

WORKING GROUP REPORT

CUSC Amendment Proposal CAP004

Cost Benefit Analysis

**Prepared by the Governance Amendments Working Group
for submission to the Amendments Panel**

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I. CONTENTS TABLE

DOCUMENT CONTROL	2
DISTRIBUTION	2
I. CONTENTS TABLE	3
1.0 SUMMARY AND RECOMMENDATIONS	4
2.0 INTRODUCTION	4
3.0 PURPOSE AND SCOPE OF WORKING GROUP	4
4.0 ASSESSMENT AGAINST APPLICABLE CUSC OBJECTIVES	5
5.0 ALTERNATIVE AMENDMENT	6
5.1 Description of Alternative Amendment	6
5.2 Assessment Against Applicable CUSC Objectives	6
6.0 PROPOSED IMPLEMENTATION AND TIMESCALES	6
7.0 IMPACT ON CUSC	7
8.0 IMPACT ON INDUSTRY DOCUMENTS	7
8.1 Impact on Core Industry Documents	7
8.2 Impact on other Industry Documents	7
ANNEX 1: CUSC AMENDMENT PROPOSAL CAP004	8
ANNEX 2: WORKING GROUP TERMS OF REFERENCE AND MEMBERSHIP	13
ANNEX 3: INTERNAL WORKING GROUP PROCEDURES	16
ANNEX 4: PROPOSED TEXT TO MODIFY THE CUSC	18

1.0 SUMMARY AND RECOMMENDATIONS

The Working Group has evaluated the Amendment Proposal against the applicable CUSC objectives but was unable, as a group, to reach a unanimous recommendation on CAP004 – Cost Benefit Analysis. Therefore this report sets out the diverse views of Working Group Members only and the relevant issues that should be consulted on in the Industry.

The report is split between discussion of the principle outlined within the CUSC Amendment Proposal and the detail of the legal text proposed to implement the principle. In general the principle was supported by the majority of the Working Group but there were strong opposing views. In considering the detail of the legal text, the working Group did agree some alternative draft text, which the majority of the group agreed better facilitated the applicable CUSC Objectives and this is presented as an 'Alternative Amendment' within this report.

The CUSC Amendments Panel is invited to note:

- The diverse views within the Governance Amendments Working Group but the majority support for the concept and proposed alternative drafting changes set out below.

And Endorse:

- That the Amendment Proposal and Alternative Amendment be consulted on by National Grid in the wider Industry forum.

2.0 INTRODUCTION

At the 9th November 2001 CUSC Panel meeting British Energy proposed a change to section 8 of the CUSC to introduce the requirement for a Cost Benefit Analysis to be undertaken when considering any future amendment proposals. This Amendment Proposal was supported by other parties, which are acknowledged in the CUSC Amendment Proposal form.

The CUSC Panel determined that the proposal should be considered and evaluated further by a Working Group and the Governance Amendments Working Group was established on the 9th November 2001. For information, at the same time it was also actioned to consider other amendment proposals namely CAP005 – 'CUSC Panels Role and Reporting', CAP006 – 'Non Discrimination', CAP007 – 'Role of Standing Group', CAP008 – 'Codification Errors' each under separate terms of reference and these are considered in other reports.

This report considers CAP004 – Cost Benefit Analysis (Annex 1 – Amendment Proposal form) only and summarises the views and issues raised during the course of the Working Group and where appropriate makes recommendations. The Report has been prepared in accordance with the terms of the CUSC. An electronic copy of this document can be found on the National Grid website, at www.nationalgrid.com/uk/indinfo/cusc.

3.0 PURPOSE AND SCOPE OF WORKING GROUP

In accordance with the Terms of Reference for the Working Group (Annex 2), the Working Group considered the British Energy Amendment Proposal CAP004. The Working Group also developed and considered an Alternative Amendment (strictly enhanced drafting only) which is described in the report.

4.0 ASSESSMENT AGAINST APPLICABLE CUSC OBJECTIVES

The Applicable CUSC Objectives are defined within the Transmission Licence as:

- (a) in relation to a proposed modification of the modification procedures, the requirements of paragraph 6 (to the extent that they do not conflict with the objectives set out in paragraph 1); and
- (b) in relation to any other proposed modification, the objectives set out in paragraph 1.

The objectives detailed in paragraph 1 are the efficient discharge by the licensee of the obligations under the Act and licence and to facilitate competition in the generation and supply of electricity and where consistent facilitating competition in the sale, distribution and purchase of electricity.

