

Transmission Access Workshop – 10<sup>th</sup> April 2008**Breakout Session Output**

Many thanks to all attendees of the Transmission Access Workshop for actively taking part throughout the day and continuing to contribute to the process. The comments collected during the breakout session have been compiled in this note. Where possible, we will include these comments in the drafting of the CUSC amendment proposals, and we believe that the other comments and questions will provide a helpful starting point for the Working Groups.

**Do you have any comments on the drafting of the access amendments?***General*

- How do we resolve the legal issue of property rights?

*SO release of short term rights*

- Will this SO right take into account zones?
- Looks like any price will include a proportion of estimated constraint costs up front
- “once granted... would confer the same right” is not true if there is a codified buy back price
- Codified buy back price is a “less than fully-firm” right and might require a different charging arrangement
- Assume this proposal is linked to long term auctions

*Connect and manage*

- “Transition form of exiting” should say of existing?
- “exiting offers” existing?
- Local connection works should be sufficient to connect to zone. Definition of zone is important i.e. maybe smaller from SYS zones
- The obligation to pay TNUoS for a minimum period from a fixed date is a good element but is undermined by the proposed “force majeure” clause
- Charging is the best driver – socialisation is not cost reflective
- Alternative trigger is date following receipt of all consents. Reduces likelihood for FM action.

*Overrun*

- Do they still have to FPN accurately? (should have to)
- Does SQSS have to assume potential injection up to the local connection capacity?
- Ref “bilateral” agreement – the local entry capacity must be made transparent.

*Finite Rights*

- Nothing about extension of rights beyond x years; notice period, changes etc?
- Could products be traded across zones
- Credit mechanism may disadvantage smaller players
- When larger players’ credit rating falls, NG would be chasing them for further credit; makes things worse
- Not defined how long and who decides how long the fixed rights would exist for. Is this project specific?
- Is it fixed or rolling term?
- Not clear what happens at the end of the period, (notice, renewal etc)

- The amendment does not have any reference that short term products will also be needed in parallel to make the long term arrangements work.
- Rights for demand?
- Portfolio TEC element maybe needs more flesh; automatic management? Overrun? Exchange rates with other zones?
- What is user commitment formula?
- Relationship between demand for new capacity and investment?
- Would finite rights be defined as an annual (Full Year) product?
- Length of commitment or length of contract firm?
- What analysis leads to a trigger at 50% of cost on incremental?
- Intra zonal substitution benefits portfolio generators?
- Trading within zones of future entry rights; given that the modification proposes to limit an entrants ability to bid or contract/ commit to his local connection capacity (physical limit); can trading/ transfer of rights extend to future rights?
- What about interzonal trading of finite long term rights?

### *Auctions*

- What would be the maximum capacity that a party could bid for? How do we avoid hoarding?
- Can parties bid for capacity that is outside the zone that their asset resides? [to be then traded back into your zone]
- Are non-physical parties allowed to take part in the auctions?
- Concerns around ongoing projects that have secured investment on the basis of TEC
- Damages existing power contracts
- 'zonal capability' how stable?
- What will the IECR methodology look like?
- What do generators that lose in the auction do?
- Do you have a lead time for incremental being provided e.g. gas 4 years.
- What products. Base? Peak? Half hours?
- Would National Grid deliver in firm timescales?
- Accommodate SO requirements e.g. voltage in auction/ and finite rights
- Should greater than 100% be auctioned
- Percentage of cost of providing incremental cost of capacity should be set by working group rather than set at SO percentage.
- Limit to baseline zonal capability or to an economic £/kW threshold
- Subject to X year "notice period" for delivery
- If larger CHP plants don't have guaranteed access to TEC, they will not be able to provide guaranteed steam and hence may have CHP status reduced. This will work against government targets in the CHP area.
- Annual? What is reserve/LRMC? Pay-as-bid? Use of reserves. Zones. Transparent? Why zonal only: PTDF
- What about a plant with a 40yr life? Should a 40yr auction be made available to it? Who takes risk on cost of auction?
- Zonal monopoly of capacity?
- NG not taking any risk in the auction process
- Pay as bid?
- Transparent or blind auction
- Zonal auction prices? Definition
- What about low merit plant which does not know it is needed in the BM until it is warned then offered on?

