Structure of charges: Implementation Steering Group meeting

Tuesday 25 April 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:

Carl Wilkes	RWE npower		
David Tolley	RWE npower	Glenn Sheern	E.On UK
John Capener	British Energy		

IDNO Reps:

Mike Harding	ENC

Customer Reps:

Hugh Mortimer	BOC Gases

Generator Reps:

Malcolm Taylor	AEP	Tim Russell	RPA
Tim Warham	Alcan		

1. Introduction

Mark Cox welcomed the group and updated members of actions from the March meeting, many of which will be picked up later in the agenda:

- Ofgem have reviewed their modifications table and have clarified via a footnote that approval means non-veto.
- Simon Brooke confirmed that DNO UoS charges for 2006/7 have been published on one spreadsheet on the ENA website.
- Tony McEntee stated that the COG believed having an ENA consultation webpage was not feasible due to the number of DNOs, and that each DNO would publish its own consultations. The COG would still publish COG workstream papers though.
- Tony also confirmed Ofgem has been invited to the COG subgroup's May meeting to present thoughts on modification submissions to date.
- The first COG consultation has closed and comments were received from 6 parties.
- BOC and Corus intend to present a paper on longer term charging framework at a later date.
- David Tolley and Carl Wilkes noted that a detailed review of the SLC4A (UoS charging) statement is required. David noted that the form and content of these statements is different for each DNO, and that a

consistent common format would be preferable. Npower agreed to produce a paper on this for consideration at the next ISG meeting.

Action: Npower to present paper on common SLC4A statement

2. UoS and Connection charging methodology 2006/07

Mark Cox presented an update on the status of DNO methodology modifications. Since the last ISG meeting, UU's proposed housekeeping changes to the connection charging methodology (UU/005.1), have been approved.

EDFE proposed housekeeping changes to its UoS methodology (EDFE001), and SSE proposed housekeeping changes to its connection charging methodology (06/001). These have both been approved. CN's proposal for a new methodology on excess reactive power charging (Mod005) has been approved and will be effective from 1 June 2006.

3. Tariff and charging issues

Mark Cox set out that DNOs have agreed with Ofgem to publish their under and over recovery information on their websites, and that links to this information are provided via Ofgem's website. He noted that the forecast information will be updated three times a year.

COG Progress

Andrew Neves stated that the COG was making effective progress with capacity charging on import/export sites. Andrew noted the next meeting will be in a few weeks.

4. Longer term charging framework

COG Update – Stakeholder questionnaire

Harvey Jones ran through responses to the COG's stakeholder questionnaire. He noted that there were 12 responses. General feedback was positive and respondents were aware of the status of structure of charges project. Harvey stated that the next steps are to provide summary of feedback at the next COG workshop.

Tim Russell questioned the clarity of some of the questions within the questionnaire. He noted that a few questions were possible to misinterpret.

Hugh Mortimer questioned whether Ofgem would take account of the responses. Mark Cox explained that there is a framework that distributors work within and all proposals are assessed against it, however it was useful for Ofgem to see the responses.

ENA COG sub-group on SoC

Tony McEntee provided an update on the feedback of COG consultation paper. There were 6 responses (including one from Ofgem). Tony stated that full feedback on the responses will be given at tomorrow's workshop, however all responses were generally supportive of the DNO approach. The COG has now enlisted the help of academic Ralph Turvey.

Tony explained the workshop agenda and stated that 50+ attendees were expected, representing a wide section of the industry.

David Tolley stated that the initial consultation was too broad and too early on in the project for people to comment upon and therefore should be provided with more detail. Tony explained that the intention was to get people involved right at the start before any decisions were to be made.

Martin Crouch queried time scales and whether the COG's work is on track. Tony said it was within the broad framework set out. In response to questions, Tony stated that they have to start considering principles before identifying the monetary impact of any change in charging method. A customer representative suggested that customers will caveat their consultation responses if such information is not available.

Tony explained that the next steps were the second consultation which would be published on 17 May. All responses and presentations to the COG work are published on the ENA website, http://www.energynetworks.org/reg_cog.asp.

SP Presentation

Tony McEntee ran through a presentation on a possible approach to deriving long run pricing signals. He explained that SP thought that long term reinforcement costs should be determined by engineers using the same network model used for planning and designing the system and other existing systems as far as possible, rather than a more generic model.

SP is undertaking a contingency analysis to determine P2/5 compliance and reinforcement requirements. Detailed studies are now being carried out on one supergrid group within SP Manweb's area (meshed) and the plan is to test this on SP Distribution's network (radial) later. Tony stated that this preliminary test has only been carried out on a section of SP network and he will provide feedback to the ISG.

WPD Update

Nigel Turvey presented an update on WPD's work on the longer term charging framework. He stated that WPD is now concluding work with Bath University and is reproducing the Bath model to cover their entire South West and South Wales areas. WPD's intends to publish a consultation once they have established illustrative prices. Nigel explained that the consultation will highlight issues such as the impact of scaling on prices.

5. Ofgem thoughts on generator charging from 2010

Colette Schrier presented further Ofgem thoughts on arrangements for existing generators from 2010. The primary objective was to ensure generators receive appropriate economic signals.

Colette explained possible options. Option A is to do nothing, but recognises that DNOs could voluntarily contract with generators. Option B is to introduce GDUoS charges with no compensation for deep connection charges from 2010. DNOs tended to agree that option B was more suitable than option A.

