

**Minutes and Actions Arising from Meeting No.9
Held on 22nd November 2002
Brandon Hall Hotel, Coventry**

Present:

Malcolm Taylor	MT	Acting Chairman
Charles Davies	CD	National Grid
Nigel Cornwall	NC	Cornwall Consulting
Nick Frydas	NF	EDF Trading
Mike Harrison	MH	Scottish Power
Paul Jones	PJ	PowerGen
Tim Russell	TR	
Keith Miller	KM	
David Lane	DL	Clear Energy
Dick Cecil	DC	London Electricity Group
Hugh Conway	HC	Energywatch Representative
John Capener	JC	British Energy
Barbara Vest	BV	Gaz de France
Steve Drummond	SD	EDF Trading
Phil Lawton	PL	National Grid
Richard Dunn	RD	Secretary

In Attendance:

Danielle Lane	DL	British Gas
Mathew Buffey	MB	Ofgem
Richard Ford	RF	Ofgem

1 Introductions/Apologies for Absence

1. Apologies were received from David Tolley (Innogy), Phil Russell (TXU Europe), Jan Devito (Jade Energy), Simon Goldring (British Gas), John Stewart (Campbell Carr) and Nick Frydas (EDF Trading).

2 Minutes of the meeting held on 11/11/02

2. The minutes of the meeting held on 11/11/02 were agreed subject to the following amendment:
Delete the final sentence of paragraph 18 and replace with:
"This could simplify the cross border arrangements and be more compatible with those in the rest of Europe. Care would need to be taken though with the current Anglo-French interconnector and the extant agreements, notably the Protocol."
3. It was AGREED that the minutes of the meeting held on 11/11/02 could now be placed on the CUSC website.

3 Demand Side Models

4. NC gave the meeting a presentation on a demand side model based on the building blocks that had been employed by National Grid in developing CAP043. BV and DL had not objected to the terms of the model although at the end of the day ownership was with NC.
5. There were physical limitations in the model on the amount that could be taken off the system and these would be set down in the Connection Offtake Capacity (COC) and Transmission Offtake Capacity (TOC) concepts. These concepts mirrored the CECs and TECs on the generation side that had now been developed by National Grid in CAP043 and would be determined by User requests. The entity acquiring the access right would be any directly connected offtake customer (including Directly Connected Customers) or at a higher aggregated level by agreement with National Grid and subject to physical availability. New rights would be available subject to agreement with National Grid on the lines already outlined by Ofgem in their earlier consultation document. Rights could be surrendered via buy-back arrangements with National Grid. There must be a physical exchange of power in order for this model to work so TOCs would need to be metered and subject to UoS Agreements.
6. PL suggested that a TOC would be a rather nebulous concept providing difficulties for National Grid on buy-back. NC believed it would no more nebulous than provision of certain balancing services. Duration of access rights was envisaged for a year or up to the maximum period of the existing commercial agreement. The price of such rights would be determined by the initial allocation of the prevailing TNUoS tariff. The SO would have automatic repurchase rights but otherwise trading would be at the right holder's discretion. There would be compensation for non-provision of the right to be determined under the CUSC as in the generation model and remedies for breach of rights including overrun charges. Force Majeure arrangements would however need to apply.
7. Potential advantages of the model were that the triad charging arrangements could remain and strong incentives to manage demand load at times of high demand were also retained. There were stronger commercial incentives for controllable load and the model aligned with the energy market. Rights could be conferred to capacity above COC but overrun charges would need to apply at peak periods. Development of further Interruption options should not be inhibited perhaps, through Balancing Services contracts. However it was unclear how the concept of firm could be applied to the demand side.
8. RF commented that very careful definition of rights would be required. For example firm rights ex ante would require a very different level of overrun charges from non-firm rights ex post.
9. Incentives and investment signals were an important element of the model and signals could be provided to demand side Users via the overrun charge and buy-back arrangements. It was also possible that the benefits from the triad charging arrangements could also be fed back into the charges under this model. There was some concern expressed about legally enforcing overrun charges, whether deenergisation would take place under the model and

whether compensation would actually be paid. There was also an inconclusive discussion about how the model could accommodate over-ambitious demand forecasts from suppliers.

4 Role of Distribution Network Operator

10. DL circulated a Strawman assessment for Distribution and indicated that this was very much a draft. Key points:
 - Rights were ex ante and fixed volume - analogous to the entry/exit arrangements for generation
 - One year duration or multiples but this raises several issues eg: optional extension
 - Distribution Interconnectors not covered in the model
 - Smearing for compensation NHH customers via GSP Group Correction Factors
 - Small embedded generators would have arrangements for compensation under the model via their Supplier
 - For the embedded customer the DSO is the CUSC Party
 - The supplier is transitory feature - premises are what matter
 - Access rights would move with the customer changing supplier
 - Realistically need HH Settlement if access trading were to go ahead under this model
 - "Diversity" at the GSP level under this model requires consideration although this depends on the deal struck by National Grid with the DNO
11. TR circulated a Strawman assessment for the DNO contracting with National Grid. Key Points:
 - Model concentrates on who contracts with whom
 - Rights purchased by DNOs from National Grid and paid for by DNOs who in turn would pass through DUoS to customers. Directly Connected Customers would also need to purchase rights directly from National Grid
 - Embedded Distribution Networks require more consideration
 - No presumptions made about charging arrangements
 - April 2005 implementation would coincide with new Distribution Connection and Use of System Charging Arrangements currently under consultation and start of the Distribution Price Control Review
 - Disincentives not to hoard access capacity as with generation model

- Buying access rights also gives you the obligation to pay TNUoS charges
- Duration would be at least one year with longer periods available
- Trading possible at entry/exit points - trading between entry/exit points would require facilitation by National Grid
- Overrun charge would need to be set high to encourage acquisition of rights in advance
- Implicit that TNUoS and DuoS charges should be consistent to ensure correct incentives across the piece
- Firmness inappropriate to this model
- Better planning of investment - Parties are long term players with long life assets
- Encourages good load management by customers
- Faults on 132kV system could still affect GSP demand so the model would need to take this into account(?)

5 Ofgem Consultation document - NGC System Operator Incentive Scheme 2003/04 - 2005/06

12. MT pointed out that Ofgem were intending to provide the responses to the consultation document as part of a further consultation document at the end of November. National Grid's response was already available to interested parties.

6 Other Issues

13. DL circulated a Strawman assessment for Interconnectors and gave the meeting a brief overview of the considerations. SD agreed to provide a further refined draft of the assessment for the report to the CUSC Panel.

7 Structure of Draft TASG Report to December Panel Meeting

14. MT thanked TR, DL, NC and SD for the work they had undertaken in developing the Strawman assessment models. MT indicated that his approach to the final report from the Group to the December CUSC Panel would be to circulate an outline report to Members for comment shortly after the meeting. Subject to any comment on the outline report he would endeavour to circulate a full draft report to the Panel by Friday 29th November. The various Strawman assessments would be provided as supporting documents to the report.

8 Any Other Business

15. There was no other business.

9 Date of Next Meeting

16. 6th December at AEP Headquarters, London.