

## Transmission Access Working Group 2

Meeting Name	Transmission Access Working Group 2
Meeting No.	20
Date of Meeting	11 <sup>th</sup> November 2008
Time	10:15 – 17:00
Venue	AEP, London

This note outlines the key discussions, decisions and action points from the twentieth 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, Fiona Navesey (Alt. Merel Van der Neut Kolfshoten), Ed Reed and Barbara Vest (Alt. Dennis Gowland).

### 2. Notes from Previous Meeting

2. The group agreed the notes from the previous meeting with minor alterations.

### 3. Update from other Working Groups

3. WG3 considered that zones could be entirely ruled out at their last meeting. WG3 had a long debate on LCN. The group was working on producing a map which highlighted which parts of the current system would be LCN and which parts would be wider. BR voiced concern that using the charging definition for LCN could be discriminatory. The group considered having a highlighted map may help to clarify any specific issues. The majority of WG3 considered that LCN rights should be enduring but a final decision had not been made on the issue yet.
4. One member of the group suggested that they might want to raise finite LCN as an alternative. The group considered whether working group alternatives could be raised at this stage. GG quoted paragraphs 8.17.10 and 8.17.18 of the CUSC and suggested that the number of alternatives was fixed at this stage. The group considered that the text was not very specific on the subject and considered that legal advice was required.

**Action: SH**

### 4. Investment Analysis

5. CM noted that in order to justify CAP165 we needed to know the potential cost to the network of stranded assets. A cost benefit analysis is required before we can vote on the amendment. HR responded that analysis was being performed on this topic but he was concerned about how to release details on this issue without releasing confidential information.
6. CM pointed out that in some circumstances where users left the system after additional infrastructure had been built the assets wouldn't be stranded because other users could come forward in the queue. HS noted that this was also a benefit of CAP165.
7. National Grid agreed to provide the results of their analysis before the group voted. The group agreed to hold a teleconference on Tuesday 18th November to vote on the amendment.

### 5. Working Group Consultation Requests

#### Welsh Power

8. LW described the alternatives requested by Welsh Power.

#### WP Alternate 1

9. Welsh Power's first alternative has three key components:
- At transition users have the option to stay on their current final sums methodology.
  - No financial commitment should be given more than [3] years out from the trigger date.
  - The cancellation amount can only be a maximum of 20% above National Grid's costs.

#### Transition

10. LW argued that making users change their existing pre-commissioning credit arrangements could cause issues through refinancing.
11. BR noted this proposal may lead to three final sums methodologies (two existing and one new) being included in the CUSC. HR suggested that the current methodologies may not need to be included in the CUSC.
12. LW suggested that under her proposal existing users on final sums could stay on final sums, move to the interim generic arrangements or move to CAP165 arrangements. Users on the interim generic arrangements could stay with interim generic arrangements or move to CAP165. New users would have the new CAP165 arrangements.
13. MK noted that if existing users could remain on their current arrangements the introduction of CAP165 would not remove any speculative projects. HS added this would mean that the current queue would not be reduced it would just avoid a queue in the future. BR noted that other arrangements had been put in place to manage the current queue.
14. HR noted he had concern about the transition of existing Scottish Users. HR suggested that users with substantial local works would have an incentive to leave the queue but users without any local works have no commitment so can stay in the queue. The group considered it would be helpful to know how many projects there are in Scotland without any final sums.

**Action: SH**

15. The group agreed that these alternative transition arrangements could be applied to any of the alternatives. The group decided to wait until they know how many projects there are without final sums before deciding if it was appropriate to apply these transition arrangements to the alternatives.

#### User Commitment

16. LW argued that small developers would struggle to put up the £1, £2, £3/kW at the early stages of a project. The group noted that under CAP131 user commitment only applied to projects within seven years of the completion date.
17. HR noted that for some projects spend was made more than seven years out. It was also noted that providing user commitment more than seven years out would help to avoid speculative projects.
18. The group agreed that user commitment only being required seven years in advance of the completion date was a reasonable alternative. The group considered this could be applied to WGAA1 making one additional alternative.

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### Cost Recovery

19. The group noted that the analysis for the user commitment profile was based on an average profile. This meant that on some occasions the commitment recovered by National Grid would be less than the costs and on others the commitment would be greater. On average this would balance out. If on the occasions where National Grid over recovered their costs there was a cap this would mean that on average there would be an under recovery. This under recovery would be socialised. The group agreed that it would not be right for the risk to be socialised in this way.

