

## Transmission Access Working Group 2

Meeting Name	Transmission Access Working Group 2
Meeting No.	23
Date of Meeting	27th November 2008
Time	10:00 – 16:30
Venue	Hilton, Warwick

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

### **1. Introductions/Apologies for Absence**

1. Apologies for absence were received from Stuart Cotton, Sebastian Eyre, Nick Frydas, Cathy McClay (Alt. Rob Rome), Fiona Navesey, Ed Reed and Barbara Vest (Alt. Dennis Gowland).

### **2. Implementation Of Reserve Prices**

2. HR presented slides on an auction alternative which uses reserve prices.
3. HR showed a reserve price function. BR noted that the costs up to the baseline were sunk costs. HR noted that in areas where demand was greater than generation the signal should encourage generation to locate there so you should have a negative price. HR argued if generation falls below demand then the cost of having new generation would save you money because you were avoiding an import.
4. HR suggested that for each boundary you could build a supply function and match this against the bids in the auction. GG asked if National Grid would provide this information to Users. HR noted that the function would be known by bidders in the auction. HR suggested you could have one of these for each year which was calculated in such a way that you could bid more and get on early.
5. MZ noted that there would be interaction between boundaries. BR added that the function for boundaries in the north would be a composite of boundaries south of it. GG asked if he was bidding at one node with one price or at several boundaries. HR responded that he is bidding one price at one boundary but the cost function is made up of lots of boundaries.
6. SL noted that one of the issues with TNUoS is that if you spend money on reinforcement in an area under some circumstances the TNUoS tariff can decrease. HR noted there were some problems with using TNUoS. MZ noted that using the term "TNUoS" could be confusing we are talking about using the output of the ICRP model.
7. PJ noted that the amount of capacity clearing on a boundary affects the supply curve. PJ was concerned that the Users in the north would always win in the auction because they would be bidding the most. HR noted that northern Users would have to cross more boundaries. PJ suggested that when you allocate at southern boundaries, northern boundary functions will change. HR noted you would not be able to provide a definitive supply curve.
8. DG asked, if the generators in an area bid above the bid price would that trigger more investment. HR responded: the model allocates existing capacity to those who bid the most. If you bid above the reserve price for a number of years and reinforcement is required extra capacity will be triggered. HR noted that if you bid below the supply curve you would not win capacity.
9. HR was concerned that at the moment the DCLF model takes into account the effect on the whole country, doing analysis for single boundaries may not take this effect into

account.

10. HR noted further consideration was required regarding TNUoS but this could not be completed before the consultation. Further analysis would need to be covered in the implementation phase. GG was concerned about work being done during the assessment phase. HR suggested this was a charging issue which could come under the charging governance. Some members of the group argued that the model was based so much on this analysis that it could not be taken forward solely as a charging issue.

### 3. Closure Rules

11. HR ran through an example of how the closure rules could work. HR showed how the cleared price could remain the same over two rounds but the allocation of capacity could change. HR noted that to avoid the auction closing without people expecting it to any stability rule would need to apply to three rounds rather than two. This would give bidders a warning of when the auction would close. Some members of the group considered it should be cleared price **and** volume that needs to become stable for the auction to close. The majority of the group concluded that the closure rule should be based on: cleared prices (for each year and boundary) stable for three years with notification after two stable years.
12. LW asked what she would be told after the auction. HR suggested that she would be told what the other bids in her zone were as well as the capacity allocation and the cleared price.
13. LW believed that you would need to be able to bid by station. Some members of the group suggested it may be helpful to bid by unit. It was noted you could have five volume slots per station. RR argued that he would prefer five bids per BMU. The group agreed Bids are per power station but the limit is based on five bids per BMU.
14. HR asked whether the group believe that maximum transparency would be a positive feature of the auction. The majority of the group believed transparency was appropriate. BR suggested if we had time we could test the model confidentially and non-confidentially to see if it transparency made a difference. LW suggested it should be fully transparent but it should be noted in the report that this could lead to gaming so testing would be required.
15. The group considered if a materiality test for the stability between rounds was required. The group believed user should bid in increments two decimal places of £/MW. The group agreed that 5p a MW would be suitable materiality test.

