

Key Points and Actions

Key Points and Actions Arising from Meeting No.14 Held on 23rd June 2003 Brandon Hall Hotel, Brandon, Coventry

Present:

Malcolm Taylor	MT	Chairman
Rupert Judson	RJ	London Electricity
Keith Miller	KM	
Charles Davies	CD	National Grid Transco
Nigel Cornwall	NC	Cornwall Consulting
Paul Jones	PJ	PowerGen
Hugh Conway	HC	EnergyWatch
David Lane	DL	ClearEnergy
Russell Cooper	RC	National Grid Transco
Tim Russell	TR	
Mike Harrison	MH	Scottish Power
Steve Drummond	SD	EDF Trading
Richard Dunn	RD	Secretary

In Attendance:

Richard Ford	RF	Ofgem
Simon Thornton	ST	National Grid Transco
Rekha Patel	RP	Conoco/Phillips
Katherine Morrison	KM	EnergyWatch
Danielle Lane	DLa	British Gas Trading
Rachel Lockley	RL	British Energy

1 Introductions/Apologies for Absence

Apologies were received from John Capener, Barbara Vest and Dick Cecil.

2 Notes of Key Points/Actions of the Meeting held on 6th June 2003

The draft Notes of the meeting held on 6th June 2003 were AGREED subject to the inclusion of a number of minor comments.

3 Big Picture Discussions

a Demand Side

Presentation by NGC on current demand side rights

RC gave a presentation describing NGCs understanding of the current rights of the demand side.

Key Points

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- (i) directly connected customers, embedded HH and embedded NHH customers had exit capacity rights only forecast on an annual basis
- (ii) TNUoS Granularity was provided by:
 - MWs at system triad for dccc
 - MWs at system triad for embedded HH customers
 - kWhs between 16.00 - 19.00 hrs for embedded NHH customersLocational resolution was:
 - BMU identified with GSP group for dccc
 - BMU within a GSP group for Embedded HH and embedded NHH customers
- (iii) Temporal resolution was achieved by charges specified and paid for on an annual basis and volume and payment based on consumption. Rights followed customers.
- (iv) For dccc, firmness was based on the physical right to import unlimited energy subject to planning/operational standards as defined in the connection agreement. Rights followed the customer and customer agreement set the GSP size
- (v) For embedded HH and NHH customers firmness was based on the physical right for the supplier to increase GSP group consumption and unlimited subject to planning and operational standards. Rights were allocated to the supplier but followed the customer
- (vi) The consequences of breach were not applicable to the customer since rights were based on an ex-post allocation. The access provider could enter into demand side management contracts for constraints subject to adequate measurement systems
- (vii) Service levels for dccc were to prescribed standards although flexibility was provided through the connection agreement. For embedded HH and NHH customers there were prescribed infrastructure standards

i) What do you mean by firm exit?

Key points

- (i) Four essential features identified for firm contracts:
 - There must be a pre-existing contractual relationship between the provider and the user
 - Compensation should be payable in the event that no access is received by the user
 - Commitment and Volumes must be defined before the event
 - Volumes can only be taken up to the volume defined ex ante (maximum volume) and must be paid for
- (ii) Sensible unit of time is Settlement Period - practical approach to unit pricing granularity.

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- (iii) Two options on payment. Either:
 - Pay for the entire volume contracted for; or
 - Pay up to the volume taken with the balance subject to a separate charge (which might be zero)
- (iv) For compensation purposes unsupplied capacity could be measured by the failure to meet the contracted requirements of the User. The User should however have confirmed the need for that contracted capacity on the day. Need to find a way to demonstrate that contracted volumes have not been delivered to receive compensation - you don't know if it was deliverable until after it was delivered.
- (v) Another way of looking at compensation would be take the view that NGC has been provided with sufficient income through the regulatory contract to provide an efficient system and meet security of supply requirements so that compensation for unsupplied demand was unnecessary. But "User pays" model difficult to reconcile with this approach.
- (vi) Analogies do not capture adequately the (probably) unique features of the gas and electricity markets
- (vii) Tradeability not a factor in the definition of "firm" but firmness is probably a pre-requisite for tradeability

