



Your Ref: LV/B15

Our Ref:

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To: Interested Parties

INFORMATION RELATING TO SHETL'S EXPECTED CAPACITY ON THE SCOTLAND-ENGLAND INTERCONNECTOR FOR 2005/2006

Background

From 26 August 2004 to 1 September 2004 the legal framework for the British Electricity Trading and Transmission Arrangements (BETTA) was introduced. Amongst other things the Secretary of State:

- i) made a licensing scheme for each of the existing electricity transmission licences held by National Grid Company plc (NGC), SP Transmission Ltd (SPT) and Scottish Hydro-Electric Transmission Ltd (SHETL)
- ii) determined new standard licence conditions (SLCs) for electricity transmission licences
- iii) modified existing amended standard and special conditions for electricity transmission licences, and

- iv) modified existing standard and special licence conditions for electricity generation, distribution and supply licences.

Certain aspects of this legal framework are already in effect, and other aspects will take effect on and from the BETTA go-live date, which is planned for 1 April 2005.

In the run-up to the BETTA go-live date, conditions within the transmission licences require the licensees to both continue satisfying obligations in relation to the separate trading and transmission arrangements in Scotland and in England and Wales (the non-GB trading and transmission arrangements), whilst preparing for the implementation of BETTA, including being in a position to comply with the new BETTA related licence conditions, on and from the BETTA go-live date.

Included within the transmission licences in SLC B15 (Prospective obligations) is the ability for the Authority, where it considers it necessary or expedient to do so for the purpose of implementing the BETTA go-live arrangements on the BETTA go-live date or the intended BETTA go-live date (as appropriate), to issue directions relieving the licensee of its obligations included in the licensee's transmission licence in respect of the non-GB trading and transmission arrangements to such extent and subject to such conditions as the Authority may specify.

The Authority may only issue such a direction with the consent of the Secretary of State and following consultation with the licensee and such other persons, and in such manner, as the Authority deems appropriate.

Ofgem has received representations from SHETL, regarding their obligation, as set out in special condition O (Basis of charges for use of the Scottish interconnection) of their transmission licence (special condition O), to prepare a statement approved by the Authority setting out details of the share of capacity on the Scotland-England interconnector that is expected to be available to that transmission licensee during the forthcoming year.

SHETL considers that it should be relieved of its obligations in relation to the preparation and provision of a statement required under special condition O for 2005/2006 setting out details of

SHETL's available capacity on the Scotland-England interconnector (the 2005/2006 Capacity Statement).

The Scotland-England interconnector capacity statement

Paragraph 6 of special condition O of SHETL's licence requires that the licensee shall as soon as practicable after the transmission licence has come into force and, in any event, not later than such date as the Authority shall specify prepare a statement approved by the Authority showing:

- (a) the amount of the capacity of the Scottish interconnection which the licensee anticipates will be available for the transfer of electricity from Scotland to England and England to Scotland during each remaining week of the year ending on 31 March 1991 as notified by SP Transmission Limited to the licensee pursuant to the Interconnector Agreement;
- (b) the amount of that capacity in relation to which the licensee has a right to require SP Transmission Limited to receive and deliver electricity as referred to in sub-paragraph (b) of paragraph 14 of special condition O of SHETL's licence;
- (c) the licensee's forecast of the amount of the amount of the capacity referred to in sub-paragraph (b) above which will be used for the transfer of electricity from Scotland to England and from England to Scotland during each week referred to in sub-paragraph (a) above; and
- (d) such other matters (if any) as the Authority shall specify prior to its approval of the statement.

Paragraph 7 of special condition O of SHETL's licence also requires that the licensee shall, as soon as practicable (and, in any event, within such period as the Authority shall specify) after receiving a notification such as is referred to in sub-paragraph (a) of paragraph 6 of special condition O (see above) from SP Transmission Limited in respect of the year ending on 31 March 1992 and each subsequent year, prepare a statement approved by the Authority showing the matters referred to in sub-paragraphs (a) to (d) of paragraph 6 in respect of that year.

The Authority has not specified the date by which the licensee's statement on interconnector capacity must be prepared. As such the obligation placed upon SHETL is to prepare and provide that statement as soon as practicable after receiving the information that they require from SPT.

These activities are generally expected to take place in timescales that enable parties to request copies of the statement from around 1 April each year.

This statement provides information to users (and prospective users) of the Scotland-England interconnector on expected available capacity for the transmission licensee's share of the Scotland-England interconnector during a defined period. It does not provide that the user will receive a specific portion of that capacity (the allocation of access to the Scotland-England interconnector being governed by the Access and Allocation Code that each of the Scottish transmission licensees' is required to have in place for their respective shares of overall capacity).

