

# Transmission Access Standing Group (TASG)

## Minutes and Actions Arising from Meeting No.3 Held on 22<sup>nd</sup> May 2002 Brandon Hall Hotel, Coventry

### Present:

#### Standing Group Members

Phil Russell	PR	Chairman
Barbara Vest	BV	RWE Trading Direct Ltd
Brian Sequeira	BS	British Gas
Charles Davies	CD	National Grid
David Lane	DL	Clear Energy
Dick Cecil	DC	London Electricity Group
Duncan Jack	DJ	St Clements
Hugh Conway	HC	Energywatch Representative
John Capener	JC	British Energy
Malcolm Taylor	MT	AEP
Mike Harrison	MH	Scottish Power
Nigel Cornwall	NC	Cornwall Consulting
Paul Jones	PJ	PowerGen
Peter Clubb	PC	GDF
Phil Lawton	PL	National Grid
Richard Court	RC	National Grid
Simon Lord	SL	First Hydro
Steve Drummond	SD	EDF Trading
Tim Russell	TR	
David Friend	DF	Technical Secretary

### In Attendance:

Anthony Doherty	AD	Ofgem
John Norbury	JN	Innogy
Patrick Hynes	PH	National Grid
Tony Pollack	TP	Ofgem

### Introductions/Apologies for Absence

33. Apologies were received from David Tolley (Innogy), Nick Frydas (EDF Trading) John Stewart (Campbell Carr) and Keith Miller (Teesside Power).

### Approval of Minutes

34. The minutes of the last meeting held on the 9<sup>th</sup> May 2002 were approved subject to the following alterations:

Minute 16 (Action 13): change to “.....22 May 2002 meeting arranged for Brandon Hall”.

Minute 17 (iii): change to “.....a transmission fault or an inter-trip (unless the inter-trip was armed to protect the National Grid Transmission System).....”.

Minute 21: change to “On the first point, DC suggested that it could be more

appropriate....”

Minute 27: change third bullet point to “What are the consequences for breaching the access rights or obligations”.

### Review of Actions

35. The actions from the previous meeting were addressed:

- Action 12: NF presentation on Transmission Access Arrangements in Europe. (presentation now scheduled for meeting on 10 June) - **Action carried forward**
- Action 19: RC to widen the scope of his 9<sup>th</sup> May 2002 presentation to include additional slides to explain the contractual relationship between the different Users of the Transmission System and the charges each User pays – **Action Complete.**
- Action 28: Presentations by BV,MT, RC, DL and SD to address key questions raised at 9<sup>th</sup> May 2002 meeting (agenda item 4) – **Action Complete**
- Action 29: SD presentation to address key questions raised at 9<sup>th</sup> May 2002 meeting from a why change/minimal change perspective (agenda item 4) – **Action Complete**

### Matters for Discussion

36. At the last meeting, 5 questions were tabled and actions placed on Standing Group members to make presentations to address each of the questions from the perspective of the different Transmission System Users. The presentations were the main focus of discussion for this meeting. The 5 questions, an outline of each of the presentations and a summary of the debate that followed each presentation is given below:

37. The 5 questions were as follows:

- How should access rights be defined (rights, obligations and charges etc);
- Who buys, sells and trades the access rights;
- What are the consequences for breaching the access rights or obligations;
- Who are the players and what are their contractual obligations and relationships; and
- What are the implications for National Grid’s investment decisions and Price Control cost recovery.

### Presentation 1 – Why change/minimal change perspective (SD)

38. SD explained that he personally supports the current arrangements for transmission access in relation to what that he perceived could be introduced in accordance with Ofgem’s final proposals document. SD suggested that although the current arrangements were not 100% ideal, changes should only be introduced if it was apparent that there would be improvements over the current arrangements.

39. SD summarised Ofgem’s need for reform and why Ofgem perceived there was a need to introduce firm tradable access rights (e.g. as poor transmission cost

signalling had led to inefficient generation investment etc). SD also outlined Ofgem's Objectives (e.g. the introduction of more cost reflectivity into the transmission access arrangements). SD noted that by looking at the key elements of the proposed new access regime, Ofgem must believe, inter alia, that the system was not operating efficiently, National Grid were not correctly incentivised and locational decisions were inefficient. SD also suggested that although it could be argued that the system was not run efficiently and that locational decisions were inefficient, the reason for this was due to the fact that transmission charges were socialised and reinforcement costs smoothed (rather than a deep-entry charging regime). On this point, SD also noted that from his understanding, although it appeared Ofgem did wish to retain a shallow charging regime, the conclusions of the document seemed to lead to a deep charging regime.

