Transmission Access Short Term Working Group 1 CAP161-164 Meeting 4

10.00-15.00 on 23rd June 2008,
National Grid House, Warwick

Attendees:
Hêdd Roberts (Chair)
Patrick Hynes
Paul Jones
Merel van der Neut Kolfschoten
Tim Russell
James Anderson
Barbara Vest
Garth Graham
Richard Ford
Deborah McPherson (STC)
Tony Dicicco
Rob Rome
David Hunt (Ofgem)
Bob Brown
Paul Mott
Simon Lord
Helen Snodin
Graeme Cooper

Invited:
Jeremy Caplin
Ian Moss

Apologies
Kathryn Sorrell
Rekha Patel

Draft meeting notes

1.	**Minutes and actions from previous meeting** The notes of the previous meeting were agreed with minor changes. In reviewing the notes it was reiterated that with respect to SO release the working group should be mindful of the limited current trading arrangements in the CUSC and may need to consider tradability further. The working group agreed that that any access provided under SO release should be tradable.	
2.	**Feedback from WG 2 and 3** HR provided feedback from the other working groups. HR confirmed that the changes proposed in CAP131 would need to be revised in light of the current access proposals, irrespective of the issues raised in Ofgem's IA on CAP131. WG 3 are progressing two models for zoning, HR gave a brief overview. WG3 are also looking at node to node exchange rates. WG3 have also looked at the definition of local works. It is recognised that this interacts closely with the zonal definitions and therefore an important issue in the assessment of sharing. It was noted, that while not ideal, the charging and CUSC definitions for local works may not be exactly the same. The combined WG 1/2/3 report to the June CUSC panel is available on the website. http://www.nationalgrid.com/NR/rdonlyres/4E05A3BB-F193-4F39-902B-8C594F73921B/26516/TARHeadline_June.pdf	
3.	**Assumptions, risks and issues register** PH to update and reissue with comments as discussed – PH noted that v5 also included updated 'central systems' sections.	PH
4.	**Further SO release model proposal** Following on from the previous meeting SL proposed a slightly different SO release model. This model is an evolution of the existing LDTEC type product, called C-LDTEC. A Generator would apply for access for any period from 7 weeks up to 12 months, similar to the LDTEC application process. The assessment period for National Grid would be variable depending on the duration requested. National Grid would have flexibility to return a profiled capability, avoiding the need to reject the whole application. National Grid would indicate the cost to the Generator after assessment; the Generator would then choose whether to accept the offer. It was suggested that this first come first served model is suited to a transmission access given the limited liquidity. The product is tradable, subject to current or future trading provisions in the CUSC, and so could not be technology based.	

	The working group discussed that constraints and therefore the volume and price of additional access was related to boundaries rather zones. However, zones are being used as they provide a simpler process for trading. National Grid indicated that publishing volumes prior to an auction would require the SO to make major assumption; ultimately this would lead to a less efficient outcome. The original straw man proposal by National Grid limited the assumptions made by the SO and required Generators to 'discover' volume and price. An alternative approach to this would be to provide Industry with more information prior to it bidding i.e. National Grid publishes available volume and possibly even a reserve price. National Grid reiterated that volumes between the zones interact, and so in order to publish capabilities significant assumption were required. The group considered whether more information could be available on system capability which would assist with Generator bidding, particularly for spare capacity. National Grid noted that to a greater of lesser degree that system capacity would only be know in real time. System capacity is not just related to system availability but also displacement and operation both generation and demand. In any event SO release was economic spare capacity rather than physical spare capacity i.e. it include capacity that could be facilitated through SO arbitrage. The working group discussed that making more information available may not be useful to all players, e.g. this may disadvantage small players. While grater transparency may have advantages it was noted it would also be of value to a Generator seeking to profit from scarcity of access. DH noted that whilst Ofgem have powers to deal with abuse, these were not envisaged to be used regularly and so proposals should not deliberately create inappropriate incentives. National Grid confirmed that SO release allocation did not remove or take access from exiting holders. Existing users would still be free to sell access and this was an important counter to National Grid pricing. It was asked if the two types of SO release could co-exist. National Grid indicated that at this stage it would prefer to focus on a single solution; however this could include some features that were more flexible. It was recognised that SO release interacts strongly with bilateral trading, however it is not clear that they should be performed together. It was also noted that a reserve price may be useful in managing revenue surpluses. In summary there appeared to be a number of competing areas for an SO release model: Lead time and risk management – who commits first (generator or SO) and when? Duration – single product of a weekly block (concatenated if required) or a variety of blocks (up to 12 months)? Allocation – first come first served or through some form of auction (blind or varying degrees of information made available in advance, although not necessarily firm). National Grid to summarise the additional proposal and circulate for comment.	PH /SL
5.	**Entry Capacity sharing models** National Grid presented three options for notifying access sharing agreements: Codified, ex ante and ex post. It was recognised that sharing is ultimately a trade between two parties, the codified approach seeks to formalise the parties and so minimise the interface required with National Grid and the short term transaction costs. The ex-ante and ex-post arrangements are essential trades notified in the in different timescales. It was noted for the ex ante and ex post options that a central system could facilitate the trades between parties, also notifying the SO and managing the financial risks associated with trades. It was also suggested that the SO could offer access in to this central market, so by facilitating SO release. Further more the SO could remove access from the market through the central system. The advantage for the SO would be that the central system is anonymous, thereby limiting the opportunity for market abuse. While National Grid did not need to know before the event who had access, individual generators would need to agree between themselves before gate closure. The group discussed the interaction between sharing and overrun at length. The key issue from the discussion was that a Generator could not practically 'back off' licence obligations. So without overrun, when output above contracted access level represented licence breach, the value of sharing was significant limited. Overrun addressed this by making output above contracted level a commercial issue. It was noted that the breach	

