Working Group Alternative Amendment Proposal is implemented on 1 October 2004. If an Authority decision is received after 17 September 2004, the NGC recommends that this Proposal be implemented 10 business days after that decision is received.

General

- 10.6 One respondent additionally commented that a "maximum generation service, if it continues, should be set in the context of a wider review of the options available to the SO at times of system stress."

NGC response to the above point:

- 10.7 We note this view. However, we believe these comments fall outside the scope of the issues raised within CAP071.

10.8 One respondent acknowledged that CAP071 related to the provision of MGS and queried whether there was a similar service that could be extended to capture the demand side response.

NGC response to the above point :

10.9 There is provision within the GC for the provision of demand control within OC6 to facilitate demand side measures.

10.10 NGC received one response following publication of the Additional Consultation Document when respondents were asked to specifically consider the legal text for CAP071 and the Working Group Alternative Amendment Proposal. This respondent confirmed its views to the original consultation.

11.0 NGC RECOMMENDATION

11.0 NGC remains supportive of developing an enduring MGS service that would seek to address the concerns raised during the consultation for the provision put in place for Winter 2003/04 and recommends the implementation of the Working Group Alternative Amendment Proposal in sufficient time to enable use of the Service for Winter 2004/05.

12.0 COMMENTS ON DRAFT AMENDMENT REPORT

12.1 One respondent submitted comments on the Draft Final Amendment Report. This is attached at Annex 3. A paragraph of the response has been blocked out (with the agreement of the respondent) as it contained commercially sensitive information.

Reference	Company	Summary of Comments
CAP071-AR-01	Scottish & Southern Energy plc	<ul style="list-style-type: none"> • NGT’s response in paragraph 5.1.4 concerning the BMU Interconnector ICE is considered as “ill advised”. Previous industry correspondences are referenced which it believes provide evidence that the provision of MGS by generators will be dependent upon a plant’s technical, rather than commercial, capability and as such is a service that an Interconnector BMU could provide. • Omission of NGT response in regard to “Settlement of MGS”. • The different format and structure of Consultation and Amendment Report makes it difficult for interested parties to “compare original consultation document with the draft final document.”

NGC response to the above points:

- 12.2 NGT considers that the respondent's comments relate to the existing arrangements for MGS, and are not therefore directly relevant to CAP071 which seeks to improve on the current mechanisms. During its deliberations, the BSSG acting as the CAP071 Working Group, concluded that the use of Maximum Generation as an Emergency Service would only be suitable for consideration of volumes that are not in the normal operating range of a generator.
- 12.3 A correction has been made to the paragraph reference in Section 10.5.4.6 to refer back to the appropriate response.
- 12.4 The CUSC Amendment process provides for four "fit for purpose" documents: an Amendment Proposal; a Working Group Report; a Consultation document and a Final Amendment Report and these documents are separately described in the CUSC. It is NGC's view that the current format and content of these documents is appropriate to allow market participants to comment on any CUSC Amendment Proposal and for Ofgem to make the final determination.