Tim Warham noted that leaving things alone was always a valid option and that the costs and benefits of options for change must be compared with the 'do nothing' scenario. He thought that existing generators have paid connection charges and bought a right of access to use the system and would demand that their rights be maintained or compensated.

Option C was discussed which would compensate generators for the change in charging regime. The time periods of any right to compensation, and whether compensation should be paid as a lump sum or an on going rebate would have to be determined under this option. Generators could be compensated in a number of ways: option C1 considers valuing access currently enjoyed as the value of the UoS charge at a particular point in time whereas option C2 considers compensation in terms of the change in the connection boundary.

It was noted that option C1 may be difficult to apply in negative charging areas and that there may be potential data issues with option C1. It was also suggested that option C1 carries property rights whilst option C2 doesn't, however option C2 compensates for the change in the connection boundary.

Option C could consistently apply GDUoS charges to all generators going forward. However option C maybe potentially more complicated to implement than options A and B, and the duration of pre-existing generator rights would have to be addressed.

One suggestion for a cut off point - before which no compensation would apply - is 20 years, in line with a typical generator's financing period. This would meant that connections prior to 1990 would not be compensated. Tim Warham suggested that the depreciation period of assets should be taken in to account, rather than this financing period.

ISG members generally agreed that it would be sensible for a one off repayment rather than a yearly rebate. Colette noted that for option C1, issues over how to compensate generators in negative charging areas had yet to be determined, and that in the absence of any fully developed charging models it is impossible to determine whether this is an issue. In addition the method of valuing any deep connection charge versus shallowish connection charge repayment (C2) still needs to be addressed.

Further information is required from DNOs in order to progress this issue further. Details of DG connected under the old deep charging regime (connection date, size of connection (MW) whether deep connection charges were paid, treatment of generators in terms of asset replacement after they had bee connected) and details of the contract signed by generators.

It was agreed that Ofgem will email DNOs requesting details of date, size and name of DG connected. Information concerning whether a deep connection charge has been paid would be considered at a later date.

Action: DNOs to provide information on DG

Ofgem requested any further comments on this issue by email.

6. Apportionment rules discussion paper

Mark Cox ran through a paper on the connection charging apportionment rules, focussing on queries Ofgem has received from customers during the first year of the new rules.

Four key areas that need to be addressed were highlighted:

1. <u>When are network reinforcement costs not network reinforcement costs?</u>

A number of situations highlighted to Ofgem where in a developer requires a significant load to be connected to the existing network (these are often brown field developments as part of regeneration in large cities). In some instances developers have been charged a share of the primary substation costs based on the apportionment rules, while in other areas they have been charged the full cost.

Ofgem suggested that where there is benefit to existing users and the existing network from the development then the cost should be shared between new party and existing users. On this basis if the DNO links the primary substation in to offload their existing network, then it would seem appropriate to apportion the costs; if the primary is standalone then it should be charged in full.

All DNO agreed with the explanation provided. Mark Cox noted that currently the same scenario seemed to be giving different outcomes, and that therefore more clarity was needed within the connection charging methodologies. It was suggested that illustrative examples would aid clarity.

2. <u>What is the voltage of connection – voltage of supply or point of connection?</u>

DNOs have all detailed within their connection charging methodologies that reinforcement undertaken at more than one voltage level above the 'voltage of connection' will not be charged to the connectee. However, Ofgem has noted that the definition of the voltage of connection is not clear and could mean the voltage of supply to the customer or the point of connection to the existing network.

It was noted that the paper on boundaries identified the voltage of connection to be the point of connection (POC). Tony McEntee noted that IDNOs should pay POC.

SP, SSE and UU confirmed that they use point of connection consistent with a section 16 application. All DNOs used POC in some form, although CN were uncertain and will check their policy.

Action: Andrew Neves to check whether CN uses POC

3. <u>In what circumstances can parties connecting to the network be charged for existing reinforcements?</u>

Ofgem noted that where a DNO undertakes planned reinforcement due to general load growth in the area, it is not clear that there is a legal basis for any recharge to a subsequent connectee who utilises this head room capacity.

It was noted that there were different interpretations of this point. Tony McEntee stated that for this scenario SP would charge the additional person in accordance with license condition 19.1 of the Act. It was noted that UU does not charge subsequent connectees.

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

Some of the methodology statements note that where a party asks for further capacity within a short period of time (5 years) of their original connection then the new existing capacity will be considered in total if reinforcement is required.

Ofgem noted that there are different interpretations concerning how existing parties will be treated if they require further capacity after a prolonged period of

connection, either using their increment of capacity as the basis of apportioning cost or using the total required capacity. It was agreed the former approach was more consistent with the principles of the apportionment rules.

Mark Cox welcomed any comments on the issues raised in this note. It was noted that the wording and examples within the DNOs' connection charging methodologies were different creating uncertainties. DNOs agreed to consider these four issues by providing examples and wording that ensures greater clarity.
Action: DNOs to provide examples & proposed wording for methodologies covering the issues set out above

7. A.O.B

Mark Cox thanked the group for a productive meeting.

Papers and presentations from the meeting are published on the Ofgem website at http://www.ofgem.gov.uk/ofgem/work/index.jsp?section=/areasofwork/distributioncharges/edc1.

Date of next meeting: Tuesday 6 June 2006, **10am**