TADG Working Group

Update meeting to discuss Ofgem's provisional views

Millbank, 28 September 2007

Introduction

Ofgem noted that the main purpose of arranging this further meeting of the TADG Working Group was to discuss Ofgem's provisional views as set out in the covering letter to the group's final report.

Ofgem's presentation and working group discussion

Ofgem gave a presentation which summarised the background to the establishment of the TADG Working Group and its process and key findings as set out in the TADG report, before discussing in more detail Ofgem's provisional views set out in the covering letter to that report. It then provided an update on interactions with other policy areas and set out the way forward.

Ofgem's provisional views covered:

- case for change and high level principles,
- cost-reflectivity,
- gross vs. net, and
- choice and role of agent.

Ofgem highlighted that TADG was not a decision-making body, but had been set up by Ofgem at request of the industry to facilitate holistic discussion and development of strawman models for the enduring transmission arrangements to reflect the impact of DG on the transmission system, as a pre-cursor to parties raising specific change proposals. As such the purpose of Ofgem setting out its provisional views, based on the information available to date, was to provide further context for the industry debate going forward. It also sought to highlight key issues to focus on in the short term and areas of further work.

In particular, Ofgem noted that part of the original purpose of the review initiated by Ofgem's September 2005 discussion document was to develop, if appropriate, an enduring solution, which should replace the small generator discount due to expire in April 2008. Ofgem noted that the group did not specifically address the expiry of the discount given its focus on developing agency models for the enduring arrangements, and that this should be given immediate attention. Ofgem confirmed that it intended to issue a consultation on the matter shortly.

Ofgem welcomed the progress made by the group in assessing the issues with the existing arrangements, and the development of four strawman agency models for the enduring arrangements. Ofgem confirmed its view that there is a case for change and that such change should follow principles of:

- cost-reflectivity,
- efficiency in allocation of transmission access, and
- proportionality.

Ofgem noted that questions were raised in the group about the cost-reflectivity of the current embedded benefits in TNUoS, without reaching clear conclusions. Ofgem therefore considered that NGET should review with the industry the appropriateness of the size of the current embedded benefits in TNUoS, through the relevant industry fora (TCMF, CISG). Ofgem suggested that this could be considered in a logical manner from two aspects – the impact at the local transmission/distribution interface, and the impact on deeper transmission infrastructure. In this context Ofgem noted that the key issue is the treatment of the non-locational residual charge, as it is this element of the TNUoS charge which is the source of the difference in charges between DG being treated as negative demand and other generation, and which determines the level of associated embedded benefits.

In terms of the appropriate basis for treating DG in an agency model, Ofgem noted that different models were proposed and that the preference of the majority of the group was for a net DNO agency model. Ofgem further noted that there was a perception within the group that a gross model would always have a greater impact on embedded benefits. Ofgem noted that either approach can theoretically accommodate any justifiable embedded benefit (i.e. a gross model can implement, explicitly, the same level of embedded benefits implicit in a net model), as well as dealing with access issues and taking diversity into account. However, Ofgem also noted that it may be appropriate to consider thresholds below which DG is treated net for practical reasons.

There was further discussion on the comment made by one attendee that net flow should be the only correct basis for TNUoS charging. Ofgem commented that the locational element of TNUoS charges, which reflects the incremental transmission investment associated with the impact on flows across the transmission system, is approximately equal and opposite for demand and generation at a given location. Therefore, as is the case now, DG should experience similar geographical charge signals as other generation under either a gross or net treatment. However, with the recovery of a substantial amount of revenue on a non-locational basis through the residual charge, including costs within the wider infrastructure and at the local transmission/distribution interface, the total TNUoS charges are not equal and opposite for demand and generation at a given location. Under the current charging rules there is one single residual TNUoS tariff for demand (including DG being treated as negative demand) and one single residual TNUoS tariff for generation. This gives rise to the difference between the charges faced by DG treated as negative demand and that faced by other generation. In the review of TNUoS embedded benefits it would be important to consider how the residual TNUoS revenue can be recovered in a manner reflective of the way relevant transmission costs are driven, whether this is in terms of the gross level of demand and generation connected to the distribution network, or the net flow across a GSP boundary between distribution and transmission.

Ofgem further noted that a model based on net export alone is overly restrictive as it would fail to address the impact of DG on the transmission system when there is no local net export. In terms of a net model in general, Ofgem noted that it would be necessary to also consider the impact on the demand side, whereas a gross model would avoid this interaction. A number of attendees commented that a DNO net model is appropriate as the DNO will increasingly need to manage the transfer across the transmission/distribution interface. However, they also recognised that in introducing an access product for DG it would also be necessary to introduce an access product for demand. Ofgem noted that reforming the exit arrangements adds significant complexity and may be a disproportionate response to the issue of introducing appropriate transmission charging and access arrangements for DG. Ofgem considered that in the short term the industry should consider ways to better utilise and develop the existing agency arrangements via the DNO for access and technical issues and via the supplier for billing and charging. Different arrangements could be developed over the longer term taking into account any developments in the management of the distribution networks and the exit arrangements.

Attendees noted that the Ofgem open letter appeared to narrow the focus to short term issues, whereas the group had taken a longer term view of the enduring arrangements, in an environment in which all parties were given an opportunity to air views. As such, there had been some concern amongst members that the group's work had been wasted. Ofgem noted that the group's discussions had been very useful in terms of fleshing out issues both with the existing arrangements and those to be considered in developing enduring arrangements over the longer term. Ofgem noted that many of the issues considered by the group, such as agency arrangements, aggregation and alternative access products, will be interactive with other areas of policy work such as the Transmission Access Review, Distribution Price Control and review of the GB SQSS. However, Ofgem emphasised that in the short term there was a need to deal with the expiry of the small generator discount, as discussed above, and to develop the existing provisions introduced by CAP097.

Ofgem again thanked the group for all their work and noted that while there was no intention to hold any further meetings of the group there would be opportunities for parties to continue to engage on the issues discussed by the group, both through raising and contributing to the debate on change proposals, and through participating in other areas of work being taken forward as noted above.

Appendix 1 – Attendees list

Industry attendees:

1	Centrica	Laura Jeffs
2	DTI Centre for DG & Sustainable Electrical Energy	Goran Strbac
3	DTI Centre for DG & Sustainable Electrical Energy	Charlotte Ramsay
4	EDF Energy	Matthew Hays-Stimson
5	KEMA	Mike Wilks
6	NGET	Craig Maloney
7	REA	Tim Russell
8	RWE Npower	Terry Ballard
9	SHETL	Mo Sukumaran
10	Smartest Energy	Colin Prestwich
11	SP T & D	Peter Roper
12	Western Power Distribution	Nigel Turvey
13	West Coast Energy	David Walker (by phone)

Ofgem attendees:

1	Transmission	Robert Hull
2	Transmission	Min Zhu
3	Transmission	Cheryl Mundie
5	Distribution	Martin Crouch
4	Distribution	Cherie Davis
6	Markets	Ijaz Rasool