

Structure of Charges: Implementation Steering Group meeting

**Tuesday 28 November 2006, 10:00am
Ofgem, 9 Milbank, London**

Attendees:

Ofgem:

Mark Cox (Chair)
Martin Crouch
Colette Schrier
Mark Askew

DNOs:

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

Supplier reps:

Carl Wilkes	RWE npower	Glenn Sheern	E.On UK
David Tolley	RWE npower		

IDNO reps:

Mike Harding	ENC
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Customer reps:

Hugh Mortimer	BOC	Megan Goss	Corus
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Generator reps:

Rachel Lockley	British Energy	Gaynor Hartnell	REA
Tim Warham	Pöyry (Alcan)		

1. Introduction

Mark Cox welcomed the group and invited attendees to introduce themselves. Mark then went through the actions on the agenda from the last meeting. He commented that most items would be picked up on later in the agenda. Mark stated that Ofgem had received one comment on the IDNO discussion note and were currently in the process of reviewing IDNO charging submissions. He also stated that Ofgem had received no comments on generator charging or feedback from the generator representatives concerning generator charging from 2010 and that any views would be gratefully received.

2. Charging methodology proposals

Mark Askew gave a brief summary of the considerable number of modification proposals received since the last meeting. Mark stated that CN, WPD and SP have all submitted proposals clarifying charging of reinforcement costs and that these along with further proposals from SP and CN concerning small and medium embedded power stations and extension of contestability have all been approved. Mark went on to state that housekeeping proposals from SP and SSE have also been approved whilst proposals from SP concerning application fees and a reasonable rate of return had been vetoed. Mark outlined how CE had submitted a number of use of system modifications, including revised EHV migration and

revised contractual arrangements which have been approved. CE's proposal concerning the treatment of EHV had been vetoed. Finally Mark informed the group that WPD's use of system proposal to set GDUoS charges to zero for connections supplied under profiles 1-4 had been approved.

Rachel Lockley then asked where these modifications and decisions could be viewed. Mark stated that they were available on the Ofgem website under Electricity Distribution/modifications at:
<http://www.ofgem.gov.uk/ofgem/work/index.jsp?section=/areasofwork/distributioncharges/edist03>

Mark Cox then asked all DNOs to inform the group what, if any, modification proposals they are currently working on.

- Jonathan Purdy set out that EDF were intending to extend the interim arrangements for EHV transition (RPI movement) plus they are intending to reduce GDUoS charges for microgenerators.
- Andrew Neves said that CN have a couple of connection charging proposals on the way.
- Max Lalli stated that SSE were working on a proposal extending competition in connections.
- Harvey Jones said that CE had more proposals to submit which would cover connection charging apportionment rules and the point of connection used in reinforcement. He also said that CE may submit a revised EHV treatment proposal.
- Simon Brooke said that UU were working on five proposals at present which all dealt with the connection charging methodology.
- Nigel Turvey stated that WPD had two charging proposals to submit, one concerning the enduring use of system charging model and another which concerned the connection charging apportionment rules for existing customers applying for an increase in capacity.
- Tony McEntee stated that SP may be submitting a proposal on IDNO charging but could not say for sure at present.

Hugh Mortimer enquired if WPD had a timetable in mind for adopting new use of system charges. Nigel Turvey explained that if it proceeded well and was approved by Ofgem then it could be 1 April 2007. Carl Wilkes expressed his concern that this date did not provide much time for adjustment if Ofgem was going to consult. Martin Crouch stated that Ofgem would decide if they were going to consult prior to Christmas. Hugh Mortimer asked WPD what they intended to do over the arrangements for EHV sites if the proposal is vetoed. Nigel reiterated his stance from the last meeting that the present RPI arrangements would continue in line with the wording set out in their methodology.

3. Tariff and charging issues

David Tolley delivered his presentation which outlined the proposals from the SLC 4A subgroup. David ran through the membership and the background to the group. He then outlined the specific licence conditions of 4A, 14A, 36C and the DCUSA provisions which covered Energisation, Radio Teleswitching, metering and revenue protection. David explained that the subgroup was proposing to limit the SLC 4A statement to the core charges along with the line loss factors. He further stated that the look up tables were not required so long as the meter switching times could be shown along with the core charges. This alone would enable any person to make a reasonable estimate of their charges. David stated that suppliers would be able to gain access to the more complex information currently

in the statements through the market domain data. David stated that it seemed sensible to adopt the ENA COG approach for the core charges and to incorporate the meter switching times into this spreadsheet. The line loss factor tables will remain as they are.

