

## Structure of charges: Implementation Steering Group meeting

Tuesday 24 January 2006, 10:30am  
Ofgem, 9 Millbank, London

### Attendees:

#### Ofgem:

Mark Cox (Chair)  
Martin Crouch  
Colette Schrier  
Sunil Mistry

#### DNOs:

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

#### Supplier Reps:

Andy Manning	RWE npower	Janice Thompson	Scottish Power
David Tolley	RWE npower	Glenn Sheern	Powergen
John Capener	British Energy		

#### IDNO Reps:

Gareth Jones	IPNL
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#### Generator Reps:

Malcolm Taylor	AEP	Stephen Andrews	Alcan / ILEX
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### 1. Introduction

Mark Cox welcomed the group and updated members of actions from the December meeting. It was noted that Ofgem has now published a table summarising the status of DNO modifications and the Bath University benefit analysis work and that these could be found on the Ofgem website. Tony McEntee ran through a paper identifying COG longer term charging framework project implementation costs. He stated that the cost estimate of £340k was for the COG review and consultation process being planned for 2006. Tony noted that there have been no comments on the COG straw man. It was noted that Megan Goss was unable to attend this ISG meeting and will table her paper outlining customer concerns at a future meeting.

### 2. Charging methodology modifications

Ofgem provided an update on the excess capacity and reactive power consultations. It was noted that the consultation on reactive power closed on 16 January, whilst the consultation on excess capacity will close on the 27 January.

Colette Schrier presented a summary of industry comments on the reactive power consultation. Comments generally queried whether the proposed changes were cost reflective. There was consensus that reactive power demand increases costs in terms of increasing network losses and increasing capacity requirements.

Respondents raised concerns over potential double counting as kVA availability charges already recover some of the reactive power costs; in effect additional

kVAr-based charges would lead to double counting. Concerns were also raised over reactive power charges for generators which fail to recognise the potential rewards of generating, as well as the possibility of IDNOs being unable to pass on the charge. Econnect raised concerns over metering and whether it was sophisticated enough to determine between reactive power usage during real power export or real power imports.

Colette noted that UU levies charges for reactive power on generators and intend to continue doing so. CN have stated that they do not plan to do so at the current time.

Stephen Andrews agreed sophisticated metering would provide great benefits especially in the case of induction machine generators where real power is exported but reactive may be imported. However Tony McEntee stated that this was an issue for suppliers, if suppliers want change to metering then he suggested they propose a modification to the code of practice.

Mark Cox stated that the next steps would be for Ofgem to publish their decisions on CN and UU's modification proposals.

**Action: Ofgem to publish decisions**

The COG presented a summary of DNO billing arrangements for reactive power. It was noted that both SSE and CE Electric do not currently charge for reactive power. Of those who do charge for reactive power it was noted that:

1. All DNOs provided p/kVArh charges for reactive power
2. There was a power factor threshold concept
3. DNO reactive power charges do not vary by time of day / year

It was noted that the COG summary does not differentiate between NHH and HH customer groups. Differences were noted with some aspects of charging for reactive power, e.g. charges for generators. A COG sub group will discuss and seek to address these issues.

**Action: COG sub group to consider reactive power charges**

It was questioned why EDF Energy provided two power factor thresholds (33% and 90%). Jonathan Purdy explained that it reflected the use by EDF Energy of two prices. It was also questioned why EDF Energy use a power factor of 0.9 where they don't receive reactive data for a site. Jonathan Purdy explained it was a safety measure to estimate if no data was received. He expressed that suppliers have an obligation to submit readings, however if there is no submission then estimation is best method for settlement. Malcolm Taylor questioned whether Elexon should be informed of this matter, and suggested that Jonathan Purdy contact Dorcus Batstone to discuss such issues for awareness.

**Action: Jonathan Purdy to raise issues with Dorcus Batstone**

Mark Cox noted that all consultations and modification decisions are published on the Ofgem website under the 'Electricity Distribution Charges' area of work. He welcomed any comments or suggestions on how the website might be improved.

**Action: Comments on Ofgem website**

### **3. Tariffs and charging issues (DNOs)**

Mark Cox presented an Ofgem analysis of indicative use of system (UoS) charges for 2006-07. Graphs were presented comparing charges with those for 2005/06 for profiles 1-4, HV HH tariff and Generators UoS charge tariffs. Signs of rebalancing within tariffs and between customer groups were noted, in some

cases due to changes brought about by DNOs dealing with outstanding conditional approval issues within their UoS methodologies.

Mark noted that some of the letters sent by each DNO to suppliers outlining the main reasons for charge changes had been useful and Malcolm Taylor asked whether these letters would be published on DNO websites. A few DNO members agreed this was a possibility.

Nigel Turvey stated that there was an error with WPD's generator UoS charges and that a maximum limit of +/-10% change on last year will be applied to their final charges in line with their UoS methodology.

Martin Crouch noted that discussions with another industry group were currently ongoing to publish under/over recovery revenue positions during the year at the same time as revenue returns. Andy Manning stated that receiving future forecasts and charges 3 years in advance would be beneficial in providing greater accuracy for suppliers pricing customers on long contracts.

