

## Transmission Access Working Group 2

Meeting Name	Transmission Access Working Group 2
Meeting No.	26
Date of Meeting	15 <sup>th</sup> December 2008
Time	10:00 – 16:00
Venue	77, Kingsway, London

This note outlines the key discussions, decisions and action points from the twenty sixth meeting of Transmission Access Working Group 2.

### **1. Introductions/Apologies for Absence**

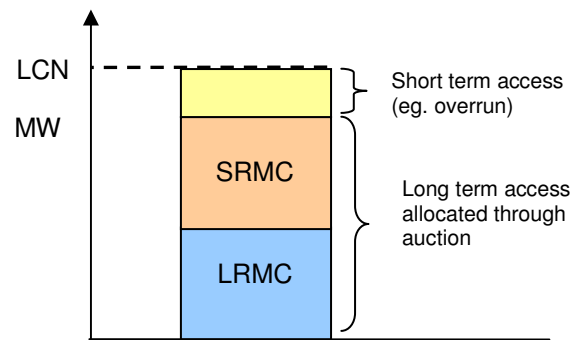
1. Apologies for absence were received from James Anderson, Sebastian Eyre, Nick Frydas, Paul Jones, Cathy McClay (Alt. Louise Schmitz), Fiona Navesey, Ed Reed (Alt. Bob Brown), Barbara Vest, Lisa Waters and Min Zhu.

### **2. Auction Process**

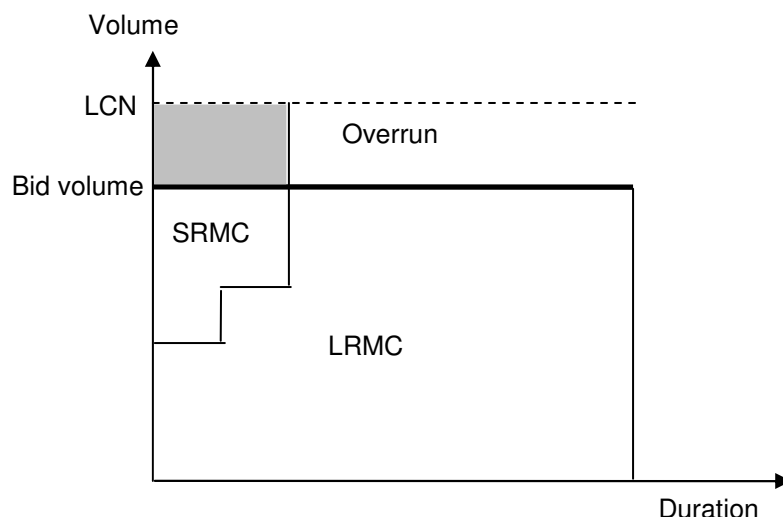
2. The group reviewed an updated version of the SO release methodology.
3. The group considered whether the whole right was firm. BR suggested that the part of the access which was based on the LRMC was firm. The part of the access based on SRMC is not firm. He noted that you were not exposed to a charge when you were not running if the charge was based on MWh. HR argued that the whole right was no less firm than it is now.
4. The SRMC should give the correct incentives so that users constrain themselves down when it is not economic for them to generate. The group noted that for the correct financial incentives to be given the short run charge should be profiled.
5. HS suggested that if you could fix your bids in advance this would help National Grid to forecast the fixed short run charge. BR suggested that there are mechanisms available to do that already. HR noted that this debate was fundamentally a matter of who took on the forecasting risk. GG noted that the costs were more fixed for renewables so the risk of fixing bid prices in advance would be greater for non-renewable generators.
6. GG noted that transmission actions should not be used to resolve energy issues. It is important to differentiate between the two types of action.
7. SL suggested that if you had the option whether or not to use the short run charged portion of your access you would not reduce your access volume in the auction because you could choose later whether or not you wanted to use it. HR noted that if you pay a firm price for a short run charge you could not choose to overrun for those MW. JH noted that you could still use overrun above the amount you had won in the auction.

