

Minutes of a Market Design Project Steering Group Presentation and Discussion held on 30th August 2006 at Clifford Chance, 10 Upper Bank Street, London E14 5JJ

Attendees:

Paul Beynon
Jon Doughty
David Franklin
Iain McIntosh
Tom Sargent
Graham Schorfield
Shanthi Sivananthan
Magnus Walker

Apologies:

Andy Gardner
Alastair Hutson
Richard Hyde
Irfan Mannan

Also present:

Dave Carlton
Clive Furness
Sav Kanagasundaram

1. Apologies Apologies were received from Andy Gardner, Alastair Hutson, Richard Hyde and Irfan Mannan.	
2. Minutes of the last meeting The minutes from the MDP Steering Group meeting with potential Service Providers are currently being reviewed and will be distributed to the Group shortly.	
3. Matters arising No matters arising were discussed during the meeting.	
4. Service Provider meeting Paul Beynon feedback to the Group on the presentation to Service Providers held on 17 th August. A number of the Group were present and the Service Provider community was well represented although the LEBA representative, Val Chitty at ICAP was unable to make the meeting. Paul Beynon informed that Group that he had met with Val Chitty last week and she agreed to talk to the other members of LEBA	

with the documentation from the original meeting. He thought they would be agreeable to putting forward a solution but maybe less comfortable working via an exchange.

The Group queried whether it would be worthwhile holding a separate meeting with LEBA to see if they could offer a solution to the Steering Group's proposal. Some of the group felt that the first question that the industry would ask the Group would be about how LEBA have responded and how far they would be able to go to match the proposal. It was agreed that LEBA would be approached.

The Group discussed the merits of both the continuous and auction proposed solutions being exchange based and that it would be mandatory to clear in the prompt. Concerns were raised that it may be difficult to get the industry to buy into such a change and especially as some current trade via voice brokers.

Counter arguments were put forward that as the group had agreed to clear in the prompt, the most efficient way of doing this would be through an exchange platform. It was suggested that the exchange function be thought of as a new structure laid over the existing market.

It was agreed at the end of the discussion that whether the solution be traded on an exchange or quasi exchange the product would need to be cleared.

The Steering Group also agreed to focus on a range of products which could be developed over time though at this stage it would not be necessary to gain buy in from the Senior Commercial contacts as to the detail.

All the Service Providers invited to the meeting have been given a deadline of 15th September to respond to the questions posed in the presentation.

The question was posed about what APX response was to the proposal. Do they consider that with a few minor adjustments they could deliver a suitable solution? The Chairman responded by saying that they still have credit rating issues and third party issues also. However he believes that Nord Pool covered similar credit issues via an insurance policy. If LCHclearnet or NYMEX were to clear the products they would need to have confidence in the trading exchange.

He also feedback that the established financial exchanges – NYMEX, EuronextLIFFE and CBOT believed that the lead time proposed by the Steering Group for launching the new product was too short.

The Group agreed that they should go back to the Service Providers prior to their initial submissions on the 15th September and ask for some additional information regarding clearing costs. They would be asked to provide an provide an example of their

<p>clearing costs and their make up (e.g. capital cost, offset, transaction fee, initial deposit, settlement) for the following scenario – week ahead, short 50MW baseload and long 100MW peak with an offset and with no offset. They would be asked to use current market levels with historical pricing for their estimates.</p>	
<p>5. Senior Contact meeting</p> <p>The Group collectively worked on a draft executive summary for the MDP Proposal paper to be sent to the Senior Commercial contacts. The paper covered the following areas –</p> <ul style="list-style-type: none"> • An introduction to the MDP Steering Groups work • The purpose of the meeting being planned for October • The Group’s high level recommendations • What the Group require from the Senior Commercial contacts • The benefits and risks of the proposal and outcome of the meeting <p>Tom Sargent and Jon Doughty agreed to work on the draft of the executive summary and distribute the next version to the Group by 7th September. The Group will then have until the 14th September to submit their feedback. Following this Tom Sargent and Jon Doughty will rewrite and produce a finalised document by the 21st September.</p> <p>In the interim Clive Furness agreed to work on the background paper and appendices which will sit behind the executive summary. The paper will include responses received from Service Providers. The aim is to distribute the completed paper to the Senior Commercial contacts by 28th September to allow plenty of time for review.</p>	
<p>6. AOB</p> <p>The Group were informed that Hugh Mortimer has resigned from the Steering Group because of work commitments. Jon Doughty is approaching the EIUG to suggest Mark Fitchett as a possible replacement. He will report back to the Group at the next meeting.</p>	<p>JD</p>
<p>7. Date of next meeting</p> <p>It was agreed that the next meeting would be held on either the 25th or 26th September in the Coventry area with E.on offering to make the necessary arrangements.</p>	<p>JD</p>