

CAP131 Working Group

Meeting Name	CAP131 Working Group
Meeting No.	3
Date of Meeting	7 th November 2006
Time	10:00am – 03:45pm
Venue	Meeting Room 3.1, 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

61. Apologies for absence were received from Mike Kay (United Utilities), Richard Ford (RES Ltd), Garth Graham (SSE), Malcolm Taylor (AEP), Mark Copley (Ofgem) and Charles Ruffell (RWE).

2. Scenarios

62. National Grid provided a presentation on the applicability of CAP131 in a number of difference scenarios (a list of the scenarios may be found in Appendix 2.). The associated presentation slides will be circulated to Working Group members for reference.

Action: LM

63. The presentation was split into three sub-sections a) Incremental TEC, b) Decremental TEC and c) Implementation and provoked much debate within the Working Group and highlighted the following issues which would benefit from additional clarity/further debate.

3. Scenarios – Incremental TEC

Scenario 1

64. National Grid confirmed that a 100% cancellation charge would apply, 3 months from the completion date even in the event works are not required to deliver the capacity.
65. The Working Group raised concerns that this may be viewed by the industry, as a barrier to entry especially when there is no associated works with the incremental TEC. It was noted that the scenario was intended to prevent Users from 'hoarding' capacity.
66. The Working Group did acknowledge that the cancellation fee would only apply if the requested capacity was subsequently rescinded. The Group questioned how the proposal was different to the short term LDTEC product and it was clarified that user commitment would apply to capacity booked in the future.
67. One member of the Working Group also questioned whether the CONSAG was the right vehicle through which to tie user commitment liabilities if there are no works.
68. The Working Group established that, provided the date of the signature of the agreement and the date that the TEC increase become effective are the same, then there would be no requirement to provide securities.

Scenarios 2 to 4

69. Highlighted the importance of clarifying what constitutes SO Key Consent and whether or not this is the most appropriate trigger date. HR stated that the issue of SO Key Consent would be covered in-depth by the Working Group at a future

meeting.

70. Working Group members queried whether in some instances the £3/kW would cover National Grid expenditure. National Grid indicated that CAP131 proposed a generic methodology, which would ensure that overall (across all projects) all associated expenditure would be captured.

71. The Working Group queried whether the liabilities/secured monies should be refundable in certain situations, for example, if there is a failure to obtain transmission planning consents. National Grid reiterated its position that there should be no refunds of the liabilities/secured monies because money would have been expended in the process of acquiring transmission consents.

Scenario 5

72. The scenario outlined how CAP131 would be applied in a situations where the allocation of works programmes have been re-optimised amongst Users which in turn leads to the possibility of acquiring an earlier connection date. National Grid did acknowledge that presently there was no formal process for re-optimisation of the GB Queue. The Working Group agreed that the issue of re-optimisation was outside the scope of CAP131.

Scenarios 6, 6a and 11

73. National Grid confirmed that in the event of a User notifying National Grid of a delay to their project before the Key Consent date, the final sums profile would be deferred and realigned to the new commissioning date.

74. This provision, in National Grid's opinion, was appropriate as the programme of works could be revised without any detrimental impact on the risk level incurred by National Grid.

Scenarios 7

75. National Grid confirmed that in the event of a User notifying National Grid of a delay to a project after the Key Consent date, the final sums profile would be frozen at the level when the delay notification was received and realigned to the new commissioning date.

76. The provision, in National Grid's opinion, was appropriate as the programme of works may not have the ability to be revised after key transmission consents have been granted and construction contracts placed.

77. The Working Group queried whether this scenario would lead to the overall level of risk being carried by new generators increasing above 50% i.e. because other projects will have been brought forward. The Working Group noted that this could be the case and suggested that further analysis be considered..

Action: NP

78. Some Working Group members questioned National Grid's rationale for this scenario and queried whether a 'ramping down' of the provisions (as outlined in Scenario 9) would be more applicable. Another Working Group member highlighted the benefits of the level of the liability being frozen as it would discourage Users from reducing their liability (by submitting a modification application to delay their connection date) prior to any termination of the project.

79. The Working Group acknowledged that it was important to identify the balance of risk at the differing stages of a project. National Grid agreed to provide further analysis comparing the shape of current project spend versus the generic profile.

Action: NP

80. The Working Group queried, in the event of a delay, when a project would become

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an existing User. i.e. original commissioning date or new commissioning date. National Grid confirmed that the project would be deemed an existing user after the new commissioning date.

81. National Grid reiterated that the associated liabilities are not a reflection of the actual project costs but an average investment cost for a typical project in that location. Working Group members discussed the merits and differences between a generic methodology and a model that reflected the actual costs of each project.

Scenarios 8 + 9

82. National Grid confirmed that in the event of a delay outside its control before or after key transmission consents are achieved, it would notify the User and the liability profile would be deferred and realigned to the new commissioning date.

Scenarios 13 and 14

83. National Grid confirmed that if the original TEC allowance is reduced prior to commissioning than the relevant user commitment charge would be applied pro-rata.

