

9th April 2001

**Review of the Initial Impact of
NETA on Smaller Generators**

Terms of Reference

Review of the Initial Impact of NETA on Smaller Generators

The Minister of State for Energy and Competitiveness in Europe has asked the Chief Executive of Ofgem to undertake a review of the initial impact of the new electricity trading arrangements on smaller generators after two months of operation. The following terms of reference have been drafted to specify the scope and timescale of that review. They are provided to allow interested parties to contribute to the process of this review. Comments are welcome and should be provided by 23 April. Unless parties providing comments specify that their comments are confidential, they will be considered suitable for publication.

Comments should be sent to:

NETA Review of Smaller Generators
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Terms of Reference

Objective: To identify the initial impact of the new electricity trading arrangements on smaller generators. This impact should distinguish between those factors that impact all generators and any that appear to have a particular impact upon smaller generators.

Definitions: Smaller generators are taken to be those that are licence-exempt or exemptable¹. Within this, the review will determine a number of categories of smaller generators to whom the arrangements might apply in different ways. These categories will include, but will not be limited to, Combined Heat & Power installations with export capability, such installations who rely on imports for top up, renewable generators with predictable load and renewable generators with unpredictable load.

Scope: The review will consider the operation of the new electricity trading arrangements over the period of April and May 2001 [*note that settlement data for 30 May will not be available finally until late in June*]. The review will:

- describe the range of options available to smaller generators under the new trading arrangements and assess any new market mechanisms that are emerging and the opportunities that they are providing. This will include an assessment of the offers being made in the market in relation to those options and mechanisms, for example the number of consolidators and the price offerings that they are making (if consolidators and suppliers are prepared to reveal them)

¹ Licence exemptable generators are those which, if they were the only generator under the control of the generator would not require the possession of a generation licence.

- assess the contractual position of the various categories of smaller generators, so far as these can be ascertained;
- examine the scope for participation, directly or indirectly, in the balancing mechanism and imbalance settlement;
- evaluate the effects on embedded generation including the benefits of the new arrangements;
- determine balancing mechanism prices and imbalance cashout prices and assess the impact of these on smaller generators who do not have contractual cover and their ability to reasonably obtain contract cover;
- more generally, analyse the prices in the market including their variability and volatility using Pool prices as a basis for comparison;
- describe the previous Pool arrangements as they applied to smaller generators and contrast these with the new trading arrangements;

The scope of the review will be limited to the impact of the new trading arrangements. No attempt will be made to assess the effect of other factors such as the Climate Change Levy. The results of the review will need to be considered in a wide context in terms of any actions or changes that may arise.

Timescale: The review will aim to publish an initial report in August 2001 (assuming that the duration is two months, as discussed earlier).

Participation: The review should involve the participation of small generators and their representative bodies or trade associations (CHPA, AEP, BWEA etc.)

Method: The review will be undertaken by a combination of desk studies and interviews with relevant participants and those seeking to provide services to them. If the analysis phase of the review is to be completed in a month, it will require a significant level of resource. The review will conclude with a report that will be published to all interested parties.