

Structure of Charges: Implementation Steering Group meeting

Tuesday 17 October 2006, 10:00am
Ofgem, 9 Milbank, London

Attendees:

Ofgem:

Mark Cox (Chair)
Martin Crouch
Mark Askew
Alberto Prandini

DNOs:

Andrew Neves	CN	Nigel Turvey	WPD
Oliver Day	EDF Energy Networks	Simon Brooke	UU
Tony McEntee	SP	Andy Jenkins	CE
Max Lalli	SSE		

Supplier reps:

Carl Wilkes	RWE npower	Richard Jay	E.On UK
David Tolley	RWE npower	Alison Russell	Centrica

IDNO reps:

Robert Buckley	Cornwall Energy (Laing)	Mike Harding	ENC
Gareth Jones	IPNL		

Customer reps:

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 the actions from the last meeting. He highlighted the need for COG to engage IDNOs in debate on structure of IDNO DUoS charges. He also relayed to the group that Scottish Power have circulated a consultation paper on possible changes to their UoS charging methodologies for IDNO networks.

Mark then went on to invite the DNOs to update the group on when they planned to submit modification proposals clarifying their approach to apportionment.

- Andrew Neeves said that CN were looking at submitting clarifications within a few weeks.
- Tony McEntee stated that he thought SP had submitted something two weeks ago but would have to check this.
- Andy Jenkins told the group that CE were looking to submit their proposals by the end of October.
- Oliver Day said that EDFE felt that they were already compliant and thus wouldn't be submitting anything.
- Simon Brooke said that UU were looking to submit something in mid November as part of their review.

- Max Lalli stated that SSE hoped to submit their proposal in the next few weeks.
- Nigel Turvey informed the group that WPD had submitted proposals to Ofgem in mid September who had vetoed them.

2. Charging methodology modifications

Since the last ISG meeting three modification proposals have been assessed, all from WPD:

- The first concerning clarification of contestability for reinforcement and diversionary works. This was approved on 18 September 2006.
- The second concerned clarification of charges for reinforcement including the separation of supply and install elements and a new interpretation of 'new WPD Network capacity'. This proposal was vetoed on 5 October 2006.
- The final proposal also dealt with charges for reinforcement and included clarification of the 'Voltage rule' along with the removal of a reference to incremental increases being taken into account when determining required capacity. This proposal was vetoed on 5 October 2006.

3. Tariff and charging issues

Progress report on SLC 4A subgroup

David Tolley gave a presentation to the group on the subgroup's progress. He informed them that the UoS charges contained within the SLC 4A statement must enable any person to make a reasonable estimate of the charges to which he would become liable and that the charges must be prepared in accordance with the UoS methodology outlined in SLC 4. David said that he considers any person to mean precisely that, not just the supplier. David went on to detail how the charges specified within SLC 4A paragraph 2 can be split into core, and ancillary charges. He explained how the core charges (cited in paragraph 2a and 2b) were very similar across DNOs. He stated that the subgroup's idea was to use the ENA COG table as a basis for the common format of these charges.

He said that the SLC 4A statements also included descriptive material which was repetitive and the group was reviewing this and was debating whether the tables could take on a purely electronic format. David said that for any person to make a reasonable estimate of their charges, the statement would have to include look up tables with links to Time Pattern Regime (TPR) and System settlement Class (SSC). He said that a spreadsheet solution was being considered but that there was a conflict between the completeness and the comprehension of the tables. David explained how DNOs had been asked to say where certain ancillary charges contained within the 4A statement (MPAS, Energisation, Revenue protection and UMetS) had come from. He said that the response to this had been interesting and showed that some confusion existed between DNOs. He said that there was a need to identify the purpose of the charges before further progress could be made. He stated that the subgroup had a meeting scheduled for the 3 November, where it is hoped a conclusion can be reached. David said that he would report the outcome of the sub group.

Action: David Tolley to deliver SLC 4A subgroup's conclusions

Malcolm Taylor asked if the subgroup was moving towards an electronic table and Nigel Turvey questioned where the web based tables would be hosted. David Tolley replied that electronic tables were being considered by the subgroup and given that the charging statements are each DNOs responsibility, that it may not be appropriate to have any web based tables solely on the ENA website.

Mike Harding enquired if the subgroup was considering the views of IDNOs as well as the DNOs. David Tolley stated that Felix Mutonono was only representing DNOs but that IDNO representatives were welcome to attend.

IDNO charging methodologies

Mark Cox invited the group to comment on Ofgem's discussion note on IDNO charging methodologies. Simon Brooke questioned whether such an approach would meet all the licence objectives and expressed concern that it might be discriminatory. Simon Brooke asked if Ofgem intended to consult on the matter. Mark Cox replied that it was unlikely that Ofgem would consult as he did not want to cover the same ground as licence condition BA1 which had been consulted on at length. Max Lalli enquired if Ofgem was satisfied that there was no conflict between cost reflectivity and BA1. Mark Cox said that these were issues that has been discussed and repeated that it was essential to find a pragmatic approach. Mark Cox reassured the group that the paper was not excluding any other methodologies which IDNOs may wish to submit. He invited the group to submit comments on whether they felt anything different from the current arrangements should be considered. He asked that these be submitted to Ofgem within a week.