40. SD also suggested constraint costs to be a "red herring" suggesting that the current method for resolving constraints was already cost reflective. SD also pointed out that constraint costs were currently low and if we were to move to a regime that targeted constraints further, it would be difficult to identify the 'polluter'. SD concluded that the only sensible solution was to continue to socialise constraint costs. SD also outlined that he believed National Grid were already incentivised to operate efficiently and invest correctly and why transmission costing/charging was already transparent.
41. SD concluded that if any changes were required to the existing arrangements, they should be evolutionary rather than radical. SD also suggested that Ofgem's desire for proper locational signals could potentially be met by the introduction of locational TLFs (that are already being progressed in another forum) and deep-entry pricing under the current arrangements.

### *Discussion*

42. There was some discussion whether the implementation of new transmission access arrangements would remove the need for transmission system planning standards. CD confirmed that in making transmission reinforcement decisions, cost benefit analysis was also taken into account as well as deterministic planning standards. CD also explained that if, as had been indicated in earlier discussion, constraints were considered as "too low", then this must mean that security standards were too onerous. However, in the recently completed review of transmission security standards, this had not been the view of users of the system.
43. RC added that under the current rules, National Grid were obliged to offer Connection terms to any User and that User was unable to connect until the transmission system was reinforced in accordance with the security standards. PR noted that this was an important issue, i.e. you could feasibly connect a generator anywhere on the system without reinforcing but not allow that generator to operate if it would mean that the security standards were encroached. CD pointed out that the current arrangements allowed for some 'customer choice' i.e. a non-standard connection could be permitted if there was no impact on other Users.

### Presentation 2 – From the perspective of a Supplier (BV)

44. BV explained that a small group (BV, BS, DJ & NC) had considered the 5 questions from the Supplier perspective. During their discussions, two different possible 'worlds' had emerged; a DNO/National Grid world (a 'keep it simple' model emerging as a slower paced, certificated, regulated environment) and a National Grid/Supplier world (closer to the Ofgem model emerging as a much more complex 'NETA 2' version of Transmission Access). BV explained that both models raised many questions and highlighted numerous interactions (some inside and some outside the remit of TASG).

#### *How should rights be defined?*

45. In the DNO/National Grid world, the DNO would be responsible for purchasing access requirements from National Grid on a GSP group basis and charging Suppliers via DUoS charges. The Supplier would then pass the costs through to the end consumer based on actual consumption. In the National Grid/Supplier world, the Supplier would need to purchase the access requirements, charges being based on actual metered consumption. BV highlighted a number of general issues common to both models and associated with the method of Allocation, duration/timing, how to handle customers changing supplier and whether charges were on the basis of what was actually used or what was requested.

#### *Who buys and sells and trades access rights?*

46. This question highlighted a wealth of issues that would need resolving under both potential worlds. Who buys or sells and from whom would depend on the relationships in place between the different users, what is traded would depend on the trading rules set (i.e. inter or intra GSPG trading etc). BV explained that rights could possibly be traded over a power exchange and highlighted the possible need for a gate-closure mechanism for access. Other issues associated with trading that would need to be resolved included what type of trading system is to be employed (e.g. screen based, bilateral agreements etc), monitoring concerns etc.

#### *What are the consequences of breaching rights?*

47. BV noted that capacity was not a scarce commodity and questioned whether breaches were likely in view of the 'margin' currently built into the transmission system. BV also noted that under both worlds, various issues would need to be resolved (i.e. penalty mechanism for breaching, how to handle system constraints, failures etc).

#### *Who are the players and what are the contractual obligations/rights?*

48. Under the DNO/National Grid world, the DNO would need to be a signatory to the CUSC and it would be a licence obligation to sign. In the National Grid/Supplier world, the Supplier would need to be a signatory to CUSC with a licence obligation to sign. Under both worlds, the Supplier DUoS agreement would probably need amending to reflect changes in charging methodology.

#### *How should National Grid's investment decisions be driven? In relation to cost recovery mechanism or investment costs?*

49. This question highlighted a number of issues that would need resolving under both potential worlds e.g. deep or shallow charging, how to align DNO investment signals with National Grid investment signals and vice versa and the need for transparency and interaction with price control arrangements.