David then explained what the group proposed to do with other charges currently contained within the SLC 4A statement. He explained how energisation was a complex issue as it was relevant to many different areas and, whilst the subgroup was minded towards proposing these charges should go in paragraph 25 of the DCUSA, they were keen to hear the views of ISG on this. He confirmed that the group were not proposing that generic charges should go in the DCUSA and that each DNO would still be free to set its own tariffs for energisation.

David went on to outline that the group proposed that MPAS tariffs should go in SLC 14A as this condition states explicitly for a statement of MPAS in such a form and with such detail as shall be necessary to enable an electricity supplier to make a reasonable estimate of the charges.

Jonathan Purdy then stated that as far as he was concerned SLC 14A had been introduced to coincide with the establishment of IDNOs and that SLC 36 still obliged ex PES DNOs to offer MPAS within their distribution area. Nigel Turvey agreed with this analysis. David Tolley stated that whether or not MPAS should be in SLC 14A or SLC 36C, the point is that it shouldn't be in SLC 4A.

David then moved onto revenue protection services (RPS) and stated that RPS were not offered universally but suggested that for those present, the subgroup proposed their transferral into paragraph 32 of the DCUSA. Mike Harding mentioned that RPS are not currently an obligation and that any inclusion of them within the DCUSA must be worded so as not to make them an obligation. David said that this could be done and then outlined that the subgroup considered that radio teleswitching (RTS) tariffs included in SLC 4A should henceforth be transferred into paragraph 28 of the DCUSA. Nigel Turvey suggested that if this was the case DNOs could withdraw RTS. Martin Crouch questioned if it was possible for a DNO to withdraw unilaterally.

David moved to the issue of metering and stated that here, the obligation for inclusion resided clearly with SLC 36C and not SLC 4A. He concluded the subgroup's proposals by suggesting that UMETS tariffs could be included within paragraph 29 of the DCUSA and that a large amount of the wording and maps currently in the proposals could be omitted.

Mark Cox then asked the group for their comments on the subgroup's proposals.

Tony McEntee commented that maybe the best approach was just to have a single charging statement which included all the individual schedules to cover the relevant licence obligations. Tony later mooted that similar work could be done concerning the indicative charges within the SLC 4B statements.

Andrew Neves stated that an actual document could give way to an electronic statement or area where charges could be viewed.

Mike Harding raised the point that an end consumer for de-energisation may not always be the supplier and that the DCUSA only ever refers to the supplier being the end consumer.

Nigel Turvey asked whether suppliers were happy with the proposals. Glenn Sheern replied that they were and Carl Wilkes added his backing, stating that he couldn't comment for smaller suppliers.

Martin Crouch commented that it may aid understanding if a 'straw man' of the subgroup's revised SLC 4A statement could be constructed. Mark Cox enquired if the COG were happy to do this and Tony McEntee replied they would be.

Action: COG to deliver model statement of revised SLC4A building on subgroup proposals

Andrew Neves enquired as to the timetables and said that signposting the tariffs shouldn't take too long. Colette Schrier stated that due to the lack of consistency between the statements, signposting would be very hard. Colette said that the group had undertaken some substantial work comparing the statements which would demonstrate this point and that it may be useful if this work was circulated.

Action: SLC 4A subgroup to circulate comparison work on statements

Mark Cox stated that a discussion of the proposals and COG model statement would be included on the agenda for the next meeting.

Martin Crouch then asked if it was sensible for COG to look at the format of the connection charging template. Tony McEntee stated that some work had already been undertaken on this and that it would make sense for them to take it further.

Action: COG to look into connection charging template

4. Longer term charging framework

Mark Cox invited Tony McEntee to take the group through the developments at the COG workshop on Thursday 23 November. Tony explained that this was the final workshop which would be followed by a conclusions paper. He commented that there was now a shared COG tariff model available, along with all other material on the COG website:

http://www.energynetworks.org/spring/regulation/cms04/CMDocuments/contentManDoc_296_a04667c9-0056-4534-b00b-1e97af342f37.xls.

Tony reiterated that most of the DNOs were hoping to have new methodologies in place April 2008.

Martin Crouch enquired as to how the group felt the COG process has gone. Gaynor Hartnell replied that she was concerned over the variety of different models being worked upon and asked if Ofgem did not want more conformity. Tony McEntee replied that at the start of the process no one would have accepted any further degree of convergence and that the convergence which has been achieved is a credit to how the process has worked. Gaynor Hartnell asked what Ofgem thought of the process so far. Martin Crouch replied that he accepted the frustration at the speed of convergence but that it was important to give DNOs the chance to run their own businesses and by doing so may provide the opportunity for better solutions to be identified. Carl Wilkes requested early sight of any potential impacts on prices. He expressed his concern that in some circumstances the impact of tariff changes could be large and that suppliers could do with some guidelines on how quickly they may be introduced.