Action: Group to submit to Ofgem any comments on IDNO charging methodologies by 24 October.

Oliver Day and Nigel Turvey noted that the addition of generators to an IDNO network could alter costs in such a manner as to leave the majority of the charge with the IDNOs. Mark Cox noted that all the distribution licensees have an obligation to keep their charging methodologies under review and they should take into account how these networks developed. Simon Brooke commented that the allowed revenue of IDNOs doesn't cover costs and that at some point in the future IDNOs should demonstrate costs in a similar manner to DNOs. He went on to ask if all IDNOs had submitted charging methodologies. Mark Cox replied that all IDNOs had done so.

4. Longer term charging framework

Update on COG

Tony McEntee stated that they had received 10 responses from the 3rd COG consultation and that this was down on the 15 they had received on the last consultation. Andy Jenkins then gave a brief update and stated that suppliers had given a similar response in reply to their consultation. He said that the concept of revising customer groups in favour of voltage based tariffs had received support, and that there was support for a fixed multiplier approach to scaling as this was transparent and easy to implement. Andy said that more detailed information would be available at the next workshop on 23 November 2006.

Tony McEntee resumed his presentation and stated that the focus was now on preparing material for the final workshop. They are currently analysing various approaches and hope to detail some illustrative examples at the next workshop. Tony picked up on the action to engage IDNOs from the ISG meeting 5 September. He stated that SP have issued a consultation on IDNO charging. This consultation closes on 13 November and depending on the responses SP may have a workshop with IDNOs and any DNOs who wish to attend. Tony made clear that this consultation was being undertaken by SP and not on behalf of DNOs collectively.

SP Structure of charges update

Tony McEntee delivered an update on behalf of SP. He outlined that the tariff model for SP Manweb and SP Distribution was substantially complete with the

exception of marginal costs. He stated that engineers are currently undertaking analysis on the 132kV and 33kV networks, looking at 80 GSP and 8 EHV Demand customers in SPD's region and 15 EHV customers in SPM's region. It is hoped that analysis for both of these will be completed by early December. Tony stated that SP are continuing to work closely with SSE and CN on an approach to calculate marginal costs and that SSE have external people helping with them with this. At present the priority is on undertaking analysis in order to obtain figures which they hope to use.

Tony stated that prices could be different between different geographical regions but felt that the network groups concept would provide sufficient cost reflectivity such that the price for each group would be representative of the costs throughout that group. Tony outlined that SP along with SSE and CN were looking towards developing a methodology to group networks together. He stated that this would not be before 2008.

WPD Long term methodology work

Nigel Turvey delivered a detailed presentation outlining that WPD were still making progress. He said that they had taken considerable notice of the views submitted during their July consultation and had looked at a number of issues as a result of this. The key issue at present is the calculation of security factors as further work has shown that initial calculations could cause price instability between years. Nigel provided a number of illustrative examples to demonstrate this. He went on to detail how WPD have decided to exclude sole use assets from LRIC. He also outlined how generator charges needed to take account of whether reinforcement was driven by winter or summer costs. Again, Nigel provided some illustrative examples of this.

Nigel indicated that WPD planned to set GDUoS prices for customers on profiles 1 to 4 to zero as no reinforcement costs are being incurred at present. WPD are also minded towards a scaling of generation charges on a £/kW increment basis as the best means of revenue recovery. Nigel reiterated that there was still a lot of work to do on this including a discussion with Ofgem and an investigation into the magnitude of price changes for customers. Martin Crouch went on to state that five out of seven Distribution companies now have a zero fixed charge for Micro generation. With WPD changing, this leaves one company, who Ofgem will be asking to justify their stance.

WPD do not have a full set of prices following the changes made after the consultation process. However, one significant impact of the changes made is that the marginal LRIC prices are lower and hence the method of scaling used becomes more significant. He detailed examples of the results of percentage scaling versus £/kVA shift scaling but stated that WPD are yet to reach a final decision on how LRIC prices will be reconciled to required revenue.

Nigel also outlined that further work is being undertaken to investigate potential problems with the use of existing tariffs for IDNO networks supplying predominately domestic load. Whilst they have no data to look into this, they are using their LV network design tool (DEBUT) to create some typical LV connected and HV housing estates and derive their characteristics. This analysis tended to show that a half hourly tariff appears to be inappropriate for an off peak housing estate. Nigel went on to say that yardsticks have been produced for predominantly domestic IDNO networks and that they are considering a tariff that matches that for profiles 1 and 4. This tariff would comprise a day rate and night rate only, avoiding the off peak demand issue and resulting in cost reflective on and off peak tariffs for housing estates.

