

**Minutes and Actions Arising from Meeting No.5  
Held on 21<sup>st</sup> June 2002  
Ettington Park Hotel, Stratford-Upon-Avon**

**Present:**

Phil Russell	PR	Chairman
Brian Sequeira	RD	British Gas
Charles Davies	CD	National Grid
David Lane	DL	Clear Energy
David Tolley	DT	Innogy
Dick Cecil	DC	London Electricity Group
Hugh Conway	HC	Energywatch Representative
John Stewart	JS	Campbell Carr
Malcolm Taylor	MT	AEP
Nick Frydas	NF	EDF Trading
Nigel Cornwall	NC	Cornwall Consulting
Peter Clubb	PC	GDF
Phil Lawton	PL	National Grid
Richard Court	RC	National Grid
Tim Russell	TR	
Richard Dunn	RD	Technical Secretary

**In Attendance:**

Bola Odibuyi	BO	PowerGen
Graham Trott	GT	British Energy
Jan Devito	JD	St Clements
Min Zhu	MZ	National Grid
Richard Ford	RF	Ofgem

**1 Introductions/Apologies for Absence**

88. Apologies were received from Simon Lord (First Hydro), Steve Drummond (EDF Trading), John Capener (British Energy), Mike Harrison (Scottish Power), Barbara Vest (RWE Trading), Tony Pollack (Ofgem) and Helen Bray (Elexon).

**2 Minutes of Last Meeting**

89. The minutes from the last meeting that was held on the 10 June 2002 were approved subject to the following amendments:
- Minute 83: Delete "JD agreed and noted..." and replace with "It was noted..."
  - Minute 84: Delete "JD also stated ..." and replace with "It was noted ..."
  - Minute 86: Revise bullet points as follows:

- 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 energy prices; there was no reason to believe that the impact on 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.

### 3 Matters for Discussion

- **Further Review of Presentations made to the Meeting held on 10 June.**

90. PR indicated that this session should be free-form and concentrate on further discussion of the models put forward to date and explicit/implicit participation in particular.
91. DC believed that Strawman 2 developed by National Grid could provide a pragmatic solution for Transmission Access by April 2003. It was agreed however that much more work was required on demand side participation. JD agreed and in particular believed there would need to be compensation arrangements for any disconnection on the demand side. RC confirmed that National Grid accepted that more detailed consideration of the arrangements for demand side participation was required in the Strawman proposals.
92. TR agreed with PR that the split between explicit and implicit was a key area for the Group to develop in the Strawman proposal. CD commented that if the demand side was to have explicit rights it would be important to determine how those rights were established and whether they had been exceeded. This could be achieved for example via half hourly metering. Clear guidelines for the application of the explicit/implicit concept to generation were probably required before other aspects of the market could be tied down, in particular the application to large embedded generators
93. RC and CD indicated that National Grid believed that explicit rights of generators should comprise an annual right to export up to a maximum capacity for a year. The right was allocated in return for the payment of TNUoS and BSUoS charges. Rights would be lost if the generator failed to pay those charges. However, NC raised the issue of a generator wishing to obtain an access right of 1000MW in T+5 where T was the year when the request for the access right was made. RC indicated that this generator could be given an access offer in a similar way in which connection offers can be given to generators at present. National Grid accepted that there was also a need to define more clearly the consequences of having explicit rights in the model.
94. Access rights could be traded, either with another generator or with NGC. If a generator was unhappy with the rights offered by NGC they should have recourse to Ofgem. TR noted that a key issue for the model was to determine

whether generators could be allowed to have non-firm connections and if so should they have the right to connect provided they shouldered all the risk of non-generation. DC believed that it would be important for potential participants in trading access rights to have a clear indication of the value of those rights and how they might be affected (eg: by the potential for mothballing). RC commented that mothballing in its current form would not be allowable under the Strawman model. RF suggested that the model was getting to a position where generators could not obtain firm rights without a connection and if so that would prevent the trading of access rights. NC indicated that the model would have to be simplified to be capable of implementation within the timescale desired by Ofgem.

95. CD suggested that the answer to the question posed by NC, assuming a simplified model, was that the generator requiring 1000MW access rights in T+5 could obtain the rights, provided the connection assets could be installed by T+5 and all charges were paid. TR noted that the model must be able to cope with the situation where the access rights are tradable and the cost of connection goes with the trade. RF suggested that the Group should extend their consideration to fixed durations (eg: 5 years) for access rights that were tradable. CD indicated that although this would help give a more accurate value for smaller and older power stations issues might arise for new large power station projects where it might be difficult to achieve financing unless the access arrangements for the plant were firm. RC suggested that a liquid secondary trading market was probably incompatible with larger power station projects and also with price control regulation.
96. CD suggested that the key to the problem was converting evergreen rights (and the associated charges) to access rights which could be divided into fixed durations with a value and tradable. NC agreed and observed that the existing regime locked in rights through charges and therefore prevented the development of tradable rights and the associated market arrangements (eg: hedging). Three main options within the model were identified
- evergreen rights with continuing charges
  - fixed term rights with associated charges
  - evergreen/fixed term rights with fixed charges
97. PR indicated that it was difficult to see where the discussion was leading to and reconciling it with the plan of submitting a August Report to the CUSC Panel and the target implementation of April 2003. It was agreed that National Grid would develop the Strawman proposal further and try to encapsulate the debate into a further paper for the next meeting.

**Action: CD, RC & MZ**

98. On the demand side CD indicated that the equivalent of the generator seeking a 1000MW access right would be a supplier seeking 1000MW access right. The generator's access right could be linked to a node but the supplier's access right would have to be on a GSP group basis. Again there would need to be a commitment to pay charges for the duration of the access right. PR suggested It was unclear what benefits a supplier would obtain from explicit participation. PL noted that the concept of explicit/implicit may not be so useful on the demand side - the important point was to identify the supplier's location so that rights could be allocated and charges levied accordingly. JD agreed that there was a question over the precision of explicit/implicit participation on the demand side. RC noted that attempting to replicate the nodal product as on

the generation side would lead logically to distributors which would create greater complication as previously discussed. The need was to measure energy taken by the supplier, identify their location and enter into contractual arrangements. These elements could then be translated into access rights. CD indicated that it would also be important to be able to verify that a supplier was actually providing a service to customers before any arrangements for constrained-off payments were included in the demand side model.

99. It was agreed that further work was required on building up the model on the demand side and JD agreed to provide a further paper to the next meeting to progress this. It was also agreed that a short note should be prepared for the next meeting arguing the case for dealing with access rights via DUoS charges and TR agreed to provide this

**Action: JD & TR**

#### **4 Any Other Business**

100. There was no further business

#### **Date of Next Meeting**

101. The date of the next meeting is 5 July 2002 at the Kensington Palace Hotel, London.