SHETL advise that the preparation of the 2005/2006 Capacity Statement during the run-up to the BETTA go-live date will divert resources from preparing for the implementation of BETTA and consider that in view of the expected introduction of BETTA on and from 1 April 2005 (from which point the 2005/2006 Capacity Statement will no longer be required) they should be relieved of this obligation.

SHETL have further advised that if the BETTA go-live date is to be delayed beyond 1 April 2005 they would be able to produce and publish a 2005/2006 Capacity Statement by the middle of April 2005.

Proposed change to arrangements relating to preparation of SHETL's 2005/2006 Capacity Statement

Ofgem have given consideration to the request made by SHETL. Ofgem do not consider that the work required to prepare the 2005/2006 Capacity Statement would greatly impede work to prepare for the implementation of BETTA on and from 1 April 2005. However, Ofgem do recognise that, where possible, it is appropriate to consider the removal of obligations which further increase the workload of the transmission licensees during this period, where such work will have proved to have been unnecessary in the event that the BETTA go-live date occurs on 1 April 2005, provided that such an approach would not cause difficulties in the event that the BETTA go-live date did not occur on 1 April 2005.

Upon the introduction of BETTA, the Scotland-England interconnector will be subsumed into the GB transmission system. At that point all arrangements relating to the separate use of the Scotland-England interconnector (which includes the 2005/2006 Capacity Statement) will no longer be required, other than where those arrangements are required for the purposes of running-off the non-GB trading and transmission arrangements which existed prior to the BETTA go-live date. The 2005/2006 Capacity Statement will not be required for run-off purposes in the event that the BETTA go-live date takes place on 1 April 2005, and as such, its preparation will have proved to have been unnecessary.

If SHETL was to be relieved of its obligation to have in place its 2005/2006 Capacity Statement as soon as practicable then in the event that the BETTA go-live date was delayed beyond 1 April 2005 there would exist a period of time during which SHETL would not have a 2005/2006 Capacity Statement in place covering the period from 1 April 2005. Therefore it is necessary, in considering whether or not to relieve SHETL of this obligation, to consider whether the absence of such a statement may impact on users of the Scotland-England interconnector during that time period.

As explained above the 2005/2006 Capacity Statement provides to users (and prospective users) of the Scotland-England interconnector information on the expected available capacity for the transmission licensee's share of the Scotland-England interconnector during a defined period. It does not provide that the user will receive a specific portion of that capacity (the allocation of access to the Scotland-England interconnector being governed by the Access and Allocation Code that each of the Scottish transmission licensees' is required to have in place for their respective shares of overall capacity). Ofgem understands that the information provided in the statement could, if required, be obtained by a user of the Scotland-England interconnector from other sources. Namely, the user could seek information on the overall expected capacity for the Scotland-England interconnector from the National Grid Company plc (NGC) directly and could consider that information in conjunction with information contained within SHETL's Access and Allocation Code to determine SHETL's likely available capacity.

Ofgem recognises that it would be preferable if this information was already collated, analysed and presented by SHETL for the benefit of users of SHETL's portion of capacity on the Scotland-England interconnector. However, in view of the benefits to SHETL in not seeking to produce

this statement at this time, the likely time required to prepare the 2005/2006 Capacity Statement in the event of a delay to the BETTA go-live date and the availability of this information from other sources during any interim period, Ofgem proposes that SHETL should be relieved of this obligation. Ofgem further propose that any direction issued by the Authority in relation to this matter would provide that, in the event that the BETTA go-live date was to be moved beyond 1 April 2005, the Authority may require that SHETL prepares and provides a 2005/2006 Capacity Statement within a prescribed timescale (which would not be a period of less than two weeks).

Following this consultation (which the Authority deems appropriate), the Authority intends to seek the consent of the Secretary of State to issue a direction pursuant to SLC B15 relieving SHETL of its obligation to prepare and provide its capacity statement for the Scotland-England interconnector for 2005/2006 in accordance with special condition O of its licence.

Views Invited

Ofgem invites comments on the proposal contained within this letter. Comments should be sent by 14 February 2005 to:

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Parties are free to raise comments on any of the matters covered in this open letter consultation and in particular where views are specifically requested. All responses will normally be published on the Ofgem website and held electronically in Ofgem's Research and Information Centre unless there are good reasons why they must remain confidential. Respondents should try to put any confidential material in appendices to their responses. Ofgem prefers to receive responses in an electronic form so they can easily be placed on the Ofgem website.

Please e-mail responses to BETTA.consultationresponse@ofgem.gov.uk marked "Response to consultation on the production of a Scotland-England Interconnector capacity statement for 2005/2006 by SHETL".

If you wish to discuss any aspect of this document, please contact Lisa Vango, e-mail lisa.vango@ofgem.gov.uk, telephone 020 7901 7178.

Yours faithfully,

David Halldearn
Director, BETTA and Europe