### Welsh Power Alternate 2

20. The key principle of Welsh Power's second alternative is that the generator has the option of locking in their profile of charges. The group agreed that this feature would be advantageous and could be included in the current proposals so no alternative was required.

### Welsh Power Alternate 3

21. Welsh Power alternative 3 is based on WGAA3 but the pre commissioning user would also pay a one off, non-refundable booking fee. The group considered that any booking fee should be provided as a £/kW figure. LW suggested that the £1, £2, £3/kW was too large an amount. PJ suggested that including the £1, £2, £3/kW but with the previously considered seven year limit could be a solution. LW agreed this could help.
22. The group agreed to consider an alternative which was the same as WGAA3 but with user commitment only being required seven years in advance of the completion date.

### Welsh Power Alternate 4

23. Welsh Power alternative 4 is based on WGAA3 but if the TO delivers late it must pay the user compensation.
24. CM noted she wasn't comfortable with this alternative because she believed it would lead to National Grid giving users very conservative connection dates.
25. The group voiced concern regarding who would fund the compensation. LW suggested an incentive mechanism would need to be built around this proposal.
26. BB suggested that CAP165 was not the appropriate vehicle to introduce this. He suggested that it could either be developed through incentives or through improved liquidated damages.
27. HR noted that one of the key points of TAR is having fixed connection dates. Currently none of the CAP165 alternatives put this on the table. Welsh Powers Alternative would make this an option.
28. MZ suggested compensation could be administered or calculated through the BM. GG suggested you could be given compensation which covered your costs in a similar manner to the way compensation is calculated in the fuel security code.
29. The group agreed that an alternative with fixed dates would be helpful but at this stage it was uncertain what the appropriate compensation should be.

### Centrica

30. GG noted that Centrica had said that they did not want to put forward a consultation request on their original form. MK noted that when they filled in the form they thought they would be able to raise the alternative through their representative on the Working Group. MK added that GDF had said that they wanted to raise a consultation request for a two year notice period on their form but had left it to Centrica to do so. HR noted that we had agreed to let people complete the form late at the previous meeting.
31. BR noted that Centrica's alternatives looked very similar to CAP131. CAP131 has been rejected so a similar proposal would be likely to be rejected too. MK noted that CAP131 was rejected on the basis that more evidence was required to justify the differential

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treatment of new and existing users.

32. MK noted that under this alternative it would be assumed that a user was connected for the next two years unless they stated otherwise.
33. MK suggested two alternatives: one used both options for the pre commissioning in WGAA3 and the other used only the TNUoS based pre commissioning. MK noted that the averaging effect of the analysis for CAP131 did not work if users could chose final sums where it was advantageous.
34. CM suggested that WGAA3 would be better if there was only the TNUoS pre commissioning. The group considered that to avoid having too many amendments it may be better to propose WGAA3 with only one option for pre commissioning security. MK would then have one alternative based on WGAA3.

### **Fairwind (Orkney) Ltd**

35. DG described Fairwind (Orkney) Ltd's alternative which suggests changes to both the pre and post commissioning user commitment.
36. CM asked why under this alternative the post commissioning was in four year chunks not rolling. DG suggested that WGAA3 was too weak. CM noted that the termination charge would be more than the liability. This would mean that users would be incentivised not to terminate.
37. GG noted that the proposal DG was making had not been mentioned in his response to CAP165 and therefore was not a valid proposal. DG responded that he was happy to only put forward the change to pre commissioning user commitment which he had suggested in his response.
38. CM was concerned that under the proposal you couldn't apply for TEC until you had planning permission. DG pointed out that he had suggested two entry types and you could apply for a type A entry before you had planning permission. LW noted that National Grid needed to start applying for planning permission before the user had planning permission.
39. HS was concerned that in some circumstances the planning permission for the transmission connection was not being progressed because the generators had not got planning permission. HR suggested that was an issue for Ofgem to review.
40. The group voiced general concerns about the lack of detail in the consultation request.
41. CM suggested that if First Hydro's consultation request was applied to WGAA3 that might cover DG's concerns.
42. The group considered it would be appropriate to consider an alternative to WGAA3 which used First Hydro's method for scaling the securities.
43. The group reviewed the alternatives which were being considered at this stage:
  - Alternative for transition based on Welsh Power's suggestion
  - WGAA1 with a seven year limit on user commitment based on Welsh Power's suggestion
  - WGAA3 with a seven year limit on user commitment based on Welsh Power's suggestion
  - WGAA3 with a two year post commissioning notice period based on Centric's suggestion
  - WGAA1 with scaled security and 8 year booking based on Fairwind's suggestion
  - WGAA2 with scaled security and 8 year booking based on First Hydro's suggestion
  - WGAA3 with a 15 month notice period based on SSE's suggestion

