

Agenda of today's event

Time	Content
1400-1420	Welcome and overview (Ofgem)
1420-1450	Further thinking and way forward (Ofgem)
1450-1510	NGET perspective and discussion of broad technical options (NGET)
1510-1525	Coffee break
1525-1615	Break out session: Kick-off working group thinking
1615-1650	Feedback and Q&A from the floor
1650-1700	Next steps (Ofgem)
1700	Close

Ofgem's Project TransmiT – Further Thinking

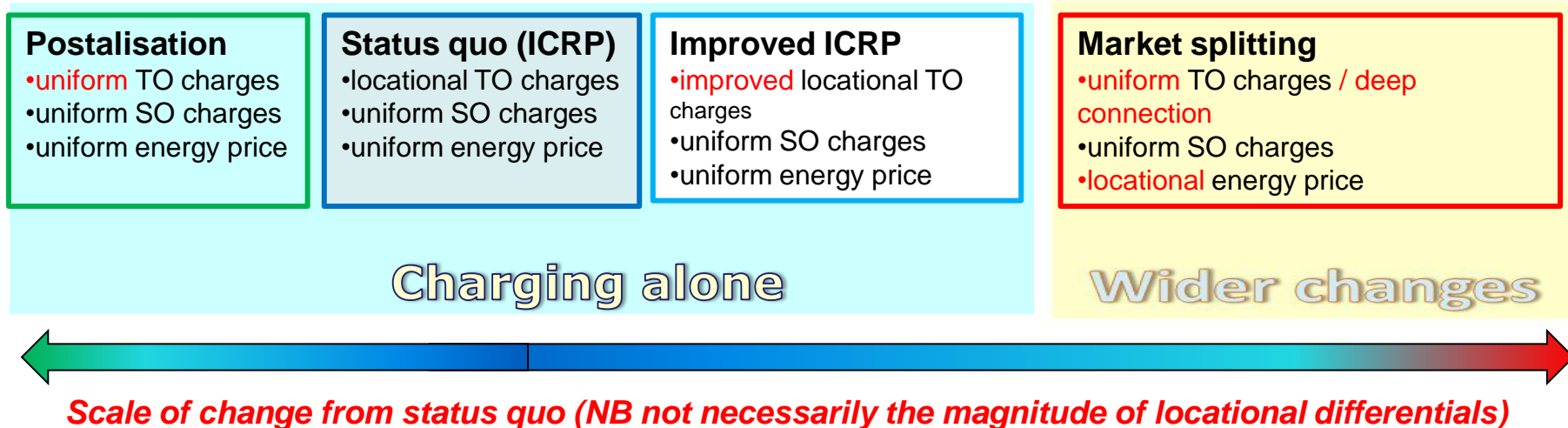
Anthony Mungall
Stakeholder Event, Glasgow
30 June 2010

Outline

- Range of emerging options
- 27 May open letter
- Respondents' views
- Our proposed approach
- Steps to take work forward
- Possible timetable
- Observations

Range of emerging options

- From the work carried out by our academic advisors, stakeholder input and developments in Europe, a spectrum of options has emerged . . .
- ... ranging from socialised charging models to potential improvements to the GB trading arrangements



27 May open letter

- 27 May open letter set out the approach we intend to adopt in our work on electricity charging under TransmiT:
 - We will focus on potential options to change TNUoS charging alone
 - We are aiming to develop appropriate changes that can deliver benefits to consumers, if appropriate, from April 2012
 - We propose to lead the work under a '**Significant Code Review**'
 - Options that imply wider change (so-called 'Market Splitting' options) are not within the scope of TransmiT, but could have benefits for consumers and may come to the fore as a result of developments in Europe

Our work programme on electricity connections under TransmiT is unchanged. We are considering responses and will set out next steps in due course

Respondents' views

- 27 May open letter sought views on:

The potential options for change we intend to examine in our work on electricity charging under TransmiT

Our proposal to lead the work under a 'Significant Code Review'



- General support for the scope, but mixed views on whether to extend scope to include...
 - locational charging for losses / locational BSUoS
 - the treatment of DG and embedded benefits.
- Include hybrid models of socialised charging.
- Early consideration of potential IT changes is needed.

- Unanimous agreement that SCR is the correct vehicle, but concerns about ...
- **Transition from short term to an enduring approach:** direction of EMR and EU integration is required prior to modifying the GB charging
- **Uncertainty:** stepping stone to further reform
- **Timetable:** April 2012 seems unlikely but timely conclusion is crucial

Our proposed approach.....

- We have sought to prioritise areas requiring most urgent attention following consideration of the information received since September 2010
- We have identified 6 broad themes of potential changes to TNUoS charging based on all issues raised so far

Theme
1. Reflecting characteristics of users
2. Geographical/topological differentiation of costs
3. Treatment of security provision
4. Reflecting new transmission technology
5. Unit cost of transmission capacity
6. G:D split

- We are seeking to work with the industry to develop detailed changes under each of the broad themes identified for the two broad options – Postalisation and Improved ICRP

.... an open and transparent process.....

