

Structure of Charges: Implementation Steering Group meeting

Tuesday 5 September 2006, 10:00am
Ofgem, 9 Milbank, London

Attendees:

Ofgem:

Mark Cox (Chair)
Martin Crouch
Colette Schrier
Mark Askew
Sundeep Klair

DNOs:

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

Supplier reps:

Carl Wilkes	RWE npower	Glen Sheern	E.On UK
David Tolley	RWE npower	Alison Russell	Centrica

IDNO reps:

Robert Buckley	Cornwall Energy (Laing)	Mike Harding	ENC
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Customer reps:

Hugh Mortimer	BOC Gases
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Generator reps:

Malcolm Taylor	AEP	Gaynor Hartnell	REA
Tim Warham	Pöyry (Alcan)		

1. Introduction

Mark Cox welcomed the group and invited attendees to introduce themselves. Mark then noted that the actions from the July meeting would be picked up later in the agenda.

Martin Crouch reported on a discussion he had attended at the ENA regulation group meeting in July. Martin stated that he felt progress was being made on the long term charging framework but that the work remaining shouldn't be underestimated. He set out that he expected work on charging models to be substantially complete by the end of 2006 such that the each DNO knew by then which approach they intended to take.

2. Charging methodology modifications

Since the last ISG meeting three modification proposals have been assessed:

- CE concerning clarification of EHV charging for dedicated assets in their Use of System methodology. This was vetoed by Ofgem on 20 July.
- WPD concerning a clarification to their Connection charging methodology over the treatment of contestable works. This was approved by Ofgem on 21 August.

- EDFE concerning housekeeping changes to their connection methodology including changes to the contestable boundary. Martin Crouch stated that Ofgem could now confirm that this had been approved.

3. Tariff and charging issues

Mark Cox stated that, as agreed at the last meeting, Ofgem have taken steps to establish a subgroup to look into a common template for the SLC4A statement. He stated that this will build on the work that David Tolley and Walter Hood submitted to the group at the last meeting. Mark confirmed that a subgroup meeting had been booked for Monday 18 September at 14.30 at Milbank.

It was enquired as to whether the membership of this group could be circulated to the rest of the ISG.

Action: Ofgem to circulate membership of SLC4A subgroup

Mid Year Tariff changes

Mark Cox reminded the group that it had been noted at the last meeting that EDFE and SSE are changing their DUoS charges with effect from 1 October. In addition he informed the group that CN have now set out revised DUoS charges from 1 November and that UU are changing charges from the 1 December.

Simon Brooke added that UU had notified all affected groups about this change on 31 August. He invited the group to view the details concerning these changes at: <http://www.unitedutilities.com/?OBH=3248>. Simon also suggested people can email him should they require any details on this.

4. Longer term charging framework

Update on COG

Tony McEntee stated that the third DNO consultation paper was issued on 28 July and that the deadline for responses on this closes on Friday 8 September. Tony commented that these responses would be published on the ENA website and would be covered in the fourth workshop which was planned for the 22 November. However, it was noted that this proposed date clashes with the TADG meeting which has already been confirmed¹. Consequently, it was agreed that the workshop date will need to be rescheduled.

Tony stated that progress had been made with developing a model to determine end tariffs which are capable of accommodating different DNO marginal cost model outputs. He informed the group that the COG sub group has identified alternative approaches for determining marginal costs and that there has been good progress with suppliers in respect to tariff structures and charging statements. He explained that DNO longer term charging models would vary across all DNOs.

Malcolm Taylor questioned what Ofgem thought of the work undertaken so far. Attendees generally agreed that it would be impossible for Ofgem to give any thoughts until firm proposals were submitted by DNOs. Martin Crouch commented that at this stage he hadn't seen anything which could be approved as it stood

¹ Transmission arrangements for distributed generation. Details are available at; http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/16437_TADGagendameeting2.pdf

nor anything that that wasn't capable of evolution into something which could be approved.

