

## Minutes and Actions Arising from Meeting No. 5 Held on 21 February 2008 In Meeting Room 3.1, Lakeside House, Northampton

### Present:

Graham Stein	Working Group Chairperson
Mark Duffield	National Grid Electricity Transmission
Joe Dunn	Scottish Power Transmission Ltd
Paul Jones	E.ON
Bridget Morgan	Ofgem
Kenny Stott	Scottish Hydro-Electric Transmission Ltd (via teleconference)
Chris Whitley	National Grid Electricity Transmission
Robert Longden	Airtricity
Antony Johnson	National Grid Electricity Transmission

### Apologies:

Ham Hamzah	RWE
John Norbury	RWE
Bec Thornton	Working Group Secretary

### 1. Introductions/Apologies for Absence

96 Apologies for absence were received from Ham Hamzah, Bec Thornton and John Norbury.

### 2. Review of Previous Meeting

#### Review of Minutes

97 The draft minutes of Meeting 4 (12<sup>th</sup> February) were approved subject to minute 67 being amended to "Action 50 – BM reported that her colleagues at Ofgem have been made aware of the potential need for Licence changes."

98 PJ noted the proposal under Minute 92 to "consider a proposal that detailed technical specifications should be defined in the TOCA for inclusion in the Construction Agreement that NGET will have with the User" and commented that the recent BERR document implied that the prospective Offshore generator would be significantly involved in the Tender process and would be able to provide its input regarding and amongst other things its minimum requirements for Technical Standards. Assuming this approach is ultimately adopted, PJ noted that he saw less of a need for a full set of minimum Equipment Standards to be developed and placed in the Offshore TO Construction Agreement.

99 BM noted, in respect of the details of the Tender Process, that OFGEM were hosting a Tender workshop on the 22<sup>nd</sup> February.

#### Review of Actions

100 Action 58: Minutes from Meeting 3 held on the 5<sup>th</sup> February were circulated prior to the meeting with the inclusion of section 10 – STC Framework. No comments on these were received prior to the meeting and no further comments were made at the meeting. GS asked that if Working Group members had any comments that they be forwarded to him within the next few days and in the absence of further comments that the circulated draft would be taken as the approved version of the minutes.

- 101 Action 62: Discussed under Agenda Item 3.
- 102 Actions 63, 65, 66, 93 & 94: Comments on a number of previously circulated papers were invited and as yet none have been received. GS continued to welcome any comments on the areas covered by these papers if members wished them to feed into the Working Group report. If so, any such comments would be required prior to 7<sup>th</sup> March deadline for submission of the WG report to Ofgem.
- 103 Action 68: Covered under Agenda Item 5.
- 104 Action 70: BM noted that the revised ToR had been forwarded for publication on Ofgem's website.

### **3. Grid Code Subgroup Recommendations on STC provisions relating to Reactive Power, Fault Ride Through and Frequency Performance**

- 105 MD circulated to the Working Group two sets of draft legal text, the aim of both being to detail the changes required to the STC to back-off the recommendations made by the Offshore Grid Code Subgroup with regard to the technical requirements that should be placed on the Offshore Transmission Owner (OFTO).
- 106 AJ noted that the overall philosophy behind the Offshore Grid Code subgroup's recommendations was to develop STC technical requirements for the OFTO at the point at which the Offshore Transmission System connects to the Onshore Transmission System (the Interface Point) and Grid Code technical requirements on the generator at the (Offshore) Grid Entry Point that when combined are equivalent to the existing Grid Code technical requirements placed upon the generator at its current (Onshore) Grid Entry Point.
- 107 MD went on to describe that the current Grid Code technical requirements that have been identified as applying to the OFTO and Offshore Generator under the future Offshore Transmission regime predominantly lie in Grid Code clauses, PC.6.2, CC.6.1, CC.6.2, CC.6.3 and CC.6.4.
- 108 Of these, the existing STC baseline as applied to OFTOs will adequately back off the technical requirements in PC.6.2, CC.6.1, CC.6.2, and CC.6.4. However the requirements of CC.6.3 are focussed on the User – NGET interface at a Grid Entry Point and so for the purposes of an OFTO have had to be re-appraised in light of the OFTO-NGET interface at the Interface Point. For this reason the existing Grid Code requirements are re-constructed within a new STC section.
- 109 JD asked about the envisaged flexibility to allow the generator and OFTO to meet the package of technical obligations by the most economic means – i.e. to allow for an transfer of obligations between the OFTO and the generator (or vice versa).
- 110 BM confirmed that this was still the intention to incorporate such flexibility within the overall regime.
- 111 MD noted that while the obligations within the STC text are placed upon the OFTO the, exact means by which the OFTO has to achieve these (ie the divisions of capability between generators and the OFTO) is not specified. Therefore there is scope for the OFTO and generator to agree arrangements by which the obligations can be met in the most efficient manner.
- 112 MD went through each of the sections of STC drafting explaining its origins within the Grid Code. MD noted that the STC text in most cases is immediately recognisable from its Grid Code equivalent. Major differences tend to occur where either there are differences in Grid Code obligations depending on the connection date (in which case only the most recent obligations are included), or where the text needed further

clarification to relate it to an offshore transmission system.