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44. The group agreed not to take forward the suggestion of including compensation but thought this should be mentioned in the report and should potentially be progressed through incentive arrangements or a different proposal.

45. National Grid agreed to produce a table to clarify the key similarities and differences of the alternatives.

**Action:MD**

46. GG noted that we were expecting to hear back from Ofgem and DECC (BERR) regarding their legal position on non-physical players. SH agreed to circulate the previous email received from BERR.

**Action:SH**

### 6. Specific Questions

47. Drax requested that the Working Group should consider whether CAP165 WGAA3 would work with CAP164. The Working Group considered that connect and manage could work with WGAA3. BR pointed out that under CAP164 you could apply each year for a one year access right in four years time and automatically get it so there would be no point committing to finite rights. The group concluded that though some versions of CAP164 could be combined with some versions of CAP165, other combinations would not work. National Grid agreed to produce a matrix showing which versions would work together and which wouldn't.

**Action:HR**

48. Magnox asked two specific questions in their response:

- Why has no consideration been given to allowing access rights and (corresponding TNUoS charges) to start and end at any time of the year and not just at the beginning/end of the financial year?
- If a minimum commitment of 8 years is necessary to minimise the potential cost risk of stranded assets, why is it not acceptable to have a short notice period to disconnect once a generator has been connected 8 years and paid 8 years charges?

49. The group agreed to respond to the questions in more detail in the report.

50. GG asked if the group believed we had fulfilled the terms of reference. He noted that trading arrangements were included in the terms of reference. HR noted that we should mention in the report that we accept that the current trading arrangements may be considered cumbersome and that although we haven't had time to develop any now if the short term amendments are not approved further trading arrangements may need to be developed in the future.

51. GG asked when the group was going to agree the legal text. It was considered this could be done during a teleconference planned for Tuesday 18<sup>th</sup> November.

52. BR suggested if you ceased to generate and disconnected and had an access right you would become a non-physical player. PJ noted this was very different to a physical player with a new project which did not know specifically where their project would be based. BR voiced concerns about the potential for hoarding. If CAP165 was approved as part of the evolutionary change model the short term arrangements would prevent hoarding. MZ suggested that the competition commission may need to get involved if hoarding did occur.

### 7. Charging Arrangements Under Auctions

53. CM noted that this was an important issue and the group needed an opportunity to read the report. HR agreed that the draft pre-consultation should be circulated around the group and discussed at the meeting on Wednesday 19<sup>th</sup> November.

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54. CM pointed out that charging for auctions under the current network would mean that a postage stamp charge would occur.
55. CM suggested it might be helpful to have a seminar while the pre-consultation was out.

### 8. Date and Location of Next meeting

56. The next meeting on CAP165 will be a teleconference on Tuesday 18<sup>th</sup> November. The next meeting on CAP166 will be on the Wednesday 19<sup>th</sup> November at the Hilton in Warwick.

### Appendix 1 – Working Group Attendance

#### Members Present:

Hédd Roberts	HR	Chairman
Sarah Hall	SH	Technical Secretary
Mark Duffield	MD	National Grid
James Anderson	JA	Scottish Power
Bob Brown	BB	Smartest Energy
Garth Graham	GG	Scottish and Southern Energy
Dennis Gowland	DG	Fairwind Statkraft (Orkney) Ltd.
Paul Jones	PJ	E.ON
Merel Van der Neut Kolfshoten	MK	Centrica
Simon Lord	SL	First Hydro
Cathy McClay	CM	British Energy
Bill Reed	BR	RWE npower
Helen Snodin	HS	Scottish Renewables
Lisa Waters	LW	Welsh Power

#### In Attendance:

Min Zhu	MZ	Ofgem
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#### Apologies:

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