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The Office of Gas & Electricity Markets

Memo

To: ARODG Members

From: Mark Copley

Date: 9th March 2006

ARODG – meeting, 8th March 2006

Attendees:

Colin Sausman (chair), Mark Copley, David Hunt (Ofgem), Stuart Easterbrook, Nick Pittarello (NGET), David Densley (SSE), Jim McOmish (SPT), Danielle Lane (Centrica), Keith Miller (Teeside Power), Robert Longdon (Airtricity), Richard Ford (BWEA), Terry Ballard (RWE Npower), Mike Davies (Wind Energy), British Energy Representative

Apologies

Mark Petterson (Warwick Energy), Malcolm Taylor (AEP), Rupert Judson (EDF Energy), Paul Jones (E.On), Simon Lord (First Hydro)

Introduction

Colin Sausman (CS) welcomed attendees to the inaugural Access Reform Options Development Group (ARODG) meeting and explained the purpose of the Group (see slides). He noted the views expressed at Ofgem's seminar of 16th February that there is currently a need for detailed consideration of the existing access arrangements in a forum where the full range of issues can be discussed and explored. He noted that the deliverables of the Group would include a working group report, which would be made available via the Ofgem website, including details of the Group's discussions and suggested models. Colin began by noting that as well as considering amendments to the existing arrangements for allocating capacity it was appropriate to consider the arrangements which currently exist.

Discussion of the present arrangements

Stuart Easterbrook (SE) provided an overview, and opportunity for parties to ask questions concerning, the existing arrangements. He noted the move from a first come first served approach to allocation to a clustering based methodology, whereby a group of users are required to secure the costs of upgrades rather than a single party, as has previously been the case. He also outlined that a party's final sums commitments represent user commitment at present, and are used by NGET to demonstrate that investments have been efficiently incurred. However, he pointed out that, post commissioning the only commitment is a single year's worth of TNUoS charges. He also noted that TEC confers a firm access right with an option to secure the same level of capacity in the subsequent year and noted that NGET consequently assume that a plant will generate indefinitely having secured TEC. He also pointed out that the minimum notice necessary to revise TEC downwards was 5 days, meaning that no information on disconnections is available.

Keith Miller (KM) questioned whether the demand side was also under consideration, noting that it may seem discriminatory not to address this given the presence of distributed generation. CS noted that at present the scope of work focussed on entry, although noted that it may be appropriate to consider exit in due course.

Robert Longdon (RL) questioned whether any distinction was made between deep, shallow and clustered assets. Jim McOmish (JM) noted that the amounts of security which had to be provided under NGET's clustering approach were still potentially interactive. Danielle Lane (DL) noted that the key question related to the risk associated with volatility in final sums liabilities, pointing out that this makes financing projects difficult. Mike Davies (MD) questioned under what circumstances the withdrawal of a party from a cluster would trigger the need to redesign works for the remaining clustered parties.

CS asked about the nature of the right conferred by TEC. SE noted that once rights were allocated they were effectively 'evergreen' and there was a right to generate unless there was a default against TNUoS charges. CS noted that the CUSC is a modifiable code and as such the nature of the right is also theoretically modifiable.

Approach to assessment

Mark Copley (MC) set out the issues which Ofgem had characterised at the 16th February seminar as perhaps not operating in the best interests of consumers (see slides). MC then asked for comments on the draft terms of reference which had been circulated to the Group. No comments were received from absentees or meeting attendees and the terms of reference were approved.

MC went on to note the need to develop a structure within which to discuss and develop models. He suggested that work could be divided into 5 strands, and suggested a series of questions to address within each area, seeking the views of the group. The format is based on a 'bottom-up' assessment of each issues, leading to the development of a range of options within each category. A number of comments were received from group members and the categories and questions were updated accordingly (see the attached analysis of the models presented to date using this format). The group agreed that this was a sensible basis on which to proceed.

BWEA straw man

Richard Ford (RF) presented a straw-man, termed connect and manage (available via the website) for discussion. Key elements of the model include: financially firm capacity being provided to a user after a given point in time, user commitment from the agreed date of connection for a number of years, regardless of whether that party begins generating at that point, and trade offs by the transmission sector to accommodate capacity in the most efficient manner.

RF suggested that the building of a power station capable of beginning operation was in itself sufficient commitment that assets wouldn't be stranded. Parties noted the need to consider interactions between pre and post commissioning user commitments. It was suggested that it may be appropriate for these to be equal. Mike Davies (MD) suggested that capacity could be provided contingent on relevant parties having secured the necessary consents.

A large amount of debate focussed on the likely constraint cost increases which could occur were the transmission sector required to deliver financially firm capacity. KM noted that the North Yorkshire line had taken 15 years and that the costs of capped buybacks would ultimately fall on consumers. SE suggested that at present all new connections would have to be made through investment and that the GB SQSS includes an economic test whereby constraint and investment costs can be traded off. Other members expressed concerns over market power in the event that one party knows it will need to be constrained. Users were concerned that any increased buy-back costs would be passed to all users via BSUoS charges. It was also noted that the costs of constraining wind generation are greater than energy costs and include ROCs and LECs.

CS asked what was paid in return for what is a valuable right. RF noted that there would be commitment but that this would not be tied to the costs of deep reinforcement. KM suggested that shallow and deep works could be decoupled, with final sums being posted against local works and an enduring TNUoS based user commitment covering deep reinforcements. It was also suggested that a user could be faced with a series of choices, for example, final sums and no user commitment, or lower final sums and a certain number of years worth of commitment.

David Hunt (DH) outlined the Group's timescales and deliverables (see presentation). He noted that Ofgem would consider interactions between options developed within the ARODG and the price control, discuss these with the Group where necessary and consult licensees as appropriate. The dates of future meetings were agreed.

Ofgem undertook to consider and refine the relevant questions within each of the 5 categories identified by the group and circulate these for discussion.

Ofgem undertook to consider the models provided by RF, along with those previously supplied by E.On and NGET, and characterise their various elements according to the format developed above. Ofgem to circulate this for discussion prior to, and at, the next meeting.

The Group agreed to consider options for reform within each of the 5 categories with a view to discussing these at the 14th March meeting.