

**Minutes and Actions Arising from Meeting No.85
Held on 25 July 2008**

Present:

Alison Kay	AK	Panel Chairman
Richard Dunn	RD	Secretary
Hêdd Roberts	HR	Panel Member (National Grid)
Duncan Burt	DB	Panel Member (National Grid)
Emma Carr	EC	National Grid
Paul Jones	PJ	Panel Member (Users Member)
Paul Mott	PM	Panel Member (Users Member) via teleconference
Garth Graham	GG	Panel Member (Users Member)
Bob Brown	BB	Panel Member (Users Member)
Barbara Vest	BV	Panel Member (Users Member) via teleconference
Dave Wilkerson	DW	Panel Member (Alternate for Tony Diccico)
Mark Feather	MF	Ofgem Representative
Hugh Conway	HC	Energywatch representative
In Attendance		
David Jones	DJ	BSC Panel Representative

1 Introductions/Apologies for Absence

1614. Apologies for absence were received from Tony Diccico and Simon Lord.

2 Minutes of the Meeting held on 27th June 2008

1615. The draft minutes of the CUSC Amendments Panel meetings held on 27th June were AGREED with minor amendments.

3 Review of Actions

1616. **Item 1579:** JB to obtain advice and report back to CUSC Panel regarding issues relating to post implementation evaluation for TAR – it was recognised that this was a substantial area of policy and guidance from the Ofgem Transmission team would be welcome. It was agreed that this action should be pursued through the Transmission Access Working Groups - complete

1617. **Item 1567:** HR to ensure that a review of TAR documents is a standard agenda item for all 3 Access Working Groups - complete.

1618. **Item 1569:** CUSC Panel Chair to consider writing to CUSC Parties flagging up the changes proposed in CAP160 and the implications for the 3 Transmission Access Working Groups. National Grid had circulated a draft letter to the Panel for comment before it was sent to CUSC Parties. EC explained that the letter would endeavour to ensure that all CUSC Parties understood the implications of CAP160 for current and future Amendment Proposals even if they were not directly involved in its

consideration. MF wanted to understand the implications of the extension for CAP161 to 166 and the Authority Decision on CAP160. EC explained that this depended upon the outcome of the extension request. If CAP160 was approved after September assuming an extension is granted then CAP161 to CAP166 would follow the existing pre CAP160 process as the Working Groups would be due to report to the Panel at the September meeting. However, if CAP160 was approved before September the process would be extended by one month to allow the Working Groups the opportunity to undertake a period of Consultation. It was agreed that the letter should be reconsidered following the Panel's discussion on TAR and CAP161-166 draft Working Group Reports which were later on the agenda. Subsequent to that discussion and subject to minor comments the draft letter was agreed and subsequently circulated to CUSC Parties by EC – complete.

1619. **Action 1571:** BV to circulate and publish headline report for 27th June - complete.
1620. **Action 1606:** EC to issue the agreed letter to all CUSC Parties explaining the impact of CAP160 on the existing Amendment Proposals CAP161-166 and CAP167 – complete.
1621. **Action 1612:** RD to circulate and publish headline report for 18th July - complete.

4 New Amendment Proposals (as at 17/07/08)

1622. None.

5 Standing/Working Group Reports

1623. **Environmental Standing Group and Terms of Reference:** The first meeting was held on Friday 11th July at Elexon Offices, London. DB explained that PJ had reprised his original presentation to the Transmission Access Working Group 1 on the calculation of the carbon cost impact of CAP164 to the Standing Group. There had been a good debate at the meeting and a number of key principles that would comprise the eventual guidelines from the Group had been discussed. The Group included representatives from DCUSA Panel and the Chair of the Joint Office for the UNC Panel as well as Elexon, BSC, CUSC and Grid Code Panel Members. Examples of existing Modifications in a variety of Codes had been identified and the Standing Group would consider how a carbon cost impact of those modifications might be undertaken in order to test the principles that had been identified at the next meeting and inform the development of those principles. The Terms of Reference for the Standing Group were agreed subject to minor amendments and would be placed on the National Grid website in due course.

