

CAP131 Working Group

Meeting Name	CAP131 Working Group
Meeting No.	2
Date of Meeting	27 th October 2006
Time	10:00am – 03:00pm
Venue	Boardroom, National Grid Offices, Northampton

This note outlines the key action points from the most recent meeting of the CAP131 Working Group.

1. Introductions/Apologies for Absence

32. Apologies for absence were received from Mike Kay (United Utilities), David Ward (Magnox), Simon Lord (International Power), Richard Ford (RES Ltd), Steven Eyre (British Energy), Mark Copley (Ofgem) and Charles Ruffell (RWE).

2. Actions from Previous Meeting

33. Minute 7 (Charging Methodology and Revenue Streams)
National Grid to confirm whether the implementation of CAP131 would necessitate a change to the charging methodology statement.

Action: NP

National Grid to confirm the treatment of revenue generated from CAP131.

Action: NP

34. Minute 13 (OC2 Provision)
National Grid to investigate the existing OC2 provisions and compare against CAP131 Amendment Proposal.

Action: NP

35. Minute 14 & 15 (Arrangement for New Generators)
National Grid confirmed that Consent costs are capitalised against the value of assets installed rather than invoiced separately. The relevant liabilities if the project is delayed will be covered under the 'scenarios'. National Grid did confirm that it would be the intention that that TO delays would result in the original profile being deferred.

Action: NP

36. Minute 17 (Time Varying Value of TEC)
National Grid confirmed that the time varying value of TEC would be officially recorded via an agreement to vary and a revised Appendix C of the Bilateral Agreement would be sent to the User.

National Grid to confirm the different treatment for TEC reductions (potentially to 0MW) and power station closure.

Action: NP

37. Minute 18-24 (CEC/TEC)
National Grid confirmed that CEC is not a product and there were no CEC only applications, only staged applications i.e. CEC granted at an earlier date than TEC.

National Grid to confirm how staged applications and returning mothballed plants would be managed by CAP131.

Action: NP

The Working Group noted that there was a back stop date in the Construction Agreement (section 4.5) which would prevent a new generator waiting until after

commissioning to pay the relevant liability.

National Grid to confirm how the new arrangements would prevent Users from continuing to submit amendment modification applications in order to avoid payment of the securities at the next meeting.

Action: NP

It was noted that some National Grid offers did not include any User Works in Appendix I. National Grid to investigate further.

Action: NP

The Working Group discussed the various liability mechanisms. Currently the liability is linked to the Construction Agreement, it was noted that in some situations a Construction Agreement may not be appropriate, if there are no works for example.

The Working Group noted that it may be possible to place the generic requirements into the CUSC, which would capture all CUSC signatures. It was noted that new Users who have long term connection dates e.g. 2016, have not yet signed up to the CUSC. National Grid is to confirm the mechanism for the liability.

Action: NP

The Working Group reiterated their concerns regarding the cost reflectivity of the Amendment Proposal and how the existing CAP068 mechanism would integrate with the CAP131 proposals.

38. Minute 25-26 (Refunds)

National Grid confirmed that there would be no refunds of the liabilities/secured monies.

National Grid confirmed that the termination process would still apply in the event of a 'force majeure'.

The Working Group queried what mechanisms would be in place to stop 'double dipping' of the liabilities monies.

Action: NP

The Working Group reiterated their concerns regarding the applicability of CAP131 to obtain the necessary investment signals especially in negative charging zones. The Working Group queried whether the Amendment Proposal would create an incentive to hoard TEC in negative charging zones. NG to investigate further.

Action: NP

39. Minute 27 (Definitions)

National Grid agreed to rename 'TO Key Consents' to 'SO Key Consents'. National Grid to confirm the definition of 'SO Key Consents'.

Action: NP

The Working Group expressed concern that local works may have commenced before all the SO consents required to accommodate the connection were in place (e.g. Early CEC applications). National Grid confirmed that under these arrangements, securities may step-up but the connection date may be delayed if subsequently there are problems obtaining the final SO consents required. Such a delay would lead to the original security profile being deferred.

40. Applicability of CAP131

The Working Group agreed that the applicability of CAP131 on Small and Medium Embedded Power Stations is contingent on the outcome of TADG discussions.

