

Minutes of a Market Design Project Steering Group Meeting Held on 9th May 2006 at RWE, Boardroom, 77 Kingsway, London WC2B 6SR

Attendees:

Paul Beynon - Chair
 Nigel Felgate
 Richard Hyde
 Ed Lawns for David Franklin
 Irfan Mannan
 Iain McIntosh
 David Reed
 Tom Sargent for Jon Doughty
 Shanthi Sivananthan
 Magnus Walker

Apologies:

Jon Doughty – Deputy Chair
 Paul Finnerty
 Mark Fitchett
 David Franklin
 Alastair Hutson
 Nigel Knee
 Hugh Mortimer

Also Present:

Dave Carlton
 Clive Furness

<p>1. Apologies Apologies were received from Jon Doughty, Paul Finnerty, Mark Fitchett, David Franklin, Alastair Hutson, Nigel Knee and Hugh Mortimer.</p>	
<p>2. Minutes of last meeting The minutes of the meeting held on 3rd May are in draft at present and are due to be published.</p>	
<p>3. Matters arising</p> <ul style="list-style-type: none"> • Average daily volumes traded <ul style="list-style-type: none"> ○ It was agreed that Clive Furness would produce a spreadsheet template to capture the volumes of baseload trades on an anonymous basis. Irfan Mannan agreed to sense check the template. It was suggested that the following fields be included. <ul style="list-style-type: none"> ▪ Period (1st Jan to 31 Dec 2005) ▪ No. of Trades (N) ▪ Total Quantity (TQ in MWh) ○ The Group considered that banks were unlikely to put in data. ○ The Chairman agreed to provide the total volume traded by the industry and confirmed that the APX traded volume was due to 	<p style="text-align: center;">CF/IM</p> <p style="text-align: center;">PB</p>

<p>be received today.</p> <ul style="list-style-type: none"> It was agreed to put on hold production of a matrix of key features of the current market. 	
<p>4. What have we achieved to date?</p> <ul style="list-style-type: none"> During this, the information gathering stage of the project, the Group felt they understand the market and its deficiencies better. They have also investigated the Nord Pool setup from the exchange's and a user's perspective (Bergen). It was commented on that APX are currently working on their own index product. A lesson learnt from the Bergen presentation was what Nord Pool did for him that he can not get in UK. Bergen in NordPool has moved from full requirement contract to managing their risk by forward trading of base and peak and managing residual load against the day-ahead auction. 	
<p>5. Workstreams</p> <ul style="list-style-type: none"> The Group agreed that reference price is the key and the view from the German market is that reference prices based on continuous trading could be manipulated. When Leipzig and Frankfurt were merged they took the reference price from Leipzig (auction) and the forward contract structure from Frankfurt. It was agreed that whatever the method of producing the reference price it would have to be a seamless transition from day-ahead to prompt. The Group discussed Irfan Mannan's paper 'Can the Existing market Design be supported to produce a more trusted Reference Price and lead to the introduction of market makers and forward liquidity?' The comment was made that there used to be a higher number of participants in the market than there are currently. The question was posed as to whether the lack of players makes price discovery unrealistic via continuous trading. It was agreed that any comments on Irfan Mannan's paper be passed to Clive Furness to collate. The group discussed whether LEBA volumes could be boosted to a point where participants trust the resulting reference price. A lack of transparency and auditability is seen as a problem. In addition the LEBA market is not generated by a system that is 100% system trading as a large number of trades are still voice broked and then entered into the system. The group discussed the LEBA window and although they agreed at 8-9 was the period at which most trading occurred, there were differing views on what the best window to give a truly representative reference price would be. Issues with the LEBA index are transparency, lack of audibility, not replicable, no volume published. There was also a general view that continuous trading, to be transparent, would have to be compulsory (i.e. so that it caught all trades in the window). Clive Furness to provide old work on reference price by Power Trading Committee of the Power Trading Forum. The group agreed that it was necessary to define what an acceptable reference price would look like and what it sets out to achieve. The group also agreed that any reference price has to allow meaningful and accurate trading of shape. It was agreed that ½ hour prices were too granular and that hours would be sufficient which would bring the UK in line with the continent. The suggestion was made to approach an EEX user as to why EEX trade hourly auctions. Discussion took place on system operator involvement in a reference price market and no unanimous view was expressed by the group. It 	<p>All</p> <p>CF</p>

<p>was decided that this issue should be addressed once the reference price methodology had been decided.</p> <ul style="list-style-type: none"> • The point was raised that if shape was not available out of an auction, where could a trader go to get that. It was suggested that it was important to take the market to a place where shape can be managed without a full service contract. • It was agreed to change standard form contract to End User workstream. • The following inputs from the group were requested. <ul style="list-style-type: none"> ○ Granularity of a continuous market. How would shape work within this. Suggestions to Clive Furness/Sav Kanagasundaram by Monday 15th May. ○ Auction – continuous (what shape)/windows (day ahead) ○ Timing of reference price windows ○ Timing of auction 	<p>All</p> <p>All</p> <p>All</p> <p>All</p>
<p>6. Date of Next Meeting</p> <ul style="list-style-type: none"> • A face to face meeting to be arranged for Wednesday 17th May at 10am. Paul Beynon to liaise re finding a suitable venue in central London. 	<p>PF/CF/SK</p>