Action: National Grid (EC)

1624. **CAP167- Definition of a threshold(s) associated with the request for a Statement of Works and Terms of Reference:** EC reported that the Group had now met 3 times. Debate over the Group's Terms of Reference had been difficult but these had eventually been resolved. The Group was considering the format for defining 'significant impact' for small embedded power stations and also developing a process for establishing MW thresholds. A key issue for a number of Working Group members was whether or not to take into account operational constraint costs when creating the MW thresholds. In addition a number of members wish to include the cost of carbon in the criteria for defining the criteria that develops the MW

thresholds. If the Group could not reach a consensus on this issue there could be a need to raise an alternative amendment. PJ was concerned that the Group was confusing the definition of a significant effect on the transmission system with the inclusion of the cost of carbon in the assessment of the amendment proposal in accordance with Ofgem's guidance. The Panel debated the issue and provided the following steer: the criteria for determining significant effect on the transmission system should not be concerned with the cost of carbon since a MWh will have the same impact on the transmission system whether it is generated from a renewable or non-renewable source. To include the cost of carbon at this stage risks double counting any carbon costs/savings and risks discrimination between classes of users which is inconsistent with the Transmission Licence and therefore the applicable CUSC objectives. When the Group has agreed the criteria for determining significant effect, the Group should then undertake the necessary assessment for the impact of the modification including the cost of carbon. EC thanked the Panel for this steer and agreed to report this back to the WG. The Panel agreed the draft Working Group Terms of Reference.

Action: National Grid (EC)

1625. **Transmission Access Working Groups (CAP161-166):** HR reported that progress on the individual Amendment Proposals was reflected in the draft Working Group Reports that had been circulated in advance to the Panel. The aim of circulating the draft Working Group Reports at this stage was to highlight any gaps in the reports with a clear description of the work outstanding and associated timescales.
1626. **CAP161 – SO Release of Short Term Access Rights:** Good progress had been made by WG1 in this area. Two competing models had been developed which differed from each other in terms of how short term access rights were allocated. More work was required on the development of the models and constructing a product for each one.
1627. **CAP162 – Entry Overrun:** The concept of giving generators a right to generate above TEC was straightforward but the charging options were complex. Three pricing models were being developed by WG1 – an average constraint cost approach, marginal congestion pricing and a simpler average multiplier (TNUoS or BSUoS). Again more work was required to develop these models.
1628. **CAP163 – Entry Capacity Sharing:** This involved allowing Users to share entry rights between different power stations. WG1 was considering how the SO would be notified of MW sharing of entry rights either on an ex ante or ex post basis. Further progress was also required in this area in the context of exposure to overrun charges and how to deal with any breaches.
1629. **CAP164 – Connect and Manage:** WG1 was focussing in on a constraint costing model with appropriate eligibility criteria. Work undertaken by the Working Group was also being progressed to establish a basis for analysing the carbon benefit of CAP164.
1630. **CAP165 – Finite Long Term Entry Rights:** WG2 had made good progress on the definition of the long term access right and the associated charging arrangements but a key issue associated with CAP165 that required further analysis was the separation of liability (station project risk) and security (credit risk). There was general agreement within the WG that Generators should bear the liabilities created by finite access rights for the duration of those rights and more recently the CAP131 IA had been helpful in focussing the debate. Further work was required in order that the WG could better understand the credit risk differences between existing (post-

commissioning) assets and future (pre-commissioning) assets in the context of evaluating CAP165 against the Applicable CUSC Objectives. On charging the WG were considering fixed price tariffs but this also needed further development.