In relation to this amendment proposal, which details changes to Section 8 of the CUSC, the Working Group agreed that the objectives of (a) above (i.e. Paragraph 6 of the Transmission Licence), is the relevant objective against which this Amendment Proposal should be judged when deciding whether they are better facilitated. In summary paragraph 6 requires the licensee to establish and operate procedures to modify the CUSC itself in order to better facilitate the applicable CUSC objectives and therefore the amendment proposal must better facilitate this process so that the broader objectives of facilitating competition can be achieved.

There were strong, diverse views represented within the group as to whether the proposal as presented did better facilitate the Applicable CUSC Objectives. These views are represented in the following paragraphs.

The principle in general was supported by the majority of the group as they felt that a Cost Benefit evaluation should in some form be an integral part of the efficiency requirements of the applicable CUSC objectives and to a lesser extent would reduce market entry costs and hence improve competition. However, again there were strong opposing views. One member felt that it did not better facilitate the objectives in general and where it was appropriate for such an analysis to be undertaken it could be provided for under the existing arrangements and therefore did not need to be explicit. To mandate the process could have negative effects.

A majority of Working Group members supported the proposal and felt that there should be an explicit requirement, or at least that as a minimum it should be the default position when evaluating an amendment proposal. It was in line with best regulatory practice and would only improve the evaluation of the proposal. Despite being potentially implicit within the CUSC, there was a view that this implicit requirement was not sufficient.

Against this some members felt that the requirement to undertake Cost Benefit Analysis (CBA) is catered for within the CUSC objectives as set out, and that where appropriate the Panel would require CBA to be undertaken by a Working Group if they felt that it was necessary. There was therefore no requirement for it to be explicit within the CUSC. If it was explicit then it may be viewed as a barrier, particularly to small players, to putting forward amendment proposals and also a potential barrier in their consideration within the process timescales. It provided additional workload to both National Grid and the industry when in some situations it would be unnecessary. The addition of another requirement into the process would provide disincentives and unwelcome rigidities which may be considered as detrimental. One member also noted that if National Grid were to undertake such an analysis as part of the process it would only work if all Users were obligated within the CUSC to provide their CBA. Another member questioned how making the requirement explicit would 'better facilitate the applicable CUSC objectives'.

A WG member commented that the 'Better Regulation Task Force' document stated that in undertaking their role, regulators should give due regard to Cost Benefit

Analysis. This was noted by the group but it was acknowledged that the Authority had their own requirements and objectives which were independent of the applicable CUSC objectives. There was also concern raised that Cost Benefit Analysis was only one area of impact that could be considered when assessing changes, and making it explicit left out other issues that may be usefully considered in some situations potentially creating an undesirable bias in the process.

There was then some discussion on the detail of the indicative legal text provided by the proposer. It was suggested that the words could be 'softened' and made less onerous so that the principle was explicit within the CUSC but that the need or detail of the CBA would then be reviewed on a case by case basis by the CUSC Panel. This would keep the principle within the CUSC explicit but reduce the concern over rigidities of the process and adding further barriers.

5.0 ALTERNATIVE AMENDMENT

5.1 Description of Alternative Amendment

The group agreed that for the purposes of transparency any changes to the proposed draft text should be presented in the Working Group report as an Alternative Amendment. The group also noted that they were required under the terms of reference to give consideration to what might constitute an appropriate definition of Cost Benefit Analysis for the purposes of the proposed change.

Concern was also raised about the requirement on the Working Group to define the term Cost Benefit Analysis which would be necessary to avoid ambiguity in the requirements. The group discussed this issue and concluded that this was not feasible or appropriate to define the term or place a requirement to undertake cost benefit analysis which has a number of differing technical interpretations. The Working Group felt that it was more appropriate for requirements placed in the CUSC to have regard to costs and benefits and not to undertake any prescribed, possibly narrow, methodology.

The majority of the Working Group felt that the draft legal text that had been provided by the Proposer (and which the proponent acknowledged was only meant to be indicative) was too onerous and felt that this needed to be more workable. Such a change, as encapsulated by the Alternative Amendment, may make the proposal more effective and the Group agreed to consider alternative legal text that followed the intent of the proposal.

The draft legal text for the Alternative Amendment is details in Annex 4.

5.2 Assessment Against Applicable CUSC Objectives

The majority of the Working Group felt that the redrafting of the legal text contained within the Alternative Amendment would better meet the Applicable CUSC Objectives as compared with the Amendment Proposal. It recognises the need to give consideration to Costs and Benefits when evaluating an Amendment Proposal where it is appropriate and feasible to do so but is not so onerous as requiring a full Cost Benefit Analysis irrespective of the circumstances which may be considered as detrimental to the CUSC Amendment Process.