Hugh Mortimer and Megan Goss stated that they were looking for consistency in prices, not a model which may produce huge swings from year to year. Hugh questioned whether there may be a need to have some dampening effect in place when the new methodologies are first adopted. Martin Crouch stated that it was

not necessarily the case that there would be large swings and that it should be viewed in context.

Mark Cox explained that he understood that all DNOs (except WPD) were targeting April 2008 for implementing the new methodologies. He asked for brief update as to DNOs current progress.

- Tony McEntee stated that SP were currently dealing with IDNO charges and had received nine responses to their consultation.
- Andrew Neves stated that CN are working with SSE and SP and are moving towards adopting something along the COG model but that they were a reasonable distance from getting a proposal out.
- Max Lalli stated that SSE were in the same situation as CN and were aiming at implementation in April 2008.
- Jonathan Purdy told the group that EDF were currently focussing on modification proposals and indicative charges for April 2007. In parallel he said that they were reviewing the lessons from 2006.
- Harvey Jones said that CE were involved in detailed planning at this stage which he hoped would be finalised early in the New Year so as to be consistent with an April 2008 implementation
- Simon Brooke revealed that UU were making progress with their EHV methodology and were reviewing options for HV and LV, looking at both the COG and DRM models. He said that UU planned to consult twice between now and mid 2007.
- Nigel Turvey stated how WPD were hopeful of submitting a mod proposal to Ofgem in the next week and that their timescales of implementation would depend on Ofgem's subsequent decision. He warned the group that the time taken to review proposals after WPD's consultation was significant, that they were further ahead than any of the DNOs this time last year, and that others should not underestimate the work involved.

5. Generator charging from 2010

Mark Cox outlined how Ofgem were still looking for views and comments from the presentation delivered at the last meeting. Mark stated how Ofgem intend to put together an update paper in the spring which will include a note of the options and discussions to date early in the New Year and will be looking for views on this.

Action: Ofgem to produce summary note on generator charging from 2010

Gaynor Hartnell commented that generators were still requesting feedback from generators. She commented that generators were not completely clear on the options presented at the last ISG meeting, and noted it is difficult to assess the options without indicative new generator use of system charges having been calculated. She went on to express concern over the volatility of having pre – existing generators paying charges. Mark Cox replied that the charges would depend on revenue streams from different categories of demand customer and that it was down to the charging models to produce greater visible signals.

David Tolley asked if the two tier price control for demand and generation would continue going forward. Mark Cox replied that this would continue until 2010.

Martin Crouch then informed the group that unless Ofgem received some views on the options they have outlined at previous meetings, then the update paper would have ask for more views. Gaynor Hartnell suggested Ofgem meet with the generator reps offline of ISG to discuss the options

Action: Generator reps to meet with Ofgem concerning G2010 options

6. Arrangements for 2007

Mark Cox explained that Ofgem intended to run two further meetings on **30 January 2007** and **13 March 2007** and that these dates would be circulated shortly.

Action: Ofgem to circulate ISG meeting dates up until April 2007

Mark then asked Tony McEntee to take the group through his DCMF paper and any comments he had received since the last meeting. Tony explained how it was his intention that such a group would take over from the ISG from April 2007 onwards. He went on to detail that at present the secretariat role would need to be established with the ENA and that the forum would need to incorporate IDNOs as well as the successor to energywatch if they were happy with this. He stated that he hoped information such as agendas, minutes and other organisational arrangements would be available on the ENA website. Martin said that Ofgem would be happy to give the present email list to the ENA in order to provide some continuity with the present group. Andrew Neves suggested that the DNOs will take it in turn to host the forum. Mark Cox stated the need to firm up dates and locations and circulate them around the group and asked that any further comments be sent to Tony.

Action: Further comments of DCMF to be sent to Tony McEntee

7. AOB

Martin Crouch informed the group that Mark Cox would shortly be moving to a new role in Ofgem and that this would be his last ISG meeting. Martin thanked Mark for all his work and effort and stated that the group would not have made such considerable progress without him. The rest of the group echoed Martin's words. Martin then stated that as of the New Year, Colette Schrier would be leading the structure of charges work.

Mark Cox thanked everyone for attending.

Date of next meeting: Tuesday 30 January 2007, 10am