Annex 1 – CAP071 Amendment Proposal Form

CUSC Amendment Proposal Form	CAP071
<p><i>Title of Amendment Proposal:</i></p> <p><i>Development of a Maximum Generation Service</i></p>	
<p><i>Description of the Proposed Amendment</i></p> <p><i>This proposal seeks to improve the efficiency and effectiveness of the current Maximum Generation arrangements by developing the service along the lines contemplated by the BSSG.</i></p> <p><u>i) Greater Clarity of Process</u></p> <ul style="list-style-type: none"><i>* Clear guidelines as to how and when the service may be called (to be included in the Grid Code and AA4 Documentation). This should cover the interaction with BM Bids and Offers, System Warnings and Demand Control.</i><i>* Maximum Generation Service to be called via an Emergency Instruction (as described in BC2.9)</i><i>* Notification to warn of imminent instruction (where possible).</i> <p><u>ii) Technical Parameters</u></p> <ul style="list-style-type: none"><i>* All Generation above MEL to be treated as Maximum Generation.</i><i>* An appropriate technical parameter should be adopted to provide an upper limit for normal generation (perhaps Registered Capacity (RC) as this can be altered within year). This can then be used in conjunction with MEL to calculate the volume of energy to be considered for remuneration (See iii). For the purpose of clarity, the technical parameter shall be referred to as [RC] for the remainder of the document, but shall be interchangeable with an alternative suitable technical parameter should such a change be considered appropriate.</i> <p><u>iii) Remuneration</u></p> <ul style="list-style-type: none"><i>* Where MEL is equal to [RC], remuneration shall be guaranteed for 100% of the energy provided under a Maximum Generation instruction.</i><i>* Where MEL is below [RC], Maximum Generation shall be guaranteed remuneration for the first [x]% of [RC] over MEL. 'X' shall be a standard percentage for all providers and should be listed within the CUSC. 'X' may vary according to technology type.</i><i>* If more than [x]% of [RC] can be produced in a circumstance where MEL is below [RC] then the additional energy will be remunerated subject to an appeals mechanism.</i><i>* Costs should feed in to imbalance prices as this will help provide the correct market signal.</i><i>* Prices within contract with [y] days notice period to vary. This would be similar to the current arrangements (where y is set to 5 to allow for notification and adjustment of the Ancillary Services settlement systems).</i> <p><u>iv) Improved Transparency</u></p> <ul style="list-style-type: none"><i>* The transfer of generic information currently contained within bilateral contracts in to the CUSC.</i><i>* Published figures showing the volume and prices of maximum generation offered (Monthly basis in arrears).</i><i>* Published figures showing the capacity, price and utilisation of the Maximum Generation Service post event.</i><i>* The ability to vary the notice period of [y] days shall be specified within the CUSC.</i>	

Description of Issue or Defect that Proposed Amendment seeks to Address

NGC recently implemented a Maximum Generation service for winter 2003/04. This decision was based on the rationale that this Emergency Service could facilitate additional security of supply by accessing generator output, which would otherwise be unavailable prior to Demand Control. Unfortunately due to the limited time available to implement the new Emergency Service prior to Winter 2003/04 it was not possible to address some important governance issues which in the longer term would be able to ensure greater levels of transparency and utilisation of the Service. National Grid identified this issue....

“In the longer term a more developed service could be considered. This is likely to involve substantial changes to the BSC and/or CUSC (for example to allow for non-firm BM offers) and is therefore not considered feasible for this winter”.

(Grid Code Consultation Document 22nd September 2003)

This amendment seeks to enhance the arrangements for last winter and thereby better achieve the applicable CUSC objectives. The aim and scope of this amendment proposal are in line with the recent considerations of the BSSG.

Impact on the CUSC:

Changes will be required to Section 4.
Additional Section 4.2.4 describing the Maximum Generation contractual arrangements.

Impact on Core Industry Documentation:

AA4 Documentation:

- ABSVD (review of current provisions)
- Changes required to PGs

Additions to the Grid Code including;

- Consequential changes to BC2.9 to reflect the contractual arrangements in the CUSC.
- OC7.4.8 NGC System Warnings

Impact on Computer Systems and Processes used by CUSC Parties

-

Details of any Related Modifications to Other Industry Codes

Justification for Proposed Amendment with Reference to Applicable CUSC Objectives**

As Proposer of this modification we believe that the facilitation of a Maximum Generation Service through the CUSC would better achieve the applicable CUSC objectives.

(a) the efficient discharge by the licensee of the obligations imposed upon it under the Act and by this licence.

By facilitating a Maximum Generation Service the market will receive the appropriate signals to provide additional generation on a reasonable endeavours basis. This should serve to increase the security of supply in an efficient manner.

(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.

Providing a clear framework for a Maximum Generation Service should ensure an enhanced level of market certainty with regard to processes, responsibilities and remuneration.

