

Structure of electricity distribution charges – Implementation steering group meeting

Tuesday 13 March 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
Chris Allanson	CE		

Supplier reps:

Glenn Sheern	E.On UK	Alison Russell	Centrica
David Tolley	RWE npower		

IDNO reps:

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

Customer reps:

Generator reps:

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

1. Introduction

Colette Schrier welcomed the group and ran over the actions from the last meeting. Colette said that most of the actions would be picked up on later in the agenda but asked Chris Allanson if there had been any developments on establishing a working group on generator charging. Jonathan Purdy replied that he had been unable to get in contact with Harvey Jones about this but would certainly be interested in taking it forward. He would report back to the DCMF his thoughts on whether a working group is required.

Colette went on to state that the COG had now issued the final charges and that these were available on the ENA website at:

<http://www.energynetworks.org/spring/regulation/cms01/index.aspx>

She then asked Malcolm Taylor if he had received any comments on the DWG reactive power paper. Malcolm stated that the issue 24 group at Elexon were moving towards a conclusion. He said that there was a BSC meeting on 27 March 2007 which Andrew Neves and he would be attending. Andrew Neves said that he would get together with EDFE to see if they considered that any modifications were needed to the BSC. Malcolm Taylor asked that any proposed changes be sent to him.

Colette Schrier then completed her round up of the previous actions by saying that no further comments had been received on options for generator charging post 2010. She reiterated that any comments to Ofgem would be gratefully received.

2. Charging methodology modifications

Mark Askew stated that since the last meeting there had only been two decisions issued concerning modification proposals. The first concerned EDFE's use of system (UoS) proposal to clarify EHV transition which was vetoed and the second was the approval of WPD's combined LRIC & DRM methodologies. David Tolley enquired as to why EDF's proposal had been vetoed. Colette Schrier replied that the veto related to EHV transition for 2007/08 and that these decision letters were available on Ofgem's website at:

<http://www.ofgem.gov.uk/ofgem/work/index.jsp?section=/areasofwork/distributioncharges/edist03>

Colette Schrier then invited DNOs to inform the group of any modifications they were currently considering, noting that the DNOs had not put forward the modifications set out at the previous ISG meeting on 30 January.

WPD - Nigel Turvey told the group that WPD would be putting forward a proposal on IDNO charging in the near future.

SSE - Max Lalli said that SSE were proposing to change the 40 day notice for UoS charges in their out of area networks.

SP- Tony McEntee stated that SP would be submitting their proposal on IDNO charges to Ofgem very shortly.

CE - Chris Allanson said that CE were working on 3 proposals all on the connection side; one dealing with unmetered supply and, another concerning the voltage level associated with apportionment and a further housekeeping proposal.

CN - Andrew Neves stated that CN were working on proposals for connection study fees and also on the apportionment rules – in line with Ofgem's April 2006 note.

EDF – Jonathan Purdy set out their plans to submit connection charging modifications in two areas (including wording on the apportionment rules) along with a proposal for EHV charging following Ofgem's veto of ongoing transition arrangements. Jonathan said that EDF would need to consult with customers over any EHV changes, hence charges were unlikely to change before 1 October 2007.

UU - Simon Brooke explained that UU currently have two informal proposals with Ofgem for comments. These deal with clarification of additional load and asset adoption.

Martin Crouch then asked the group how they felt the modification process has worked during the two years since its introduction. He also raised the point that out of more than 50 proposals, very few had been consulted upon. He asked if the group felt there should be more consultations and whether similar decisions should be put forward at the same time.

David Tolley explained that he had reservations at the start of the process but that so far it had worked well. He added that maybe with this group finishing, Ofgem should consult more frequently.

Robert Buckley added that from the point of view of a smaller company, it would be beneficial if similar proposals and decisions could be clustered together. Martin Crouch commented that it may be useful to keep a list of forthcoming modification proposals.

Tony McEntee enquired if there were set guidelines on consultation. Martin Crouch replied that Ofgem tries to put some weight on whether a DNO has consulted and that the overriding issue is whether it is a new issue which affects charges. He went on to say that going forward, consideration would be given as to the length of discussion on the issue given at groups like DCMF as this can be very valuable and can help achieve some commonality across DNOs.

Nigel Turvey mentioned the need for DNOs to remember that SLC4 UoS methodology modification proposals may have associated with them changes to the form of the SLC4A UoS charging statement, and that a formal change of form request for such SLC4A changes needed to be submitted to Ofgem.