### *Discussion*

50. There was some discussion regarding the consequences of breaching rights. HC questioned whether penalties were appropriate for breaches that had no consequential system impact. TR suggested that breaches may or may not make a difference. There could be situations when no rights have been breached yet problems exist and vice versa. TR suggested the issue should be to incentivise Users to match the rights with their actual needs. NC highlighted the possible free-rider issue, if breaches were not penalised.
51. NC also gave a short presentation outlining the high-level requirements of any new access arrangements. NC suggested that before any sensible analysis could be undertaken, there was a need to make a number of key assumptions. NC also suggested that there appeared to be two extreme approaches to a revised access regime, a static solution (shallow charging, planning standard approach, socialised costs etc) or a dynamic solution (deep charging, negotiated standards, strong locational charging etc). NC also pointed out that there were a number of 'hybrid' solutions between the two extremes. NC noted that Ofgem's original proposals had called for the introduction of the more dynamic characteristics as outlined above, whereas the latest view seemed to be for a more static approach (involving a number of small incremental changes from the current position) to be implemented. NC concluded that different assumptions led to different solutions.

### **Presentation 3 – From the perspective of a Distributor (DL)**

52. DL noted the probable need for a triad TNUoS replacement (even though many customers are keen to retain the triad mechanism) and highlighted two potential options for charging. The first option involved a straight pass-through of charges from National Grid to the distributors then to end customers (locational message would be at GSPG level, not inter GSPG). DL noted that this option did not satisfy Ofgem's requirements as outlined in their final proposals document. The second charging option was a targeted approach to charging (i.e. identify which customers were causing costs and specifically target those customers). DL noted under such a mechanism, DSO costs for trading, settlement etc would be higher and that the DSO would require suitable incentives to be in place to target and minimise charges. DL noted such arrangements were likely to be complex. DL suggested that under such a charging regime, the transaction costs could easily outweigh any benefits. In summary, DL suggested that neither of the two options appeared to better facilitate the relevant CUSC objectives.

### *Discussion*

53. HC noted that many customers wouldn't wish to see the triad charging mechanism replaced adding that triad based charging was simple and effective for all market participants. NC suggested that Government Policy regarding the need for active low voltage network management was the argument for charges to go through the DNO's (although NC noted that he didn't necessarily agree with this). NC noted the need for 2-sided access arrangements and explained that the methodology behind how charges were passed through to end customers determined the contractual relationships that were required.

### **Presentation 4 – From the perspective of a Generator (MT)**

54. MT explained that the presentation was just one view and not the view of all generators.

### *How should rights be defined?*

55. MT explained that rights should be commercially firm (and that compensation should be provided when rights were not provided) and for the duration of the project life. MT suggested that the rights should be gained via an agreement and entry capacity should be capped by the connection capacity of the generator. The charging structure should be simple and probably based on a mixture of postage stamp + some zonal differentiation.

### *Who can trade?*

56. MT suggested that in principle, anyone could trade (traders could take positions and generators/suppliers need to trade energy). MT questioned whether energy/access had separable value adding that, in practice, generators and suppliers would need access otherwise the energy was meaningless. MT also highlighted the question of how to deal with generators mothballing. Under a revised regime with firm access rights a mothballed generator would still have to pay TNUoS charges. MT also highlighted issues over who would actually be likely to buy rights (apart from National Grid) and at what price if a generator mothballed.

### *Breaching Rights*

57. MT noted that the ultimate sanction in the event of breach was loss of generation licence. A breach could also lead to severe financial penalties being applied (e.g. 10% of annual turnover). MT also noted that a breach may or may not cause additional costs but where additional costs were incurred, such costs would somehow need to be targeted.

### *Who are the players?*

58. MT suggested the players would essentially be the same as those now although there would be a new role for an access settlement agent. MT also questioned the role of the DNO's and the impacts of any new arrangements on smaller embedded generators (i.e. there would still need to be some recognition of their contribution to the DNO network etc).

### *National Grid Investment Signals*

59. MT noted that currently, network reinforcements were driven by the planning standards. Under revised arrangements MT suggested two possible alternative approaches (investments could be driven by operational standards or investments were only made when the PV of the associated constraint costs exceeded the PV of the cost of investment). MT added that finding the correct solution re. Investment signals was difficult and one facing several challenges.

### *Discussion*

60. CD confirmed National Grid's use of other planning techniques in addition to the planning standards to evaluate required transmission reinforcements. CD noted that this included analyses to compare PV of constraints against PV of investment costs. MT highlighted an alternative approach could be for National Grid to invest on the basis of their own forecasts or a combination of the two approaches (i.e. be responsive to individual requests for connection + use a National Grid view on what reinforcements are actually required). NC explained in the gas industry (where access is determined through auctions) the auctions themselves provide the investment signals to Transco. CD considered that auctions implied a deep charging regime. Following further discussion on the arrangements in gas, the group agreed it would be beneficial to obtain a definitive view on the gas industry. PR agreed to arrange a presentation to outline Transco investment drivers etc.