Alison Russell requested slides and materials relating to the fourth COG workshop are circulated two weeks prior to the meeting in order to facilitate greater understanding and more informed discussion of the issues. The group agreed that this seemed logical.

Action: Material to be circulated two weeks prior to COG workshop

Robert Buckley noted that the third joint DNO consultation paper states that there may be development of an IDNO customer group and tariffs. He stated that he was keen to start this dialogue, and Mike Harding agreed, and suggested a forum is required to discuss such issues. Tony McEntee stated that the COG would be in touch with both parties.

Action: COG to engage IDNOs in debate on structure of IDNO DUoS charges

DNO progress on long term methodology

In response to questions about the timetable for their work Simon Brooke stated that UU have April 2008 in mind. Nigel Turvey replied that WPD are still focussing on April 2007 but that this would depend on a number of factors. Nigel Turvey told the group not to underestimate the volume of work needed and reminded the group that WPD started their work last June with April 2007 in mind.

UU long term methodology work

Simon Brooke updated the group on UU's work and said that UU is currently considering internally the costs of progressing further with the project against the potential benefits. He emphasised that this was only a simplified summary of a more complicated mathematical modelling process. He informed the group that UU were working on a model which calculated the peak flow of each asset/branch. The model they were using was a combination of LRIC and ICRP using a 'K' factor to determine the balance between the models with the aim of delivering stable prices and good price signalling. Simon explained how this model had been tested on the EHV section of the Cumbrian ring of UU's network where generation was dominant and congested. UU has investigated cost outputs given three scenarios. Conclusions drawn from this indicated that the new model appears to send better locational signals than the current model and that the model better reflects reinforcement costs.

Simon did not rule out localised pricing at HV and LV and added that at this stage it wasn't clear what approach UU would take at lower voltages. He added that there was still work to be done on empirically optimising value of 'K' in the model. It was generally agreed that the model needed to achieve an appropriate balance between cost reflectivity and stable prices. Malcolm Taylor commented that customer groups would want stability in prices for a minimum of a 12 month period. Martin Crouch noted there had been quite a lot of rebalancing and various mid-year tariff changes with the current model, and suggested that stability might be achieved by considering issues outside the tariff model.

David Tolley questioned whether starting the model from price control revenues might be a better approach. Simon Brooke did not agree, and Martin Crouch clarified that the price control deals with revenues rather than costs.

Simon concluded his presentation by stating that he was a full supporter of the joint DNO work. Whilst acknowledging that DNOs would submit different approaches, he said that he is willing to share information over UU's work.

WPD long term methodology work

Nigel Turvey presented an update on WPD's work to the group. Nigel set out the groups who had responded to WPD's recent consultation and commented that responses to this had been very mixed. He was disappointed by the lack of response from large customers connected at EHV who would experience significant price changes should the model be adopted.

He commented that many respondents highlighted that growth rate assumptions would make large differences to the costs generated by the model. Nigel noted that whilst differential growth rates would be possible it would not be easy to implement due to compound growth rate calculations needed at individual nodes.

Nigel then went through the consultation responses on the treatment of NGC exit charges, the draft methodology and whether this better met the licence obligations. He summarised that most groups felt that the new model facilitated greater cost reflectivity and thus better met the license obligations and that suppliers gave a positive response to the methodology.

He mentioned that respondents favoured a transitional agreement over large price increases and recommended a price ceiling but not a price floor. He noted that one response favoured a delay in WPD submitting its methodology in order for other DNOs to get to the same stage. Some responses voiced concerns over their ability to predict future prices. Nigel also mentioned that energywatch responded by stating that there was nothing wrong with the existing DRM model.

Nigel commented that WPD's hope to have the new charging model in place for April 2007 would depend on the scope of changes needed to the current proposals. He indicated that he did not foresee the model being introduced via a mid year tariff change and so the next possible date for implementation after April 2007 would be April 2008. He stressed that WPD would be taking an internal decision on the progress of the project over the next two to three weeks.

Hugh Mortimer commented that he thought WPD's consultation to be excellent, especially the scope of material made available. He encouraged other DNOs to produce a consultation of the same quality.

