

## **Initial consideration of potential areas for change that would be required to implement the Transmission Access model set out in Ofgem Initial Proposals for the System Operator Incentives Scheme for 2003**

### **Outlined Model**

- Contractually firm tradable entry and exit rights
- Initial Allocation period for just physical players until end of current Price Review period
- Long Term allocation from 2006 onwards for physical and non-physical players
- Introduction of incentives for additional capacity release
- Rights to inject or offtake up to a certain level in a zone
- Obligations to inject or offtake a certain level in a zone in defined periods
- Zonal Product (with possibly different zones for entry and exit)
- Quarterly Product sold for a number of years ahead
- Quarterly Pricing of rights and obligations for all years offered
- New charges (Residual Transportation charge and SO Capacity Charge)
- Secondary un-facilitated Trading - no restrictions within zone
- Facilitated inter zonal trading through the system operator
- Trading down to daily (or half hourly level)
- Zonal Imbalance Settlement on a daily or half hourly level
- Day Ahead nominations of rights to be used
- Day Ahead Auction of unused capacity
- Central rights registration holder

### **Scoping Phase**

As noted in Ofgem's initial proposals document, the access model set out would need to be developed by the industry to a more detailed model before a more precise assessment can be made as to how it will function. For example, the last TASG meeting produced a number of further questions that members had on the described arrangements.

A phase would therefore be needed to scope and define the proposed arrangements before they can be developed for consideration for implementation.

This phase might include:

- Defining the precise characteristics of the product, rights / obligations, spatial definition, temporal definition, entities acquiring rights for both entry and exit (ie determine new capacity concept for demand)
- Defining the allocation processes and how rights are traded, acquired and surrendered for both sides.

- Development of how incremental capacity is to be released (the Incremental Capacity Release process, timescales and commitments, treatment of consent issues)
- Determining the nature of imbalance pricing and settlement
- Determining compensation for non-provision
- Assessment of how the model might better facilitate the Applicable CUSC/BSC or Relevant Charging objectives

### **Development Phase**

Once the framework is scoped further it could be taken into a development stage through the industry codes and other documents.

### **Industry Documents**

#### **CUSC Amendment Process**

- Substantial rewriting (replacement) of Sections 2, 3, 4, 6 and 9
  - New Capacity Requirement for Exit
  - Use of System Rights
  - Credit
  - Reconciliation etc
- Consequential consideration of Sections 8 and 10
- Establish rules for non-physical players
- Imbalance Pricing and Settlement Rules

#### **BSC Modification Process**

- Section K
- Data Exchange
- Interactions with P80?

#### **Grid Code Modification Process**

- Stand alone modifications to the Planning Code, Operational Code, Balancing and Data Exchange
- Will there be Grid Code obligation not to exceed access rights and to meet access obligations?

#### **Charging Methodologies Modification Process**

- Changes to Use of System Methodology
  - Quarterly Prices for the initial and long term allocations
  - Incremental capacity allocation pricing
  - New Residual Transportation Charge
  - New SO Capacity Charge
  - Modifications to BSUoS
- Identification of costs to be covered through each charge

- Calculation of charge types envisaged – kW or kWh, flat or locationally varying
- Implications of renewable generation/licence exempt generation
- Treatment of non-physical players
- Charging process (forecasting and reconciliation)

#### Transmission Licence Change Process

- TO Price control modifications
- SO Incentive scheme modifications
  - Capacity Release Incentive
  - Capacity Buyback incentive
- Modifications to clauses dealing with requirement to offer connection and Use of System terms
- New Incremental Capacity Release statement
  - Licence obligations on charging would need to change

#### Transmission Licence Statements change process

- Security Standards – would need to be reviewed (Planning Standards removed?)
- Changes to Procurement Guidelines
- Changes to Balancing Principles Statement

#### Electricity Act

- Consideration of any potential impact on licensing

#### Bilateral Agreements change process

- Creation of new contractual forms (BCA, BEGA, MSA etc)
- Agreement of new contractual forms

#### Interconnector Access Agreements

- Compatibility with transmission access regime

### **Processes**

#### National Grid

- Consider any impact upon NGC Operational processes (Balancing Activity)
- Data collection and submission
- Operational planning
- Connection and Investment planning in relation to new Access regime
- Creation of new processes:
  - Initial allocation process (to 31 March 2006)
    - Setting of the initial allocation prices (fixed)
      - determination of baseline transfer capacities
      - determination of capacities for Initial Allocation period (TEC?)
      - determination of prices on a quarterly basis (ICRP as basis but dis-aggregated?)
    - Calculation of underrun and overrun charges and associated reconciliation

- Identification of rules for over-subscription or under subscription)
- Subsequent allocation process (post 31 March 2006)
  - Setting prices on a long-term finite basis (and differing time periods)
  - determination of baseline transfer capacities
  - determination of incremental transfer capacities
  - Setting of the incremental prices
  - Calculation of initial exchange rates (inter zones)
  - Secondary trading and notification issues to NGC
  - Assessments against Incremental Capacity Release Statement
  - Determination of Initial Zones/Subsequent modification to Zones
  - Mechanism for the buyback of rights
  - Involvement in secondary trading

### Users

- Participation in allocations processes
- Secondary Trading
- Imbalance Settlement
- Credit Issues

### **Systems**

- Determination of flows and fault levels (likely to be an iterative process)
- Cost of reinforcement and assessment of options (e.g. When to release capacity above the baseline)
- Charging systems
  - To calculate new charges envisaged (data flows, charge calculation, billing & reconciliation systems) and subsequent modifications to charging rules
- New system for allocation of capacity (“use it or lose it”)
- Settlement (incorporating calculation of imbalance pricing, monitoring and settlement)
  - daily or half hourly settlement
- Central register of rights holdings
- Separating out buyback costs and capacity related costs

### **Implementation Phase**

Following approval of a new access regime through the relevant codes and licences, there would be a period of implementation of the new arrangements. This would need to ensure

- New and existing processes are in place for all participants
- Systems are tested and ready for Go-Live
- Data is in place
- Documents are changed and published
- The initial allocation and long term allocations can take place and notification to participants