### 4. Baselines

17. SH presented some data showing the contracted connections expected in Scotland over the next ten years and the current derogation on the England to Scotland boundary.
18. GG argued that baseline in the first auction should allocate what is available today not release less. BR noted that National Grid was currently oversold at the boundary. PJ suggested we needed to decide if the connection offers would all remain or if the auction should be used to sort out the over allocation. HR pointed out that it would be inappropriate for current connection offers to remain if there is a new method for allocating capacity.
19. HS was concerned that the derogation had encouraged people to bring their projects forward but under the new regime the capacity might not be released. Under the model described today you could still release the capacity but would target the cost. MZ noted

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that the authority never said the costs would have been socialised. PJ was concerned targeting the constraint costs through the auction would lead to a mixture of BSUoS and TNUoS recovery.

20. MZ noted we need to decide whether the baseline is set at physical capacity or what is currently allocated. PJ added we need to decide how/if we honour the BETTA decision into the future. HS asked if arrangements where only the people who applied pre BETTA would be able to bid for the capacity above the physical limit would be appropriate.
21. BR suggested the baseline should be 3.3 GW till 2012 and after 2012 we should see if a further derogation is required. It was suggested that relief could be given to pre-BETTA users from their final sums if they don't win in auction. PJ suggested no capacity above the physical limit should be included in the baseline after 2012. HR suggested the baseline could be held at 3.3GW until the physical capacity catches up. PJ suggested anything which is eligible to participate in the first year of the auction should be included in the initial baseline.

### **5. Revenue Recovery**

22. The group agreed that the residual should be charged to both long and short term Users.
23. Under the new reserve price model some of the long-term users could be contributing to the BSUoS pot.

### **6. Methodology Statement**

24. The group confirmed that the methodology statement should be a document under CUSC governance.
25. SL noted that there would need to be a different methodology for different alternatives. EC noted that the current version was meant to be generic. The square bracketed sections would not apply to all alternatives.
26. GG noted that the initial and the final auction invitation should have exactly the same information but with only a confirmation of the referred applications.
27. BR asked if you would get a notification that your bid had been received. RR suggested you could have a similar system to PNs.
28. GG suggested for the first auction you should have one day off in between the auctions to allow for extra analysis time.
29. SB suggested that the methodology could be described by explaining the optimisation and the constraints. He added, you need to be able to understand the optimisation without understanding the maths behind it but the maths should be included in an appendix.
30. SB noted you could have two solutions to the maximisation. If there is not one unique solution we need to decide what to do. SL suggested if you run the model more than once you always get a consistent solution it is less of a problem if there are two answers.
31. SB asked what the tolerance on the solution is, how optimal is optimal. The accuracy of the solution would effect the computation time. MZ noted it was a simple linear

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program. She suggested this would make the program simple to solve.

32. The group considered there should be some validation of the data.

### **7. LCN**

33. PJ suggested you could put the local constraint into the auction if you were trying to provide two users with local access.
34. MD was concerned that users could be offered an LCN date and then a new user could come in and effect this date. PJ noted that the lag in time would only be a matter of months.
35. LW was concerned that there would be more speculative LCN applications which would involve a lot of work for National Grid to plan the network design.
36. The group considered having both the users competing for the local access in the auction by putting an extra boundary in. HR was concerned this could lead to double counting. HR suggested that you could change your definition of local in these circumstances.

### **8. AOB**

37. The majority of the group decided they did not want to ask for extra time to develop WGAA2.

### **9. Date and Location of Next Meeting**

38. The next meeting will be on the 2<sup>nd</sup> of December in Ofgem's offices, Millbank, 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
Garth Graham	GG	Scottish and Southern Energy
Dennis Gowland	DG	Fairwind (Orkney) Ltd.
Paul Jones	PJ	E.on
Simon Lord	SL	First Hydro
Bill Reed	BR	RWE npower
Rob Rome	RR	British Energy
Helen Snodin	HS	Scottish Renewables Forum
Lisa Waters	LW	Welsh Power

#### In Attendance:

Stephen Barnett	SB	National Grid
Elaine Calvert	EC	National Grid
Jerrald Hauber	JH	RWE Renewables
Min Zhu	MZ	Ofgem

#### Apologies:

Stuart Cotton	SC	Drax Power
Sebastian Eyre	SE	EDF Energy
Nick Frydas	NF	Merrill Lynch
Fiona Navesey	FN	Centrica
Ed Reed	ER	Smartest Energy
Barbara Vest	BV	Gaz de France