

Structure of electricity distribution charges – Implementation steering group meeting

Tuesday 30 January 2007, 10 am Room 9
Ofgem, 9 Millbank, London

Attendees:

Ofgem

Colette Schrier (Chair)
Martin Crouch
Alberto Prandini
Mark Askew

DNOs

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

Supplier reps:

Mark Field	RWE npower	Glenn Sheern	E.On UK
David Tolley	RWE npower	Janice Thompson	SP

IDNO reps:

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

Customer reps:

Megan Goss	Corus
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Generator reps:

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

1. Introduction

Colette Schrier welcomed the group and asked attendees to introduce themselves. Colette then went over the actions from the last meeting and commented that many of them would be picked up later in the agenda. Colette stated that the SLC 4A subgroup work had been circulated to the COG and went on to say that prior to Christmas Ofgem met with generator representatives and discussed options with regard to G2010. Colette stated that this would be covered later in the meeting along with final arrangements for DCMF.

2. Charging methodology modifications

Mark Askew went through the modifications table highlighting the developments since the last meeting. Mark stated that CE's proposal which extended contestability in connections had been approved and went on to outline that there had been a number of use of system (UoS) proposals submitted by EDF Energy Networks. Three of these were housekeeping mods which were all approved, whilst another, dealing with disturbance constraints on generation, had also been approved. A further proposal on transitional arrangements for EHV had been withdrawn and then resubmitted. This resubmission was currently being considered. Mark went on to say that SSE's connection proposal dealing with high cost amendment has been approved as has a further proposal dealing with

contestability in connections. United Utilities have put forward a number of connection proposals which dealt with revised working examples, clarification of NGET generators, contestability in connections and competitive connections activity. Mark explained that all of these have been approved and will come into effect on 1 April 2007. Mark said that WPD have submitted their UoS proposal combining LRIC and DRM methodologies and that Ofgem issued a consultation on 15 December 2006 which closed on 19 January 2007. Finally, Mark commented that in addition WPD submitted two connection proposals dealing with incremental increases in required capacity and contestability of non-electrical work, both of which have been approved.

In terms of modification proposals that the DNOs intend to submit in the near future, UU, EDF and CE noted that they intend to submit connection charging modification proposals. Another proposal from CE will concern reactive power. SP are progressing work concerning IDNOs and SSE a modification concerning the 40 day use of system notice period. Jonathan Purdy mentioned that EDF planned to submit a modification which dealt with the relationship between the CUSC and connecting to the NGET system. Some DNOs stated that they would be interested to see this mod proposal and if approved would be happy to adopt something along similar lines.

DCUSA modification proposal

Ofgem set out the first modification proposal to the DCUSA has now been proposed by Gas de France concerning DNOs' unlimited ability to vary use of system charges during any year. As chair to the DCUSA working group considering this, Glen Sheern set out that the DCUSA Panel would be considering the modification shortly with a consultation planned for mid-February.

3. Tariff and Charging issues

Tony McEntee gave a presentation outlining the work the COG had done on creating a revised SLC 4A statement. Tony explained that the COG had tried to build on the SLC 4A subgroup paper and were hoping to achieve more consistency and standardisation. He explained that the COG had come up with four options and were now looking to get some feedback with a view to implementing the changes shortly after April 2007. Tony's presentation (available on Ofgem's website) set out the options and pros and cons of each option:

- Option 1 was to have separate SLC 4A and SLC 36 statements.
- Option 2 was to create a combined SLC 4A and SLC 36 statement.
- Option 3 was to have a new combined SLC 4A and SLC 36 statement but with look up tables provided.
- Option 4 was to have a suite of documents – SLC 4, SLC 4A, SLC 36 with schedules and look up tables as appendices to LC4.

David Tolley stated that he was disappointed with the way the COG work was going given the work already undertaken by the SLC4A subgroup. David said that the Licence conditions are modular and therefore the statements should be modular too. He went on to state that the SLC 4A statement should be a tabulation of the output of the SLC 4 statement and stressed the example of the ENA COG charging spreadsheets.

