Structure of charges: Implementation Steering Group meeting

Tuesday 18 January 2005, 10:30am
Ofgem, 9 Millbank, London

Attendees:

Ofgem:	Mark Cox (Chair)	
	Martin Crouch	
	Mark Copley	
	Colette Schrier	
	Clover Powell	
DNOs:	Andrew Neves	CN
	Jonathan Purdy	EDF Energy
	Tony McEntee	SP
	Max Lalli	SSE
	Nigel Turvey	WPD
	Joe Hart	CE Electric
	Victor Levi	UU
	Greg Smyth	IPNL
	Gareth Jones	IPNL
Generator Reps:	David Porter	RPA
	Malcolm Taylor	AEP
Apologies:	David Tolley	RWE
	Dave Sowden	Micropower Council
	Nick Carter	BGT (Supplier Rep)
	Jeremy Nicholson	EIUG (Customer Rep)
	Sebastian Eyre	energywatch[1]

1. Introduction

Martin Crouch opened the meeting, which would act as an update on progress and an opportunity to begin development of the longer term charging regime. Martin Crouch highlighted that the 2005 arrangements were only an interim step, and that it was now appropriate that work on a longer term solution could began from this base.

Ofgem's priority for the next few months was to facilitate broad discussion on the options for the longer term through the ISG and through consultation. The time between now and the next price control offered a real opportunity for development in both the charging and governance arrangements for distribution.

Mark Cox noted that all but one of the actions from the last meeting had been completed: Ofgem's investigation into further supplier representation for the group was ongoing, and options were being examined for extending an invitation to the group to the supplier community.

[1] Sebastian Eyre left energywatch shortly before Christmas, and will no longer be part of the ISG group/circulation list. Details of the group have been sent to energywatch, who are investigating who might act as an appropriate alternative.

2. Update on approvals process

Final DNO submissions had been received in late November 2004, with notice of the Authority's intended decisions given on 16 December. DNO representations were currently being reviewed, and Authority decision documents would be published following sign off from the Executive Committee.

3. Update on EHV charge transition consultation

The EHV consultation closed on Friday 14 January, and following review of the responses a decision would be made and published.

4. Development of longer term framework

Transmission charging model (presentation)

Mark Copley (Ofgem Transmission team) gave a presentation on the NGC model, noting the objectives, inputs and mechanics of the methodology. Mark Cox suggested that if there were any questions on the model, these could be emailed to Mark after the meeting at mark.copley@ofgem.gov.uk.

General principles of economic charging models (paper from David Tolley)

Colette Schrier ran through the main points of the discussion paper provided by David Tolley.

The paper noted a number of main principles underpinning distribution charging. A DNO representative queried whether an increase in sophistication went hand in hand with a decrease in accuracy: a model such as NGC's relied heavily on a large set of assumptions. A generator representative suggested that the role of the ISG was to assess what level of methodological sophistication was appropriate or efficient. Martin Crouch noted that there was a difference between assumptions on future costs, etc, which was subject to estimation and network data, which should be relatively reliable. A DNO representative argued that the NGC transport model was extremely reliable, since it was largely based on known data. The accuracy of the tariff model was more open to debate, since it relied on the calculation of the expansion factors, and there were questions over what costs should be reflected in these.

It was noted that the UU model allowed for both a winter peak and a summer minimum. A generator representative explained that the NGC model could function on similar lines, but that scenario analysis had shown that 90 percent of costs were driven by the winter peak.

A DNO raised the issue of customer ability to react to locational signals, suggesting that this elasticity was considerable on the transmission system, but decreased with each voltage level. A generator representative suggested that at LV, where there was no freedom to respond to locational signals, there was no need to provide them, and it was acknowledged that even at higher voltages, use of system charges would only ever be one factor in decisions on connection locations. The group also suggested that similarity between transmission and distribution might not be necessary, but competition for

connections between the two could be beneficial, provided that the chief drivers for location/level of new connections should be technical and economic efficiency.

The group concluded that the principle of how far down the network locational signals should reach needed consideration, and one DNO suggested that the DCLF model was more suitable for reflecting the costs of carrying electricity long distance; further down the network, other considerations/costs were more important.

It was noted, however, that there might be benefit to a rural/urban split at LV. One DNO noted that they had different yardsticks for their rural and urban networks, but that while the calculation of different tariffs might be easy, their application would be a more sensitive matter. A DNO also asked how residual costs might be split where different models were being applied to different voltage levels, but Ofgem suggested that if both models represented incremental costs, the same uplift could be used in each case.

UU marginal pricing methodology (presentation)

Victor Levi presented the UU/UMIST marginal pricing methodology, explaining the principles behind it, the data and assumptions driving it, the input costs, and the extent to which it could be adapted for certain situations (for example, adjustments for particular revenues at each node, adjustments to avoid negative demand charges and the addition of substation and residual costs). Ofgem and the group thanked Victor for the presentation.