Additionally, this amendment seeks to improve transparency by allowing market participants to see published information about the volume of service offered (on a monthly basis) and the capacity, price and utilisation of Maximum Generation post event. Transferring the generic information contained within the current bilateral agreements in to an industry document will also increase transparency and therefore facilitate effective competition.

Details of Proposer: Organisation's Name:	Powergen UK plc
Capacity in which the Amendment is being proposed: (i.e. CUSC Party, BSC Party or "energywatch")	CUSC Party
Details of Proposer's Representative: Name:	<i>Neil Smith</i>
Organisation:	<i>Powergen UK plc</i>
Telephone Number:	<i>02476 424369</i>
Email Address:	<i>neil.c.smith@pgen.com</i>
Details of Representative's Alternate: Name:	Claire Maxim
Organisation:	Powergen UK plc

Telephone Number:	02476 425378
Email Address:	Claire.maxim@pgen.com
Attachments): NO If Yes, Title and No. of pages of each Attachment: N/A	

Annex 2 – Copies of Representations Received to CAP071 Original Consultation

This Annex includes copies of representations received following circulation of the Consultation Document on 28 May 2004, requesting comments by close of business on 5 July 2004.

Representations were received from the following parties:

No.	Company	File Number
1	British Energy	CAP071CR-01
2	Centrica	CAP071CR-02
3	EDF Energy	CAP071CR-03
4	PowerGen	CAP071CR-04
5	RWE	CAP071CR-05
6	Scottish & Southern Energy plc	CAP071CR-06

Reference	CAP071-CR-01
Company	British Energy

British Energy Power and Energy Trading Ltd Barnett Way Barnwood Gloucester GL4 3RS Tel: 01452 652222 Fax 01452 65277 6

British Energy Power and Energy Trading Ltd is a member of the British Energy Group, Registered Office 3 Redwood Crescent, Peel Park, East Kilbride G74 5PR
Registered in Scotland SC200887 VAT No. 671 0076 58

Diane Ritchie
Industry Codes, Commercial Frameworks
National Grid Transco
NGT House
Warwick Technology Park
Gallows Hill
Warwick CV34 6DA

5th July 2004

Dear Diane,
CUSC CAP071 'Development of a Maximum Generation Service'

Thank you for the opportunity to comment on this Amendment Proposal British Energy has the following comments.

We do not support this Amendment Proposal or the Working Group Alternative Amendment Proposal. This response does not prejudice these views but does address the detail were either of the amendments to be put into place.


We are unconvinced that this service cannot be provided by the existing bid/offer process under the BSC. The proposed service appears to be less efficient and less transparent than simple offering of additional energy into the balancing mechanism. By facilitating a scheme outside the Balancing Mechanism whereby additional energy is non-firm and additional capacity is not liable for Transmission Charges, unfair support is given to Maxgen providers, and energy prices will not rise to reflect the transport costs associated with meeting demand at times of high system loading. The Maxgen trades must be fully reflected in BSAD data used for imbalance price calculations, otherwise the cost of energy and risk associated with the Maxgen service will not be reflected in energy prices.


We do not consider that a Maxgen service as described by the Amendment Proposal or the Working Group Alternative better facilitates the CUSC Applicable Objectives. The treatment of the Maxgen service as an Emergency Instruction will in fact damage competition, as the full costs that a Maxgen provider imposes on the transmission system will not be charged to that provider and will instead fall on other users.

Regards

Head of Transmission & Trading Arrangements

British Energy Power and Energy Trading

 01452 654182

 07774 767722

 john.capener@british-energy.com

Reference	CAP071-CR-02
Company	Centrica



taking care of the essentials

Diane Ritchie
Industry Codes
Commercial Frameworks
National Grid Transco
NGT House
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA

Centrica Energy
Millstream East,
Maidenhead Road,
Windsor,
Berkshire SL4 5GD

Tel. (01753) 431052
Fax (01753) 431150
www.centrica.com

Our Ref.
Your Ref.
05 August 2004

Dear Diane,

CUSC Amendment Proposal CAP071

Centrica welcomes the opportunity to comment on the above consultation document and supports the implementation of the alternative proposal. Centrica believes the alternative better facilitates the Applicable CUSC Objectives by better facilitating effective competition in the sale and generation of electricity.

