

Key Points and Actions

Key Points and Actions Arising from Meeting No.15 Held on 18th July 2003 23 Buckingham Gate, London, SW1 6LB

Present:

Malcolm Taylor	MT	Chairman
Rupert Judson	RJ	London Electricity
Ian Topliss	IT	First Hydro
Charles Davies	CD	National Grid Transco
John Stewart	JS	Campbell Carr
Paul Jones	PJ	PowerGen
Hugh Conway	HC	EnergyWatch
David Lane	DL	ClearEnergy
Dick Cecil	DC	
Russell Cooper	RC	National Grid Transco
Tim Russell	TR	
Barbara Vest	BV	Gaz de France
Steve Drummond	SD	EDF Trading
Richard Dunn	RD	Secretary

In Attendance:

Kristian Myrhe	KM	Ofgem
Simon Thornton	ST	National Grid Transco
Danielle Lane	DLa	British Gas Trading

1 Introductions/Apologies for Absence

Apologies were received from Mike Harrison, John Capener, Nigel Cornwall, Nick Frydas, David Tolley and Jan Devito.

2 Notes of Key Points/Actions of the Meeting held on 23rd June 2003

The draft Notes of the meeting held on 23rd June 2003 were AGREED subject to the inclusion of a number of minor comments.

3 Competing Requests

a Options 1 & 2 - issues arising

i) Is option 1 & 2 workable?

Administered process so will not be ideal but generally agreed that Bulletin Board (option 1) a moderately better approach than present regime. Key issues were size and location (especially north of the Wash) of the competing access requests (mothballing issues a bit of a "red herring"). Other issues were the loss of competitive advantage as a result of early publication, "copy cat" generators and whether you make the impact on LEGs public as well at the same time. Timing also important - i.e.

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when the information is made public and the further options that this brings. Suggestion from BETTA discussions with Ofgem that all issues should be revealed at the application stage. However, general agreement that option 1 is workable.

In Facilitated Trade (option 2) the key is the value to the eventual User. One option could be to reveal to the new applicant the current and prospective generators where trades might be made. This could be operated by the use of a confidential "helpline" to NGT although important to remember the "Miller dictum" that Access is not the same as Connection - information would not be made public in option 2. Major problem for NGT currently was where a new line was constructed for a new generation connection but then existing generation closes and you don't really need the new line. Not clear how facilitated trading could help this problem.

Combining options 1 and 2 creates a further option 3. In theory, transparency of information and facilitation should make markets work better so the combination should be beneficial. Practical issues would be the need to provide indicative (only) "rates of exchange" between nodes or zones and how often they are updated. Optimising costs e.g. to avoid stranded assets difficult to achieve under any shallow connection charging regime. Should be scope for potential applicants to ask the "what if" questions of NGT (for a fee).

ii) How to deal with a spoiling bid

No way to identify spoiling bid definitively. Application fees (c£30k-£100k) will help but will not deter determined spoiler. Should still adhere to principle that timing of offers made should match receipt of applications. Spoiling bid could be first application but publication (option 1) might help to show up spoiling bid for what it is.

4 Breach

a Definition of Breach

"Nuclear" options of lose licence or fine of 10% of turnover but looking for something far less Draconian. In the absence of system costs resulting from breach, could be viewed as an equity issue and therefore penalty applies even if no costs (cf: speeding fines). Need to avoid mixing up energy and access suggests non-linear solution with ratchet arrangement. East Midlands apparently charge a penal rate of DNUoS for exceeding agreed capacity.

How does southern generator fit into this model? He would have the right to generate up to TEC but no obligation to generate. Could overrun by northern generator be seen as equivalent to underrun by a southern generator? Suggests asymmetrical approach would be needed.

5 Interconnectors

a Reprise from Steve Drummond

Four possible Design Model options:

- Transmission Company Interconnectors becoming transmission

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infrastructure – no TA charges

- Merchant Interconnectors with any infrastructure reinforcements kept within transmission infrastructure – no TA charges
- Interconnector Owners face TA charges but not Interconnector Users
- Interconnector Owners and Users pay TA charges

Common Attributes envisaged:-

- Contracts for capacity would be one-way
- Interconnector access rights would automatically include Transmission access rights.
- Firm contracts up to the full capacity of Interconnector in each direction.
- Non-firm products would be available beyond the full capacity, contingent upon off-setting contracts in the opposite direction.
- No uncertainty of charges (however small or large) before capacity auctions.
- Access to the markets in all timescales.
- Capacity buyback (importing or exporting) operates only through the Interconnector Users once the capacity rights have been obtained and through the Interconnector Owner before the auctioning of those rights.

Issues for Consideration:-

- Which option is the most appropriate?
 - i.e. who should bear which costs? A matter of who benefits?
- Common features need incorporation in TA interface with I/C.
- Undue discrimination?
- Consistency with EC and Competition Laws?

6 Big Picture Issues

a Duration

Evergreen should not be precluded but shorter periods than 3 months may be impractical due to the time for application, processing and acceptance. Evergreen rights provide good match in terms of duration of assets (transmission assets 40-50

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years and generation assets 30-40 years) but what is key justification (if any) for evergreen rights? CD to respond on this question from a National Grid standpoint.

Action :CD

However, also argument that shorter durations should not be ruled out on administrative grounds only. NGC cost analysis discussed at TCMF suggests no seasonality basis for TNUoS - virtually all capacity driven. Also First Hydro takes power overnight rather than at other times with no differentiation on price paid. No issues here for DNOs.

b Firm/Non Firm exit capacity access

Agreed that Firm/Non Firm must be kept separate. However, Teleswitching raises prospect of sophisticated market for non-firm demand. Quiescent demand more appropriate to firm arrangements and "wobbly" demand to non-firm arrangements.

7 AOB

None.

8 Next Meeting - Monday 11th August 2003

At Brandon Hall Hotel, nr. Coventry starting at 10.15am. Apologies in advance - DC, JS & David L.