## Presentation 5 – From the perspective of an Interconnector (SD)

61. SD reviewed the current arrangements and how they impacted on the existing interconnectors. He also raised a number of questions relating to the implications of the perceived revised access regime. SD questioned whether auctions would follow the initial allocation of access rights. He also noted that if rights were not for project life no one was likely to invest in future interconnector projects (that in general have a payback of circa 25 years?). SD briefly outlined some of the EU developments currently being considered and noted the requirement for the TASG to bear these in mind when developing revised access arrangements. SD also noted the need for interconnectors to be considered properly (i.e. as two-way objects) during the planning process.
62. Concluding, SD outlined the attributes of a revised access regime from an interconnector perspective. These included access rights for the life of the project, proper recognition of 2-way flow and superposition and the ability to have both firm and non-firm access rights.

### *Discussion*

63. NC noted the need for a sensible and equitable treatment of interconnectors under any revised access arrangements and noted there would also be a need to consider the relationships between interconnector owners and users. RC noted that the relationship would depend on who had the access rights under the new regime. RC also agreed with SD over the need for TASG to be mindful of the EU developments.

## Presentation 6 – From the perspective of National Grid (RC)

64. RC explained that two different models had previously been developed and these had been used to answer the 5 questions tabled; the full tradable model (as previously developed following the publication of Ofgem's initial access document in 2001) and a simpler model that meets some of the attributes of Ofgem's revised proposals document (and that could potentially be implemented within the timescales required).

### *Strawman B (full access market)*

65. RC explained that under this model, access rights would be firm and be defined half hourly for both generation and demand (on a nodal basis). Rights would be allocated initially via auction and then rights could be exchanged through secondary trading as well as the possibility of the system operator releasing or buying back rights. Rights could be traded bilaterally at the same node or between different nodes (facilitated by National Grid). Locational signals would be revealed in auctions and residual transmission costs would be recovered through a non-locational charge based on capacity or usage (or a combination). Locational imbalance charges would be levied for over and under runs on a half-hourly basis through a full settlement system. National Grid would be incentivised to invest to provide baseline network capacity (TO allowed revenue) or for reducing constraints (SO BS incentive). There could also be a deep SO-incentive for additional capacity.
66. RC concluded that although Strawman B as developed appeared to meet all of Ofgem's access objectives, it was costly (in particular due to the need for an

access imbalance settlement system), complex and, given that there would be very limited bilateral trading in such a market, such a change would be difficult to argue as efficient for the end consumer.

### *Strawman A ( Current World Evolution)*

67. RC explained that under this model, access rights would be financially firm and defined annually for both existing generation and demand players (for example based on MEC for generators). Rights would be allocated initially (rights to generate or consume up to a certain level, no obligations). Subsequent rights for newcomers would be subject to a 'secure, connect, use' process. Annual rights could be traded bilaterally at the same node or possibly between different nodes (facilitated by National Grid). Constraint contracts or BM bids/offers could be used to add shorter-term obligations. This would mean that only the contracts would have to be settled and hence a full settlement of all players would not be required.
68. Two options were put forward with regard to the price of the allocated rights. Firstly a locational access charge could be used to allocate the rights and then residual charges for revenue recovery or operational costs could be on a non-locational basis. Alternatively, if a non-locational initial access charge was made, then a locational charge for operational costs relating to constraints could be levied. It was argued that the first option may be more consistent with financially firm access rights. National Grid would be incentivised to invest against the security standard (TO allowed revenue) or for reducing constraints (SO BS incentives).
69. RC concluded that although Strawman A did not meet all the attributes of Ofgem's revised document it did have a number of features including short term constraint option contracts which could modify annual rights by adding shorter term obligations.

### *Discussion*

70. MT questioned if National Grid had undertaken a detailed assessment of Strawman A to evaluate cost savings etc. RC suggested that certain decisions or assumptions would need to be made before any sensible evaluation could be made. JN questioned if charges under Strawman A would be based on a similar approach to now (i.e. ICRP based) or if there would be a move to nodal charging under this mechanism? RC suggested that Strawman A was a refined version of the current arrangements and the ICRP model would seem a sensible starting point.
71. In summary the group believed that although further development and assessment was required on Strawman A, it did offer a model that seemed to be along the right lines and should help focus the debate in order to move forward. RC volunteered to add further detail to Strawman A and add in demand side options and NC agreed to suggest ways of integrating demand side participation into Strawman A.

**Action: RC and NC**

### **Date of Next Meeting/AOB**

72. Two further dates (5 July in London and 23 July in Coventry) were agreed for further TASG meetings. The next meeting of TASG is scheduled for 10 June 2002 (Montcalm Hotel, London).