

CAP168 Working Group

Meeting Name	CAP168 Working Group
Meeting No.	2
Date of Meeting	19th March 2009
Time	10:00 – 16:00
Venue	AEP Office, London

This note outlines the key discussions, decisions and action points from the second meeting of the CAP168 Working Group.

1. Introductions/Apologies for Absence

1. Apologies for absence were received from Richard Ford, Deborah MacPherson, Barbara Vest and Charles Williams.

2. Agree Notes from Previous Meeting

2. The Working Group agreed the Notes from the previous meeting.

3. Discuss Pre-consultation Responses

3. SH presented summary slides describing responses to the pre-consultation. The Working Group considered key topics from the consultation. This presentation and the pre-consultation responses can be found on the National Grid website.
4. SL questioned if the proposal aimed to test if a generator can use the system or if a generator is choosing not to use the system. MM replied that is aimed to test both ability to use and usage.

4. TEC Trading Arrangements

5. LS pointed out that a number of people had noted in their responses that they had experience of trading. She pointed out that the current trading process is not very transparent as some of the industry believed trading had not been utilised even though it has.
6. GG noted that exchange rates could frustrate trading. PH noted that the exchange rates were based on the physical capabilities of the transmission system. NC asked if the calculation of exchange rates was transparent. LS noted that calculation was very complex, and so even if it was more transparent it would still be hard to understand. SL pointed out that it is very difficult to move TEC from one node to another, naturally it does not travel well. PJ noted that TEC is fundamentally not a very good product for trading.
7. The Group considered that much work has already been done on exchanges and trading arrangements over the past 9 months and it was not efficient or practical to repeat this. MM hoped that this amendment proposal would provide everything in one package. HR noted it was given Urgent status so that could be considered along side the other amendments.
8. The group debated how we should include aspects of the other amendment proposals. The group considered it could assess the interaction and recommend that the other amendments should be approved if this amendment is approved.

5. Introduction of an Under-use Charge

9. PJ noted that the level of the under-use charge will determine whether users are incentivised or compelled to give up TEC.
10. In terms of governance it was noted that the under-use charge would be defined under the charging methodology.
11. There was some concern that testing output and charging for under-use turned TEC from a right of access into an obligation to generate. HR noted that a user was not obligated to generate as it could opt to pay the charge.
12. LS suggested there should be a minimum percentage you can under-use for headroom. MM suggested you could over run when you needed to use that headroom. PH noted that over run was already on the table and gave an incentive for users to book TEC without allowing for infrequently used headroom.
13. SL suggested the usage test should be the difference between TEC and the maximum output in one settlement period in each year. NC noted that we needed to find a proxy of how much TEC the holder uses during the year. One settlement period would not provide this.
14. MM argued that the rationale for the under-use charge could be that a generator has only paid for 27% of the investment and others have paid for 73%. It was noted that 27% and 73% were the absolute contributions to revenue recovery and that the actual charges under TNUoS focused on the differential that provided a cost reflective signal between two point not an absolute cost.
15. MM suggested the objective of the under usage charge was to incentivise users who did not use TEC very often not to book that TEC. GG noted that some plant only needed the TEC only very occasionally, say when power prices or demands were at their highest. MM suggested that peaking plants could be exempted. Peaking plant or any other exclude plant would need to be defined.
16. PJ noted that National Grid did take into account the type of plant when they build the network. MM suggested NG made conservative assumptions. The incentive would encourage people to give better information for National Grid to use in those assumptions. PJ suggested it was like an information imbalance charge. We should compare data that National Grid already gets and look at the advantage of the extra information. Theoretically the group could look base the charge on the financial benefit of having the additional information, although it was unlikely time would allow.
17. MM suggested we may need a different test for under use charge and use it or lose it.
18. NC raised a suggestion he had thought of for levying the under-use charge. Generators would be required to nominate a monthly maximum TEC five days ahead of the month. Users could change this maximum TEC value day ahead and the value would be published on a bulletin board. Under run charges would be based on the difference between what they said they would use day ahead and what they actually did on the day.
19. NC had written a note on the further proposal. He agreed to work on the note and circulate it before the next meeting.
Action: NC
20. BR asked how it was different to current information imbalance. NC suggested this proposal would give a firmer incentive.
21. PH noted that, if firm, month ahead might be useful considered in conjunction with SO Release but day ahead notification would have limited benefit. It was also noted that as the charge was based on day ahead there was no incentive to provide correct

information at month ahead.