CAP071 formalises the process for the MGS that was introduced last year. Incorporating the MGS in CUSC provides market participants with a greater level of certainty as to how and when the service will be utilised by the System Operator. Centrica are supportive of the original and the alternative proposals however we favour the alternative on the basis of efficiency. Centrica believe it is more efficient to use an existing defined term than to re-introduce a defined term that was recently withdrawn from the CUSC.

Centrica concur with the views of the working group that the MGS should only be utilised as an emergency instruction. The System Operator should accept all feasible Bid Offer Acceptances offered in the Balancing Mechanism before instructing Maximum Generation. Centrica also agree with the proposed hierarchy of actions that requires the System Operator to utilise the MGS prior to initiating Demand Control procedures.

Centrica's main concern about the MGS was the ability of Parties to manipulate the service. Centrica believe the capping mechanism is an integral part of the solution that will help to prevent manipulation. The solution chosen

by the working group to cap the volume of the MGS at 3 percent is a pragmatic approach, which where appropriate is supplemented by an appeals mechanism.

Centrica believe transparency to be an integral element of all actions taken by the System Operator. Centrica therefore welcomes the ex-ante publication of information in terms of the price and volumes submitted by the counterparties. Similarly, Centrica agree that it is important that information is published ex-post on the instruction start and finish times and the volume of Maximum Generation delivered and at what price. Centrica would have preferred that the price submission process be conducted via an open tender process as opposed to bi-lateral negotiations, especially considering the details will be published after they have been submitted.

Centrica acknowledge that CAP071 relates to the provision of a MGS, is there a similar provision that could be extended to capture the demand side response?

If you have any questions regarding this response please ring me 01753 431137.

Yours sincerely,

Mark Manley
Contract Manager

Reference	CAP071-CR-03
Company	EDF Energy

Diane Ritchie
National Grid Transco
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA

Date 2 July 2004

Dear Diane

**CUSC Amendment Proposal CAP071:
Development of a Maximum Generation Service**

EDF Energy are pleased to have the opportunity to respond to this consultation on CUSC Amendment Proposal CAP071: Development of a Maximum Generation Service.

We believe that both the original CAP071 amendment proposal and the Working Group Alternative amendment proposal better facilitate the Applicable CUSC Objectives as they make provision for the use of additional generating capacity by NGC in emergency circumstances thereby facilitating the efficient discharge by the licensee of the obligations imposed upon it under the Act and by this licence. They also facilitate competition in the provision of maximum generation services.

We agree with National Grid's view that the Working Group Alternative would better meet the CUSC objectives than the original proposal as it would be simpler to implement, making use of the CEC term that is already defined in the CUSC rather than the GC term that would need to be re-introduced.

We agree that MGS should be classed as an emergency service and utilised as such. As the proposed MGS allows generating capacity to be provided on a non-firm basis and in excess of TEC it would be inappropriate for MGS to be classed as a normal commercial service as this could be considered discriminatory against providers of other balancing services who would be required to provide firm generation and to comply with their TEC. However, as MGS is proposed as an emergency service we do not believe that it is discriminatory to allow providers to breach their TEC provided that the service is only utilised in the specifically defined emergency circumstances.

We hope that you will find these comments useful. If you have any queries please contact me on 0207 752 2526.

