



The Office of Gas & Electricity Markets

Memo

To: ARODG Members
From: Mark Copley, David Hunt
Date: 21st March 2006

ARODG – 2nd meeting, 14th March 2006

Attendees

Colin Sausman (chair), Mark Copley, David Hunt, Sundeep Klair (Ofgem), Adam Brown, Nick Pittarello (NGET), David Densley (SSE), Jim McOmish (SPT), Danielle Lane (Centrica), Robert Langdon (Airtricity), Richard Ford (BWEA), Terry Ballard (RWE Npower), Nick Haley (Wind Energy), John Capener (British Energy), Mark Petterson (Warwick Energy), Malcolm Taylor (AEP), Rupert Judson (EDF Energy), Paul Jones (E.On), Simon Lord (First Hydro)

Apologies

Keith Miller (Teeside Power)

Introductory discussion

NP presented an "Access Building Blocks" framework illustrating a possible assessment approach for the group to follow, which was split into three stages: pre-commissioning security, rights during commissioning of TEC and post commissioning rights.

MT questioned whether the implication of NP's presentation was that from the TO timeline, wider reinforcement always takes place once local infrastructure work is complete. NP confirmed that this is not the case as local reinforcement and wider system reinforcement can occur simultaneously. MT went on to suggest there is a need to give fuller consideration to the interactions of local and wider reinforcement together and in particular the issues surrounding clustering. MT considered that clustering was quite a risky approach to connection as users are jointly and severally liable.

Following NP's presentation, there was a consensus from the group that NP's approach to assessment was useful, and helped focus the group's attention at a high level to the various issues to which consideration should be given. It was agreed by the group to adopt the framework outlined by NP, and retain Ofgem's 'generic facets' approach to consider options in further detail. However, the group did suggest a slightly broader

framework, allowing for consideration of decommissioning and non-firm and less-firm access products.

Pre-commissioning security

The group talked through what level of pre-commissioning security is currently required, and whether or not the system could be improved. The current mechanism of posting Final Sums Liabilities (FSL) when work takes place with little liability prior to works commencing, was considered by some to be problematic. The group also questioned the way in which a connection is identified in terms of local and wider reinforcement. NP outlined that a connection is considered firstly in terms of local works to accommodate CEC, and wider works to accommodate TEC. However, the group requested further clarification of what works are categorised as local and what are categorised as wider reinforcement. NP highlighted that the distinction was made in the classification of works as H1 or H2. However, the group noted the possibility that works could be reclassified between H2 and H1. MT suggested that there may be three categories of works: purely sole (non-sharable), deep and shared within a subset.

The group then spent some time considering the issues associated with FSL. Several group members suggested that FSL was problematic for several interrelated reasons relating to timing, size and volatility. PJ suggested that the volatility of FSL was a serious hurdle to overcome, and suggested that a mechanism whereby a fixed percentage of the liability could be paid in advance of certain triggers might be an improvement. The group questioned whether a shallow connection boundary was consistent with a deep commitment pre commissioning. The group went on to consider that there was another option, which could be a flat fee, or a fee related to some percentage of the project costs. PJ suggested an approach whereby liabilities took the form of a fixed payment until planning consent is received, followed by an increase in liabilities such that they represent a fixed proportion of works undertaken to connect that party. Other members of the group considered that a fixed fee up until planning consents and then a more cost-reflective system of charges thereafter might be worth exploring. An alternative suggestion from the group was to tie in pre-commissioning security to TNUoS (i.e. provide security against a future payment stream) but on the whole the group was more comfortable with tying security to H1 and H2 works.

Action – Ofgem to write up a note detailing these issues and those relating to boxes 2 and 3 for ARODG meeting on 30 March

Action - National Grid to produce a paper on the classification of H1 and H2 works

SSE's straw man

DD outlined SSE's strawman (which can be found on the ARODG website) building upon that provided by RF at the first ARODG meeting. SSE's model proposes to allow connection once all local works were complete (i.e. CEC has been provided) while the transmission sector would be responsible for completing and managing the consequences of wider infrastructure works. A crucial difference in the model from that presented by BWEA is that the provision of capacity would be tied to the date at which the necessary consents were received, rather than the date at which an application was made. The transmission sector would be required to deliver capacity at a fixed point after the receipt

of consents, subject to a commitment from a user to pay a given number of years worth of TNUoS charges.