Some DNOs were concerned about the possibility of providing future forecasts due to forecasting difficulties and noted that it was difficult to predict the level of incentive income in advance.

Martin Crouch suggested that DNOs might like to publish such forecasts on their websites which would give them the opportunity to caveat the figures. Ofgem have put this idea forward and await responses. Should there be no positive feedback, Ofgem may publish these forecasts.

Stephen Andrews queried whether there were any restrictions on the increase in the level of charges and whether there were limits to under/over recovery costs similar to National Grid. Martin Crouch stated that DNOs have an obligation not to over recover deliberately and that a range of a few percent was normally expected.

#### **4. Longer term charging framework**

Simon Brooke presented an update on the COG's work.

Simon clarified that all DNO indicative charges were provided to suppliers and other parties in excel format. It was agreed to provide final charges by all DNOs in one file format. Simon noted that the ENA plans to publish final charges on their website and welcomed Ofgem to publish a web link to this information.

**Action: COG to publish final charges spreadsheet on ENA website**

Regarding actions from the last ISG meeting, the COG has agreed to provide GDUoS charges in a common excel format spreadsheet for every company. However, electronic LLF lookup tables will not be created because Elexon's website already publishes this data. Simon suggested that the COG would be happy to consider this issue again in the future.

Simon welcomed comments on or critiques of the common format charging spreadsheet, preferably before the end of January.

**Action: ISG members to comment on charging spreadsheet**

It was noted that IDNO charges are not currently covered by the common format charging spreadsheet. Simon stated that the COG would be happy to provide the format to the IDNOs if they were interested. It was also noted that nothing would

be done in the spreadsheet to give information on how excess charges would be applied as this information is already provided in the UoS methodology.

Mark Cox presented an update on Bath University benefit analysis work. Responses to Ofgem's open letter consultation on this matter are due by the 24 February. Mark explained that this study was not designed to identify the best charging model but quantify changes in potential network costs from different charging models. He noted that the study found significant benefits with low implementation costs and suggested that DNOs consider issues raised here as well as WPD's work such that the project could move forward.

Tony McEntee raised concerns that Bath University's analysis assumed shallow connection charges and assumed the locational charging signal was captured in UoS charges. He stressed his belief that connection charges have a substantial impact on siting decisions and that this should have been considered within the study. Tony suggested that the DRM was not robust going forward for shallow connections.

Tony McEntee suggested that all costs must be included within the model to mitigate the level of scaling to regulatory income. Martin Crouch stressed that scaling issues were not the primary focus of this study. Mark Cox welcomed comments on the Bath report and Ofgem's open letter by the 24 February.

**Action: ISG members to comment on Bath University work**

Nigel Turvey noted WPD's initial consultation on a longer term UoS methodology and said that no responses had been received to date. He welcomed comments.

Tony McEntee updated members on the COG workshop on the longer term charging framework to be held on the 25 January. Almost 50 attendees were expected from across the industry. Tony noted he will provide future workshop dates in due course. It was also noted that the COG has contacted academics to provide input on the project, and that this is currently being progressed.

**Action: Tony McEntee to provide future workshop dates**

Harvey Jones presented a summary of COG stakeholder questionnaire capturing views on the longer term charging framework. He explained that there had been only 5 responses, however the questionnaire has now been re-issued to a wider audience with responses invited by 30 January. Harvey noted that he will report back conclusions from the questionnaire at the next ISG meeting.

**Action: Harvey Jones to report further findings of questionnaire**

Mark Cox updated the ISG on generator charging from 2010. He noted that there have been numerous substantial responses to a note debated at November's ISG meeting. Mark explained that the next steps were to consider all responses and share initial views preferably at the next ISG meeting.

**Action: Ofgem to share views of G2010 responses**

## 5. A.O.B

David Tolley noted issues coming from the DUoSA consolidation group concerning the definition of "UoS" within the licence condition 4 statements. He suggested that greater clarity is needed in these statements as there has been confusion over the definition within the terms and conditions of payments within the new agreement. David also questioned whether transactional charges should be included within security cover arrangements. A few DNO members suggested that greater clarity was needed on the 12 month period for additional cover for new arrangements.

Martin Crouch agreed the issue of whether charges should be included in the 4A statement issue was something for the group to discuss, however felt the other points raised were largely a matter for the DUoSA group to resolve.

Mark Cox encouraged David Tolley to table his issues for the next ISG meeting.

**Action: David Tolley to put forward paper outlining concerns**

Martin Crouch invited views on the format and timing of future ISG meetings given planned COG workshops throughout 2006. He welcomed comments on this issue.

**Action: Members to provide feedback of time/format of future ISG meetings**

Mark Cox highlighted that CN have raised a list of anomalies with the application of the new connection charging rules for apportioning reinforcement costs. It was agreed that the COG would discuss this issue.

**Action: COG members to consider apportionment rules**

Mark Cox thanked the group for a productive meeting.

**Date of next meeting:** Tuesday 7 March 2006