Yours sincerely

Rupert Judson
Transmission Infrastructure
& Development Manager

Reference	CAP071-CR-04
Company	PowerGen

Powergen UK plc Registered Office: Westwood Way, Westwood Business Park, Coventry, CV4 8LG
Powergen UK plc
Westwood Way
Westwood Business Park
Coventry
CV4 8LG
T +44 (0) 24 76424369
Neil.c.smith@pgen.com

Diane Ritchie
Industry Codes, Commercial Frameworks
National Grid Transco
NGT House
Warwick Technology Park
Gallows Hill
Warwick CV34 6DA
28th June 2004

Dear Diane,
RE: CUSC Amendment Proposal CAP071

Thank you for the opportunity to comment upon the development of a Maximum Generation Service. As proposer of CAP071 Powergen are appreciative of the work carried out by the Balancing Services Standing Group (BSSG) and are fully supportive of the changes suggested within the alternative amendment.

CAP071 seeks to improve the current arrangements (developed prior to last winter) by enhancing market certainty with regard to transparency, processes, responsibilities and remuneration. We therefore believe that CAP071 facilitates effective competition in the generation and supply of electricity, and (so far as consistent therewith) facilitates such competition in the sale, distribution and purchase of electricity. Furthermore we consider that a Maximum Generation Service will allow the market to receive the appropriate signals to provide additional generation on a reasonable endeavours basis. This should serve to maintain security of supply in an efficient manner.

We concur with the BSSG that both CAP071 and the CAP071 Working Group Alternative better facilitate achievement of the applicable CUSC objectives. However, the Alternative Amendment creates a simplified remuneration mechanism and avoids the necessity to reintroduce the term 'Registered Capacity' back in to the CUSC. As such we consider CAP071 Alternative to be superior to the original.

CAP071 is designed to access additional generator output which is outside of a B.M.U's normal commercial operating range. With this in mind we believe that the Maximum Generation Service should only be called as an emergency instruction after all valid and feasible Bid-Offer acceptances have been issued to BM Participants. Classification as an emergency action also ensures under current credit cover requirements, as specified in the BSC, that MGS volumes will not affect BSC credit cover calculations.

We believe that the provisions contained within CAP071 provide reassurance to the Authority, NGT and Users alike that there is suitable protection against manipulation or discrimination. Improved transparency, a capped remuneration mechanism and an appeals process all serve to militate against the potential for abuse of this service.

Please don't hesitate to contact me if you wish to discuss any of these matters further.

Yours sincerely
Neil Smith
Regulatory Analyst
Trading Arrangements
Energy Wholesale
Powergen UK plc

Reference	CAP071-CR-05
Company	RWE



RWE Trading

Diane Ritchie
Industry Codes
Commercial Frameworks
National Grid Transco
NGT House
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA

Name Bill Reed
Phone 01793 893835
E-Mail bill.reed@rwe.com

Diane.ritchie@ngtuk.com

5th July 2004

RE: Consultation Document: CUSC Amendment Proposal CAP71 – Development of a Maximum Generation Service

Dear Diane,

Thank you for providing us with the opportunity to submit views on behalf of RWE⁴ on CUSC Amendment Proposal CAP71 – Development of a Maximum Generation Service.

We support the principle that the full capability of plant should be delivered to the system at times of system stress. However, it is not at all clear that the proposed maximum generation service achieves anything that is not already available under the existing provisions in the BSC, CUSC and Grid Code. We believe that the service as specified in the proposed amendment could encourage parties to withhold capacity in order to avoid TNUoS charges and may create gaming opportunities. Furthermore, there is an urgent need to define a set of improved market rules governing the exercise of emergency powers. The maximum generation service, if it continues, should be set in the context of a wider review of the options available to the SO at times of system stress and the decision making process that underpins the actions taken.

In our response to the original maximum generation proposal (October 2003), we opposed the introduction of a commercial Maximum Generation Service to be instructed in emergency circumstances. We stated that the proposal would make the market less transparent (with procurement outside the prescribed BM mechanism),

⁴ RWE companies include RWE Trading GmbH, RWE Innogy, Innogy Cogen Ltd., Innogy Cogen Trading Ltd., npower Ltd., npower Northern Supply Ltd., npower Yorkshire Supply Ltd, npower Northern Ltd, npower Yorkshire Ltd, Npower Direct Ltd.

