

**Key Points and Actions Arising from Meeting No.12  
Held on 19<sup>th</sup> May 2003  
Brandon Hall Hotel, Coventry**

**Present:**

Malcolm Taylor	MT	Chairman
Charles Davies	CD	National Grid
Dick Cecil	DC	London Electricity
Rupert Judson	RJ	London Electricity
Keith Miller	KM	
Nigel Cornwall	NC	Cornwall Consulting
Hugh Conway	HC	Energy Watch
David Lane	DL	ClearEnergy
Paul Jones	PJ	PowerGen
Mike Harrison	MH	Scottish Power
John Capener	JC	British Energy
Simon Lord	SL	Edison Mission Energy
David Tolley	DT	Innogy
John Stewart	JS	Campbell Carr
Barbara Vest	BV	Gaz De France
Steve Drummond	SD	EDF Trading
Richard Dunn	RD	Secretary

**In Attendance:**

Richard Ford	RF	Ofgem
Simon Thornton	ST	National Grid
Danielle Lane	DL	British Gas
Jan Devito	JD	Jade Energy

**1 Introductions/Apologies for Absence**

Apologies were received from Tim Russell and Nick Frydas.

**2 Notes of Key Points/Actions of the Meeting held on 9<sup>th</sup> May 2003**

The draft Notes of the meeting held on 9<sup>th</sup> May 2003 were AGREED.

**3 Terms of Reference**

There were no further comments on the Group's Terms of Reference.

**4 Firm Exit Capacity**

**Reprise/Review of the attributes**

NC gave a presentation reprising issues associated with a Firm Exit Capacity Regime

(see website)

## **Key points**

- (i) Demand side should have transmission "property rights" in the same way that Generation has entry rights
- (ii) This was more than political correctness - clear benefits from establishing such rights
- (iii) Form that the "Property Rights" could take not dissimilar to Generation but many definitional issues to be addressed
- (iv) Good starting point is NGC's ten building blocks which can be equally applied to demand
- (v) Block 1 - initial rights must be offered by NGC but optional for Supplier to take them and limited to physical offtake
- (vi) Block 2 - any Connected customer should be entitled to rights including dcs but physical market only and must have a contract with NGC
- (vii) Block 3 - existing agreements obvious starting point for volumes but could be higher subject to physical availability
- (viii) Block 4 - new rights could be provided by incremental release of exit capacity and subject to new agreement
- (ix) Block 5 - rights could be surrendered to NGC via buy back - Balancing Market aspects need consideration
- (x) Block 6 - time period could be annual or longer at Customer's option
- (xi) Block 7 - pricing could be TNUoS for initial allocation and "market rates" for buy-back - secondary trading possible
- (xii) Block 8 - trading should have physical basis and be at holder's discretion
- (xiii) Block 9 - compensation for non-provision - CAP048 right starting point
- (xiv) Block 10 - remedies for breach require enduring arrangement - administered price may be best
- (xv) Implies retention and improvement of load management incentives and retention of triad if desired
- (xvi) Immediate issues include costs/benefits, HH/NHH, supplier or distributor. Longer term issues include resolution of related transmission charging issues, consistency with future SO incentive schemes and BETTA crossover
- (xvii) Benefits of optional demand side transmission rights include facilitating competition in supply, development more efficient balancing services and dynamic supply arrangements (eg, teleswitching) and valuable investment signals provided inter alia vested in suppliers and dcs and not unduly complex

## **Points in Discussion**

- (i) Access rights best with Suppliers - rights with DNOs would put artificial barrier between Suppliers which could end up denying rights to Suppliers
- (ii) Suppliers' rights will need to be clearly defined to ensure that dcs are not disconnected and they retain an unrestricted ability to tender for provision of supply
- (iii) Suppliers opting out of Firm Access arrangements should not be penalised
- (iv) Markets split on contractual/regulatory oversight lines run the risk of institutionalising distortions

- (v) Take up of access rights may be slow initially but advances in technology will go hand in hand with greater exposure of Suppliers to contracts for Access rights
- (vi) It may be difficult to ensure non-discriminatory charges for Suppliers who opt to contract for access and those that do not (e.g: reconciliation of charges?)
- (vii) Ex ante commercial arrangements for access should mean far less emphasis on disconnection and should improve forecasting
- (viii) The basis for Overrun charges and whether contracting Suppliers pay more compared to Suppliers who opt out would need to be resolved
- (ix) Benefits from selling back rights could be better balancing services and potentially greater security
- (x) Real value of access rights may only be apparent when there is a shortage

PJ gave a presentation on a Supplier's perspective on an incentivised access regime on the demand side (see website)