84. The Working Group queried what would happen with existing projects, if the project had an inaccurate TEC allowance. It was agreed that this was an implementation issue to be addressed at a subsequent meeting.

85. Some Working Group members indicated that this provision may be too severe as there are instance when a TEC allowance has to be reduced due to technical considerations which may be outside the control of the developer. The Working Group discussed the feasibility of a TEC tolerance for small changes.

Scenarios 13a, 15a and 15b

86. National Grid confirmed that at an existing substation, connection may be offered earlier as part of a staged application in response to a User request. National Grid confirmed that the same principles would be applied for CEC as for TEC, if CEC was requested earlier (tariff set as £3/kW).

87. The Working Group had reservations that CEC should be used as the basis of any associated liabilities (CEC is not a commercial product). The Working Group queried why there should be any secured monies associated to a connection only/staged application. National Grid confirmed that infrastructure reinforcement works may be required to provide a connection (e.g. short-circuit fault level enhancement works).

88. National Grid indicated that secured monies were required if the CEC application initiated National Grid reinforcements works. The securities would be drawn down if the project terminated.

89. It was acknowledged that there would be instances when an increase in CEC would not necessitate a corresponding increase in TEC.

90. The Working Group discussed the idea of maintaining the current Final Sums Liabilities arrangements for 'connection only' works.

Scenario 16a

91. The Working Group noted that there were some instances where there are currently no provisions in the Construction Agreement that specified that a Power Station had to be built.

Scenarios 16b + 16c

92. Working Group members queried what arrangements would be in place to prevent generators waiting until the transmission works, required to accommodate their connection, had been completed before terminating their agreement and therefore avoiding the higher 6 year liability in exchange for a 2 year liability.

93. The Working Group noted that there are no mechanisms with which to address these unlikely “discontinuity” scenarios either under present arrangements or as a result of CAP131, and that it was outside the scope of this Group to consider them.

4. Scenarios – Decremental TEC

Scenario 17

94. Generators can trade TEC under the existing CAP068 arrangements with no notice of the reduction required. If additional TEC is required after trading, the incremental TEC application process would apply.

95. It was highlighted by the Working Group that the existing TEC trading arrangements may undermine CAP131 intentions because a party would be able to effectively “dump TEC” to another power station using unfavourable exchange rates and hence avoid the 2 year liability. The Working Group agreed that CAP131 may incentivise Users to make better use of the existing TEC Trading provisions.

Scenario 18

96. The Working Group discussed the interpretation of the amendment proposal in relation to decremental TEC. Some Working Group members considered that the proposal only required 2 years notice for changes in TEC rather than an explicit charge of 2 * Generation TNUoS when the TEC reduction without 2 years notice became apparent. National Grid confirmed that the latter interpretation was the intention but agreed that there was merit in exploring the alternative interpretation.

97. The Group raised some questions of clarification in relation to the timing of the payment of the liability – whether at the time of the actual reduction of TEC, or when notice was actually provided if it was within 2 years.

Scenarios 19a & 19b

98. The Working Group queried whether this was the same as Scenario 1. National Grid agreed to review the applicability of user commitment in situations where no works were required..

Action: NP

Scenario 21

99. 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.

100. National Grid acknowledged the concerns regarding this matter and asked members for any ideas/thoughts for incentivising Users in negative zones.

Action: All

Scenarios 22 + 23

101. Where 2 years notice of TEC reduction not given, National Grid confirmed that the User Commitment Charges would still apply regardless of circumstances.

5. Scenarios - Implementation Dates

102. National Grid identified three possible implementation options for CAP131:
- i. Provisions applies to generators (new, existing and those with offers) from 1st April 2007
 - ii. Provisions applies to generators (new, existing and those with offers) from 1st April 2008
 - iii. Provisions applies only to changes in TEC/Modification Application from 1st April 2007

103. Concerns were raised regarding the dates specified and the Working Group agreed that the principles of implementation (rather than particular dates) had to be discussed and agreed.
104. National Grid acknowledged that option iii would be an amendment to the original proposal.
105. It was acknowledged that this was an issue that required further thought and debate by the Working Group.

6. Revenue Treatment

106. National Grid described the interaction of CAP131 and the revenue control and the charging methodology. The associated presentation slides will be circulated to Working Group members for reference.

Action: LM

107. National Grid stated its opinion that a consequential change to the charging methodologies was not required in response to CAP131 but that this would be kept under review and discussed in industry charging forums, such as the Charging Issues Standing Group (CISG). The revenue controls are being developed as part of the Transmission Price Control Review, and National Grid stated that CAP131 would necessitate a change to the revenue controls in order to pass a proportion of the risk from new generators to all users and to ensure that efficient costs are recovered.
108. One Working Group member indicated that a proportion of risk should not be passed to all users instead National Grid should bear this additional risk, in order to provide an incentive to calculate a generic user commitment that does not result in an overall shortfall if generators terminate their agreement, reduce their TEC or close.
109. One working group member suggested that this was inconsistent with the charging arrangements being proposed by National Grid for gas transmission, where a commodity charge is being utilised. This working group member suggested that a similar arrangement would be required here to separate any revenue flows that result from the user commitment arrangements.
110. Another Working Group member suggested that a system of monitoring any deficit or surplus as a result of the implementation of CAP131 may go some way to address these concerns.
111. One Working Group member thought that there was a revenue equity issue with these arrangements. This working group member gave the example of a portfolio player that is getting a share of a surplus one year and a share of a deficit the next and contrasted this with a single generator that terminates its agreement prior to connection and has to provide security with no prospect of getting a share of any future surplus (or deficit).