## Transmission Access Working Group 2

8. The group considered that each users capacity allocation could be split into three:



9. GG noted that the time between rounds was dependant on how long it would take for the analysis to be done. HR noted that we would need to consider how much time was required between rounds once we have worked out what analysis is required.
10. EC noted that if the auction is descending you may not get to the correct economic answer. HS asked if it would be helpful to let users behind a constraint communicate with each other. The group concluded there would be collusion issues.
11. The group debated whether the portion of the access with LRMC and the portion with SRMC should be pro rated or given to users which are already contracted. BR noted that under a pro rate model there was no grandfathering of rights.
12. GG asked if a user with a connection contract would lose that agreement. This model would let the connecting user come on earlier although the price might be more expensive. HR suggested that the price once the capacity was built would be similar to their previous offer. BR noted that over time you would get a full price based on LRMC as National Grid builds reinforcements.
13. JH suggested that users should be required to have a lead time for their connection to aid National Grid to build capacity. HR suggested that if someone was willing to pay the price to connect in the next year then they should be able to. HR noted the price should allow the user to choose not an administered rule. JH suggested that when a user wanted to bid in an auction they should come to National Grid three years in advance.
14. JH suggested that National Grid should keep some capacity back for people bidding in the future. HR noted where there are people there who are willing to pay for access they should get it. SC suggested holding capacity back might make the problem worse.
15. MDa was concerned there would be no capacity left at the LRMC after the first auction. HR noted that the only way you could avoid this happening would be to expose people to variable prices. JH suggested that holding some capacity back might be helpful to ensure some is still available at LRMC.
16. The group considered how pro rating would work with more than one boundary by considering some examples. HR suggested that pro rating would need to be done yearly because you would get different answers of how to pro rate in different years. National Grid agreed to write a note explaining some examples of how the pro rating methodology would work.
- Action: NG**
17. HR suggested that the allocation of the long term needed to be optimised because the boundaries are interactive. A model would be required to do this which maximise volume release. MD noted that if you maximised the volume allocated you may get more than one answer.



18. The group considered how you would charge for the shaded area in the above diagram. HR suggested that any capacity above the bid volume would need to be treated as overrun. BR noted it would be difficult to work out which MWhs were above the bid volume. HR suggested that there may be some work from CAP162 we could consider. The group agreed the fixed SRMC should apply up to bid volume not LCN.
19. SC asked when the capacity would count as being built. BR noted that you would know upfront at what point you started paying the LRMC. It would be up to Ofgem and National Grid to sort out building and funding.
20. JH suggested we could charge the LRMC on an hourly basis. HR noted that we can't build an asset for 30% of the time. GG suggested that sharing would allow users to use an asset 30% of the time. HR clarified that there were two options: Users bid load factor or National Grid make assumptions about load factor.
21. GG asked if you accept the long term price do you have to accept the short term price? The group considered two options:
  - Option 1- Bundled offer (Firm, LRMC and Firm, SRMC) Under the bundled product National Grid would build the capacity in due course.
  - Option 2 – Unbundled (Can accept firm LRMC only) Unbundled National Grid will never build the additional capacity covered by the SRMC.
22. HS asked why would a user care about the proportion of their costs being split between SRMC and LRMC. HR noted that whether these costs were acceptable would depend on the operation of your power station. DH noted that this gives a signal to National Grid about how much to invest.
23. GG asked whether you would recalculate the SRMC if a user decided to only take the LRMC portion for their bid if the two were unbundled.

### 3. Pricing

24. MD presented slides on pricing.
25. GG asked when he would be notified of a SRMC price. BR suggested you could have it at the auction or day ahead; there are a few options depending on a Users appetite for risk. GG asked where the under and over recovery would come from. BR suggested this would be recovered from all users through the BSUoS pot. There could be an

## Transmission Access Working Group 2

incentive around this.

26. GG asked whether the price should be a marginal or average cost. He suggested it should be average as this is what would be incurred by National Grid. BR suggested marginal would be more economic.
27. BR suggested there is already data available from the short term prices that could help the analysis of this model.
28. HS asked how the cost from outages would be taken into account. MD suggested you would have to run the model twice; once without over allocation to remove the cost of outages and take that away from the over allocated scenario.
29. BR suggested there should be some modelling of the cost of carbon.

#### 4. Date and Location of Next Meeting

30. The next meeting will be on the 9<sup>th</sup> of January at AEP's Office, London.

#### Appendix 1 – Working Group Attendance

##### Members Present:

Hêdd Roberts	HR	Chairman
Sarah Hall	SH	Technical Secretary
Mark Duffield	MD	National Grid
Bob Brown	BB	Smartest Energy
Stuart Cotton	SC	Drax Power
Mike Davies	MDa	Wind Energy
Garth Graham	GG	Scottish and Southern Energy
Simon Lord	SL	First Hydro
Bill Reed	BR	RWE npower
Louise Schmitz	LS	British Energy
Helen Snodin	HS	Scottish Renewables Forum

##### In Attendance:

Elaine Calvert	EC	National Grid
Michael Dodd	MDo	ESBI
Jerry Hauber	JH	RWE Renewables
David Hunt	DH	Ofgem

##### Apologies:

James Anderson	JA	Scottish Power
Sebastian Eyre	SE	EDF Energy
Nick Frydas	NF	Merrill Lynch
Paul Jones	PJ	E.on
Cathy McClay	CM	British Energy
Fiona Navesey	FN	Centrica
Ed Reed	ER	Smartest Energy
Barbara Vest	BV	Gaz de France
Lisa Waters	LW	Welsh Power
Min Zhu	MZ	Ofgem