ii) How could firm exit for NHH demand work

- (viii) Demand will need to be subject to measurement for firm exit rights to work. This could be achieved by encouraging more installation of HH metering and/or teleswitching. Firm demand side rights will provide better demand measurement incentives in themselves. Investment in NHH metering and teleswitching is desirable as the current averaging approach is inefficient and accurate demand measurements would send clearer messages to suppliers and NGC. This could also provide benefits in more efficient system investment.

iii) How could firm/non-firm demand side work alongside each other?

- (ix) Users taking supply on a Firm and non-firm contractual basis could co-exist together but "Firmness" would need to be verifiable in order to avoid any cross-contamination with non-firm contracts. Firm and non-firm contracts would need to be kept separate. Maximum volumes in any firm contracts could not be exceeded.

b What is the simplest contractual set that allows the DNO to be the access manager?

- (i) In the context of PJ's presentation to the Group on 19/5/03, the peak on the NGC system may not coincide with the peak at a particular GSP. PJ would seek to simplify the "contractual hub" diagram he produced as part of that presentation.

Action: PJ

- (ii) Access arrangements to the HV system should not be driven by the current

contractual links between DNOs and LEGs.

4 Ofgem Open Letter on Access/Charging Dated 9th June 2003

- (i) RF indicated Letter should be seen as complementary to the review of the charging methodologies and consideration of a Transmission Access regime.
- (ii) Ofgem have wider statutory responsibilities to consider and this is an opportunity to raise issues in a wider context. LEGs identified as an example but unclear how this could be pursued in this context.
- (iii) Comments on the letter required by 4/7/03. RF will provide NGC with a summary of the comments idc.

5 Paper by Steve Drummond - How should a Transmission Access regime embrace Interconnectors?

Key Points

- (i) Interconnectors need access model that does not hinder competitive trading between markets and does not unduly prejudice or give preference to them compared with the "within market" parties.
- (ii) Current regime does not do this due to tendency to graft Interconnectors on to existing market arrangements and leave them out at market design stage. But growing awareness of importance of Interconnectors as European markets open up. Should test proposed access regime against criteria in (i) above
- (iii) Four possible models could be beneficial to Interconnectors:
 - Interconnectors become Infrastructure - but access would need to be determined on an auction based system on the lines of the Anglo-French Interconnector. Income from the auctions would offset the cost to the Transmission Business of running the Interconnectors. In keeping with EC vision of no "pancaking" of charges and would provide level playing field for Users
 - Merchant Interconnectors - where Interconnectors built by parties other than the Transmission Business. Users still enjoy benefits of Interconnector. Network infrastructure costs charges out to all parties except Interconnector Owners/Users. Also in keeping with EC vision
 - Interconnector only face Energy Based Charges - because this is within Management Control of the IUs whereas Transmission costs are treated as normal business costs of the Owner having built the assets
 - Interconnector face Energy Based Charges and Transmission charges - less efficient than having no charges and not in keeping with EC vision
- (iv) Common features of models:

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- Contracts for Capacity one way across the Interconnector
- Obtaining Interconnector rights automatically includes Transmission Access rights
- firm contracts up to the full capacity of the Interconnectors in both directions
- Non-firm products to be available beyond the full capacity contingent upon off-setting contracts in the opposite direction
- no certainty of charges before capacity auctions
- Access to markets in all timescales
- Capacity buyback operates only through the Interconnector Users once capacity rights obtained and through the Interconnector Owner before the auctioning of those rights

6 Next Steps

MT to draft bullet point big picture issues and first cut on competitive access. Need to revisit breach idc.

Action: MT

7 AOB

None.

8 Next Meeting - Friday 18th July 2003

At 23 Buckingham Gate SW1 6LB starting at 10.00am.