**Do you have any comments on the content of the access amendments?***General*

- Need to think through supporting documents / recording of trades.
- Need to ensure that multiple GSPs in a zone are recorded together.
- Typographical error on line 18 (short term – doesn't say which)
- Given the desire to achieve industry consensus on the proposed reforms, it is essential that the drawbacks of each proposal are clearly identified including an analysis of how each proposal has an impact on:
  - Delivering the lowest LRMC in the medium to long term
  - Investor confidence in various generation technologies
  - Delivering new Tx investment expediently

*Connect and Manage*

- Does the force majeure provision under TEC effective date include planning?
- What is the penalty for SO if it is credible to physically correct the power station by TEC effective date?
- Force majeure needs to be limited so that it does not undermine the intent. Exclude planning.
- It must ensure that there are incentives for Grid to put planning applications in early
- Why isn't Grid sharing the risk of late delivery infrastructure?
- 3 year connection date- Can I ask for a longer period at start of application if I need it? e.g. building a new nuclear power station will take say 7 years so we would prefer a firm connection date in 7 years time.
- NG best able to manage construction risk

*TEC sharing*

- Define local works, sharing of local works – Are all works in a zone therefore always local?
- Sharing of user commitment
- Zonal boundaries – abrupt or smoothed?
- What about inter-zone trading?
- Stability of zones is essential to the process, otherwise people don't know what they are buying.
- Use nodes not zones, simplicity not an issue, inter nodal trading should be capable of being facilitated
- Need for transparency
- Should available TEC be notified in advance
- Agree that WG should develop notification of sharing arrangements
- The zones must be set once only and never changed or it won't work
- Would sharing be long term or short term or both? Does it depend on the length of the short term product.
- *One-to-one sharing*
  - Zones robust enough (stability across a long continuous period).
  - Operational constraint costs going up.
  - Current charging zones not necessarily correct – that's why we are doing an assessment of the correct zones
  -

*Finite rights*

- Are access rights secured then tradable to other players?

*Auctions*

- Allocated to portfolio or single generator/ node?
- Intra-zonal trading, beneficial for those parties, with numerous projects, spread around the UK.

**Do you have any comments on potential interaction with the other working groups?**

*Long term*

- High level of interaction with short-term modifications working group – difficult to separate out

*Short term*

- Divide up the work as separate working groups and then combine as one amendment report.
- Flexibility of co-ordinating and changing depending on options to switch on and switch off.
- Preferably common representation across the working groups.
- CUSC modifications need to be stand alone and not dependent (local as a stand alone modification is difficult to sell, but as sharing, it will be beneficial.
- Depends on whether “connect and manage” charges overall volume of rights available.
- Pricing issues (the value of access).
- Depends on whether short or long term rights involved?
- Zonal definition is KEY to this WG. Should allow some overlap with ‘enabling’ group

**Do you have any comments on the content of the charging modifications?**

- Smear back mechanism if auction revenue is greater than allowed revenue
- The fundamental question is “who pays constraint cost” Socialise; new entrants; new and existing entrants. Until this is answered all work is pointless.
- Existing generators (when under deep charging) have already paid for their firm connection
- Importance of the size of the zones (defining the zone).
- Stability of zones over time against changing network configuration and generation / demand backgrounds.
- National Grid to manage more risk ie. Charge a constraint cost fixed ahead of time
- Positively facilitate renewables whilst avoiding damaging investment certainty for all generators
- Recognise inherent different form of generation of intermittent renewables and hence different form of access can be used
- Comments on overrun charging options:
  - Option 1) Manual Calculation - Manual is not workable/not transparent
  - Option 2) Fully Automatic - Is the best option. Needs to be robust to the world. Will also lead to over-recovery
  - Option 3) Approximation - Approximation has the flaws of model 1
  - Option 4) Link to Short-term Trades - Too cumbersome, won't work
  - Option 6) Marginal Price - not cost reflective
- Danger of interaction between SRMC and LRMC pricing and that Grid will inflate the SRMC to avoid undermining LRMC
- TEC sharing charging – TEC holders still pay TNUoS as now- ability to recover this from users