RF considered that, were all users granted firm TEC, it would be easier to plan the system. MT considered that the planning standards are directly influenced by firm TEC, and mentioned that some useful work has been undertaken by Goran Strbac relating to SQSS. In addition to firm TEC, the group considered that there may be a role for less-firm products under such an approach. One model may involve a capacity product which could be bought back at a pre-agreed price, potentially written into a BCA.

Section 2 - Rights during the commissioning of TEC

Under NGET's framework, the second area for assessment relates to the period between the completion of local works to facilitate connection to the system (the provision of CEC) and the completion of wider works to reinforce the system such that constraints do not occur (where TEC would be provided in the current world). The SSW straw-man focuses on this area.

The group considered methods by which connection could be facilitated in this interim period. Issues associated with SQSS compliance were discussed and the possibility for time limited derogations against the SQSS were considered. Group members also noted that intertripping arrangements had previously been used to allow earlier connection and that this may be possible. NGET noted that, in the vast majority of cases, investment would be undertaken to accommodate a connection.

The group discussed a range of methods of facilitating connection during this period.

- At one extreme there is an approach which would allow all parties to connect with firm rights (similar to BWEA's connect and manage approach). This approach would be likely to lead to significant constraint costs, an issue over which Group members expressed concern.
- A development of this option could be to allow firm access after a given trigger point, e.g. the awarding of consents, had been achieved. Alternatively, access could be financially firm a given period after these trigger points. I.e. planning + x years.
- An option of allowing parties to apply for short term access products would allow parties to apply for products assessed against the operational standards, subject to NGET's expectation that constraints would not be created or exacerbated. It may be considered unlikely that this would allow significantly more plant to connect.
- An alternative option would see the development of less firm products (or products which become firm at a shorter notice period than currently exists) which may allow more connections at times where the network isn't congested. The Group considered whether the interruptible regime in gas may provide a precedent to be followed.
- The Group considered that there were trade offs between the firmness of access, the volume and the price – both for purchasing the product and in the event that access was unavailable. It was noted that these factors could theoretically be traded off to create a range of access products.
- An alternative approach suggested by the group was the development of a system of portfolio TECs whereby a number of plants co-ordinated their output

such that a given TEC was not exceeded. The model was not developed further and the implications of the shallow connection boundary on its viability may need to be considered.

Action – PJ and NP to consider the implications for cash out of short term products

Action – Ofgem to consider what volume is derogated from SQSS

Having investigated this information, it is difficult to give an absolute volume of MWs that has been derogated. The majority of derogations on the transmission network are time limited and provided after the receipt of justification from licensees. All derogations are published on Ofgem's Electronic Public Register which is available via the website.

Action – NG to consider what types of non-firm products might be feasible

Section 3 - Post-commissioning rights

The final section of NGET's assessment framework refers to the situation when both CEC and TEC have been provided and the network is SQSS compliant.

Ofgem questioned whether the enduring nature of access rights that exists today leads to poor information for licensees, with the Group noting that TEC can be reduced at a minimum of 5 days notice. It was also pointed out that there is not enduring commitment to use the network. It was suggested that if, for example, the notice period to revise TEC downwards was extended to a number of years greater than the transmission sectors planning horizons this information could be improved. Member of the group questioned whether an extended notice period would serve as a barrier to exit, with members noting that this would reduce the flexibility of a plant to respond to market signals. A number of parties questioned whether disconnection information had a value to NGET and MT noted that the risks in the market at present, associated particularly with obligations to comply with environmental objectives, meant that a longer commitment by existing players would increase risk. CS questioned which party was best placed to manage risk and noted the need to avoid incentivising the closure of plant at an earlier date than would be efficient.

The Group continued to discuss forms of user commitment models and the form that any post commissioning commitment might take. SL questioned whether an enduring right had a residual value to a generator and how such a value could be created. The Group also questioned whether a commitment would be made against a fixed, variable or other level of TNUoS charge. NP noted that this was an area to be discussed.

The Group went on to ask whether a user commitment would apply only for the period after connection, or for an ongoing rolling period applicable to all users. This question was considered to relate to the function of the commitment. I.e. is its purpose to avoid stranded asset risk or increase information to licensees?

Action – NG, SP and SHETL to note why firmer commitment and better information would be beneficial for the transmission licensees; generators to

provide a view as to why this might not be the case and all to consider alternative ways of providing increased information to the transmission sector.

Please see the paper by DD which I've circulated alongside this note.