6.0 PROPOSED IMPLEMENTATION AND TIMESCALES

The Group considered the implementation and timescale issues. In particular concern was raised over the impact that such a proposed change if implemented would have on active amendment proposals that may be running at the time. The group noted the concern but concluded that it should be possible for the CUSC Panel

to manage this issue at the time as necessary. In this context the Proposal, if implemented, would not be retrospective and only apply to new amendment proposals when received after the implementation date. The implementation of a proposal was at the direction of the Authority but was expected to be as soon as practicable after their decision.

7.0 IMPACT ON CUSC

The proposed change will not have an impact on other parts of the CUSC. The changes required to implement the proposal are detailed in Annex 4 both as detailed in the original proposal and also as developed by the Working Group as an Alternative Amendment.

8.0 IMPACT ON INDUSTRY DOCUMENTS

8.1 Impact on Core Industry Documents

This amendment proposal will have no impact on other core industry documents.

8.2 Impact on other Industry Documents

This amendment proposal will have no impact on other industry documents.

Annex 1: CUSC Amendment Proposal CAP004

Amendment Proposal

[Name of Proposer]

Those wishing to propose an Amendment to the CUSC should do so by filling in this "Amendment Proposal Form" that is based on the provisions contained in Section 8.15 of the CUSC. The form seeks to ascertain details about the Amendment Proposal so that the CUSC Panel can determine more clearly whether the proposal should be considered by a Working Group or go straight to wider National Grid Consultation.

The Panel Secretary will check that the form has been completed, in accordance with the requirements of the CUSC, prior to submitting it to the Panel. If the Panel Secretary accepts the Amendment Proposal form as complete, then he will write back to the Proposer informing him of the reference number for the Amendment Proposal and the date on which the Proposal will be considered by the Panel. If, in the opinion of the Panel Secretary, the form fails to provide the information required in the CUSC, then he may reject the Proposal. The Panel Secretary will inform the Proposer of the rejection and report the matter to the Panel at their next meeting. The Panel can reverse the Panel Secretary's decision and if this happens the Proposer will be informed by the Panel Secretary.

The completed form should be returned to:

Mark Cox
Panel Secretary
Commercial Development
National Grid Company plc
National Grid House
Kirby Corner Road
Coventry, CV4 8JY

Or via e-mail to:

CUSC.Team@uk.ngrid.com

(Participants submitting this form by email will need to send a statement to the effect that the proposer acknowledges that on acceptance of the proposal for consideration by the Amendments Panel, a proposer which is not a CUSC Party shall grant a licence in accordance with Paragraph 8.15.7 of the CUSC. A Proposer which is a CUSC Party shall be deemed to have granted this Licence.)

Proposers Name:

(Name of party making the proposal. An Amendment Proposal may be made by a CUSC Party, a BSC Party or by "energywatch")

British Energy Generation Ltd

Proposers Representative:

(The name of the person representing the Proposer (and his alternate) for the purposes of the Amendment Process)

Steve Phillips (alternate John Capener)

Organisations Name and Address:

(Organisation on whose behalf the Amendment is proposed)

*British Energy Generation Limited, Barnett Way, Barnwood,
Gloucester, GL4 3RS*

In addition to BEGL, the following CUSC Parties listed alphabetically below are joint sponsors for this Amendment Proposal:

1. AES Drax Power Limited Selby, North Yorkshire, YO8 8PQ
2. Barking Power Ltd Barking Power Station, Chequers Lane, Dagenham, RM6 6PF
3. Deeside Power Development Company Ltd, Senator House, 85 Queen Victoria Street, London EC4V 4DP
4. Enron Direct Limited Enron House, 40 Grosvenor Place, London SW1X 7EN
5. First Hydro Company Bala House, Lakeside Business Village, St. David's Park, Deeside, Flintshire, CH5 3XJ
6. Humber Power Limited South Humber Bank Power Station, South Marsh Road, Stallingborough, North East Lincolnshire, DN41 8BZ
7. Teesside Power Limited Dunedin House, Columbia Drive, Thornaby, Stockton On Tees, Cleveland, TS17 6 BJ

Capacity in which the Organisation Proposes to make an Amendment:
(i.e. CUSC Party, BSC Party or "energywatch")

CUSC Party

Description of the issue or defect which the proposed Amendment seeks to address:
(This should be in reasonable, but not excessive detail)

Absence of the requirement of a cost/benefit analysis in the amendment review process.

Description of the proposed Amendment and of its nature and purpose:
(This should be in reasonable but not excessive detail)

To add to the matters to be addressed in an Amendment Proposal provision for a cost benefit analysis.