Alison Russell welcomed this and commented that if there was going to be a discussion of modifications at DCMF then it would be helpful if the proposals were circulated prior to the meeting.

Chris Allanson stated that the dialogue on the connections side has worked well. Gaynor Hartnell commented that it was in everyone's interests to have a discussion of the issues.

Colette Schrier then invited Glenn Sheern to give an update on the latest DCUSA mods. Glenn stated that as far as mod group 1 (frequency of tariff changes) was concerned, the consultation had been approved by the DCUSA panel and that this consultation would finish in 3 weeks time, after which the group will meet again to discuss the issues.

Glenn then went on to say that a section 2b working group had been established which was looking at the relationships between distribution businesses. They are currently working on a straw man of their proposals which will then go to consultation.

3. Tariff and charging issues

Colette asked Tony McEntee to update the group on the COG progress with regard to the model SLC4A charging statements and the SLC4B common format spreadsheet for setting out connection application fees. Tony replied that the COG would email round the proposed SLC4A common template for comments and the 4A work would then be taken forward by DCMF.

Tony then went on to state that the connection charging template for application fees would be discussed at the next COG meeting later in the day. He expressed his concern that there was little commonality between the indicative charges DNOs list within their statements. He commented that the size of the task should not be underestimated.

David Tolley enquired if it would be better to use a hypothetical offer to assess the charges that different DNOs would levy. Chris Allanson stated that the COG had considered this but firstly he wanted to know if the intended audience for the model statement was ICPs.

Martin Crouch replied that the comments on the level of work involved demonstrated the need for that work to be undertaken. He added that with greater transparency the statement would be more useful. Martin went on to say that a possible approach could be to set out the current position of all DNOs' SLC 4B statements regarding application fees and to use this to focus on what is needed to reach a common position.

Chris Allanson enquired as to which was the best forum through which to take this work forward. Martin Crouch suggested that it was an ECSG issue and that the COG should update that group on their progress and that resultant changes to statements should be notified through the DCMF.

Final UoS tariffs

Colette Schrier then moved the groups' attention towards Final UoS charges and noted that the published COG spreadsheets allow industry analysis of charge movements for each tariff. Ofgem circulated some graphs setting out the change in the average bill for PC1-4 customers and movements in GDUoS capacity charges for HV and LV half hourly customers. Colette asked if the group had any comments on the figures.

David Tolley enquired as to the extent of SSE's GDUoS reduction (25%). Max Lalli explained that the charges are based on forecasts and that the charges were set last year. He went on to say that some of the expected developments hadn't materialised hence costs were lower than originally envisaged.

Andrew Neves warned that the group should remember that these are very simple methodologies.

Colette then steered the groups' attention to profile class 1-4 charges. She stated that CE's model had caused some disturbance and asked if there were any questions on the movement the graphs showed.

Chris Allanson confirmed that CE had received some enquiries on their price movements.

Martin Crouch enquired as to whether the publication of over/under recovery had been useful to suppliers. Glenn Sheern replied that it had been very useful.

4. Longer term charging framework

UU - Simon Brooke gave an update on UU's new model and stated that they had issued a six week consultation on the 9 March 2007. This consultation detailed some of the proposals they were considering and asked for views on them. Simon stated that he had already received 2 responses from suppliers.

Simon outlined that the proposals were about consistency and achieving an approach which treats demand and generation with equity. He said that UU are considering an improved ICRP marginal cost model for EHV (comprising ICRP and LRIC elements) and a revised DRM model for HV/LV. He stated that UU believed generation can be dealt with through a modified DRM approach and that UU are looking at having a shallow connection boundary alongside asset adoption. However, Simon stressed that these were only plans at this stage and was keen to receive any thoughts on them.

He went on to say that the consultation finished on 20 April 2007 and so he was hopeful of providing a summary of responses at the first DCMF meeting on 3 May.

Alison Russell asked if the consultation included worked examples of customer charges. Simon Brooke replied that these were proposals concerning principles and that they hadn't got as far as producing charges yet.

Nigel Turvey asked how shallow the connection charging proposals were and Simon replied that they were for sole use assets only. Malcolm Taylor then enquired as to how asset adoption will affect the boundary point. Simon responded that DNOs are now in a competitive market and would like to consider adoption payments to customers. He stressed that the detail still has to be worked through.

Martin Crouch asked what the next steps were. Simon responded that they would consider the consultation responses, think in more detail and then decide whether to consult again.

