

Structure of charges: Implementation Steering Group meeting

Tuesday 7 March 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	Robert Buckley	Cornwall Energy
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	Gaynor Hartnell	RPA
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1. Introduction

Mark Cox welcomed the group and updated members of actions from the January meeting, many of which would be picked up later. It was noted that there had been no comments on the Ofgem website however any suggestions on improving it were welcomed. Ofgem explained that they were not yet in a position to share their views of generator charges post 2010. Mark explained the responses from ISG members needed to be reviewed, and hoped that this would be covered at the next meeting.

Action: Ofgem to share views of G2010 responses

Simon Brooke noted that the Commercial Operations Group (COG) is intending to publish DNO final charges in a common format spreadsheet on the ENA website by 1st April.

Action: COG to publish final charges spreadsheet on ENA website

Jonathan Purdy had not talked to Dorcus Batstone over issues regarding power factor thresholds. Harvey Jones stated that the COG had received numerous responses to the stakeholder questionnaire and he agreed to present the findings from this at the next meeting.

Action: Harvey Jones to report findings of questionnaire

Simon Brooke queried whether Corus and BOC still propose to paper their concerns and issues with the longer term charging framework. Mark Cox

motioned that they are still intending to, however it is not known when, and agreed to minute this proposal.

Action: BOC / Corus to present paper on longer term charging framework

2. Charging methodology modifications

Mark Cox presented an update of the status of DNOs modifications. He noted that CN and UU's modification proposals concerning reactive and excess capacity charges (Ref: Mod002, Mod003 and UU/002) have been vetoed following Ofgem consultations.

Five additional modification proposals have been received since the last ISG meeting. UU's modification proposal to their connection charging methodology (UU/005) has been vetoed. Since then, a further two revised proposals have been submitted by UU (UU/002.1 and UU/005.1) and one from CN (CN Mod004). SSE has submitted a modification proposal to their connection charging methodology all of which are still being reviewed.

A continuously updated table containing a brief summary of the status of DNO modifications can be found on the Ofgem website:

<http://www.ofgem.gov.uk/ofgem/work/index.jsp?section=/areasofwork/distributedcharges/edist03>

David Tolley suggested that the wording on the table was misleading. He noted that Ofgem does not 'approve' modification proposals but rather, according to the Licence, modifications are not vetoed. Therefore the wording of 'approved' should ideally be rephrased to 'Not vetoed'. Mark Cox agreed that the wording on the table will be reviewed.

Action: Ofgem to review wording on Modification table

Malcolm Taylor questioned why modification proposals using similar titles had different conclusions given by Ofgem. Mark Cox noted that there were substantially different views on the wording used by DNOs. For example, some of the modifications branded as housekeeping changes by the DNOs contained more significant policy issues.

Mark re-emphasised that it would be helpful to submit modification proposals by August for implementation the following April, thereby providing a 3 month window for any possible Ofgem consultations.

Going forward, members argued it would be beneficial if informal discussions were to be held on the process to help reduce the number of modifications vetoed in the future. Mark stressed Ofgem and the DNOs are still learning about this new process. Tony McEntee suggested that these are issues that could be discussed further at the April COG subgroup meeting, and will invite Ofgem to present lessons learnt on the modifications process to date.

Action: Tony McEntee to invite Ofgem to April subgroup meeting

3. Tariffs and charging issues

Mark Cox outlined that Ofgem had noted that there had been no changes between indicative and final use of system (UoS) charges for 2006-07 for the main tariff groups (Profile 1-4, HVHH and GDUoS tariff)

There was no COG update on charging issues because the subgroup meeting had been postponed until next week.

4. Longer term charging framework

WPD update

Nigel Turvey presented a summary of responses on WPD's UoS methodology consultation along with a further explanation of the work WPD is carrying out with Bath University.

WPD received 11 responses. Nigel explained that whilst the responses had varied enormously, the consultation had helped identify key issues, and therefore helped identify key parameters that future work needed to concentrate on. Nigel set out that WPD's consultation paper and all responses to it could be found on WPD's website.

Andrew Neves questioned whether the consultation carried out by WPD was beneficial. Nigel explained that the consultation had provided guidance and confirmed areas of concerns that had already been identified. In addition this consultation provided a significant opportunity to inform people of substantial changes to their methodology.

Malcolm Taylor raised issues on whether another consultation would be carried out by Ofgem, and questioned what benefits there would be if both DNOs and Ofgem consult on the same issue.

