

Cash Out Review Working Group Minutes
Meeting 02

22 December 2004, 10:00 am – 2:00 pm
Ofgem, 9 Millbank, London

Attendees

Jo Witters (chair)	Ofgem	Dave Alcock	Edison Mission
Matt Buffey	Ofgem	Ian Moss	APX Group
David Hunt	Ofgem	Bill Reed	RWE
Simon Bradbury	Ofgem	Mark Manley	Centrica
Fiona Lewis	Ofgem	Tom Bowcutt	ELEXON
Matt Tyrrell	Merrill Lynch	Anna Kneafsey	ELEXON
Adam Cooper	Merrill Lynch	David Lane	Cornwall Consulting
Caroline Whitfield	Ilex	Martin Mate	British Energy
James Lawson	Centrica Storage	Paul Jones	E.ON
Paul Mott	EDF Energy	Jan Devito	Jade Energy
Malcolm Taylor	The AEP		
Mark Brackley	NGC		
Mike Thorne	Transco		

All materials associated with this meeting will become available on the Ofgem website www.ofgem.gov.uk under Ofgem's Work > Cash Out Review

Agenda Items

1. Minutes of the last meeting

- ◆ No major points were raised with regard to the minutes of the last meeting

2. Issues to be addressed

Inputs

- ◆ The group requested a change to the title of “non-emergency cash out arrangements” and “pre-emergency/emergency cash out arrangements” to “cash out arrangements” and “exceptional actions and market suspended” respectively. Within “exceptional actions and market suspended”, there are to be two sub-headings dealing with each concept
- ◆ Ofgem agreed to revisit pay-as-bid arguments later in the process if this was considered desirable, and bearing in mind the related live BSC modification proposals
- ◆ The group wished to alter the priority of warming contracts from category 3 to category 1 in order to keep it aligned with the treatment of reserve
- ◆ It was agreed to add ABSVD to the list of items under priority 2
- ◆ Ofgem agreed to reflect the group's re-ordering of priority items, by distributing an updated version of the workplan

- ◆ The group considered that addressing the reverse price in the inputs was important and will also be covered in related areas of discussion in the calculation section

Tagging

- ◆ There was no strong desire to add CAD1 to the list of issues, with the focus broadly on NIV tagging
- ◆ The group requested that the potential to tag locational trades in electricity à la gas should be considered as part of the tagging methodologies. The group also expressed a desire to consider the mechanisms for tagging actions in gas, such as the treatment of OMs
- ◆ The interactions between pre and post gate closure tagging should be looked at
- ◆ Working on the basis that there is a system-energy split, the group should consider what would be the best method of delivering this split

Calculation

- ◆ The group considered that the calculations would be more informed by what effect the group intended to demonstrate and analyse

Exceptional Actions

- ◆ It was agreed to include Maxgen on the list of exceptional actions
- ◆ The group considered that it was necessary to retain a split between voltage reduction and demand control
- ◆ The group recognised the importance of the interactions between gas and electricity “exceptional actions” or “exceptional balancing actions”, and requested that gas phase 1 be included under this heading

3. Assessment Approach

- ◆ The group accepted that there was not a single model that could accommodate the analysis likely to be requested by the group
- ◆ The group agreed that it was appropriate to have a combination of automatic processes and manual processes to determine the effects of an assumed alteration to the cash out arrangements. Which approach would be adopted would depend on what is proposed to be looked at. The group agreed that it was extremely important to tightly define what effect would be interesting, and then define the set of market conditions and type of dataset (i.e. a full year for trends or a few settlement periods for detail). The group was also receptive to using synthesised data to illustrate an effect, where this could be useful, and recognised that this approach (and a non-synthesised, but limited to a few settlement periods) would reduce the comprehensiveness of the data, but would provide greater detail of the mechanics of the change
- ◆ The group recognised that some analysis would need to be assessed in the context of commercial confidentiality and intellectual property. NGT to flag when this occurs

- ◆ The group agreed that it would not be feasible to model the effects of a behavioural response from the market to a set of market conditions, although thought would need to be given to how this may be overcome
- ◆ It was agreed that certain pieces of analysis may lend themselves to synthesised data, where it is either difficult or inappropriate to use real data
- ◆ The group agreed that it may be desirable to conduct analysis based on a set of representative periods rather than a whole series of data
- ◆ It was suggested that the effects of changing a particular assumption could be measured in terms of the resulting SBP, SSP and the resulting spread. The resulting figures could be used to confirm or refute any suggested effects of changing the cash out mechanics, and could inform assessment of whether or not the change provides better incentives to balance etc
- ◆ EnMO offered its full support for any gas analysis that may be forthcoming
- ◆ The group was tasked with providing details of what it would like to test and why. It was envisaged that members of the group could consider items to put forward, providing reasoning for why it is useful, what needs to be tested and what is expected to be derived. It would then be up to the group to decide what analysis might be appropriate. To this end, it was agreed that it would be useful if members of the group could prepare and present papers to the group where this is considered appropriate
- ◆ It was agreed that any papers forthcoming from group members over the Christmas break could be discussed, where appropriate, at the first meeting in January 2005

4. Objectives

- ◆ Ofgem committed to revise the list of objectives to include the treatment of reserve, as clarified in our revised Terms of Reference
- ◆ The group expressed confusion as to what was meant by “appropriate” incentives to balance, and would consider this going forward

The next meeting is to be held on 10 January 2005 (provisionally) at Ofgem’s offices.