RWE Trading GmbH
Swindon Branch

Windmill Hill Business
Park
Whitehill Way
Swindon SN5 6PB
United Kingdom

T +44 (0)1793/87
77 77
F +44 (0)1793/89
25 25
I www.rwe.com

Registered No. BR 7373

VAT Registration No.
GB 524 921354

Advisory Board:
Dr. Gert Maichel

Management:
Dr Brian Count (CEO)
Stefan Judisch
Christoph Köther
Dr. Brian Senior

Head Office:

had the potential to introduce serious market distortions (in relation to breach of TEC) and would impact on market signals (by withholding capacity from the forwards market and diluting prices in the BM) to the detriment of short-to-medium term security of supply. We have seen nothing in CAP71 to change our views on the maximum generation and for these reasons we do not believe that the proposal to introduce an enduring service better facilitates the relevant CUSC objectives.

We continue to believe that NGC can already access additional capacity and non-firm energy through existing emergency provisions in the Grid Code and BSC. However, if CAP71 is implemented as an enduring service, we believe that it should only be called in emergencies and that the circumstances in which the service is used must be clearly prescribed. In particular, the maximum generation service should only be called after all feasible offers and bids have been accepted in the balancing mechanism and before any voltage reduction or demand disconnection is instructed. We have submitted our views on the way in which maximum generation is called in our responses to the proposed Grid Code, Balancing Principles Statement and Procurement Guidelines changes.

With regard to specific views on the Consultation Document we have the following comments:

Appeals Process

We do not support the use of appeals under the CUSC Charging Disputes provision as part of an enduring process in relation to the provision of the maximum generation service. The approach as set out is a cumbersome solution to the problem of over delivering energy. We believe that the removal of this process will encourage parties to establish a robust percentage of RC/CEC in the maximum generation contracts and ensure that the SO has greater certainty over the energy that can be delivered. Increased flexibility could be provided by enabling parties to vary the percentage of RC/CEC factor on an operational basis either shortly before or at the time that the contract is called.

Original versus Alternative

Of the two approaches towards remuneration, we support the alternative amendment. CEC is a contractual term clearly identified in the bilateral agreement whereas RC is a value submitted by the generator to NGC for long term planning purposes.

I trust that these comments are useful and if you require further clarification please do not hesitate to contact me.

Yours sincerely

Bill Reed
Market Development Manager, RWE Trading GmbH

Reference	CAP071-CR-06
Company	Scottish & Southern Energy plc

Dear Sirs,

This response is sent on behalf of Scottish and Southern Energy, Southern Electric, Keadby Generation Ltd., Medway Power Ltd., and SSE Energy Supply Ltd.

In relation to the consultation contained within your note of 28th May 2004, and the associated CUSC Amendment Proposal CAP071, we have the following comments, which include our general observations as well as particular comments on specific sections of the document.

GENERAL

In general we are broadly supportive of the changes required to introduce a Maximum Generation Service (MGS), as outlined in CAP71.

In regard to the consultation reference to “Registered Capacity” we do not believe this is appropriate for Interconnector BM Units. Therefore, we believe that certain changes are required to ensure that the particular requirements of Interconnector BM Unit’s Interconnector Capacity Entitlement (ICE) need to be taken into account.

SPECIFIC

4.2

We believe that there maybe confusion regarding the definition MGS. Accordingly, the proposed definition in this paragraph should, for the avoidance of doubt, be expanded to permit Interconnector BM Units to provide MGS by adding in wording along the lines of “or the additional output over and above an Interconnector BM Unit’s Interconnector Capacity Entitlement (ICE)”. This should ensure that the proposed CAP71 is none discriminatory, by treating all producing BM Units as equals. Clearly if it were discriminatory it would not better meet the applicable CUSC objective(s).

4.6

We see no reason (if the emergency situation prevails) why the “maximum usage time following instruction” should be time limited to two hours. If the MGS provider is capable of continuing to provide capacity then NGT should be able to take it, if required.