SSE, CN and SP - Max Lalli gave a presentation on the joint progress of SSE, CN and SP – the self styled 'G3'.

Max explained that the group of three had been working together to develop models. He went on to outline they are developing a forward cost pricing method for EHV. They are looking to issue a consultation by the end of April and then give a presentation on their proposals to the DCMF in early May.

Max added that there may be the possibility of a second consultation after the first one. They are aiming to put the proposals to Ofgem in September with the intention of issuing indicative tariffs in December in line with an April 2008 implementation.

Nigel Turvey asked if the consultation would contain example prices. Max stated that this would be the case.

Colette Schrier then invited the remaining DNOs to provide an update on their work.

EDFE - Jonathan Purdy stated that EDFE's situation had not altered dramatically since his update to the group at the last meeting. They were still hoping to consult around Easter and would provide an update at the first DCMF meeting in early May. Jonathan added that he expected EDFE to issue two consultations.

CE - Chris Allanson said that CE were continuing to make progress and had a meeting planned for the 23 March at which they hoped to decide their steps going forward.

5. DCMF arrangements

Tony McEntee informed the group that he would serve as Chair and that Andrew Neves would act as his deputy until the end of the year, when he would take on the Chair role from Tony.

Tony went on to outline that the first meeting of DCMF would be hosted by CN at the Thistle Hotel at East Midlands Airport on 3 May 2007. He said that the DNOs were keen to present their longer term charging work and that any other presentations would be welcome.

Tony went on to explain that EDFE would host the second DCMF meeting and that the 25th June had been pencilled in for this at present. SSE would host the third

meeting and UU the fourth at times to be finalised in the future. He stated that the DNOs and IDNOs would take in it turn to host the meetings.

Colette Schrier then asked about the logistics of running the meetings, such as secretary and minutes. Tony replied that the ENA would provide a secretariat role, composing agendas, minutes and publishing them on the ENA website.

Colette then asked if it would be useful to agree the issues which DCMF would take on from ISG. The following were listed as items to take forward to the DCMF:

- The SLC 4A statement work
- Updates from ECSG concerning work on SLC 4B connection application fees
- Capacity and reactive power charging work
- Possible generator charging working group – (CE & EDFE considering)
- G2010 – thoughts and views
- IDNO tariffs
- Voltage level tariffs

Tony McEntee agreed with these but questioned the inclusion of G2010. Martin Crouch stated that it is an issue that could materially affect DNOs in terms of its implementation.

6. AOB

Martin Crouch stated that two years on from the implementation of the new methodologies and with ISG coming to an end, he felt it an appropriate time to take stock. He felt it would be useful to produce a short update letter of issues, timetables, and priorities, including the longer term charging work which is close to implementation.

Martin then reminded the group that Ofgem were expecting modification proposals to come forward on HV & LV generator charging and IDNO charging.

Malcolm Taylor then raised the issue relating to offshore wind, referred to as “embedded transmission” or a “DNO sandwich”. He enquired as to where this issue currently sat.

Martin Crouch gave the group some background on this issue and stated that it concerned 132kV cables from offshore wind connecting straight on to Distribution networks onshore in circumstances where there is no Transmission network in the area. Martin explained that these cables would be categorised as transmission and operated by GBSO (at least offshore). There is a lack of clarity about what the arrangements are for requesting a connection to a distribution network. There is little ability within the existing price control to recover revenue from UoS charges. A possibility would be an upfront connection charge to GBSO. Martin explained that only a handful of sites will have to deal with this problem and that it will be concentrated in certain parts of the country.

Martin noted that a DTI decision on offshore transmission licensing was expected shortly. Ofgem would then publish a scoping paper, expected to be later this month, setting out how various workstreams would be taken forward, including distribution interactions.

Malcolm Taylor stated that this was a helpful comment. He expressed his concern that if the issues are swept up as part of OTEG then any changes to codes will be

written by the Secretary of State and not DCUSA. He also outlined his fear that decisions were being telescoped up against next year and that this was not conducive to optimal decisions being made.

Martin Crouch then wound down the meeting and commented that he had found the discussions over the course of the meetings very useful. He thanked all members for their input and attendance and Colette Schrier for chairing the last couple of meetings.

This is the last ISG meeting. The group will be succeeded by the Distribution Charging Methodology Forum (DCMF) (see <http://www.energynetworks.org/spring/regulation/index.asp>)