- 113 MD added that the draft text would be circulated electronically following the meeting and comments were invited from Working Group members to feed into the final Working Group Report

**Action: ALL**

#### 4. The Offshore TO Construction Agreement

- 114 By way of background GS highlighted the pivotal role played by the TO Construction Agreement in delivering new connections to the GB Transmission System in a TO's Licensed Area. Given this he stated that an offshore version of the TOCA would be similarly pivotal in the Offshore STC Arrangements. In order to develop the Offshore TOCA pro-forma GS wished the Working Group to consider 2 items:

- Firstly if the existing onshore TOCA terms and obligations needed amending, either by removing existing obligations, or more likely, the addition of further offshore-specific obligations.
- Secondly whether for the purposes of consistency and ease of assessment through the Tender process whether there was merit in making the pro-forma "compulsory"; in effect compelling the Bidders through the tender process to only use the STC pro-forma and not to utilise their own versions with variations to the standard clauses.

- 115 PJ noted that in respect of the second point the pro-forma would be particularly useful for new entrants as it could effectively act as a set of base obligations and contractual terms from which they could start. Then as they gain experience of the regime they would then potentially evolve the standard form.

- 116 KS observed that OFTOs would likely evolve the pro-forma TOCA to tailor it to a specific company's risk profile.

- 117 BM noted that the TOCA should reflect the both the OFTO's and the GBSO's requirements.

- 118 GS summarised by saying that the working group report would not therefore recommend that the pro-forma Offshore TOCA become compulsory, but that it would be referred to as the "document substantially in the form of..." the pro-forma. GS then turned to the specific contents of the TOCA.

- 119 GS gave an overview of the specific new attributes that NGET had identified may be required in an Offshore TOCA, with reference to the paper "Proposals for the STC Framework as applied to Offshore Transmission", originally circulated to the 5<sup>th</sup> February meeting.

- 120 These were:

- A requirement to specify delivery of Connection Site Specifications. Connection Site (Safety) Rules and a Site Responsibility Schedule at both the user and onshore interface
- A requirement to set out equipment specifications at the interface with the user
- A requirement to demonstrate that technical requirements had been met (eg meeting GB Transmission System performance characteristics, Reactive Power requirements etc.)
- A requirement to deliver a Service Capability Specification which can accommodate users' requirements (ie can accommodate the total TEC required within the agreed technical, design and operational criteria)

- 121 GS invited comments on the proposals from Working Group Members

- 122 BM queried the wording “less onerous planning assumptions for offshore”. GS noted that the planning assumptions generated under the STC for offshore connections were likely to be more limited given that the offshore connections were likely to be new build. Any interactions between the onshore and offshore networks would likely be captured by onshore parties through existing STC mechanisms rather than being dealt with through construction planning assumptions.
- 123 RL, GS and CW noted that the TOCA should make reference / contain the overall service and performance measures required of the OFTO.
- 124 BM queried how developed the obligations in the TOCA would be at its first inception (i.e. at the point at which the Preferred Bidder has submitted its design for the offshore network towards the end of the tender process).
- 125 GS responded that he foresaw an outline Services Capability Specification being provided at this stage, but that a number of the requirements would inevitably evolve once the initial TOCA had been entered into, for instance as construction proceeds, designs need to be varied as more detailed knowledge of sea-bed conditions becomes known etc.

### 5. Governance

- 126 MD went through the previously circulated Governance paper in which the main topics were:
- STC Committee Membership and Introduction of Alternates
  - Appointment of the STC Committee Chairperson
  - Appointment of STC Committee Members
  - Arrangements for the Resignation / Replacement of Committee Members
  - Attendance by persons at the STC Committee
  - Quorum arrangements
  - Voting arrangements for matters put before the STC Committee including STCP
  - Amendment Proposals
  - Revised process for the assessment of STC Amendment Proposals
- 127 Working group members agreed that the recommendations of the paper should be incorporated as formal Working group recommendations in the Working Group report, subject to the following additions:
- That the arrangements for resigning STC Committee members should be extended to allow an Alternate to be nominated by the outgoing Committee representative as their replacement (avoiding the need for an interim election to be held).
  - That a safeguard should be built into the voting process such that if the Committee representatives of a particular Part Category do not attend a committee meeting due to the items on the agenda not being any impact upon them then any new issues that do not form part of the agenda are raised the no vote may be carried out without first consulting the absent party category representatives.
  - That the arrangements contained within the paper on voting should refer to 4 Party Categories (NGET, SPT, SHETL, OFTOs), not the 3 (GBSO, Onshore TOs, Offshore TOs) in the paper.
  - That regarding the Analysis and Impact Assessment phase of an Amendment proposal that there should be a 2-4 week process whereby each STC Party is invited to provide its Analysis and Impact Assessment. If none is provided this will not hold up the assessment process however. In tandem with each Party providing its assessment the STC Committee itself shall also provide its own Analysis and Impact Assessment.

