Structure of charges: Implementation Steering Group meeting

Tuesday 12 April 2005, 10:30am
Ofgem, 9 Millbank, London

Attendees:

Ofgem:	Mark Cox (Chair)	
	Martin Crouch	
	Colette Schrier	
DNOs:	Andrew Neves	CN
	Jonathan Purdy	EDF Energy
	Tony McEntee	SP
	Max Lalli	SSE
	Nigel Turvey	WPD
	Simon Brooke	UU
	Andy Jenkins	CE
Generator Reps:	Malcolm Taylor	AEP
	Steven Andrews	RPA, Alcan
	Vishal Harji-Patel	RPA, Alcan
Supplier Reps:	David Tolley	RWE
	Andy Manning	npower
	Afroze Miah	Powergen
Demand Reps:	Megan Goss	Corus
	Hugh Mortimer	BOC
IDNO Reps:	Mike Harding	Laing
	Gareth Jones	IPNL
Apologies:	Clover Powell	Ofgem
	David Porter	RPA
	Dave Sowden	Micropower Council
	Nick Carter	BGT (Supplier Rep)
	Jeremy Nicholson	EIUG (Customer Rep)

1. Introduction

Mark Cox welcomed the group, beginning with introductions, then a summary of the actions from the last meeting.

Malcolm Taylor noted that the Cambridge academic report on the longer term charging framework mentioned the EU context and further research papers, should ISG members wish to read them. AEP's action concerning European charging models was closed off.

Ofgem set out that the line loss factor (LLF) methodology information request had been sent to DNOs on 8 March and that information had been received back from the

majority of DNOs. These responses were now being reviewed before determining next steps. A generator representative noted that this matter had been discussed at the BSC Panel meeting where there was concern that the Panel were required to sign off LLFs but that there was an unclear basis to the factors. The Panel had supported a review of the LLF methodology.

2. Longer term framework

ISG note

Mark Cox set out Ofgem's summary of ISG thoughts on the long term framework following discussions to date. These were being noted as a detailed summary of the group's views for inclusion in the Ofgem consultation paper on the longer term arrangements. Concern was raised that these views should not be presented as the views of any single party within the document. Ofgem agreed that it would make this clear within the document.

Various amendments to the paper were agreed to include ISG members' further views. The demand customer representatives felt that the note focussed on forward looking costs but did not address how this might affect existing connected parties. It was noted that forward looking costs were central to future network development decisions and that existing parties may impact on future costs through capacity changes. Existing parties would also benefit from increases in security due to other parties connecting as well as from asset renewal but it was agreed that recognition was needed of the rights that existing parties already have to use the network. In addition the customer representatives raised the concern over how mark ups or adjustments between prices from charging models and price control allowed revenue would be made. They urged early consideration of customer impacts, and Megan Goss agreed to circulate her thoughts on customer issues and grandfathered rights.

Action: Megan Goss

There was further discussion of scaling of charges to price control revenue and the different mechanisms available, including Ramsey pricing. A DNO representative raised concern over Ramsey pricing in their ability to identify different customer elasticity which may lead to discrimination.

At the previous ISG the use of AC load flow models had been discussed by the group. A supplier representative noted that AC load flow models may be appropriate on the distribution system as power system studies were generally undertaken using AC load flow programs and therefore it was not a significant step to use them as the basis for a charging model. It was further noted that an AC model would cater for reactive issues.

One IDNO representative noted that it was important to consider where IDNOs fit in to the debate on the long term framework. One DNO also stated that their current methodology already reflects future costs and is cost reflective and therefore may not need to be developed further as part of the longer term arrangements.

Consultation document structure

It was noted that the consultation paper would focus on the main areas of the contributions from academics, ISG views, and Ofgem ideas on a potential future use of system model. It would also consider other issues (e.g. tariff and charging structures).

Ofgem may circulate the summary of ISG views debated at the meeting prior to the end of April, and the document will be published in April / May.

Action: Ofgem

Academic reports

The meeting discussed views on the models proposed by the academics. It was noted that any model needs to capture IDNOs, and that continuation of the DRM model into the future might be unworkable due to the lack of ability to incorporate distributed generation.

Specific models were considered. A supplier representative said that the Cambridge report was the only one to advocate separate regulatory treatment for demand and generation and the need to reopen the price control for a change in charging arrangements. It was considered that Ralph Turvey's determination of connection costs might not be in accordance with the Electricity Act, due to the brought-forward cost approach.

Cost drivers were discussed and the need to assess the importance of capacity, losses, fault levels and voltage on costs. On losses, the DNOs in general felt that this was not a main cost driver that needed reflecting within their charges and was captured within their planning and development of the network. It was also suggested that the losses incentive itself might act as a cost driver. The group recognised that although capacity was appropriate and could provide a symmetrical arrangement between demand and generation, the fault level cost driver may also be an important factor that would be more difficult to address simply.

It was noted that an industry group on distributed generation has concluded that load should be treated in the same manner as generation. It was also noted that ancillary services can be provided by demand and generation connectees. Further, it was noted that settlement systems assume demand customers are fed at GSP level rather than from distributed generation, and that distributed generation can reduce transmission use of system (TNUoS) charges for suppliers.

It was noted that the cost messages to non-half hourly customers were necessarily averaged due to the nature of metering and settlement systems currently in place, meaning that the scope for passing the supplier a sophisticated pricing message is limited. It was noted that there is scope to introduce a new tariff group through establishing new profiles and /or metering for that group if necessary, e.g. microgeneration. It was considered that incentives to do this were currently limited but if distribution charges were cost reflective, including benefits, then this may lead to supply tariff innovation or new meters.

An IDNO representative questioned whether the Transcost model could be used as an exemplar for use of system charging (as had been suggested by one of the academics) as the representative thought that Transco had previously stated that it could not. Ofgem agreed to consider this.

Action: Ofgem

A generator representative noted that it was important to understand what product parties were buying when they pay use of system charges. A similar debate in

transmission had identified the Transmission Entry Capacity (TEC). Similar arrangements will need to be considered for Distribution.

Scaling of charging model prices to allowed revenue was discussed and it was questioned how scaling would achieve non-discrimination between customer groups. A DNO noted that within a customer group elasticities could be expected to vary, however another suggested it would depend how scaling was allocated in the charge as to how this influenced behaviour. It was also noted that costs other than DNO charges influence customers and that suppliers tend to average costs across customers. One customer representative also raised concern as to what percentage of the final charge would be accounted for by the scaled element. It was noted that at this time, until charging models are developed, the level of adjustment will not be known.

One generator representative noted the benefits of developing a standard model (as proposed by one academic) which would then be calibrated to each DNO. Concern was also raised if different models were developed by DNOs which provided uneconomic incentives to parties. One DNO noted that even if the same model and method was used, due to the price control differences, charges would still be different. Suppliers also noted the benefits of common charging models which may provide them with greater efficiencies.

3. AOB

Timescales for moving forward on the long term framework were set out, with the initial consultation paper publication planned for April / May, a possible workshop in May and a high level decision document planned for the summer. It was also noted that the role of the ISG may change as DNOs start to consider modification to their charging methodologies.

Mark Cox reminded meeting attendees of the timescales involved in amending the charging methodologies and that the amendment process set out in the licence can be up to four months. Therefore, any changes to methodology for 1 April 2006 would need to be progressed by late summer / early autumn. One DNO representative noted that a change in methodology may not necessarily change charges, and in such cases could be later in the year.

Mark Cox thanked the group for attending. The next meeting would be 24 May 2005, which is likely to be a workshop-style meeting, on which more details would follow.