An indication of those parts of the CUSC which would require amendment in order to give effect to (or would otherwise be affected by) the proposed amendment and an indication of the nature of those amendments or effects.
(This should be given where possible)

Please refer to the attachment for suggested, indicative changes/additions to be incorporated to appropriate clauses of section 8 of the CUSC to give effect to the proposed amendment.

Please note that it is the principle of the Amendment Proposal that is to be reviewed and approved by an appropriate review/consultation process to be decided by the CUSC Amendment Panel.

This indicative text is a suggested solution which may or may not be considered exhaustive in its detail and scope.

Reasons why the Proposer believes that the proposed Amendment would better facilitate achievement of the Applicable CUSC Objectives as compared with the current version of the CUSC with background information in support thereof.

The Proposer considers that the proposed amendment would bring the CUSC amendment process into line with best regulatory practice of carrying out an assessment of the cost and benefit of proposed changes where applicable which are fundamental to a full and proper assessment of any Amendment Proposal and which must be taken into account before reaching a decision.

Implementing and maintaining procedures which incorporate best industry practice should form part of NGC's responsibility to achieve the efficient discharge of its obligations. This amendment will improve existing practice and will thereby better facilitate the achievement of the Applicable CUSC Objective on the efficient discharge of NGC's obligations.

In addition the amendment by improving current practice, will increase confidence in CUSC as a central part of the framework for the operation of the electricity market and help to ensure that unnecessary and excessive costs are not imposed on parties. Confidence in this framework is a key factor in the efficient operation of the market and the development of competition. By increasing confidence in this way the amendment will better facilitate the achievement of the Applicable CUSC Objective of facilitating competition in generation and supply.

An indication of the impact of the proposed Amendment on Core Industry Documents.

(This should be given where possible)

None

An indication of the impact of the proposed Amendment on relevant computer systems and processes used by CUSC Parties.

(This should be given where possible)

None

A statement to the effect that the Proposer acknowledges that on acceptance of the proposal for consideration by the Amendments Panel a Proposer shall grant a Licence in accordance with Clause 8.15.7 of the CUSC.

(A signature to this effect must be given by a Proposer, which is not a CUSC Party)

Proposer is a CUSC Party

Attachment to Amendment Proposal

See Annex 4

Annex 2: Working Group Terms of Reference and Membership

CAP004: Cost Benefit Analysis
Governance Working Group - Terms of Reference Paper

Introduction

1. The current CUSC Amendment Process includes no specific requirement for the Amendments Panel and/or any Standing Group/Working Group to undertake any cost-benefit analysis during the development of any Amendment Proposals. CUSC Amendment Proposal CAP004 seeks to rectify this by amending Clauses 8.15.2, 8.17.8 and 8.20.2 to specifically include a requirement for such analysis (where appropriate). At the 9th November 2001 Amendments Panel meeting, the Amendments Panel determined that a Working Group (the Governance Working Group) should be established to consider Amendment Proposal CAP004. At the Panel Meeting, the Governance Working Group was also actioned to consider Amendment Proposals CAP005, CAP006, CAP007 and CAP008.
2. This paper outlines the process and terms of reference that the Governance Working Group should work to with respect to Amendment Proposal CAP004.

Proposed Membership of the Governance Working Group

3. At the 9th November 2001 Amendments Panel meeting, the Amendments Panel agreed the following membership for the Governance Working Group:

Chair:	Nigel Cornwall (Cornwall Consulting)
Other Members:	Dick Cecil (London Electricity) Jane Butterfield (PowerGen) Malcolm Taylor (AEP) Mike Metcalfe (National Grid) Steve Phillips (British Energy) Richard Ford (St. Clements) Simon Goldring (British Gas Trading)

Process

4. The Governance Working Group has been established and actioned to consider, inter alia, revisions to the current Amendment Process for evaluating Amendment Proposals. CUSC Amendment Proposal CAP004 refers.
5. Condition C7F (Paragraph 6) of National Grid's Transmission Licence requires the licensee to establish and operate procedures for the modification of the CUSC (including procedures for modification of the modification procedures themselves), so as to better facilitate achievement of the applicable CUSC objectives. In view of this, the Governance Working Group should consider how the proposed Amendment better accomplishes this requirement when compared to the current procedures.
6. The findings of the Working Group should be published on the CUSC Website.