A supplier rep queried whether DNO consultations could be published on a routine basis under a common website to ensure visibility and that consultations can be easily found. Although each DNO has its own process of consulting, it was suggested that consultations published on a common website may be beneficial. David Tolley proposed that the ENA provide a section on their website for all DNO consultations.

Mark Cox agreed, stating that DNOs all have different website structures and therefore having a common webpage would be beneficial. Mark agreed that the ENA website would be the most logical area to publish all DNO consultations.

Tony McEntee motioned that the COG may consider this. Gaynor Hartnell suggested that perhaps Ofgem would be able to publish DNO consultation on their website, thus providing wide coverage. However it was noted that Ofgem already has a link to the ENA website under 'Structure of charges' area.

Action: COG to consider ENA consultations webpage

Nigel provided an update on WPD work with Bath University, explaining that their model was different in formulation to that used within Bath University's report to Ofgem on the longer term charging framework. Nigel explained that work was still continuing on reworking of security factors, lower voltage networks, what demand/generation infeeds should be used in the base model, and to consider the need for 'minimum' demand periods. Furthermore, it was noted that WPD continues to work towards implementation date of 1 April 2007.

COG update

Tony McEntee provided an update on the COG's progress on the longer term charging framework. He noted that the initial workshop held on 25 January had been a success, providing positive feedback on the COG work plan and the

proposed three stage work process. Tony noted that all papers have been published on the ENA website and that the initial consultation paper issued to stakeholders on 17 February will close by 31 March. It was stated that the next two workshops will be held on the 26 April and 12 July.

Action: ISG members to comment on COG consultation paper

Tony explained that the sub-group will consider all responses to the initial consultation and carry out analytical work on connection boundary assumptions. He noted that whilst the straw-man illustrated a three stage charge setting process, it does not present a firm proposal for approaches to cost attribution. Tony stressed that the COG needs to address all issues across all voltage levels, in order to establish the proportions of revenue to attribute to different users.

Questions were raised on how connection charges will be reflected within the methodology, and Tony stated that these issues have yet to be addressed with work continuing on this. In addition Tony noted that the COG is hopeful that an academic will act as an advisor to the COG throughout the project.

Ofgem update

Ofgem presented responses to consultation on Bath University benefit analysis work. Colette Schrier set out that the work was not looking for a 'correct' methodology, but aimed to assess how different methodologies impact on customer behaviour and how this would in turn change the amount of investment needed on the system.

There were 9 responses to the consultation from which majority of DNOs expressed that there would need to be further thinking on the issues raised and on the associated costs, benefits and sensitivities of outcomes to changes in assumptions. Responses set out general concern over the £200m figure. It was noted that no further work on this is currently being planned by Ofgem.

Mark Cox presented a review of Ofgem's thoughts on structure of charges going forward. He noted that longer term charging framework work was a key project which was expected to be concluded prior the next price control project. Mark welcomed the support of COG subgroup work, and stressed that progress will be challenging. Development of economic charges for generators, economic charging models at EHV level, structure of charges to reflect cost drivers and further development of common charging structures were suggested as key issues that need to be addressed and focused upon in order to deliver timely solutions.

5. David Tolley paper on definition of UoS charges

David Tolley presented his paper outlining his concerns over the definition of UoS charges. He explained 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.

David proposed that in order to bring clarity and consistency to the definition of charges, all charges described by the DNO as being UoS should be listed in the Licence Condition 4A Statement, and backed by a declared methodology in the Condition 4 Statement.

It was questioned whether this issue was a matter for this group to discuss, and Simon Brooke noted that although this matter needed to be dealt with he thought it was a peripheral issue compared with the work required on the longer term charging framework.

Mark Cox suggested that this is issue of consistency, and that the contractual agreements need to be clear. It was suggested that each DNO's SLC4A Statement be checked to see whether all DNOs incorporate the same charges in their statement. Mark suggested that David Tolley and he discuss this issue and how to progress matters.

Action: Mark Cox and David Tolley to discuss UoS definition issue further

6. AOB

Martin Crouch updated members over the discussions with DNOs regarding the publication under/over revenue recovery positions. He stated that Ofgem wanted allowed revenue, actual revenue and over/under recovery positions to be published on 1 April, 31 July and 31 October, in line with revenue return submission dates. Members, in particular suppliers, said they were happy with this. It was noted once this information was published, DNOs were not expecting to provide additional information or justification to anyone who was requesting it.

Mark Cox thanked the group for a productive meeting.

Date of next meeting: Tuesday 25 April 2006