	provisions of the CUSC could be amended in some way to address the breach issue should overrun not be introduced in parallel. PJ to consider administered breach issue and options. In the context of ex post notification, in an overrun model a Generator would be managing exposure, without overrun the Generator would be distressed buyer given the consequences. This would place access holder (donor) in a very strong position and possibly create or exacerbate a market power issues. From a process perspective ex post notification made little difference to the SO apart from possibly delaying the production of overrun costs, however from a participant behaviour position it could have significant downsides. It was recognised that ex post notification interacted with production of overrun costs, depending on the overrun model it may delay calculation. As volumes were traded post event a small number of remaining parties could face increasing costs as a result of not trading, depending on the overrun pricing model. Divorcing the access product in the BM could create some negative incentives, and further consideration was required as to how ex post trading impacts on constraint actions in the Control room. For example, when the SO constrains a party off to facilitate overrun, the constrained off party can further benefit from selling it's access to a party overrunning, suggesting that bids in the control may need to explicitly remove access rather than just adjusting the output. In terms of timescales it was questioned how useful a short period of ex post notification would actually be, given the need for parties to manage a trade and the interaction with metered flows. Some members of the group expressed concern that the disadvantages of ex post trading outweighed the potentially small incremental benefit providing parties with further flexibility. In terms of a transaction fee, the general view was this should be avoided subject to the proportionality of the variable cost it introduced. Further issues highlighted were: what happens if the notification process fails? In a codified approach who is responsible for overrun, the lead party or the donor: National Grid's initial view was that this would be derived from the 'code' (contains a hierarchy), however this would require further consideration / clarification. It was noted that this issue was similar to the reallocation process in the BSC. Single notification by the donor (or exchange) was reasonable, and parties would require a notification confirmation (possibly to both parties), although at least to the donor. The minimum time for ex ante notification could be right up to gate closure, to ensure alignment with contracted and PNs. Systems should also be capable of allowing notification up to 7 days in advance, and these could be changed by counter notification. The expectation is that all trades (volumes, donor, recipient & period) would be publish soon after real time. The minimum trade period would be ½ hour. Open sharing model. TR presented an open sharing model - existing parties would release unused access to the system operator at the commoditised long run price, the system operator would then reallocate this access. The key to this model is that the parties releasing access and receiving access have no relationship, the trade is facilitated through the system operator, and the trade price is cost not value. It was noted that in negative zones users would have to pay to give up unused capacity. Noting that access is not generally restricted in these zones. If generators could trade access at value in advance this model becomes the last chance trade at a default rate - UIoLI with an administered payment if the access is taken up.	PJ
6.	**Revenue flows** PH provided a brief explanation of the revenue diagrams that were circulated (draft v2). The diagrams present possible revenue flows and how these revenue interact with each other and existing revenue flows e.g. BSUoS, BSC payments, contact payments and TNUoS. All were asked to review and provide feedback to PH	ALL
7.	**Review work plan** It is recognised that there are very few meeting left. NG to investigate an additional meeting in week commencing 30 June.	NG

8.	**AOB** It was asked what the minimum lead time for SO release was?	KS
9.	**Date and location of next meeting, 10am 8 July AEP, London**	