### **Key points**

- (i) Main aims of access regime appears to be provision of better signals of where capacity needed, its value to Users to inform better NGC investment decisions and compensation for firm rights when access is not provided
- (ii) Current signals on capacity administered (e.g planning data under Grid Code). Suppliers trade off value between paying for transmitted generation or buying embedded generation, entering load shedding contracts or investing in the ability to remotely switch smaller customers
- (iii) One proposal which has been put forward is firm access rights purchased by DNOs who pass cost signals through to Suppliers in DUoS. DNOs incentivised to purchase economically. Aim is for DNOs to provide best forecast of where capacity required and make appropriate trade-offs
- (iv) DNO should already have good idea where new demand may be plus 12 incentive schemes would be required as well as changes to DuoS charging. Information provided for Grid Code purposes as accurate as can be
- (v) DNOs can make trade-offs but Suppliers could do the same - is it a better signal on the value of transmission capacity via DUoS rather than from the Supplier? Would add complexity and expose Suppliers to energy imbalances although might be mitigated by contract between DNO/Supplier
- (vi) Could result in a significant increase in contractual links in the Supplier contractual hub
- (vii) DNOs vs Suppliers (who would provide better signals)? Value to DNOs would come from trade-offs and parameters of incentive scheme but Suppliers can respond to market signals and also weigh up benefits
- (viii) Do firm rights for demand make sense? Rights for demand not firm at present but demand pays on the basis of usage. Also what are the consequences of loss of access and can you ascertain who has been affected?
- (ix) Consequences of loss of access could involve temporary deenergisation, energy imbalance for Suppliers, loss of revenue from

- customers
- (x) Who has been affected by denial of access and to what extent? Different effects for any deenergisation of HH/NHH customers and through GSP Group correction. Realisation that you could not accurately ascertain the effects on demand let to it being excluded from P80/87 solutions
  - (xi) Summary - unclear if forecasting accuracy would be improved if access via DNOs. Development/transaction costs, changes to DuoS billing, more contractual links are downsides. Suppliers better placed to make trade-offs and respond to market signals. Not clear firm rights necessary/achievable for Suppliers. Can't tell who affected and to what extent. So how can you compensate?

### **Points in Discussion**

- (i) Additional contractual links can probably be achieved with a less extensive set than PJ's presentation suggested
- (ii) However, no takers to develop alternative basis

CD gave a presentation on the effect of firm demand side rights on NGC Investment (see website)

### **Key Points**

- (i) Connection Point Asset Capacity currently determined by DNOs' assessments of demand growth, LV interconnection and transfer capability, embedded generation and requires contractual agreement and adherence to security standards
- (ii) Infrastructure capacity currently determined by NGC's assessments of Users' locational demand submissions, Generators' submissions on openings/closures, risk and uncertainties, Security Standards and Transmission Capacity requirements
- (iii) Firm demand rights assumes User committing to pay demand on ex ante forecast of demand or outturn if higher, has a locational aspect, incentives for accurate forecasting with overrun charges higher than ex ante TNUoS and no disconnection unless required
- (iv) Will consequences of firm rights be more accurate demand forecasts? Increases incentives for accuracy, better profitability for more accurate forecasters and load management incentives but improvements in accuracy may take time
- (v) Will investment be more efficient? Generation developments and underlying trend of demand main source of uncertainties so demand rights likely to have little impact
- (vi) Other effects include equitable impact on forecasters who bear the costs of inaccuracy (but only relevant if differences in accuracy) and ability to apportion blame for disconnections

KM gave a presentation on whether the participation of the demand side in Transmission Access was a practical proposition or fantasy (see website)

### **Key Points**

- (i) Existing producers can currently export power onto the system in order to balance their contract sales, receive compensation (CAP048),

- manage export, offer and sell "booked" access capacity, purchase additional access capacity and be fined for exceeding TEC
- (ii) Rights to export achieved through TEC/CEC and based on producer's expectation of requirements for use of transmission system (defined on a nodal basis)?
  - (iii) Compensation for withdrawal of rights - producer committed to pay up to level of TEC. Under discussion in CAP048 Working Group
  - (iv) Management of exports - Producers export to meet contractual obligations and minimise BSC imbalance charges (exports metered)
  - (v) Sale and Purchase of rights - producer can agree to reduce rights in return for payment over any timescale. Should be efficient since whoever values the right more will use them. Opportunities for trading arise where rights restricted otherwise sold at regulated price
  - (vi) Penalties for non-compliance - measured by metered output. Penalty for exceeding TEC loss of licence and likely to trigger further CUSC Amendment. Equitable arrangements necessary so "prudent" Operator not penalised and should be no punitive charges if no adverse impact on the system
  - (vii) Demand already has the right to import - charged at metered volume. Possible compensation for loss of access - only large customers can manage imports. Cannot buy and sell "booked" capacity to a third party but can offer to "increase" capacity by increasing demand
  - (viii) Conclusion is that demand can compete with generation only to a very limited extent in an access market and no further developments required

### 5 Other Issues

It was AGREED that the three items for consideration under this part of the agenda would be re-scheduled for the meeting on 6<sup>th</sup> June.

### 6 AOB

None.

### 7 Next Steps

MT would draw up an agenda for the next two meeting which sought to bring the following strands together with a view to incorporation in the draft report from the Group:

- Holes to plug
- Clashes to be resolved
- Differentiation of DNO/Supplier roles
- Options for access
- Benefits for investment (if any)
- Revisit breach/overrun issues
- Develop ideas on competing connections further

**Action: MT**

## Minutes

The next meeting of the Group would be held on 6<sup>th</sup> June commencing at 10am at the Euston Plaza Hotel , London, WC1H 0HT