Tony McEntee responded by stating that you need to consider the DCUSA as well as the Licence conditions. He also said that he wanted to avoid a situation where the charges are not published anywhere. Mike Harding explained that DNO licences had changed over time but UoS agreements hadn't and consequently

there was confusion over what comprised a charge under SLC 4A. He went on to say that the DCUSA was a framework which should be able to clarify these areas of confusion.

Colette Schrier stated that the working group had gone through in detail where the charges would fit and referred to the proposal paper which David Tolley presented at the last meeting. She reiterated that the expectation was that COG would take this work on and questioned how the options the COG had put forwarded related to subgroup's work.

Tony McEntee stated that the COG had done this as part of option 2. The problem was that there was a need for the charges to be published somewhere. Martin Crouch stated that it appeared that the argument was whether the charges should be bound together or separated and that this shouldn't be the main focus of the work. Harvey Jones commented that he was not fond of one big book, whilst Nigel Turvey stated that his concern was that there should only be one change and thus it was important that all were agreed before implementing it.

David Tolley then enquired if the COG were considering the subgroup's recommendation to build on the existing ENA COG spreadsheet of core UoS charges as the mainstay of the revised SLC 4A statement. Mark Field requested that the COG work should be mocked up so that the group could see what it would look like and iron out any disagreements. Mark went on to say that maybe it would be best if two DNOs who have differing structures to their charging statements are involved in the work.

Action: COG to build on SLC 4A subgroup proposals and test changes through at least two DNO draft 'test' versions for industry feedback.

Colette Schrier then turned the group's attention to the COG work on the connection charging template. Tony McEntee ran through the COG's work and said that they were looking at how to construct the document in a way that would allow flexibility and separate the parts which were subject to Authority approval from other parts which were subject to form, or no approval. Tony stressed that the main recipients of this document were ICPs and Developers and that the document was being constructed with their application process in mind. He asked the groups for their thoughts on the outline.

Martin Crouch stated that it was helpful to get consistency and stressed that some of the issues had been discussed in ECSG and it was not sensible to duplicate them in the ISG. However, Martin commented that he thought that the COG was putting together a spreadsheet detailing the indicative connection application fees across all DNOs in a similar format as to what the COG had constructed for DUoS charges. Martin stated that such a format would allow ICPs and Developers to compare these charges across DNOs.

Tony McEntee said that the COG could look into this.

Action: COG to construct common format spreadsheet of connection application fees

4. Longer term Charging framework

Colette Schrier reminded the group that WPD have submitted their new UoS charging model for EHV customers and expressed thanks for the responses to the consultation which Ofgem had issued.

Colette then presented a brief summary of the responses. She stated that Ofgem had received fourteen in all, two of which were confidential. Colette outlined that

there had been limited responses from connectees and very little response on the impact analysis of the proposal. She stressed that at a very high level there were concerns about the timing and phasing in of the proposal and also HV/LV charging and that whilst some respondents thought the model to be less cost reflective, others felt that it was more cost reflective.

Megan Goss commented that she had got a brief feel for the summary but asked if there were any specific concerns about the model itself. Colette replied that there were a number of responses on the model, for example respondents had commented that the universal global growth rate used in the model was not appropriate as the model became volatile if the growth rate was to fall. On reactive power there was concern over the lack of evidence offered by WPD although most respondents were supportive of WPD's approach.

Tim Warham stated that generators are the users for whom the model will have the greatest impact. He expressed concern that adjustment of charges for revenue recovery and the capping of negative charges would detract from the cost reflective nature of the methodology. He went on to say that while it was positive to be moving to more cost reflective charges, the proposed modifications could result in locational signals being lost.

Megan Goss then stated that she had a problem with the issue of capping for generation and not for demand. She also expressed concern over the volatility of the model, saying that you can apply the model in two slightly different ways (through scaling) and get two drastically different results. She said that scaling was an arbitrary decision and questioned the point of the model if it was subject to scaling. She thought that scaling had not been consulted upon widely.