1631. **CAP166 – Long Term Entry Capacity Auctions:** CAP166 was mutually exclusive with CAP165. WG2 recently discussed the experience to date of the Gas Capacity Auctions with input from colleagues with experience of the arrangements in the gas market. A strawman was discussed covering issues such as independent zonal auctions vs simultaneous clearance. Other issues such as lumpy investment and linkage between different years of booking were also highlighted. There was concern expressed about the WG's competence to design an auction and the WG was considering bringing in specialist expertise to advise on appropriate options. PJ indicated that Ofgem had recently raised the option of a GB wide auction with simultaneous clearance. This would require a lot of development work and may require a complex linear programme. He believed Ofgem were providing good support to the WG but if that was the path that Ofgem wanted to go down this was probably a case of scope creep and would be extremely difficult to deliver compared with the relatively simple strawman put forward by National Grid. MF noted these concerns and agreed to consider the views within Ofgem. However, he suggested that with appropriate construction of the zones, independent auctions or simultaneous clearance could be made to work.
1632. **Working Group 3 – Enabling Changes:** Development of the generation zoning methodology was the headline issue for WG3. Good progress had been made at the most recent WG3 meeting. It was important to develop this methodology as it would be a building block for the other Amendment Proposals. PJ confirmed that this was a complex issue given that the methodology needs to be tested for accuracy, stability and liquidity. The WG was also considering local charging arrangements and a change to the charging arrangements for the treatment of the residual element of the TNUoS charge.
1633. **Extension of Period for Consideration of CAP161-166 by the Working Group:** HR indicated that the draft Working Group reports illustrated the amount of work still required to complete the Working Groups' remits and therefore formally requested a further two months for the Working Groups to complete their work. HR agreed to circulate a slide he had produced illustrating the revised timeline for the Working Groups.
- Action: National Grid (HR)**
1634. The Panel noted the draft Working Group Reports and acknowledged that a significant amount of work had been undertaken by the Working Groups so far. However the Panel AGREED that there was still a considerable amount of work required before the Reports could be considered complete and therefore agreed that subject to Ofgem approval that the Working Groups should be given two additional months to complete their work. The Reports would therefore be provided to the September Panel Meeting if CAP160 is not approved before September. Assuming that CAP160 is approved then the Working Groups would have a month extension to undertake consultation. The Working Groups would then report back in October/ November depending on timing with a view to a Panel Vote on the Reports at a December meeting. AK indicated that it might be necessary to hold an additional meeting of the Panel in November to consider the Transmission Access Working Group Reports. However, overall introduction of a new Transmission Access regime was still on course for April 2010. MF for Ofgem agreed to this two month extension. MF also congratulated the Working Groups on their efforts so far and encouraged the Working Groups via the Panel to make sure that they took opportunities to look

for fast tracking of proposals and “quick wins”.

1635. In response to a point raised by BV, it was agreed that National Grid would consider holding an explanatory seminar soon after the Working Group consultations were launched. Also in response to a question from BV, MF indicated that Ofgem would give high priority to consideration of a decision on CAP160 once the Amendment Report was received from National Grid.

Action: National Grid (HR)

1636. HR requested any comments from Panel Members in due course on the current structure and content of the Working Group Reports.

Action: Panel Members

6 Consultation Papers (as at 17/07/08)

1637. None.

7 CUSC Amendment Panel vote

1638. None

8 Pending Authority Decisions (as at 17/07/08)

1639. **CAP131: User Commitment for New and Existing Generators** - IA consultation issued and the closing date was 18th July.
1640. **CAP148: Deemed Access Rights to the GB Transmission System for Renewable Generators** – An IA was published on 16th July with a closing date of 28th August 2008. An Erratum was issued on 24th July correcting some minor inconsistencies in the IA.

9 Authority Decisions (as at 17/07/08)

1641. None.

10 Report on other Industry Documents (BSC, STC, Grid Code and DCUSA)

1642. **Grid Code** – DB reported that the Compliance and GIS Working Groups were continuing to make solid progress and both were currently scheduled to report back to the Grid Code Review Panel (GCRP) early next year. The final report of the Rated MW Working Group would be presented to the September GCRP although the substantive issues were expected to be the subject of further analysis by a new reactive power working group to be established later this year.
1643. **BSC** – DJ referred to the outcome of the Judicial Review of the Zonal Losses Modifications in the BSC. Ofgem had subsequently indicated that the Modifications had now effectively fallen away and that the Authority could therefore make no decision on the modifications in the light of the outcome of the Judicial Review. DJ and MF noted that there were lessons for all Panels arising from this judgement in the context of conditional implementation dates embedded in Modifications. MF

confirmed that Ofgem were considering the issue of a letter to all Panels on the implications of conditional implementation dates. MF did not believe that the work undertaken in association with the Zonal Losses Modifications was lost since BSC Parties could draw on that work for any future Modification Proposals concerned with Losses. GG noted that there were specific IS release dates for the BSC which had given rise to the conditional implementation dates in the Zonal Losses Modifications and that such release dates were generally not utilised in the context of the CUSC. However, there would be a significant need for IS development to implement some of the current Transmission Access Amendment Proposals that would probably have a lead time of up to 12 months so the Panel would need to consider appropriate conditional implementation dates carefully when it came to decisions on CAPs161-166.

