

Minute 7: change to “.....and to work up detailed Amendment Proposals to implement a complete package of new Transmission Access arrangements by April 2003 was unrealistic. NC noted that the Revised Proposals document flagged a number of choices and was not prescriptive and that.....”.

Review of Actions

16. The actions from the previous meeting were addressed:

- Action 3: DF/PR to formalise revised Standing Group membership. This was completed at the April CUSC Amendments Panel meeting – **Action Complete**
- Action 9: PR to seek endorsement of revised Terms of Reference. This was completed at the April CUSC Amendments Panel meeting – **Action Complete**
- Action 10: RC presentation reviewing current transmission access arrangements (agenda item 4) – **Action Complete**
- Action 11: JC presentation reviewing Ofgem’s revised proposals document (agenda item 4) – **Action Complete**
- Action 12: NF presentation on transmission access arrangements in Europe (presentation scheduled for meeting on 22 May) - **Action carried forward**
- Action 13: Arrange meetings – 9 May meeting arranged at Montcalm Hotel, London, 22 May 2002 meeting arranged for Brandon Hall – **Action Complete**.

Matters for Discussion

Presentation – Review of Current Position (RC)

17. RC's presentation concentrated on four key aspects of the current arrangements for transmission access:

(i) Contractual Rights

RC explained that under the current arrangements, access rights could be considered to be reasonably firm and provided Users continued to pay relevant transmission related charges, the access rights could be considered long term. RC explained that from a generator's perspective, access rights were provided up to an agreed level as defined in the relevant connection agreement. RC noted that there was an issue relating to access rights following the 'mothballing' of generating plant (i.e. under the current arrangements it was unclear whether access rights were retained or not). On the demand side RC noted there was no equivalent 'capacity' limit on individual Suppliers, although Distribution Network Operators (DNO's) were physically limited by the installed transformer capacity at each Grid Supply Point (GSP).

RC then explained the basis of charges under the current arrangements (i.e. Users pay a capacity based locational TNUoS charge and a usage based non-locational BSUoS charge) and explained under the current arrangements, access rights were only confirmed after the transmission system was secure (i.e. the transmission system is reinforced in accordance with the security standards before access rights are provided). Finally, RC explained that any tradability of existing access rights was essentially limited to a site by site basis (e.g. power station novations).

(ii) Management of Constraints

RC described the measures currently available to National Grid for managing constraints (i.e. via additional transmission system reinforcement/investment, asset management, locational energy contracts or BM actions) and explained how the costs of constraints were recovered from market participants (i.e. a proportion of the costs were recovered as part of the BSUoS charge, subject to the National Grid SO Incentive Scheme).

(iii) Compensation

RC explained under the current arrangements, if a User was disconnected due to a transmission fault or an intertrip (unless the intertrip was armed to protect the National Grid Transmission System), no compensation was paid. However, in circumstances where intertrips were installed for transmission system protection reasons, compensation was paid. RC noted that in the case of constraints, compensation was defined by the market rates (i.e. the market determines the cost of constraints through bid/offer prices in the BM).

(iv) Criteria & Incentives for Transmission Investment

RC explained how under the current arrangements, the Transmission System was developed such that it remained compliant with the security and quality of supply standards as required by the transmission licence and such that it

continued to provide an efficient, co-ordinated and economic system as required by the Electricity Act. RC also noted how there were short-term incentives on National Grid for additional transmission investment through the SO Incentive Scheme (i.e. BS capex). It was also noted that under the current arrangements, transmission charges were not fixed (i.e. the price varies each year).

Presentation – Review of Ofgem Document (JC)

18. JC explained how the presentation was his own view of the attributes of Ofgem's revised proposals document. The presentation focussed on three key areas:

(i) So what do Ofgem think is wrong with the current regime

JC listed what he believed Ofgem thought to be the main causes of concern under the current regime. These were in general related to problems over inefficient and inappropriate investment signals under the current regime or problems relating to the lack of any long-term capacity rights. JC also noted Ofgem's view of how the present arrangements in the electricity industry differed to that in the gas industry and how such a difference could lead to inefficient interactions that could threaten security of supply.

(ii) Objectives of Ofgem's reforms

JC outlined Ofgem's objectives were to improve both the short and long-term efficiency of the transmission system and improve National Grid's investment signals and incentives. Furthermore, JC explained how Ofgem believed the new arrangements should further improve market transparency and encourage efficient location decisions for new plant through the development of consistent arrangements between gas and electricity. JC noted that Ofgem's revised proposals document had also highlighted two new 'issues' that Ofgem believed needed addressing. These related to interconnections with the continent and how better targeting of costs would lead to environmental benefits.

(iii) Attributes of new access regime according to Ofgem

JC listed the key attributes of Ofgem's revised proposals document. These included the characteristics associated with the initial allocation of rights to generation and demand, the interactions with the Transmission Price Control, the resolution of transmission constraints, Transmission access imbalance and settlement and the role of the security and quality of supply standards under any revised arrangements. In each case, JC highlighted what he believed to be Ofgem's key requirements together with a list of unanswered questions that needed to be considered as part of any revised arrangements.

