

Transmission Access Standing Group (TASG)

Minutes and Actions Arising from Meeting No.4 Held on 10th June 2002 The Montcalm Hotel, London

Present:

Standing Group Members

Phil Russell	PR	Chairman
Barbara Vest	BV	RWE Trading Direct Ltd
Brian Sequeira	BS	British Gas
Charles Davies	CD	National Grid
David Lane	DL	Clear Energy
Dick Cecil	DC	London Electricity Group
John Capener	JC	British Energy
Malcolm Taylor	MT	AEP
Mike Harrison	MH	Scottish Power
Nick Frydas	NF	EDF Trading
Nigel Cornwall	NC	Cornwall Consulting
Peter Clubb	PC	GDF
Phil Lawton	PL	National Grid
Richard Court	RC	National Grid
Simon Lord	SL	First Hydro
David Friend	DF	Technical Secretary

In Attendance:

Anthony Doherty	AD	Ofgem
Bola Odubiyi	BO	PowerGen
Jan Devito	JD	St Clements
Steve Drummond	SD	EDF Trading
Min Zhu	MZ	National Grid
Rob Siddell	RS	CIA
Tony Pollack	TP	Ofgem

Introductions/Apologies for Absence

73. Apologies were received from David Tolley (Innogy), John Stewart (Campbell Carr), Hugh Conway (Energywatch Representative) and Tim Russell.

Approval of Minutes

74. The minutes of the last meeting held on the 22nd May 2002 were approved subject to the following alterations:
- Minute 45: change to "...changing supplier and whether charges were on the basis of what was actually used or what was required".

Review of Actions

75. The actions from the previous meeting were addressed:

- Action 12: NF presentation on Transmission Access Arrangements in Europe. (Agenda Item 4) - **Action Complete**
- Action 60: PR to arrange a presentation on Transco investment drivers etc – PR reported that following discussions with Ofgem, he believed such presentation (on the detailed aspects of Transco's incentive scheme) was inappropriate until such time when further detail of the proposed transmission access arrangements was known – **Action Delayed/cancelled**
- Action 71: Presentations by RC and NC to add further detail/options to Strawman A (agenda item 4) – **Action Complete**

Matters for Discussion

Presentation 1 – Transmission Access Arrangements in Europe (NF)

76. NF's presentation reviewed the current transmission access arrangements for other European countries, the proposed new legislation in Europe and outlined the proposals that had been submitted/proposed under the Florence forum for Internal Electricity Markets (IEM) in Europe. The presentation drew many comparisons between the different European member states (in terms of comparative costs, advancement of market opening, number of customers switching supplier etc). Key points/highlights of the presentation included:

- UK already much advanced compared with many other countries and already meets proposed legislation;
- UK has one of lowest average levels of network charge (Germany has highest) even though UK has one of the most robust systems (planned to n-2, most other countries only plan to n-1);
- UK and Nordic countries are the only ones to have liquid wholesale arrangements for system balancing;
- UK is one of the most active in terms of customers switching suppliers;
- Conclusions of Florence Forum included that there should be no additional tariffs for Cross Border Trading and that G and L charges should be harmonised in the national tariff structures across European countries; and
- Not many useful comparisons/conclusions can be drawn from Europe, need to consider against arrangements in USA.

<http://www.nationalgrid.com/uk/indinfo/cusc/pdfs/Presentation-Nick-Frydas.pdf>

Discussion

77. There was some discussion regarding the proposals for G and L harmonisation across European countries. RC noted that in ETSO discussions to date, this matter had caused much confusion. CD noted that it was not in the gift of ETSO to harmonise tariffs. Such change would need to be agreed at Regulatory level and it would then be for each country to take forward. CD suggested the time-scales for any such change were likely to be quite long.

78. NC noted that the ETSO benchmark study (published in December 2001) had been a starting point for discussing different transmission arrangements across Europe. This had been followed by a further report in February 2002 that tried to distil a lowest denominator tariff and arrive at a methodology for doing this. NC noted that many of the pressures from Europe were likely to be for a move towards the conclusions of the benchmarking study. NC added that the UK was already much advanced and if we were looking to introduce further locational signals etc (i.e. over and above those outlined in the conclusions of the benchmarking study) we would need to have good reasons. NC also added however, that it was his view that we should move further and seek to make further change, as there were no arguments to keep with the status quo.
79. MT suggested that the TASG should neither be prescribed nor precluded by what was happening in Europe now or in the short/medium term. CD suggested that the topic of harmonising UK arrangements with the rest of Europe was not an issue to deal with at the moment, suggesting it was more appropriate for TASG to consider changes initially then see how such changes would fit in with European proposals at a later date.