1644. DJ also gave the Panel a presentation on Issue 32 (Black Start) and Issue 33 (Fuel Security Code) which was now on the National Grid website at <http://www.nationalgrid.com/uk/Electricity/Codes/systemcode/Panel/2008/25July08/>
1645. DJ explained that Issue 32 concerned actions that would need to be taken on the declaration of a Black Start period. Operation Longshadow had originally raised questions as to whether the BSC was sufficiently detailed and robust in relation to the commencement of a Black Start period. The main concerns focussed on revisions to Section G of the BSC in order to communicate effectively the commencement of a black start period with its Single Imbalance Price, the appropriate compensation mechanism and restarting the normal BSC market arrangements. GG noted that the definition of black start, within the industry codes, included partial as well as total shutdown. GG reminded the Panel that whilst GB had not experienced a total shutdown in living memory, it had seen partial shutdowns. GG noted that the Great Storm of 1987 would have resulted in a partial shutdown of the transmission system and hence a declaration of a black start period. Market suspension may therefore occur more frequently than hitherto considered likely.
1646. The Fuel Security Code had been reviewed and updated about one year ago and the BSC was amended as a result. However, responses received during the review also suggested that the BSC could be clarified in a number of areas. Since a Party could not be in breach of the BSC (or the CUSC and Grid Code for that matter) as a result of following an FSC instruction, there were implications for market stability, BSCCo and Panel Reporting, the confidentiality of instructions and credit cover monitoring. On claims the proposal was to establish a claims committee for both a Black Start period and also should an FSC event be declared. Cost Recovery associated with an FSC was an area for decision for Ofgem but the preference was to use the BSC funding share arrangements. At present National Grid was minded, on behalf of the industry, to raise a single Modification in late Autumn with Elexon and the Issue32/33 Group members providing drafting support, although Ofgem had suggested that the changes might be better split out into two modifications.
1647. MF gave the Panel a presentation on Setting the Scope of the Governance Review which was now on the National Grid website at <http://www.nationalgrid.com/uk/Electricity/Codes/systemcode/Panel/2008/25July08/>
1648. MF indicated that there had been a good response (40 letters) to Ofgem's consultation on the Governance Review and he welcomed this engagement with the industry. Ofgem believed that the current industry governance arrangements had worked well for mainstream issues but had fallen short in the context of major reform such as cash-out in the BSC and Transmission Access in the CUSC. The current

arrangements were unduly complex and fragmented, produced reports to the Authority that were opaque and lacked sufficient analysis and incumbent players dominated the process. New entrants struggled to engage in this climate and Code Governance had not coped well with the changing market and regulatory environment. Ofgem therefore saw 6 key work strands for the review:

1. Strategic Policy Reform/Self Governance package
2. Charging Methodologies
3. Code Objectives
4. Code Administration
5. Complexity and Fragmentation Workgroup
6. Small Participant Initiatives

1649. **Major Policy Reform/Self Governance.** Ofgem wanted to see major policy reform delivered more effectively through the Code Governance arrangements. At present Ofgem believed the Code governance arrangements hindered new policy initiatives. Ofgem were considering a three-pronged approach

- Where Ofgem initiated a high level strategic policy review with legally binding conclusions with Panels subsequently developing modifications to comply with the conclusions
- Business as usual – where Ofgem would categorise a modification proposal as material but with no major review necessary and the Panel would develop the modification as currently
- Self governance where the industry itself would lead on a modification and the Panel would accept or reject with an appeal mechanism

1650. Specific issues in the UNC were the number of Code amendments that required licence changes and the lack of customer representation. Ofgem believed that more self-governance with protections would be appropriate for low customer impact modifications. Ofgem were planning a combined package of proposals in this area and would consult on them in Autumn 2008. In response to a question from GG, concerning Ofgem being able to (i) raise (and sit in judgement on) Code amendments and (ii) not sit in judgment on other Code amendments based on a new 'low customer impact' criteria, MF indicated that Ofgem would consider whether primary legislation would be necessary for these changes but believed that the vast majority could be introduced via Code and licence changes alone.