4.9

As noted in our comments under “4.2” above, consideration needs to be taken of the Interconnector. We believe (for the Interconnector only) that instead of relying just on RC, that account is also taken of Interconnector BM Unit’s ICE. For the avoidance of doubt, an Interconnector BM Unit’s ICE would normally be considered to be within that BM Unit’s normal commercial operating *capability*.

4.11/4.14

We do not agree that a “volume delivered over and above 3% of RC [should] be remunerated subject to an appeals process.” If a figure greater than 3% is agreed (as is permitted under this proposal) bilaterally between the User and NGT then all payments due under such an agreement should be forthcoming. It is total discriminatory to arbitrarily subject such payments to an ‘appeal’ process. This introduces uncertainty into the process and, perversely, incentives Users not to provide additional output (over and above 3%) as they may be penalised (by not being paid for it). Furthermore, we see no reason why such a User should also incur the additional cost associated with an appeal (as well as the uncertainty of payment) compared to all other providers of MGS. Such an approach (of subjecting payments for over 3% outputs to an appeal process) cannot be said to better meet the applicable CUSC objective(s). Furthermore, for the avoidance of doubt, we believe it should be made clear the User will be paid for all output above RC.

In respect of the concerns regarding manipulation, it should be noted that if NGT believes a party is acting in an inappropriate manner then it could chose not to call upon that party to provide MGS (perhaps because NGT believes the inappropriate behaviour makes it less certain that the party can meet NGT’s requirements).

5.2.2

We do not believe that limiting payment to the lower of volume delivered or X% of CEC better meets the applicable CUSC objective(s) as it fails to take into account Interconnector BM Unit’s ICE. Payment should be based on output delivered, and not constrained in anyway.

Regards
Garth Graham
Scottish & Southern Energy plc

.....
The information in this E-Mail is confidential and may be legally privileged. It may not represent the views of Scottish and Southern Energy Group.

It is intended solely for the addressees. Access to this E-Mail by anyone else is unauthorised. If you are not the intended recipient, any disclosure, copying, distribution or any action taken or omitted to be taken in reliance on it, is prohibited and may be unlawful. Any unauthorised recipient should advise the sender immediately of the error in transmission.

Scottish Hydro-Electric, Southern Electric, SWALEC and S+S are trading names of the Scottish and Southern Energy Group.

Annex 3 – Copies of Comments received on the Draft Amendment Report

This Annex includes a copy of a representation received following circulation of the Draft Amendment Report on 26 July 2004, requesting comments by noon on Monday 2 August 2004.

One representation was received from the following party:

No.	Company	File Number
1	Scottish & Southern Energy plc	CAP071AR-01

Dear Sirs,

This response is sent on behalf of Scottish and Southern Energy, Southern Electric, Keadby Generation Ltd., Medway Power Ltd., and SSE Energy Supply Ltd.

In relation to the consultation concerning the draft report associated with CUSC Amendment Proposal CAP071 (contained within your note of 26th July 2004), we have the following comments to make.

In respect of NGT's response (in paragraph 5.1.4 on page 16) to our comments (in paragraph 5.1.2 on page 16) concerning the BMU Interconnector ICE we believe your response is ill advised.

In particular, you refer to:-

"MGS is targeted towards gaining access to additional generation that is not commercially viable for the generator to offer into the usual market mechanisms."

However, in NGT's letter of 24th September 2003 to the market it indicated that:-

"The [Maximum Generation] service will provide National Grid with a mechanism to gain access to currently unavailable energy for winter 2003/04, so that it may be used at times of system stress to maintain security of supply. It is anticipated that the service will be offered by Generators able to provide short-term generation output above their normal operating range."

The reference to Generators providing "generation output above their normal operating range" is clearly to a plants' technical rather than "commercially viable" capability (to increase output) per se.

The 24th September 2003 letter went on to say:-

"Maximum Generation Service volume will be the volume of energy delivered above a BMU's Maximum Export Limit, that is delivered within a balancing period in which a Maximum Generation 'start' or 'cease' instruction is issued, and in any period falling between the issue of a Maximum Generation 'start' and 'cease' instruction "; and

"The Service must be delivered by an increase in the total output from the Station."