Presentation 2 – Current World Evolution (RC)

80. RC briefly reviewed the two models introduced at the last meeting and explained that he had added further detail to the evolutionary model (Strawman A) as actioned. RC explained that in doing this, National Grid had recognised Ofgem's desired implementation timescale of April 2003. RC circulated a paper entitled "Transmission Access Arrangements – Strawman A Model - Current World Evolution".

<http://www.nationalgrid.com/uk/indinfo/cusc/pdfs/Strawman-A.pdf>

Discussion

81. SD questioned how it was proposed to handle transmission losses under Strawman A arrangements. RC explained that transmission losses were currently treated as an energy market cost, not a transmission cost. However, RC noted the need for the TASG to remain aware of any developments in any BSC Working Groups on losses.
82. DC questioned what would happen if, following the initial provision of access rights a participant (e.g. a generator) was to close. CD replied that in such cases, generators could either sell the access rights to another market participant or retain the access rights if they continued to pay the relevant access charges. CD added that if the generator closed and also stopped paying charges, the access rights would become available to other participants, but in such circumstances, the generator would not receive any payment. NF noted under such arrangements, participants could 'reserve' access capacity in order to stop other players connecting. CD acknowledged this, but noted that such action would mean the generator would continue to incur access charges (i.e. access rights would be retained for as long as charges are paid).
83. There was some discussion regarding the trading of access rights between participants. RC explained that whilst participants would be free to trade annual access rights at the same node with other participants, any intra nodal trading (i.e. trading between different nodes) would require National Grid facilitation. It

was noted that in a 'perfect world' the difference in access 'capability' between two different nodes would be proportional to the price differential between the two nodes. NC questioned whether a change of Supplier would require National Grid facilitation? RC confirmed that for 'implicit participation', no meaningful trading was expected to take place adding that National Grid facilitation would only be required for 'explicit participation' between different nodes (e.g. where generators or other directly connected parties wanted to trade access rights at different points of the system). NC questioned why RC had assumed Suppliers would not have explicit rights? RC replied that it was difficult to see how a capacity could sensibly be defined at a node for Suppliers, and in view of this, National Grid had assumed it would be optional for Suppliers to participate explicitly.

84. JD questioned the impact of the possible arrangements on embedded generators (SVAA registered)? RC acknowledged that further consideration re. embedded generators was required. It was noted that for implicit participation, where no capacity was defined, it would seem more appropriate for the access charge to be based on usage rather than capacity.
85. RC confirmed that transmission system reinforcements would continue to be driven by application of the Security Standard, however, RC also noted that the SO Balancing Services Incentive Scheme could be extended beyond the current 1 year period, to give longer term incentives for e.g. reducing constraint costs. MT questioned if such a change would increase National Grid's risk profile and hence increase charges (due to higher allowed Rates of Return)? NC suggested that such changes would not necessarily change National Grid's risk profile/rates of return as in effect, existing costs were simply being re-allocated to a different 'pot'. TD noted that an Ofgem Consultation Document on National Grid's proposed SO Incentive Scheme (proposals for a 3-year duration Incentive Scheme) was due to be published towards the end of July.

Presentation 3 – The Demand Side & Transmission Access – (NC)

86. NC's presentation focussed on demand side participation and outlined why the concept of a 2-sided market was desirable, what mechanisms would potentially allow such 2-sided participation and what practical issues such arrangements would raise. Key points/highlights of the presentation included:
- demand side participation can bring many benefits e.g. provides an alternative avenue for dealing with reliability and security issues, can reduce costs of energy services;
 - a small amount of demand response can lead to a large benefit in terms of a reduction in overall prices; there was no reason to believe that the impact of constraint costs would be any less beneficial;
 - one consequence of moving to an ex ante definition of rights and charges would be the replacement of the triad in its current form; it was important that any such change entail consideration of a similar mechanism that would deliver no fewer benefits;
 - the demand side must have the option of firm tradable rights;
 - as with the strawman, there were many issues/unanswered questions.

<http://www.nationalgrid.com/uk/indinfo/cusc/pdfs/TASG-demand-issues.pdf>

Date of Next Meeting/AOB

87. The next meeting of TASG is scheduled for 21 June 2002 (Ettington Park Hotel).