Discussion

19. MT raised several questions relating to the contractual relationship between the different Users of the Transmission System and the charges each User pays. RC accepted an action to widen the scope of his presentation to include additional slides to outline this information.

Action: RC

20. There was some discussion over how access rights were currently determined for demand Users. RC confirmed that unlike generators (who have a physical limit defined in their Connection Agreement) there was no equivalent limitation on an individual Suppliers take. Instead the physical limit was defined in the DNO's Connection Agreement (and was related to the transformer capacity installed at each GSP). CD explained that DNO's provide forecasts of natural demand at each GSP as part of their Week 24 data submission and the security and quality of supply standards were then used to determine the required transformer capacity for each GSP. If the 'margin' allowed under the standards was encroached, this would then be the signal to National Grid to invest in new transformer capacity (or for the DNO to implement e.g. a demand transfer scheme).
21. TR questioned whether under revised arrangements; it would be more appropriate for the Supplier or DNO to have the contract for transmission access with National Grid. Furthermore, TR also questioned whether the associated charge should be based on actual outturn demand (as under the current arrangements) or whether it was more appropriate to base charges on a DNO's or Suppliers long term projection of demand as this was the demand level that determined the transformer capacity requirement at each GSP. On the first point, DC suggested that it could be more appropriate for DNO's to continue to have the contract for access with National Grid and charge Suppliers via a DUoS charge as the DNO's were unaffected by customers changing Suppliers. Furthermore, DC pointed out that a DNO's demand forecast could also take early account of any new large demand customers connecting in the DNO's area whereas Suppliers would find it difficult to provide such information until a much later date. On the second point KM suggested whichever demand level caused National Grid to invest should be the basis of the associated charge.
22. JS noted National Grid's ability to seek derogations at sites where Licence Standards were not met. CD confirmed that in general, derogations would only be sought as a short-term measure and generally on a time-limited basis. For example, National Grid could seek a short-term derogation whilst waiting for a DNO to commission a demand transfer scheme at a GSP (in order to obtain compliance with the relevant security standard) rather than installing additional transformer capacity for the interim period (i.e. when Licence Standards were not met).
23. MT noted how National Grid's investment seemed timely. The group acknowledged the importance for transmission system reinforcements to be timely and appropriate and that this was a key issue for consideration as part of any revised transmission access arrangements.
24. SD pointed out a further key point was related to the duration of any rights. After an initial allocation of rights, Users could then potentially be in an auction situation which was a fundamental difference to the current position (i.e. under the revised proposals, no duration of access rights was ensured). MT suggested that there were two questions that needed to be considered, these being the duration of rights given and the duration of knowledge of costs. SD noted that from his understanding of the Ofgem document, rights would not be evergreen.
25. KM questioned whether under the initial allocation of rights, National Grid would give the initial rights at zero cost (with an obligation on the User to pay charges) or whether the initial rights would be sold by National Grid via some market

mechanism (via a one-off charge)? There was also some debate over how the 'value' of any rights could vary when the transmission system was reinforced and how this would create market risk for different participants as the value of access would be largely determined by National Grid actions. Many of the group expressed that they found it difficult to visualise the concept of National Grid allocating the rights then the participants trading these rights to establish a true value, which could subsequently provide an investment signal to National Grid. The group was also uncertain over such a charging regime, as it would imply a move from a shallow entry model to a deep entry model (which seems inconsistent with Ofgem's original thinking).

26. The discussion then moved onto how such access rights could be traded between participants. The group largely agreed that if tradable rights were to be introduced, a settlement system would be required (i.e. to track what rights each player has, what rights each player has used and any imbalance).

27. TR then tabled 5 questions which he thought would be useful to answer from the perspective of different transmission Users in order to take the debate forward:

- How should access rights be defined (rights, obligations and charges etc);
- Who buys, sells and trades the access rights or obligations;
- What are the consequences for breaching the access rights;
- Who are the players and what are their contractual obligations and relationships; and
- What are the implications for National Grid's investment decisions and Price Control cost recovery?

28. Actions to consider the above questions from the perspective of different transmission system users and present findings at the next meeting were agreed as follows:

From the perspective of the supply side

Action: BV & DJ

From the perspective of a energy producer

Action: MT

From the perspective of National Grid

Action: RC

From the perspective of a DNO

Action: DL

From the perspective of an Interconnector

Action: SD

29. SD also volunteered to consider the questions from a why change/minimal change perspective.

Action: SD

30. TR questioned if the Group needed to consider the impact of BETTA. TD confirmed the Group only needed to consider the access arrangements from an England and Wales perspective. TD suggested an access model for England and

Wales should be able to be developed if the questions above were answered. TD also suggested the Transco model to be a good starting point for determining how National Grid investment should be incentivised etc.

Date of Next Meeting/AOB

31. The group agreed that the TASG should aim to make their report to the meeting of the CUSC Amendments Panel on 16 August.
32. Two further dates (10 June in London and 20 June in Coventry) were agreed for further TASG meetings. The next meeting of TASG is scheduled for 22 May 2002 (Brandon Hall Hotel)