Nigel Turvey commented that the issues which appeared to have come up in the consultation were nothing new and had been raised throughout the course of the debate. Harvey Jones stated that CE were currently considering similar issues and that a summary methodology was needed if different types of customer were to avoid being treated differently. Harvey went on to say that CE were considering a DRM approach to generation and aired the possibility of establishing a subgroup to get the views of other DNOs and IDNOs on this. Harvey stated that he would be happy to set up a terms of reference for the group.

Martin Crouch responded by saying given that ISG was entering its final stages, implementation of any sub group may fall to the DCMF.

Action: CE / DCMF to consider working group on generator charging, including at HV and LV

Andrew Neves inquired if it was still Ofgem's intention to issue a decision on WPD's proposal prior to the 2 February 2007. Colette Schrier responded by saying that Ofgem was working hard to issue its decision before the end of the week but that technically it has until the 13 March 2007 to reach a verdict. Andrew went on to ask if the decision letter would explore the detail. Martin Crouch replied that the decision letter would detail a clear 'veto' or 'not to veto' along with a summary of the issues.

Colette Schrier informed the group that the ENA published its conclusion on the longer term charging workshops and that the DNOs' progress was available as an annex to that document.

http://www.energynetworks.org/spring/regulation/cms04/CMDocuments/content/ManDoc_294_e47a0cd4-188f-4fb6-8dea-cbd452064322.pdf

The DNO representatives provided an update to ISG on their long term charging framework:

CE: Harvey Jones said that CE were looking to trial some of the models proposed by the other companies to date to determine how CE will progress further. He went on to say that they were working with Bath University on developing a network planning model for EHV and were also considering a LV and HV model. He reiterated his call to have a subgroup to look at a DRM model for generation.

SSE: Max Lalli said that SSE were working closely with SP and CN but were yet to come to any decisions.

EDF: Jonathan Purdy stated that EDF were pressing on with last year's work and were looking to model their proposed methodology in their South East region. Jonathan explained that this had the best data of the three EDF regions (but had less generation than the Eastern region and was less complex than central London). He said that he hoped that the results of their work would be consulted upon around easter 2007. He also said that they were looking separately at microgeneration charges and at what could be done within the specific framework of the DRM. He said he was happy to discuss this with Harvey Jones' proposed subgroup.

CN: Andrew Neves stated that CN were continuing to work with SSE and SP. He said that CN were working on an autumn timescale and were looking at a new model for EHV and were working along the lines of the COG model for LV.

SP: Tony McEntee stated that they were closely involved with CN and SSE and that SP were now ready to populate their model.

UU: Simon Brooke informed the group that UU were working on an EHV methodology and were focussing on the issue of consistency in the treatment of demand and generation customers. Simon said that UU were working towards April 2008 and would be consulting at some point throughout the year.

5. DCMF arrangements

Tony McEntee informed the group that he had asked the DNOs and IDNOs for nominees for a Chair and had received some responses back. He said that he hoped the position would be filled by the 16 February 2007 and that they were currently considering a process on how to select a Chair. Tony went on to say that CN had agreed to host the first meeting and that he expected that this would occur in late April/early May time but would circulate the dates and choice of Chair shortly.

Action: COG to distribute meeting dates and choice of Chair for DCMF

Tony said he had received no further comments on the terms of reference for the group.

David Tolley asked how often the meetings were going to occur. Tony replied that this would depend on the volume of issues prevalent at the time but as a rule every 6-8 weeks. Megan Goss asked if DCMF was to be a continuation of ISG and thus retain the same attendees. Jonathan Purdy commented that it was less invitational and Tony McEntee agreed. Malcolm Taylor asked if DNOs were intending to use the forum as a place to inform others on developments within their longer term charging work. Jonathan Purdy replied that he would expect DNOs to talk about it and Tony McEntee added that this would be up to each

party. Malcolm explained that for customers, the forum would have enhanced value if they could see the way DNOs were progressing.