**Do you have any comments on potential interaction with the industry codes?**

- Balancing & Settlement Code will need to record payments etc. to multiple parties (unless the owner of the TEC acts as a consolidator).
- SQSS? Will the owner of TEC take responsibility for supply by those contracted with?
- Can supply requirements vary? Might this be covered by private bilateral contract within the arrangements?
- Impact on ancillary services provisions.

**Do you have any comments on the inclusion of the supporting access amendments in the other changes?**

- Alright to have it in the current form as a subgroup as this is the only practical way – divided into chunks of work.
- Accommodation / co-ordination of one final CUSC amendment to the CUSC panel for all of the different amendments.
- Not necessarily one CUSC modification per item, but can include a number of items.
- CUSC amendment panel (might be the need for) just to co-ordinate the work from different working groups.
- Use it or lose it short term grid 'buy back'

*Entry capacity sharing*

- Considered a very good idea, given that there are firm rights already.
- Need to allow any party to trade freely with each other, unfettered (including future rights and non-physical parties).
- No need for third party approval (transmission should not limit trade).
- Needs to be voluntary (but Ofgem needs to keep an eye on generators who are not using existing rights and not making them available).
- Potential for abuse of market power (in-house dealing with vertically integrated generators who have in-house renewable / other generation).

**Do you have any other comments on the way forward?**

- Evolve with trading between zones.
- Worried that there are a lot of comments / changes proposed. Overriding considerations:
  - Does it work in Scotland?
  - Can small generators participate / benefit?
  - Is it voluntary?
  - Does it contribute to 2020 target?
- Suggest that connect & manage should be first priority. All other developments are secondary.
- Need a firm and clear link to accelerating the provision of additional infrastructure and hence, capacity.
- Make up of working groups – Serious concern about excluding anyone given governance review – any excluded party is going to feel highly aggrieved.
- All products seem suitable for increasing existing rights and less suitable for new generators to secure. Firm access to the network – something which is needed for financial models and securing investments
- Governance – Legal challenge may delay/ stop mod process
- Long Term – there would be less certainty reducing new entrants
- Any amendments will fail unless issue of finite access right resolved now!!
- Step back and modify objective subject to Pöyry work

- All three straw men Sticking plasters. Will not offer a real long term solution. Need a planned Network with offshore cabling
- Use it or lose it – Eg. 1000MW plant with long term TEC
- Plant nominates generation profile for next 48HHperiods on D-1 basis. The other 200MW released on “use it or lose it” to short term market by SO on a firm basis sold on D-1 and credited to the generator at average sale price\*220MWh

Period	Actual Generation	Generator Charge
1	800MW	No charge
16	600MW	200MW x average sale price
32	1000MW	200MW x overrun costs

Effectively two gate closures

If generator wishes to increase generation at short notice for system or in house requirements then factors average sale price/overrun cost into power price.

- The proposed changes should not stop investment in transmission capacity now
- I support the process outlined with the 3 WGs. As a member of the CUSC Panel, I believe that we need to ensure that we get as many people on the WGs as reasonably practicable, bearing in mind the trade off between full representation and effective decision-making. Perhaps no person should be allowed to sit on more than one WG.
- I think we must be careful to fully understand exactly how much of the GB queue is capable of connecting in the next 3-5 years before we start rewriting the CUSC and charging methodologies. We also need to consider whether the governments renewable targets are achievable before we rip it all up and start again.

#### *Auctions*

- 1 year allocation is not conducive to long term investment
- Lessons learnt from gas auctions!
- Why bother with auctions when the industry disagrees?