7. Issues Outside the Remit of CAP131

112. The Working Group has identified the following issues which although outside the remit of CAP131, may impact the effectiveness of the proposal if implemented:
 - i. Interaction of CAP131 with the revenue control and the charging methodology
 - ii. Discontinuity between treatment of new and existing users
 - iii. Interaction of CAP131 with the arrangements for TEC trading specified in CUSC section 6.30
 - iv. Liabilities may increase prior to all required consents being granted
 - v. Re-optimisation of GB Transmission System Queue

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- vi. Current Connection Process e.g. Construction Agreement, rights associated to CEC and TEC
113. Members agreed that these issues would be included in an appendix to the Working Group Report.

Action: HR

8. Next Meeting

114. The next Working Group meeting will be held on Friday, 17th November 2006 at National Grid offices in Northampton. The meeting will commence at 10am.
115. The main agenda items will be:
- i. Costs Reflectivity
 - ii. Risk Analysis
 - iii. SO Key Consents/Trigger Dates
 - iv. Negative Charging Zones
116. Further meetings of CAP131 Working Group have been confirmed as follows:
- i. Tuesday, 28th November 2006 (Location to be confirmed)
 - ii. 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
Steven Eyre	SE	British Energy
Paul Jones	PJ	E.ON
Simon Lord	SL	International Power
Merel Van der Neut Kolfshoten	MK	Centrica
Bill Reed	BR	RWE
David Scott	DS	EDF Energy
David Ward	DW	Magnox

In Attendance:

Karron Baker	KB	Ofgem
Richard Miller	RM	Ofgem

Apologies:

Mark Copley	MC	Ofgem
Richard Ford	RF	RES Ltd
Garth Graham	GG	Scottish and Southern
Mike Kay	MK	United Utilities
Charles Ruffell	CR	RWE
Malcolm Taylor	MT	AEP

Appendix 2 – CAP131 Scenarios

Incremental TEC Scenarios

1. No works, transmission capacity readily available
2. Works required, no consents required, transmission capacity available in 2 years
3. Works required, consents required, transmission capacity available in 2 years of granting of key SO consent.
4. Works required, consents required, transmission capacity available in 6 years of granting of key SO consent.
5. Works required, re-optimisation identifies opportunity for earlier access date which user accepts
6. Works required, user notifies National Grid of delay to agreed project timescales before key SO consent trigger date.
 - (a) Treatment of multiple repeated modification applications to delay incurring user commitment amounts
7. Works required, user notifies National Grid of delay to agreed project timescales after key SO consent trigger date.
8. Works required, National Grid notifies user of delay to agreed project timescale before key SO consent granted
9. Works required, National Grid notifies user of delay to agreed project timescale after key SO consent granted.
10. Works change, no delay to project timescales
 - (a) Pre SO key consent
 - (b) Post SO key consent
11. Works required, user fails to obtain own power station consents ahead of key SO consent trigger date
12. Works required, SO fails to obtain key consent
13. Works required, user notifies National Grid that original TEC request was too high before key SO consent date.
 - (a) CEC reduction in the building phase (as opposed to TEC reduction)
14. Works required, user notifies National Grid that original TEC request was too high after key SO consent date.
15. Staged application with TEC lagging CEC by two years.
 - (a) At existing MITS substation
 - (b) Remote substation far away from MITS
16. No power station built.

Decremental TEC Scenarios

17. Generator trades TEC using CAP068 arrangements
18. National Grid notified of intended TEC reduction in 2 years time.
 - (a) TEC reduction
 - (b) Station closure
 - (c) 31st March t-2
 - (d) September t-2
19. National Grid notified of intended TEC reduction in 2 years time, but is subsequently informed that the reduction will not occur.
 - (a) TEC has already been re-allocated
 - (b) TEC has not already been re-allocated
20. TEC reduction occurs without minimum two years notice.
 - (a) In positive charging zone
 - (b) In negative charging zone
 - (c) Using CAP068 trading arrangements following TEC reduction notice
21. Power station demolished but still continues to “pay” TNUoS
22. Unforeseen closure (force majeure)
23. TEC reduction for “environmental refurbishment”

Implementation Options

24. CAP131 applicable to all changes in TEC from 1st April 2007 only
25. CAP131 applicable to all changes in TEC and existing transmission capacity offers/agreements (to be calculated from the date of CONSAG signature)