6. A.O.B.

Colette Schrier said that she wished to look at two issues – reactive power and Generator 2010 but asked if there was anything else the group wished to raise. Simon Brooke replied that the ENA website now contains the indicative charges UoS charges for 2007/08. He advised the group that the final charges would appear on the website about ten days after they were issued by the DNOs i.e early March.

Action: ENA to publish final UoS charges 2007/08 in early March 2007

Reactive power

Colette Schrier then referred the group to a DWG paper on reactive power. She reminded the group that Andrew Neves had headed a subgroup looking capacity charges and had previously indicated that reactive power was an area the group intended to look into. Andrew Neves stated that the group had already looked into the technical aspects of charging for reactive power and put forward a proposed method which would bring commonality across DNOs.

David Tolley stated that as far as he was concerned there was a delay in the implementation of the subgroup's proposals due to a debate within Elexon over Issue 24. Jonathon Purdy stated that this was also his understanding.

Colette Schrier stated that the DWG has approved the paper and was looking for a suitable group to take it forward and had nominated ISG. Malcolm Taylor offered to discuss the issue with Jonathan Purdy and Andrew Neves and bring it up at the next BSC panel meeting. Malcolm asked that any comments be passed to him prior to the panel meeting.

Action: Comments on DWG reactive power paper to Malcolm Taylor

Generator charging from 2010

Colette Schrier then focussed the group's attention on generator charging from 2010 and passed round a paper from generator representatives which further discussed the options Ofgem had aired on this subject. This paper is available on Ofgem's website. It was noted that these were the only comments that had been received since Ofgem presented possible options in October 2006.

Malcolm Taylor explained the background to the options, noting that ~13GW of distributed generation is connected under the charging arrangements extant prior to 1 April 2005. Gaynor Hartnell went through the options, stating that the first option was to do nothing and allow bilateral agreements between DNOs and generators to continue. The second option was to compensate generators for the value of the rights they purchased on a time basis where generators were either given no time (thus charged from 2010) or given X years from 2010 where no charges would apply.

Gaynor went on to explain option 3 (formally Ofgem's option E) whereby GDUoS would be introduced from 2010 onwards but would be adjusted so that the net income derived would be zero. Option 4 outlined a method to compensate generators on the basis of the value of their right on a case by case basis which doesn't value the amount originally paid for connection. This compensation could either be converted into a length of time to be rebated for GDUoS or to reimburse the generator with the value of the right purchased in cash. Option 5 is to

compensate in cash the amount paid for the connection on a case by case basis, whilst Option 6 would be to charge generators based on a trigger event.

Malcolm Taylor then outlined some concerns with these proposals. He stressed that it was important to bear in mind the variety of contractual agreements between generators and DNOs. Given this diverse situation of contracts Malcolm expressed his preference for Option 1 which would be the most pragmatic approach. He also cited that Option 4 could work but expressed his concern that the valuation of the rights would be open to challenge.

Nigel Turvey expressed concern that under option 1 demand customers would in effect be subsidising generation. Malcolm Taylor replied by saying that requirements of the network may change with time and thus deserve a unique approach which could be achieved via bilateral arrangements.

Gaynor Hartnell asked what Ofgem was hoping to achieve by proposing option 3. Martin Crouch commented that option 3 was based on comments received.

Tim Warham stated that Alcan would feel exposed if there was to be a change in arrangements with no compensation. He stressed that true cost-reflective charges would not be a problem, but that distortions for revenue recovery and the capping of negative charges would mean that sites with generation and demand could be hit hard, despite the fact that their impact on the network is small. He stated that any fixed compensation option would result in winners and losers and that Option 1 should therefore not be ruled out completely as it is the most pragmatic.

Colette Schrier thanked everyone for their comments and stated that any further thoughts would be welcomed.

Action: ISG members to provide thoughts on options for charging existing generators from 2010

Colette then confirmed the meeting actions and thanked the group for attending.

Date of final ISG meeting: Tuesday 13 March 2007, 10 am