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3. Clarification of 'Firm' vs 'For Debate'

41. National Grid confirmed to the Working Group which aspects of the Amendment Proposal were 'firm' and which elements were 'for debate'.

4. Cost Reflectivity

42. National Grid provided a presentation on the cost reflectivity of investment proxies and why when compared with others, TNUoS was the most suitable proxy available. The associated presentation slides will be circulated to Working Group members for reference.

Action: NP& LM

43. National Grid to provide justification of £3/kW as a collar.

Action: NP

44. National Grid to provide additional information in relation to the data used to determine regional UCAs to assist Working Group members in their understanding of National Grid's rationale. Data to specify the following:

- How many regions
- How many projects in each region
- Size of the Projects (MWs)

Action: NP

45. The Working Group noted that data which National Grid would provide may be limited by confidentiality requirements.

46. National Grid to confirm that re-zeroing tariffs at Zone 16 (Central London) results in a proxy the lowest Standard Deviation when compared to all other areas.

Action: NP

47. National Grid to investigate other locational TNUoS proxies where tariffs are re-zeroed at other zones e.g. South Wales and Peterhead.

Action: NP

48. The Working Group noted that the analysis presented by National Grid was derived from England and Wales data only, due to the lack of available information on scenarios in Scotland. National Grid to investigate this matter further and whether it would be possible to provide UCA and proxy information for Scottish zones.

Action: NP

49. National Grid to investigate the feasibility of a local only proxy as suggested by the Working Group.

Action: NP

50. National Grid to provide further clarification on the data used to illustrate the average capital investment gradient costs i.e. whether the 'best fit' line intersects at the origin.

Action: NP

5. Risk Analysis

51. National Grid provided a presentation on the risk assessment for CAP131. The presentation focused on assessment of the stranded risk and the allocation of that stranded risk amongst the key industry players. The associated presentation slides will be circulated to Working Group members for reference.

Action: LM

52. The Working Group queried whether there would be any stranded costs on the Transmission System, given that the assets could be reused or reallocated to future project at that particular connection point.

53. National Grid to confirm the definition of a stranded cost and whether it is appropriate to use full securities costs as the basis of the analysis.

Action: NP

54. National Grid to provide clarification of the probability factors used in the risk analysis presentation.

Action: NP

55. National Grid to provide justification for the assumption that all Users will be responsible for 50% of the total liability cost.

Action: NP

56. National Grid confirmed that if CAP131 was implemented, the X and Y parameters would be reviewed in line with Price Control timescales i.e. every 5 years.

6. Legal Text

57. National Grid circulated the existing legal text for the interim final sums arrangements which could be used as a baseline for the associated CAP131 legal text.

7. Scenarios

58. National Grid will present a number of different scenarios to the next Working Group meeting. National Grid to circulate a list of scenarios to the Working Group membership prior to the next meeting.

Action: NP

8. Next Meeting

59. The next Working Group meeting will be held on Tuesday, 7th November 2006 at National Grid offices in Northampton. The meeting will commence at 10am.

60. Further meetings of CAP131 Working Group have been confirmed as follows:

- Monday, 17th November 2006 (Location to be confirmed)
- Tuesday, 28th November 2006 (Location to be confirmed)
- Monday, 4th December 2006 (Location to be confirmed)

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Appendix 1 – Working Group Attendance

Members Present:

Hedd Roberts	HR	Chairman
Lilian Macleod	LM	Secretary
Nick Pittarello	NP	National Grid
Angela Quinn	AQ	National Grid
Robert Brown	RB	Cornwall Energy Associates
Mike Davies	MD	Wind Energy
Garth Graham	GG	Scottish and Southern
Paul Jones	PJ	E.ON
Merel Van der Neut Kolfshoten	MK	Centrica
Bill Reed	BR	RWE
David Scott	DS	EDF Energy
Malcolm Taylor	MT	AEP

In Attendance:

Richard Miller	RM	Ofgem
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Apologies:

Mark Copley	MC	Ofgem
Steven Eyre	SE	British Energy
Richard Ford	RF	RES Ltd
Mike Kay	MK	United Utilities
Simon Lord	SL	International Power
Charles Ruffell	CR	RWE
David Ward	DW	Magnox