22. The group discussed what the level of the charge should be. MM suggested linking it to BSUoS. PH questioned if it could be cost reflective, where users are not using the system they would be providing a benefit in an exporting zone. In this case a cost reflective charge would be negative which it was agreed would be inconsistent with the incentive CAP168 was seeking to provide.
23. LS argued that incentives were already available under CAP161-CAP163 for users to book less TEC initially. Parties regularly release TEC to avoid TNUoS and so she questioned if additional incentives were necessary. MM argued you were only incentivised to sell it if someone is willing to buy under the current proposals. HR suggested this was the correct incentive, if no one was willing to buy then releasing it was of no use.
24. NC suggested that introduction of under-use charging and “use it or lose it” mechanisms had not been considered during the development of the other proposals. PJ noted that under-run was considered during CAP162. It had been concluded TEC is a right to use the system not an obligation, therefore an under-use charge was not appropriate.
25. PH noted we need to look at the incentives this amendment would make in addition to CAP161-163, what is the level of charge that would incentivise people to give accurate information?
26. PH also noted that in constrained areas, by definition, all of the available transmission the capacity is being used. Therefore the charge will only be effective where the SRMC is less than the LRMC, so on average the cost reflective charge would be zero or negative. The group agreed the charge could not be cost reflective if it sought to incentivise parties to release access.
27. MM pointed out the under-run charge needed to be an incremental charge on top of TNUoS as TNUoS was, in her view, not currently giving a strong enough incentive.
28. GG argued the charge should also apply in negative zones as according to the analysis TEC was being under-used in both positive and negative zones. HR described the incentive to have the correct level of TEC which already exists in negative zones. In negative zones if the user has less TEC their TNUoS charge becomes more negative. GG argued that in positive zones TNUoS would be lower if you booked less – which is the same incentive. In some cases even though a zone was negative it was still difficult to get access and there would be an absolute cost to providing that access in the short term. The group agreed there should be some charge in negative zones.
29. GG suggested the charge should treat positive and negative zones in the same way. The group considered if the charge should be a flat charge. The group considered using the average TNUoS charge or the residual as these had existing methodologies. PH suggested that, if time permitted, if the basis was an effective incentive that the group should consider modelling the effect of charges. PJ noted it was a continuum at some point the charge would be so high you would incentivise Users not to book TEC because they were afraid of penal charges.

6. “Use it or lose it” Mechanism

30. The original proposal suggests the “use it or lose it” (UIOLI) mechanism should come in after TEC has not been used for two years in a row or three years in five. MK noted this would not release anything for two years. MM noted we needed to look at consider whether this mechanism should be introduced retrospectively.
31. It was suggested that we could use a similar process to CAP150 to remove TEC. GG suggested that some of the process we had developed for a validation run Under CAP166 could be used.

32. The group considered whether there should be a de minimis limit? LS argued that a generator may need a small percentage of headroom. MM noted if you gave each User a small amount of headroom it all adds together to quite a lot. The group agreed there should be no de minimis.
33. The Group agreed that the usage test for use it of lose it should be the maximum average output over one half hour in the year, as UIOLI was about being available rather than absolute usage e.g. some plant was available but had not been called due to market or weather conditions for a number of years.
34. Under the current regime a User must have enough TEC to cover their offered balancing services, PJ asked what would happen if you are not called on to perform a service for two years in a row? The group considered the User would need to make sure it ran at maximum once in each year, irrespective of the fact that it had a contract with Grid. The cost would be included in your balancing services price and in most cases this was a requirement of the service provision.
35. The group considered an appeal would be necessary as under CAP150.
36. The group agreed a UIOLI mechanism should not be retrospective, thus new TEC would not be released for at least 2 years and possibly up to 5 years.

7. Offering TEC to the System Operator

37. MM suggested there should be a minimum period of TEC which you could give back to the SO. PH suggested a week would be an appropriate length. PH suggested that you would need to notify the SO five weeks in advance to line up with CAP161. LS considered there would need to be an alignment with the under-use charge. PH noted that to be of any use to the SO the user would need to relinquish all rights to the TEC for that period.
38. The group agreed there would be no avoidance of your TNUoS charge if you give it TEC back to the SO. BR noted that the capacity could be charged for twice. MM noted the over recovery would be smeared back.
39. The group agreed if a user offers TEC to the SO five weeks in advance but no one has taken it you would still avoid under-use charge.

8. Date and Location of Next Meeting

40. The next Working Group meeting will be at the Hilton in Warwick at 10:00 on Tuesday 24th March 2009.

Appendix 1 – Working Group Attendance

Members Present:

Hêdd Roberts	HR	Chairman
Sarah Hall	SH	Technical Secretary
Patrick Hynes	PH	National Grid
James Anderson	JA	Scottish Power
Bob Brown	BB	GdF
Garth Graham	GG	Scottish and Southern Energy
Paul Jones	PJ	E.ON UK
Robert Longden	RL	Airtricity
Simon Lord	SL	First Hydro
Maureen McCaffrey	MM	ConocoPhillips
Rekha Patel	RP	Welsh Power
Bill Reed	BR	RWE

CAP168 Working Group

Louise Schmitz	LS	British Energy
Merel van der Neut Kolfshoten	MK	Centrica

In Attendance:

Konrad Keyserlingk	KK	Ofgem
Nigel Cornwall	NC	Cornwall Energy Associates

Apologies:

Richard Ford	RF	RES
Deborah MacPherson	DM	Scottish Power
Barbara Vest	BV	AEP
Charles Williams	CW	Falck Renewables