5. Next steps: timetable for 2005

Colette Schrier ran through an Ofgem paper on a possible programme of work for 2005, mainly based on the establishment of ISG sub groups, as suggested at the 18 November 2004 meeting. She noted that there were a number of key decisions to be made now, the first of which was whether sub groups were a good starting point. One DNO representative suggested that there was work which would not be possible in a group the size of the ISG, and the group also suggested that critical review of the various charging options, a more detailed assessment of costs and an examination of the possibility for an urban/rural split in charges would all be useful.

The group moved on to the question of subgroup membership. It was noted that demand users were not well represented on the ISG, and Ofgem noted that they were examining options for increasing their input. It was hoped that once this community was given a clearer picture of the purpose and progress of the group, they would realise the value of participating.

Ofgem questioned whether the areas highlighted in the discussion paper seemed like the key considerations, and whether anything had been missed out. A generator representative asked whether other European models were being considered, and suggested that the group should research whether there were existing benchmarking studies that would provide ready made information. The SP commissioned NERA report was suggested as a possible starting point.

A generator representative asked whether Ofgem considered that one model should apply to all DNO areas; Mark Cox said the intention of this work was to assess whether one model could apply to all DNO areas, or whether the nature of the different DNO networks made some models more or less appropriate in certain circumstances.

Volatility of charges and tie in periods were raised as important matters to be considered in the examination of various models. A generator representative noted that the decision on the NGC model had clearly distinguished between the volatility of the two options, with one clearly being sold as the more stable but less cost reflective option.

Timetable and actions

Ofgem cautioned that past experience on the Structure of Charges project had shown that discussions of principles could be needlessly drawn out, and that to a considerable extent the group already knew the broad charging principles and had a good idea of the alternatives available, and it would seem realistic to produce an analysis of options and their benefits and features by Easter 2005. The aim of the April consultation would be to provide a detailed explanation of the options, and include both the industry and Ofgem's views on these.

The group discussed the proposed project timetable and actions. Martin Crouch noted that the broader timetable was not set yet, and that further and firmer decisions could be made in the spring when this work had been done and the developing situation was clearer. Two DNO expressed some concern about implementation of a new model for April 2006, noting that this would require the major development to have been completed by the early summer. However, an IDNO representative suggested that there seemed to be sufficient knowledge in the ISG to progress this, without the need to delay to find extra expertise. Joe Hart agreed that it was possible and volunteered to put together a paper on the possible charging options and some assessment of the discussions already held before the next meeting.

Action: CE

Malcolm Taylor volunteered to take on the task of scoping out existing comparator models (the second bulleted task in the discussion paper), but noted that this would require a month's development, and might not be finished before the next meeting of the group.

Action: AEP

On the question of prioritising charging principles (third bullet), the group returned to those set out in David Tolley's paper, and a generator representative noted that while all parties involved might agree on the principles as set out in the paper, each one would take a very different (and commercially driven) view of their order of priority. It was suggested that a DNO view on the order of these principles would be useful.

Action: all DNOs

Tony McEntee volunteered to consider the application of models to different systems before the next meeting (fourth bullet) by examining the potential application of the DCLF model to SP's network.

Action: SP

The assessment of cost drivers (fifth bullet) caused a concern among the DNOs that this was already part of the price control process. Ofgem suggested that what was needed for this project was some assessment of the effects of arrivals and departures of customers on the system, and of what DNOs needed to know about their customers to allow efficient charge setting, and it would be helpful for the DNOs to provide some illustrative analysis before the next meeting.

Action: all DNOs

Ofgem also suggested that the DNOs should also think more generally about charging approaches, beyond the DCLF and the marginal pricing model considered at today's meeting. Further thoughts on what could be suitable or appropriate should be brought to the March ISG.

Action: all DNOs

DNOs suggested that further action on the assessment of the needs of suppliers (sixth bullet) might not be necessary, and that it was ultimately a judgement for suppliers to make as to whether participation was worthwhile. Ofgem suggested that they would continue with their attempt to update the supplier community on the project and its importance, and would hope to secure more input as a result.

Action: Ofgem

Ofgem also noted that it was in the process of securing some help from a number of academics to look into the charging options. Once these arrangements had been finalised and the decisions publicised, there was a possibility that the academics would ask to speak to the DNOs as part of their research.

6. AOB

Contractual arrangements for generators

David Porter told the group that the Distribution Commercial Forum had convened a Distributed Generation subgroup, and a number of members of that group had agreed to report to other industry groups on current thinking.

The subgroup had recently decided that there were a number of areas where the introduction of GDUoS charges from April would require contractual changes, namely:

- the amendment of current DUoSAs to incorporate charges for export as well as import; and
- the creation of new terms for SVA registered generators to deal directly with their DNO for payment of GDUoS charges, allowing them to trade their energy separately. Settlements would be unaffected, with a supplier retaining responsibility.

The sub group considered that common terms among the DNOs would be a good interim solution while the development/consideration of common governance arrangements across distribution was progressed, and would work further on developing a model form, but this required support from the whole DNO community.

The ISG DNOs expressed some concern about this work, suggesting that this would be a complex system, and that it contradicted the supplier hub principle. DNOs were willing to deal with CVA registered generators as full trading parties, but would prefer that a Supplier held full responsibility for SVA registered generation charges.

Conclusion

Mark Cox thanked the group for attending, and noted that the next ISG meeting would be held on 1 March.