

Structure of charges: Implementation Steering Group meeting

Tuesday 18 July 2006, 10:00am
Ofgem, 9 Millbank, London

Attendees:

Ofgem:

Mark Cox (Chair)
Martin Crouch
Colette Schrier
Sunil Mistry
Mathieu Pearson

DNOs:

Andrew Neves	CN	Nigel Turvey	WPD
Jonathan Purdy	EDF Energy	Simon Brooke	UU
Walter Hood	SP	Harvey Jones	CE Electric
Max Lalli	SSE		

Supplier Reps:

Carl Wilkes	RWE npower	Andy Manning	RWE npower
David Tolley	RWE npower	Haz Elmamoun	E.On UK
Alison Russell	Centrica	Janice Thompson	SP

IDNO Reps:

Gareth Jones IPNL

Customer Reps:

Hugh Mortimer BOC Gases

Generator Reps:

Malcolm Taylor	AEP	Gaynor Hartnell	REA
Tim Warham	Pöyry Energy Consulting rep.	Alcan	

1. Introduction

Mark Cox welcomed the group and noted that the actions from the April meeting would be picked up later in the agenda.

2. Charging methodology modifications

Since the last ISG one modification proposal has been received, and subsequently withdrawn, from CE.

3. Tariff and charging issues

David Tolley presented his paper regarding his concerns on the SLC4A statement and the definition of Use of System charges. He explained that there was a lack of clarity over the definition of UoS charges contained in Clause 6 of the DUoSA and that it differs from ones written in the SLC4A statement.

He questioned whether it was necessary to include additional information such as ancillary services and metering services within a statement solely for DUoS charges. David suggested a common format for publicising use of system charges

would help suppliers by bringing clarity and consistency to the SLC4A statement. In addition he stated that statements should clearly label which charges are pursuant to condition 4A of the Licence and which are included by the DNOs for convenience, e.g. from other licence conditions.

Andrew Neves thought the analysis done was very helpful however felt that the overall impact regarding ancillary charges insignificant. David noted that technically ancillary charges are not apart SLC4A statement and therefore shouldn't be included. Jonathan Purdy stated that it is beneficial to have a single point of reference for all the information and that information within one statement is useful.

Members agreed that the information could be better presented and labelled.

DUoS Condition 4A charging statement

Walter Hood presented a summary of an exercise compiled by the DNOs comparing all DNOs' condition 4A charging statements. He noted that DNOs have already published DUoS charges in a common excel format on the ENA website.

DNOs concluded that the main information required by the industry is published within all statements although the format and contents differs significantly between DNOs.

The DNOs agreed that it would be desirable to work towards a common format in the longer term, but felt that it would be better to devote their efforts to other work that is currently high priority. He suggested that any changes would not be progressed until after all the methodologies have been revised (due to progress on the structure of charges project) by 2008. Walter welcomed views and comments on achieving a standard template for the 4A statement.

Mark Cox set out that it would be appropriate to take this work forward as some useful progress had been made. Andrew Neves suggested it would be helpful if suppliers were able to provide their thoughts and ideas. Mark Cox suggested that if suppliers are willing to co-operate then it would be beneficial to set up a subgroup to take this forward.

Action: Ofgem to email ISG members concerning subgroup

COG charging subgroup – capacity charging

Andy Manning presented his paper on DNO consistency in capacity charging highlighting the group's conclusions in four areas:

1. What name is given to 'authorised capacity'?

It has been agreed that the term 'maximum capacity' should be used for common terminology. Andy stated that this simple phrase conveys the appropriate impression of what the charge is for.

2. For how long is 'authorised capacity' fixed after connection?

Andy stated that a signal recognising the importance of agreeing the correct level of capacity is important and so is a period of fixing the maximum capacity was necessary. It was agreed a period of 3 years after a connection before a capacity reduction could be made seemed a reasonable level. The basis for determining this period of time was questioned and the DNOs noted that this was around the average of the DNOs' current practices.

3. How is demand to be calculated from the Half Hourly (HH) data?

Andy questioned the correct method of determining demand from HH data. The group agreed that maximum demand is best calculated from HH kVA peak data, rather than monthly kW data combined with an average power factor. The group noted that reactive power meter readings were a complicated issue, and had considered:

1. Lag only
2. Lead only
3. Maximum Lag and Lead
4. Net Lag and Lead
5. Sum Lag and Lead

Andy concluded that none of these options are fully satisfactory, although he noted the lag only choice might be favoured for its simplicity.

4. How should charges for demand in excess of 'authorised capacity' be applied?

There appeared to be 3 main options to applying excess capacity:

1. Charging for excess capacity only within the month it is exceeded
2. Charging at the higher level for a defined period of time (12 months)
3. Replacing the maximum capacity with the higher level

It was concluded that charging at the higher level for 12 months has the advantage of being well established practice. However, charging only 'within month' is simpler to apply and easier to pass through to end users, and so may be the better option.