SP structure of charges update

Tony McEntee outlined that SP were currently engaged in data gathering in order to populate their model. He explained that the model was looking for alternative approaches for determining marginal costs. He referred the group to the policy paper covering SP's approach which he had circulated. Tony said that SP were working closely with SSE and CN on this model. He informed the group that simpler modelling was required for SP Distribution than for SP Manweb's area due to the linear nature of SP's distribution network. He also reminded members of the different distribution voltage used in Scotland which made SP's work unique.

Tony stated that the group are undertaking contingency analysis using planning tools to check for thermal and voltage reinforcement and refurbishment requirements which will be studied by network group. He sought assurance from Ofgem that there was a close link between load growth costs and pricing network costs. Martin Crouch commented that consideration of present value of

reinforcement costs was a common element of several models and one which seemed to be appropriate, albeit that SP appeared to be assessing this in a different way to the other models which had been presented

Tony informed the group that they are hoping to model two groups in Scotland and one group on the Manweb network. He stated he would be happy to discuss the results of this with the group and would welcome feedback and comments on his paper.

Action: ISG members to provide comments on SP paper

Other DNO progress

Mark Cox invited other DNOs to update the group on their progress.

Andy Jenkins stated that CE were putting forward proposals to Ofgem next week aimed at removing the condition on approval of their use of system methodology, and they will then make a decision over the next couple of months on which DNO they wish to work with on the longer term charging model.

Jonathan Purdy stated that EDFE had carried out a literature review on charging models and are currently considering three options by modelling around the Aylesbury section of EPN's network. One of these models is a variant of ICPR, whilst two are variants of LRIC model. He hoped that this would be completed by the end of October 2006. He stated he would inform the group of the conclusions at this stage.

Andrew Neves and Max Lalli confirmed that CN and SSE were working with SP.

5. Generator charging from 2010

Colette Schrier stated that since the last meeting Ofgem had requested information from DNOs regarding the recalculation of the connection boundary from deep to shallowish. Replies to this are due on 15 September. Ofgem will then consider the next steps to take.

6. Apportionment rules

Mark Cox reminded the group of the actions from the last two meetings. Mark went on to state that Ofgem had asked for feedback on apportionment rules from DNOs back in July. He then produced the guidance document on the apportionment rules developed by the ISG subgroup in early 2004. He stated that this didn't include a blanket suggestion that any reinforcement undertaken without a first comer could then be recharged to further connectees. He stated that the Ofgem April 2004 document provided a clearer interpretation and that this should act as the main source of guidance for the DNOs.

DNOs generally responded by stating that at present they were concentrating on developing their long term charging methodology and had all resources devoted to this. Mark Cox noted that all Ofgem required was clarification on the individual wording of each DNO statement and reminded DNOs that they each have an individual license obligation to provide clarity in their statements.

Tony McEntee stated that he fully supported clarity in the statements. Martin Crouch confirmed to the DNOs that as long as the clarifications merely involved sensible wording, he could not see the need to consult on those modifications. DNOs agreed to submit clarifications on apportionment rules.

Action: DNOs to submit clarified wording on the apportionment rules

7. AOB

Martin Crouch reminded the group that there are only two ISG meetings left this year and suggested that the group start thinking about how they wanted the group to function next year – for example, whether it should change into a charging forum model. It was enquired as to whether the current ISG was required or whether a different focus was needed, for example a set up similar to TCMF². Gaynor Hartnell suggested that whatever the future role of the group, Ofgem should assess the progress made by the ISG since 2003 with reference to the Terms of Reference.

Action: ISG organisation for 2007 to be included on next agenda

Malcolm Taylor aired his initial view that there was still a lot work in progress on the long term charging framework and that it made sense to continue the group into next year to follow this work. Hugh Mortimer said that he would want to continue to be involved whatever the forum.

Mark Cox thanked everyone for attending.

Date of next meeting: Tuesday 17 October 2006, 10am

² Transmission charging methodologies forum