Again, these are clearly referring to the technical, rather than commercial, capabilities of the plant.

Furthermore, in the draft "Ancillary Services Agreement for the Provision of Maximum Generation", contained in NGT's letter of 17th October 2003 to the market it defines "Maximum Generation" as meaning:-

"a Balancing Service provided from the Available BM Units by generating at a level above the Maximum Generation MEL of each such Available BM Unit so as to increase the total export of Active Power from the Power Station to the NGC Transmission System, contributing towards National Grid's requirement for additional short-term generation output, all as more particularly described in Clause 3"

Yet again, another reference to a plant's technical capabilities, rather than just commercial capabilities.

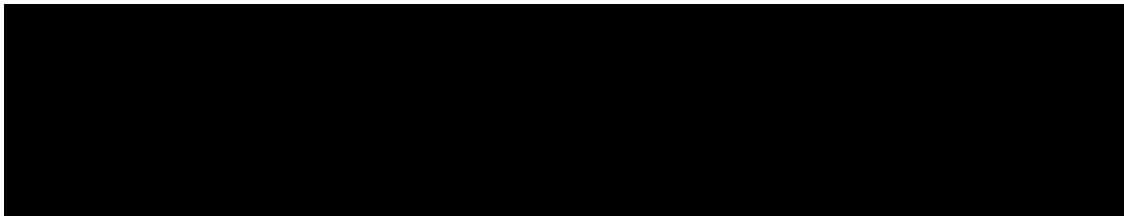
In addition the CAP071 proposal notes that:-

"All Generation above MEL [is] to be treated as Maximum Generation"; and

"that this Emergency Service could facilitate additional security of supply by accessing generation output which would otherwise be unavailable prior to Demand Control."

Thus these references, from the NGT letters of the 24th September 2003 and 17th October 2003, and the CAP71 original amendment proposal form do not refer to "gaining access to additional generation that is not commercially viable for the generator to offer into the usual market mechanisms", which is the basis of NGTs' response (in paragraph 5.1.4 on page 16).

Instead these references do make clear that the 'core' definition of the maximum generation service is about NGT accessing additional output that can contribute "towards National Grid's requirement for additional short-term generation output", which is clearly something that a Interconnector BMU can provide.



However, any MGS that had a question mark over payments to be provided (with regard to the "x%" / "appeals process", as noted in our previous response) would seriously limit the amount of additional generation output that could be forthcoming.

In respect of NGT's 'response' to the points raised by respondents, including ourselves, regarding the NGT proposal concerning "Settlement of MGS" (in paragraph 5.4.5 on page 17) we can see no NGT response in the paragraph (5.1.2) referred to. Therefore, we note that NGT has not responded to any of the comments made by four respondents, including ourselves, regarding "Settlement of MGS".

Finally, on a point of process, we do not believe that NGC is acting in a helpful manner for either the Authority, or market participants, in so significantly altering the format and content of the consultation document and the final report, with respect to the 'draft' circulated with your note. The different format/structure makes it difficult for the Authority and market participants to compare the original consultation documents (and market participants comments) with the draft final document. Why cannot a revision marked version (showing all changes between the initial consultation document and the draft Authority report) not be provided in

future?

Regards

Garth Graham
Scottish and Southern Energy plc

The information in this E-Mail is confidential and may be legally privileged. It may not represent the views of Scottish and Southern Energy Group.

It is intended solely for the addressees. Access to this E-Mail by anyone else is unauthorised. If you are not the intended recipient, any disclosure, copying, distribution or any action taken or omitted to be taken in reliance on it, is prohibited and may be unlawful.

Any unauthorised recipient should advise the sender immediately of the error in transmission.

Scottish Hydro-Electric, Southern Electric, SWALEC and S+S are trading names of the Scottish and Southern Energy Group.