Mark Cox queried what the next steps would be going forward or whether it would be beneficial to delay further actions due to other pressing matters. Andrew Neves noted that this subgroup had been very useful but it would seem reasonable to suspend this piece of work until the BSC issue 24 and DNO COG process had developed further.

Mid year tariff changes

Mark Cox informed the group that EDFE and SSE have both proposed to change their DUoS charges effective from 1 October 2006. The other DNOs stated that they had no plans at the time to change their charges in the near future.

4. Longer term charging framework

Update on COG

Andrew Neves provided an update on the third COG workshop held on 12 July 2006 which considered cost attribution and revenue reconciliation. The workshop was well attended. COG's third consultation paper will be published towards the end of July.

It was noted that a charging model is being developed to illustrate the allocation of various cost inputs into tariffs components and to model a number of scaling approaches.

Andrew set out that a number of DNOs have undertaken detailed analysis of the networks of various 'economic' costing methodologies. SP is developing an alternative approach to pricing to address problems it perceives with Bath University's LRIC methodology. SSE are now trialling SP's approach and have engaged external consultants to review and comment on the different approaches.

DNO progress: UU SoC developments

Simon Brooke stated that UU fully support the work of the ENA COG group. He noted that the COG's 'three stage' model will help DNOs collaborate on many issues, although he expects a divergence between DNOs on the economic models used to determine initial cost attribution.

Simon explained that there is currently an internal project to determine UU's approach to economic charging at EHV level for both demand and generation. UU have built a 12 node network to investigate how a DC version of the LRIC method works in conjunction with the ICRP method. UU's work attempts to overcome what UU perceives as weaknesses of the LRIC model.

Simon noted that UU are currently testing a model in Cumbria and will be able to present initial studies at the next ISG meeting.

Action: Simon Brooke to present UU work

CE UoS charging methodology update: conditional methodology approval

Harvey Jones presented an update on the progress of CE's charging methodologies in order to meet their outstanding condition on approval of their use of system methodology. Harvey explained that CE has built a new distribution reinforcement model which is similar to that currently used by other DNOs. As part of the work CE has critically analysed the 'traditional' DNO model in terms of ensuring their model reflects the current industry structure. This analysis has focussed on the construction of a representative network, the removal of references to metering and LV and customer weighting factors.

External consultants have been used to review and provide a critique of CE's proposed approach. Harvey explained that the consultant's report provided 10 recommendations for the possible builds on current model.

Harvey explained CE intends to submit a modification proposal for their new charging model to Ofgem by late August. A workshop will be held for suppliers and users to explain the methodology and CE will publish indicative charges by late December.

On the longer term arrangements Harvey explained that CE expects to align with one of the existing models being developed by the end of 2006.

WPD Long term methodology work

Nigel Turvey presented an update on WPD's work on the longer term charging framework, noting WPD's consultation (issued on 14 July) proposing significant changes to their UoS methodology. This consultation closes on 25 August 2006. Nigel stated that WPD will consider responses to this consultation and then decide what modification is needed to their methodology. Proposed changes will be submitted to Ofgem and used to publish prices in December 2006 if changes have been approved by Ofgem by this time.

Hugh Mortimer questioned how confident WPD were that the illustrative prices set out in the consultation paper would reflect final prices. Nigel explained that extensive studies and work has been done on this and therefore are confident with its outcome. He reminded the members that WPD's model is available to interested parties subject to signing a confidentiality agreement, and that customers connected to WPD's EHV system could establish with WPD which of the outputs correspond to their plant.

5. Generator charging from 2010

Colette Schrier presented further thoughts on the arrangements for existing generators from 2010 following data provision by the DNOs. Colette noted that the primary objective was to ensure generators receive appropriate economic signals.

Colette reiterated the options discussed at the previous ISG:

- A. Do nothing
- B. Introduce use of system charges for existing generators (GDUoS with no compensation for deep connection charges already paid)
- C. C1/C2. Introduce GDUoS charges with compensation.

These options had been reviewed following provision by DNOs of data setting out distributed generation (DG) connected to their system, along with the size and date of the connection and a representative sample of connection agreements. Issues were noted with the data supplied by DNOs, although Ofgem noted that they believe key messages can be drawn from the data provided.

Colette explained that an initial reading of the contracts suggested that less than 15% of the sample contracts provided by DNOs appeared to provide explicit rights to use the distribution system. The majority of the contracts contain a clause that permits the terms of contract to be varied by mutual consent, and if necessary subject to determination by Ofgem. It was noted that a change in the charging regime of existing generators via a contractual route is possible but would involve industry time and may lead to potential determinations. The position regarding the practicalities of existing generators contributing towards the replacement of joint use assets under the current arrangements is largely unclear.