Scope of Work

7. The Governance Working Group should consider the Amendment Proposal tabled by British Energy and consider any Alternative Amendment Proposals raised by the Governance Working Group or any other interested parties.
8. The Governance Working Group should consider, inter alia, how the Proposed Amendment would impact on:
 - (a) the CUSC itself (BE have provided some accompanying, indicative, draft legal text in CAP004); and
 - (b) on other codes/core industry documentation.

9. In considering the Amendment Proposal, the Governance Working Group should also develop a clear and concise cost-benefit definition that, should the Amendment Proposal be implemented, could be included in Section 11 of the CUSC.

Relationship with Amendments Panel

10. The Working Group shall seek the views of the Amendments Panel before taking on any significant amount of work. The Working Group Chairman should contact the CUSC Panel Secretary.
11. Where the Working Group requires instruction, clarification or guidance from the Amendments Panel, particularly in relation to their Scope of Work, the Working Group Chairman should contact the CUSC Panel Secretary.

Meetings

12. The Working group shall develop and adopt its own internal working procedures and provide a copy to the Panel Secretary for each of its Amendment Proposals.

Reporting

13. The Governance Working Group Chairman should, in line with the CUSC, be responsible for producing a Working Group Report with recommendations. The report should be submitted to the Panel Secretary by 9th February 2002 for circulation to Panel Members and the Conclusions of such report should be presented to the Amendments Panel meeting scheduled for 22nd February 2002. The report should be written with reference to Section 8.17 of The CUSC.

Annex 3: Internal Working Group Procedures

Governance Amendment Working Group (CAP004-008)

Internal Working Procedures (for each CUSC Amendment Proposal)

1. Notes of each meeting will be produced by the Technical Secretary (provided by National Grid) and circulated to the Chairman and Working Group members for review.
 - (a) Meeting notes will be published on the National Grid CUSC Website following the review by Working Group members.
2. The Chairman of the Working Group will provide an update of progress and issues to the Amendments Panel each month as appropriate.
3. Working Group meetings will be arranged for a date acceptable to members of the group and will be held as often as required as agreed by the Working Group, in order to respond to the requirements of the Terms of Reference set by the Amendments Panel.
4. If within half an hour after the time for which the Working Group meeting has been convened the Chairman of the group is not in attendance, the meeting will take place with those present. A Chairman shall be appointed from those members of the Working Group present.
5. A meeting of the Working Group shall not be invalidated by any member(s) of the group not being present at the meeting.

Annex 4: Proposed Text to Modify the CUSC

Amendment Proposal:

1. Amendment Proposal

8.15.2 A proposal made pursuant to Paragraph 8.15.1 shall be submitted in writing and shall contain the following information in relation to such proposal:

- (j) where possible, a preliminary indication of the materiality of costs and benefits, and also, without prejudice, a preliminary cost/ benefit analysis of the Amendment Proposal.

2. Working Groups

8.17.8 The terms of reference of a **Working Group** must include provision in respect of the following matters:

- (...) (d) the evaluation for each and any Proposal shall where applicable contain a cost/ benefit analysis of the Proposal.

3. Amendment Report

8.20.2 The matters to be included in an **Amendment Report** shall be the following (in respect of the **Amendment Proposal**):

...

- (k) a cost/ benefit analysis of the impact of the **Proposed Amendment** and any **Alternative Amendment** including an assessment of all direct and indirect costs to CUSC Parties and other affected Parties.

Alternative Amendment:

1. Amendment Proposal

8.15.2 A proposal made pursuant to Paragraph 8.15.1 shall be submitted in writing and shall contain the following information in relation to such proposal:

(j) where applicable, a preliminary estimate of the costs and benefits of the proposed amendment.

8.15.3 if a proposal fails in any material respect to provide the information in Paragraph 8.15.2 (excluding Paragraphs (e), (g), ~~and~~ (h) and (j) thereof), the Panel Secretary.....

2. Working Groups

8.17.8 The terms of reference of a Working Group must include provision in respect of the following matters:

(d) the evaluation for each and any proposal shall where applicable contain an estimate of the costs and benefits of the proposal.

3. Amendment Report

8.20.2 The matters to be included in an Amendment Report shall be the following (in respect of the Amendment Proposal):

(h) to the extent such information is available to NGC, an assessment of the impact, including the costs and benefits of the Proposed Amendment and any Alternative Amendment on CUSC Parties in general (or classes of CUSC Parties in general), and including the changes which are likely to be required to their internal systems and processes and a reasonable and proportionate estimate of the development, capital and operating costs associated with implementing the changes to the CUSC and to the Core Industry Documents;

*** It is noted that there are other Amendment Proposals being considered at this time which also propose changes to these paragraphs. The proposed text changes are therefore based on the CUSC as existing at this time.