- Each of the 6 themes are applicable to the two broad options for potential TNUoS change in the shorter term

Postalisation

- same uniform tariff applicable to all generation users)

Improved ICRP

- Improving the *accuracy* of locational charging signals

Theme	Postalisation	Improved ICRP
1.	<ul style="list-style-type: none"> Uniform tariffs: energy (MWh) or capacity (MW) 	<ul style="list-style-type: none"> Usage pattern based on technology (eg intermittency) or commercial decision
2.	<ul style="list-style-type: none"> local vs wider boundary or other carving out of assets 	<ul style="list-style-type: none"> Local vs wider boundary Zoning criteria?
3.	<ul style="list-style-type: none"> Treatment of spare capacity; Treatment of non-compliant boundaries more locational security factor? 	
4.	<ul style="list-style-type: none"> Treatment of HVDC links in charging model 	
5.	N/A	<ul style="list-style-type: none"> Update unit cost of providing capacity?
6.	<ul style="list-style-type: none"> Absolute or average proportions at what level? 	

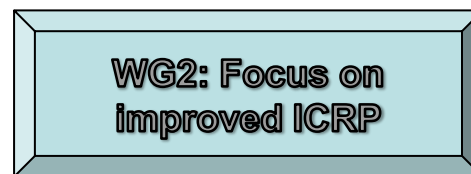
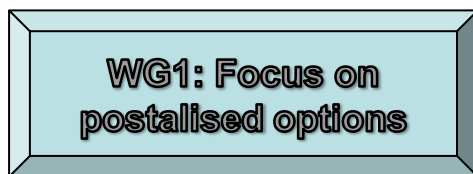
Have we missed anything?

... with the collaboration of industry.

- It is important for us to make well-informed and robust decisions on the options to be adopted for the short term
- We intend to initiate working groups tasked with assisting us to identify practical changes from the themes we have identified
- We envisage that the working groups will meet on approximately a weekly basis from July 2011 to September 2011
- Key focus of the groups will be to work through technical detail associated with implementing each particular charging option. Primarily charged with developing “straw-men” and the form methodology changes required.
- The groups will be Ofgem-led ...
-but we expect members to play a proactive role in contributing to the groups and determining its scope of work
- The groups are not a decision making body

Steps to take work forward Working Groups

- Two Ofgem-led working groups tasked with assisting us to identify practical changes from the broad themes we have identified.



- Where possible, group meetings will be held on the same day and run sequentially to facilitate participation
- Each WG will submit report setting out clear conclusions
- We expect to consult on the outcome of the WG work and modelling results in October 2011
- There will be a number of opportunities leading up to the October consultation for stakeholders to engage and feed into the work being progressed

Steps to take work forward ... modelling

- Our evaluation of the range of potential charging options will require detailed modelling work
- We have appointed consultancy support for the modelling exercise (Redpoint). The work will be completed in October 2011
- Support will be available from NGET in building transmission charging models and supplying the necessary data for the development of the impact analysis and the model
- There is a need for interaction between the WG discussion (identifying practical changes) and the modelling work
- We propose that Redpoint hold specific stakeholder meeting(s) devoted to sharing their modelling approach and to discussing practical parameters identified by the working groups.

We intend to publish Redpoint's modelling ToR to provide transparency to the key parameters modelled and to encourage industry views

Possible meeting/event schedule

Proposed dates	WG 1: Postalisation	WG 2: Improved ICRP	Stakeholder event
WG Meeting 1: w/c 10 July	Themes 1&2 (am session)	Theme 1 (pm session)	
WG Meeting 2: w/c 17 July	Theme 3 & 4 (am session)		Redpoint: summary of what they are doing (pm session)
WG Meeting 3: w/c 25 July	Theme 6 (am session)		
		Themes 2 & 3 (pm session)	
WG Meeting 4: w/c 8 August		Themes 4&5 (am session)	Redpoint to present modelling progress (pm session)
WG Meeting 5: w/c 21 August	Develop written report and draft methodology changes		
WG Meeting 6: w/c 28 August	Finalise written report and draft methodology changes		
October 2011			Discussion of Redpoint modelling results and Ofgem proposals
December 2011			Discussion of respondents' views to October consultation and final proposals.

After this event we will produce ToR for the WGs and publish an invitation to join

Possible timetable

- Our initial thinking of high-level timetable is shown below. It may change as issues are raised through further work and consultation
- Only collaborative working over the coming months will ensure that sensible improvements are delivered in the shorter term....

POSSIBLE OFGEM PROCESS

Ofgem-led Working Group discussion: **July – September 2011**



Ofgem Modelling: **July – September 2011**

Publish proposal consultation: **October 2011 (6 weeks)**

Publish SCR recommendations: **December 2011**

CUSC Working Group ('Urgent' process): December 2011 - January 2012

CUSC Panel publish consultation: end January/ early February 2012

Draft modification text published: mid February 2012

Report to the Authority: late February 2012

Authority decision: within 28 days (ie Feb-March 2012)

Where there is a case for reform, proposals will be taken forward through the industry process.



....without this we will not be able to bring benefits by April 2012.

Observations

- Process could result in Authority approval before end February 2012 (requires NGET to raise an 'urgent change'.)
- The process envisages full industry collaboration. The extent of industry involvement through the working groups and stakeholder events could vastly reduce the length of consultation necessary under the industry governance process.
- Implementation would require a derogation from default CUSC timescales on the publication of tariffs (both are possible).
- Would require NGET to publish multiple draft tariffs on 31 January 2012 with a view to confirming the accurate tariffs once we approve a single approach in late February/March 2012
- Assumes industry engagement and minimal number of alternatives

**We are committed to conducting a transparent and open review.
Your engagement is essential.**

Genuine engagement and collaborative working is the key to success



Promoting choice and value
for all gas and electricity customers