

Transmission Access Working Group 2

Meeting Name	Transmission Access Working Group 2
Meeting No.	25
Date of Meeting	10 th December 2008
Time	10:00 – 16:30
Venue	Hilton, Warwick

This note outlines the key discussions, decisions and action points from the twenty fifth meeting of Transmission Access Working Group 2.

1. Introductions/Apologies for Absence

1. Apologies for absence were received from Sebastian Eyre, Nick Frydas, Simon Lord, Cathy McClay (Alt. Louise Schmitz) Ed Reed, Helen Snodin, Barbara Vest, Lisa Waters.
2. GG noted that we still required legal text for the original, WGAA1 and WGAA2.
3. HR mentioned that there was a further consultation response to be considered from Mike Gibbons.

2. Review of Volume and Duration Auction Alternative

4. HR presented introductory slides on the volume and duration auction alternative.
5. FN asked if the price could increase in some circumstances where users reduced their bid. HR noted this would be rare and would only happen if the representation of the system was very accurate. He noted there was a balance between the accuracy of the model and transparency. BR noted that averaging in a zone might decrease the chances of the price going up. HR noted that the price would be capped when you bid.
6. JH suggested a user bid volume, duration and how much you would be willing to be constrained off the system for. GG noted this was similar to having a fixed buyback price. PJ noted this would take away the pay as bid aspect of the balancing mechanism.
7. MDa noted that the model discriminated in favour of incumbents because users bidding in the second year would only be able to bid for short term access because the physical capacity will have been allocated in the previous auction. This could lead to a higher price for new users. GG noted that everyone has the opportunity to bid in the first auction. MDa noted that you may not bid because you don't have planning permission. HR suggested the ways to get round this point would be to either hold an auction one year at a time or hold some capacity back. MDa noted that a single year auction might be a good idea. GG suggested this would not be bankable. HR added there would only be a signal to networks of one year.
8. PJ suggested that the price could be lower in future years due to investment in the network. MDa argued that the prices would not go down. A new bidder would be picking up all the costs of constraints for their capacity.
9. JH noted renewables might want a product you could purchase hourly. Eg a user could ask for 1000 hours. This would mean a User bidding in a load factor. Different to over run. HR noted the timing of the hours would need to be considered. PJ noted we should not stray too far from the original definition of the alternative.
10. PJ asked if you can profile the price under the model. BR suggested that that should be possible.

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11. BR noted that projects that accept an offer in one round are in the background for future rounds.
12. PJ was concerned that the fact you could only decrease your volume/duration would mean that the optimal solution would not be found. JH suggested that not being able to go back up stopped you from gaming the system.
13. SC asked if a user always had to bid in the first round. HR noted if it was descending then any User wishing to have the opportunity to have long term access would need to participate in the first round. BR added that he had envisaged that the auction would be descending.
14. JA was concerned the closure rules could be open to gaming. HR noted that users would be deemed to have accepted the bid if the auction closed.
15. MDa wanted to know as soon as possible if Ofgem considered that the potential discrimination issue was a fundamental problem. SC noted it was a problem with all auction arrangements. MZ noted she could not say that the model wouldn't work at this stage in the development. JH noted Ofgem would not have agreed to an extra 6 weeks to develop this model if they thought the discrimination point was a fundamental problem which could not be resolved.
16. BR noted that there was no concept of baseline and incremental in his original proposal. He had envisaged that National Grid would optimise what works were required during the price calculation and incumbents would get the existing capacity. MDa noted that under BR's suggestion if two generators bid in year five, one new and one existing generator, the existing generator would pay a lower price. HR suggested that an alternative to this would be to pro rate the existing capacity.
17. PJ noted that the Scottish constraint issue would need to be considered in relation to this model. GG noted that there may be additional derogations. HR agreed to check if there are further derogations.
Action: MD
18. BR noted that the original concept was that you would fix your whole TNUoS although there might need to be an additional recovery charge.
19. GG noted that any buy back cap should only apply when there is a capacity issue not an energy requirement.
20. MDa noted that using the average price for the short term pricing in auctions would potentially lead to under recovery as users would only use the product when it gives them an advantage. Users would have to be either have a fixed short run cost or use overrun they should not be able to choose between the two when they generate.
21. JH noted that that he wanted to be able to buy a number of hours. HR noted that the short term price was an hourly product. You would pay the price on a £/kWh basis.
22. PJ noted that we need to consider how the baseline capacity was prorated. MDa suggested some examples would be helpful.
Action: EC
23. GG suggested that much of what we had decided before could be used for this model.
24. The group considered what parts of the model required further development:

Auction Process

- Timescales
- Duration
- Closure

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- Descending or not
- How many years

Allocation of rights

- Short term /long term – prioritised or pro rated
- Location, boundaries/ Zonal /nodal
- Baselines + incremental (lead times)

Long-term pricing

- Future reinforcements
- Revenue recovery
- Load factor
- TRAs

Short-term pricing

- Buy back
- Volume
- Price – locational? Marginal? Profiled?
- MW or MWh
- TRAs interruptibles intertrips
- Revenue recovery
- Products - cfd

3. Date and Location of Next Meeting

25. The next meeting will be on the 15th of December at RWE's Offices, Kingsway London.

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Appendix 1 – Working Group Attendance

Members Present:

Hêdd Roberts	HR	Chairman
Sarah Hall	SH	Technical Secretary
Mark Duffield	MD	National Grid
James Anderson	JA	Scottish Power
Stuart Cotton	SC	Drax Power
Mike Davies	MDa	Wind Energy
Garth Graham	GG	Scottish and Southern Energy
Paul Jones	PJ	E.on
Fiona Navesey	FN	Centrica
Bill Reed	BR	RWE npower
Louise Schmitz	LS	British Energy

In Attendance:

Elaine Calvert	EC	National Grid
Jerry Hauber	JH	RWE Renewables
Min Zhu	MZ	Ofgem

Apologies:

Sebastian Eyre	SE	EDF Energy
Nick Frydas	NF	Merrill Lynch
Simon Lord	SL	First Hydro
Cathy McClay	CM	British Energy
Ed Reed	ER	Smartest Energy
Helen Snodin	HS	Scottish Renewables Forum
Barbara Vest	BV	Gaz de France
Lisa Waters	LW	Welsh Power