### 6. Accession

- 128 The previously circulated paper on the STC Accession process was discussed by the group. The paper essentially split the key obligations of potential OFTOs into three stages
- prior to participation in a tender round,
  - prior to being awarded a tender,
  - after tender award (but prior to energisation of the offshore network)
- 129 MD noted that since the paper had been devised a number of assumptions about when an OFTO would receive its licence had been firmed up, namely that the OFTO was likely to receive its licence after the tender had been awarded and the Generator had accepted its final offer (i.e. the offer that details both the offshore and onshore network designs). As a result some of the obligations within the paper that are assumed to sit within an OFTO's licence may in fact sit within the Tender Regulations or the STC.
- 130 PJ noted that some of the issues regarding the OFTO could be better managed if the OFTO was required to accede to the STC despite it not yet having a Transmission Licence. The point at which the potential OFTO is identified as the Preferred Bidder through the tender process would seem like a logical point for the "OFTO designate" to accede to the STC.
- 131 Then the requirement to draw up and comply with an Offshore TOCA would flow from the STC obligations, together with the other STC requirements concerning construction and commissioning. These activities could also then proceed independently of any price control negotiations with Ofgem which once agreed would lead to the formal granting of the OFTO licence.
- 132 The group agreed to proceed on this basis. In addition a procedure will also be drawn up whose aim is to highlight the likely project timelines for the build of an offshore network and indicate the likely order in which an OFTO Designate / OFTO will be required to implement the various parts of the STC /STCPs as its offshore transmission system construction process progresses.

### 7. OFTO Financial Commitment

- 133 GS noted that there were two areas of Offshore financial commitment that the Working Group had been asked to examine as part of their revised Terms of Reference:
- OFTO Financial Commitment
  - GBSO Securities
- 134 On the first of these, namely any requirement on the OFTO to put up financial commitment through the tender process, GS noted that while NGET did not have any firm views on the appropriateness or otherwise of such arrangements, STC provisions could be put in place to allow the NGET to hold such securities on behalf of the tender panel.
- 135 PJ queried what such securities would be held against.
- 136 BM responded that the securities would be held for the costs of the tender process in case a Bidder were to drop out (e.g. after not agreeing a price control) or potentially for any costs incurred as a result of the OFTO failing to complete construction of the offshore network. BM also noted that the detail of what the securities would cover was not formally part of the groups ToR but that a mechanism to allow them to be charged, held and refunded as appropriate was.

- 137 GS noted then that an allowance for such a mechanism would form part of the Working Group report and would be further defined as and when the requirements for securities emerged through the wider Offshore Transmission Policy consultation process.
- 138 The Working group then turned to the second, namely the requirement for the GBSO to provide payment securities to the OFTO.
- 139 BM again noted that this formed part of the revised ToR as the OFTO would be almost wholly reliant on the GBSO for its income and so therefore there may be a need to guarantee its income stream against late payment by the GBSO by the GBSO providing a securities fund which the OFTO could draw down upon in the case of late payment.
- 140 RL queried whether late payment was an issue.
- 141 MD noted that after making enquiries within National Grid, there had been one instance out of 73 transactions since BETTA Go-Live where NGET had paid outside of the standard timescales (within 15 days of receipt of the invoice) set out in the STC for payment of recurring monthly TO Charges. This occasion appeared to be the first payment for April 2005 (i.e. the first month of BETTA) for one TO and was 1 day outside of the standard timescales.
- 142 GS noted that the matter of such securities was raised through the BETTA project, but that at that time it had been noted by Ofgem that if changes to put in place such financial security by the GBSO were required they should be taken forward through the enduring STC governance. None had been taken forward on this area since BETTA Go-Live.
- 143 PJ stated that he saw security cover as a matter to cover the insolvency of a party and that given the numerous regulatory mechanisms in place to prevent the insolvency of National Grid the likelihood of this happening was so low this meant that this issue was not a pressing one.
- 144 RL added that unless the OFTO was in itself hugely leveraged the issue of late payment by the GBSO should not in itself cause it to move into administration. If a hugely leveraged OFTO were to put itself forward into the tender process then he would expect it to be discounted under the financial competence elements of the tender assessment process.
- 145 BM again re-iterated that as with the previous issue the detail of whether the securities were needed was not formally part of the groups ToR but that a mechanism to allow them to be charged, held and refunded as appropriate was.
- 146 MD suggested that in light of this the Working Group report reflect that such a mechanism could indeed be incorporated within the STC if a need for it was identified through wider policy development.

### **8. Summary of Recommendations**

- 147 GS ran through the revised Terms of Reference concluding that the Working Group had identified a way forward on each of the required issues. In light of this he would aim to circulate a draft Working Group Report to members and then after receiving Working Group Members comments on the draft, submit the final report to Ofgem by the required 7<sup>th</sup> March deadline.