

3rd ARODG Meeting – Discussion Note

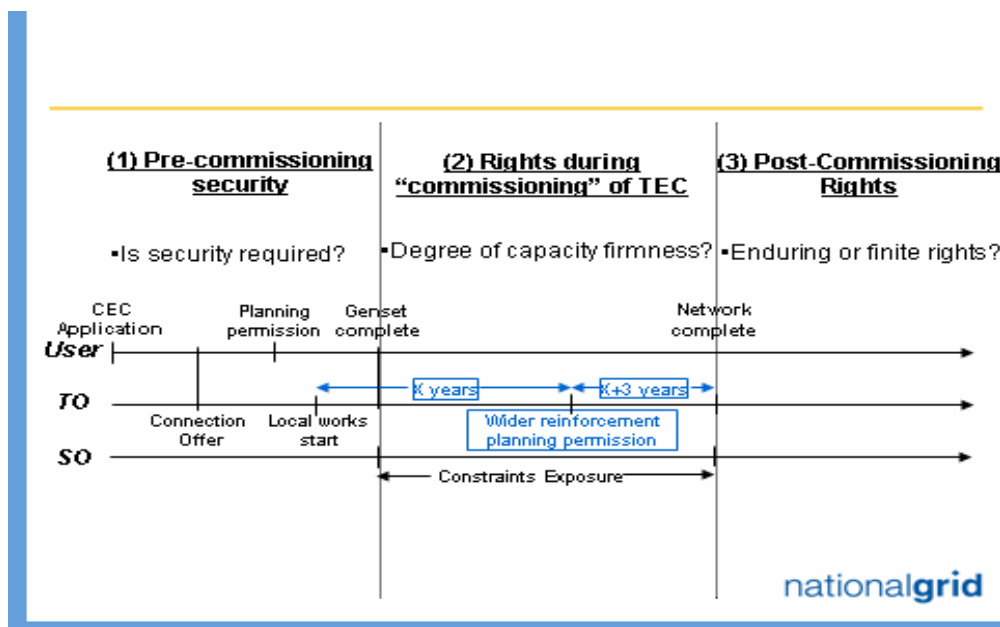
Rights during the “commissioning” of TEC – options discussed to date

Context

This note has been produced to fulfil an action taken by Ofgem at the 2nd ARODG meeting. It aims to summarise the range of options discussed at that meeting and focuses on the issues raised by Group members during debate on the second of NGET's suggested access building blocks (shown below) – rights during the “commissioning” of TEC.

At the 3rd meeting, we intend to:

- Clarify that the full range of options have been captured
- Ensure that Group members have a common understanding of each option
- Further discuss a number of the options (particularly alternative products)
- Canvass views on the issues which the options are able, and are not able, to address



Options

1. Do nothing (the status quo) - this would provide no opportunity for more plant to connect ahead of works being completed but would ensure that there was no increase in BSUoS charges as a result of the transmission sector having to buyback capacity which could not be provided.
2. Allow all parties to connect - perhaps the opposite of the do nothing approach. A model similar to BWEA's connect and manage approach would see any generator being allowed to connect once local works were complete, with the transmission sector managing the consequences. This might be expected to allow more generation to connect to the network but is likely to significantly increase constraint costs, which are paid by all system users (and ultimately consumers) rather than the parties imposing these costs. It should be noted that NGET have stated that the vast majority of new connections could only be accommodated by new investment. The approach could also expose system users to considerable planning risk if it is unable to secure consents for wider reinforcement work.
3. Allow all parties to connect subject to consents - a development of the option detailed above could be to allow firm access after a given trigger point, i.e. the granting of consents for system reinforcement works. This may remove the planning risk from users/ licensees but may still lead to increased constraint costs in the short term.
4. Allow connection in planning + x years – again a variant of the previous option, reducing the risk of increased balancing costs yet providing an incremental benefit for connectees in terms of certainty. This would see licensees undertaking to connect a user, regardless of whether wider works had been completed, in a given timescales and, potentially, then facing some exposure to any increased costs in the event that wider works were incomplete. The timescale for delivery, x, could be determined in a number of ways.
 - a. A fixed time period, perhaps representing the average time taken historically to complete works. However, this may lead to inefficient decisions and may provide perverse incentives when deciding which projects to prioritise, particularly if the size of projects varied.
 - b. A bilaterally negotiated period – this may be better able to reflect the relative value placed on access, and the increased cost of providing it, leading to more efficient decision making. Compensation and rewards for late or early delivery could also be bilaterally negotiated.
5. Allow parties to apply for short term products once CEC is secured – this approach 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, in advance of wider works being completed. It may be considered unlikely that this would allow significantly more plant to connect, particularly in the areas where capacity is scarce and competing demands for capacity exist.
6. Develop less firm products - 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.

7. Intertripping arrangements – group members have suggested that in the past intertrips have been used to provide capacity ahead of wider reinforcements being completed. The Group suggested that there may be a greater role for intertrips in providing more access whilst ensuring system security. (It should be noted that CAP076 introduced administered prices for system to generator intertrip arrangements).
8. Greater use of derogations – transmission licensees are required to comply with the security and quality of supply standards (SQSS). A number of the options outlined above may lead to situations which could be at odds with compliance. Ofgem has in the past granted derogations against the security standards. Group members have suggested that these could be used to facilitate greater volumes of connection.
9. Portfolio TEC - 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. While it may allow a greater volume of plant to access the network, the model was not developed to a significant extent and, amongst other things, the implications of the shallow connection boundary on its viability may need to be considered.

Other issues for consideration

The options discussed above focus on allowing more capacity to connect to the network in advance of wider reinforcements being completed, theoretically using the existing network more efficiently and facilitating competition in generation.

However, a wider question which the Group may consider it appropriate to discuss is the extent to which the transmission sector should be incentivised to deliver capacity, be that CEC or TEC, in a timely manner.

Questions to address may include:

- Is capacity currently provided as quickly as practicable?
- Is there a need for financial incentives surrounding the delivery of capacity (CEC/TEC/Both)?
- Should these incentives include rewards as well as penalties?
- How should they be designed (i.e. what form does compensation take and how are rewards earned)?
- Is there a way of users reflecting the value they place on access and the transmission sector reflecting the increased cost of this?

We note that any options involving amendments to the revenue restriction would need to be developed by Ofgem but would welcome the views of the Group.