In regards to their forward timetable WPD are looking to send a modification proposal to Ofgem as soon as possible with a December submission in mind for a 1 April 2007 implementation. If the proposal is vetoed then WPD's existing methodology will continue to apply from 1 April 2007. This may require WPD to look at the wording in their present methodology covering EHV sites. Nigel noted that any proposed changes for IDNO charges would be addressed separately.

Tony McEntee enquired if Ofgem had any plans to consult on WPD's planned methodology changes. Mark Cox stated that this would depend on whether WPD submitted something substantially different from what they have already consulted upon.

EDF charging methodology update

Oliver Day reminded the group that this work was started in 2003 and that since 2006 EDF have had a pilot scheme running on both the Aylesbury network in Buckinghamshire and another network in Central London.

Oliver outlined EDF's progress and went on to state EDF had carried out economic appraisals on charging models and that this tended to point towards a LRIC variant. In response to Simon Brooke's question over what variant of LRIC they were using, Oliver stated that it was a variant of LRIC principles in a similar manner that the Bath and WPD models were variants. Oliver outlined that prior to the New Year they hope to decide which variant and method of calculating charges EDF wish to implement across its networks. He stated that a realistic date for the inclusion of this method in their charging methodologies would be April 2009, although were still working towards some implementation in April 2008.

5. Generator charging from 2010

Mark Cox delivered a presentation on behalf of Ofgem which reviewed the material DNOs had provided to Ofgem and posed further options for consideration. DNOs had provided information on 3 schemes per network for connections greater than 10MW and had recalculated reinforcement costs in line with the C2 option. DNOs noted that the data was biased towards most recent connection projects due to the lack of historic information. Mark outlined the results of the schemes in which 15 projects out of a potential sample of 42 included reinforcement. There was negative compensation in 3 of these cases.

Many DNOs stated that reinforcement is a rare occurrence and that a limited number of generators would receive compensation under option C2. Of those noting reinforcement some DNOs stated that apportionment or discount was carried out at time of 'deep' charging regime and hence a negative compensation had been derived.

Mark then outlined the options available on generator charging. He said that the primary objective was that all parties see economic signals but that this needed to be proportional. He reminded the group that a number of options – C1, C2 and C3 have already been discussed and listed the benefits and disadvantages of these. Mark then enquired if a more targeted approach would be better and went on to list two further options. Option D would introduce GDUoS charges for existing generators based on a site specific trigger of when costs are expected to be imposed. Option E would introduce GDUoS charge with revenue = 0 for existing customers, i.e. only presenting the marginal cost or benefit imposed. Mark restated to the group that he was not moving away or towards any options, merely listing the advantages and disadvantages of each.

Mark invited views on the way forward and commented that there were 3 options for this. The group could wait for the development of the charging methodologies. This would provide a clearer picture but the delay would result in uncertainty for parties. Ofgem could consult with a wider audience or DNOs could lead development to ensure economic outcomes on their network. Mark told the group that the impact of generation is significant in some parts of the country and that we need something in place to reflect that. He invited the group to comment on the best way to take the debate forward.

Action: Group to provide comments on options for generator charging for 2010

Gaynor Hartnell enquired if it would be good for representatives of generators to get together to discuss and report their views. Mark Cox stated that this would be helpful.

Action: Generator representatives to provide specific views on charging for 2010

6. Options on arrangements for 2007

Presentation on ISG organisation for 2007

Mark Cox gave a presentation to the group which reviewed the ToR of the group and gave an assessment on the progress the group had made on its high level and other aims. He stated that all DNOs were currently developing new methodologies and detailed how the group had succeeded in meeting Ofgem's objectives. He questioned whether ISG should continue in its current form in 2007 as DNOs are driving the development of charging methodologies and the new modification arrangements are in place and working. He enquired if a distribution charging forum was required and whether this should be a user forum facilitated by DNOs, Ofgem or a third party. He welcomed the paper that the COG group had circulated and invited Tony McEntee to take the group through it.

COG draft DCMF paper

Tony informed the group that the paper outlined the draft ToR for a distribution charging methodologies forum (DCMF). He explained that the forum would be a place to get together and discuss issues. He said it was not clear when such a forum would take over from ISG. He reiterated that the paper was a draft and that he was looking for further ideas from the group.

Robert Buckley stated that the paper did not mention IDNOs. Simon Brooke responded by saying that it did not exclude IDNOs and that their attendance would be welcomed. David Tolley and Carl Wilkes expressed concern that the forum would be directed solely by the DNOs. Malcolm Taylor responded by saying that the forum should be open allowing attendees to contribute to the agenda. Malcolm Taylor went on to say that he felt April 2007 to be a good time for such a forum to take over from ISG. Tony McEntee confirmed that he shared this thinking. He asked for comments on the draft DCMF ToR paper to be sent to him prior to the next meeting.

Action: Group to provide comments on DCMF draft ToR

Tony went on to state that he would update the group on these comments at the next meeting.

Action: Tony McEntee to update group on thoughts for a DCMF.

7. A.O.B.

Mark Cox invited the group to discuss any other issues they may have. As no issues were brought up Mark thanked the group attending.

Date of next meeting: Tuesday 28 November 2006, 10am