1651. **Charging Methodologies.** The key change here that Ofgem was contemplating was whether or not to allow market participants to raise changes to the methodologies. This could be achieved by transferring the methodology into an existing Code or continuing to retain it in the licence but allowing more accessibility. A consultation would be issued in August 2008.

1652. **Code Objectives.** The key issue here was whether the Code Objectives should be aligned more closely with the statutory duties of the Authority. The aim was to consult on the need to reflect the Authority's duties regarding the Environment in the Codes but not the other statutory duties. A consultation would be issued in September 2008.

1653. **Code Administration.** Ofgem wished to improve the quality of analysis contained in the final report to the Authority on the merits of a Code amendment. There was also a case for more engagement by Ofgem in the amendment process itself in order to prevent Panels ending up in "blind alleys". There could be arrangements to enable the Authority to send reports back to a Panel for more analysis and for the Authority

to “call in” Panels and Code Administrators. Panel structures would also be considered to try to improve customer representation and quality of reports and decision taking. Ofgem would consult on these aspects in the Autumn of 2008.

1654. **Complexity and Fragmentation.** Ofgem were setting up a Working Group to explore best practice and convergence opportunities across Codes. Ofgem saw complexity and fragmentation as a barrier to entry. There were no proposals to pursue Code mergers at present but it was open to the industry to take the initiative here.
1655. **Small Participant Issues.** Ofgem were keen to explore the requirements on Panels/Code Administrators to consider the needs of smaller participants. Assistance could be made available for smaller participants to engage in the Code Modification process. A consultation would be issued in Autumn 2008. GG noted that some so called “smaller” participants whilst small players in the electricity market context were, in fact, the subsidiaries of major corporations. He queered the justification for cross-subsidies being provided in such cases. These were substantial businesses and so could hardly be considered lacking in resources. MF noted these views but commented that there were still many smaller players particularly in the renewables sector that were genuinely short of resources. HC agreed that smaller companies might need to be incentivised in order to encourage participation in the Code modification process. GG noted that it might be more efficient for smaller players to follow the example used by the members of the Scottish Renewables Forum, where they had combined to support a single representation at the Transmission Access Working Groups.
1656. There were also slides describing Ofgem’s aspirations for Code Governance and a summary of the Brattle Report and Respondents views in response to the governance consultation but MF indicated he did not propose to go through these.

11 A.O.B

Energy Margin Service

1657. BV referred to an e-mail that National Grid had sent out on 22nd July to providers seeking their views on the introduction of an Energy Margin Service plus optional Frequency Response Service for August 2008. The e-mail indicated that National Grid was seeing a firm requirement to procure margin on a daily basis and forecast that this trend would continue into August. BV asked what had given rise to National Grid’s request in this e-mail. DB explained that National Grid was currently experiencing high balancing costs on the system. Tight margin conditions were being exacerbated by generator running regimes under LCPD and constraints on the system in Scotland. Rather than simply buying reserve on a day-to-day basis, National Grid was therefore looking at more efficient ways of contracting ahead for reserve through August. If the initiative was successful National Grid would seek to incorporate any new contracting arrangements into the Procurement Guidelines. BV thanked DB for this explanation.

12 Record of Decisions – Headline Reporting

1658. The Panel Secretary would circulate an outline Headline Report after the meeting and place it on the National Grid website in due course.

Action – RD to circulate and publish.

13 Date of Next Meeting

1659. The next meeting is scheduled for Friday 29th August 2008, at National Grid House, Warwick Technology Park, Gallows Hill, Warwick, CV34 6DA.