Colette explained and assessed possible options. It was noted that doing nothing could result in around one sixth of UK generation capacity not receiving appropriate economic signals going forward. Hence implementing this approach should only be an option if there are significant barriers to finding alternative solutions.

Gaynor Hartnell questioned why option 1 of doing nothing was an issue. Mathieu Pearson explained that this option undermines potential economic signals. This is because generators may not pay towards the replacement of joint use assets, therefore their decisions on further investments may be made on an inefficient basis.

Option B, introducing GDUoS charges with no compensation was noted to be undesirable as disproportionate and discriminatory if charges are applied immediately.

Option C1, introduce GDUoS charges with compensation based upon prevailing GDUoS charge could result in over compensation for an ill defined right, and

Option C2, introduce GDUoS charges with compensation for change in connection boundary may provide an appropriate amount of compensation however the implementation could be complex due to lack of information concerning the original connection charge. Colette noted that this issue could become more manageable if focused on a subset of generators. For example, Ofgem noted that the DNOs' information on DG suggested that 12% of connections – those equal or greater than 10MW - account for more than 80% of DG capacity.

Colette noted an additional option based on physical asset life. The age profile of pre-existing generator connections means that a case might be made for applying a cut off date, e.g. 2020, before which pre-existing generators will pay no GDUoS charges and after which they will pay full GDUoS charges. The aim is to ensure that the majority of generators receive the benefits they paid for in the connection charge and then contribute to the replacement of joint used assets going forward. Pre-existing generators would pay no GDUoS system charges until, for example 2020 and would pay full GDUoS charges thereafter. Colette stated that this option would be relatively easy to implement compared to options C1 / C2.

Walter Hood questioned why the potential option would lead to full GDUoS payments after 2020 when the year 2010 had previously been mooted. Mathieu Pearson stated that this was a possible option that would take historic charges into account. Mark Cox stated that the option has been presented in its simplistic form and noted the details could be developed further.

Colette noted that the next steps were to explore option C2 further, by asking the DNOs to calculate the value of the change in connection charging boundary for a sample of sites. Colette stated that she will send an email request to DNOs.

Action: Ofgem to send email requesting further information from DNOs

Gaynor Hartnell questioned why 'do nothing' wasn't being promoted at this point in time, given that generator investment decisions have already been made. Mathieu Pearson explained that the objective is to influence future investment decisions. Martin Crouch noted that there is an increase in demand for new generators in specific areas. The aim is to move to an economically efficient model creating better signals leading to further motivation for new generators to connect.

6. Apportionment Rules

Andrew Neves presented a collective response from DNOs on the four areas that were highlighted at the last ISG meeting.

1 When is network reinforcement not network reinforcement?

DNO are consistent in that interconnection work is treated as reinforcement (and hence apportioned) if reinforcing the existing network but not apportioned if merely to provide additional network security for the connectee. Andrew stated that the connection charging methodology statements were not currently clear on this matter.

2 What is the voltage of connection – voltage of supply or point of connection?

The point of connection is used in the application of connection and reinforcement charging methodology. Andrew stated that CN had used the term 'voltage of supply' but has agreed to move in line with all DNOs and use the term 'point of

connection'. Andrew stated that the connection charging methodology statements were not currently clear on this matter.

3. In what circumstances can parties connecting to the network be charged for existing reinforcement?

DNOs thought that parties can be charged reasonable costs, which may include a contribution to existing reinforcement including general reinforcement rather than following a first comer. They believe that this follows the principles set out in the Electricity (Connection Charges) Regulations / section 19 of the Act and the apportionment rules. It was noted that some DNOs do not charge for existing reinforcement and Ofgem noted that the DNOs should satisfy themselves that they are complying with their legal obligations on this matter.

4. How do the apportionment rules apply to existing customers requesting a connection upgrade?

Andrew stated that there is a divergence of opinion amongst DNOs on this issue. Some have established their policy in light of an ISG discussion paper, whereas others were not aware of the paper as the additional detail was not in the guidelines issued in the Structure of Charges decision document of April 2004.

Andrew noted that there that Ofgem clarification and guidance would be beneficial. Mark Cox stated that he will try and locate this document, but noted that Ofgem's position on this and the other issues raised in the discussion note to the ISG of 25 April 2006 is clear.

Action: Mark Cox to locate initial guidance document

Mark noted that it would be in the interest of DNOs to look towards a way forward in achieving a common template including wording used. He suggested that DNOs decide on common wording as appropriate and bring forward the necessary methodology modifications.

Action: DNOs to provide example wording to Ofgem

7. A.O.B

Carl Wilkes stated that he found it difficult to locate information on under and over recovery positions on DNO websites and queried whether the ENA could collate these on their website. It was noted that Ofgem's webpage already contains these links, and the DNOs were urged to inform Ofgem if the links change so they can be kept up to date.

Mark Cox thanked the group for a productive meeting.

Date of next meeting: Tuesday 5 September 2006, **10am**