



## 1. Attendees

Frank Prashad (FP), RWE npower	Robert Longden (RL), Mainstream Renewable Power
Ivo Spreeuwenberg (IS), NGET	Stuart Cotton (SC), Drax Power Limited
James Anderson (JA), ScottishPower	Michael Dodd (MD), ESB International
Tim Russell (TR), REA	Helen Snodin (HS), Scottish Renewables and HIE
Garth Graham (GG), SSE	Ricky Hill (RH), Centrica
Louise Schmitz (LS), EDF Energy	Paul Jones (PJ), E.ON
Guy Nicholson (GN), RenewableUK	Anthony Mungall (AM), Ofgem
Simon Lord (SL), First Hydro	Lesley Nugent (LN), Ofgem

A number of the working group (WG) members noted that they would not be able to attend the following WG meetings (non-attendance marked with 'x'):

	<b>WG 2 (London, 1<sup>st</sup> August)</b>	<b>WG 3 (Glasgow, 9<sup>th</sup> August)</b>	<b>WG 4 (London, 18<sup>th</sup> August)</b>	<b>WG 5 (London, 30<sup>th</sup> August)</b>
<b>JA</b>		X		
<b>TR</b>			X	X
<b>GG</b>				X
<b>GN</b>				X
<b>SL</b>		X	X	
<b>MD</b>		X		
<b>HS</b>				X
<b>PJ</b>	X	X		

It was agreed that individuals could, if appropriate, identify suitable alternates to attend. This will be clarified in the terms of reference. All other WG members confirmed they would attend all of the WG meetings identified.

## 2. Overview of discussion

Ofgem opened the meeting, recapping the context for Project TransmiT and the role of the WG. Ofgem noted that this is intended to be an open and transparent process (and that there would be other opportunities for other industry participants to engage), and noted the need for collaborative working to achieve any appropriate changes in a timely way.

Ofgem gave a presentation including a high level overview of the background to Project TransmiT and the scope of the significant code review (SCR). Ofgem's presentation<sup>1</sup> set out the six themes Ofgem has identified as being relevant to both a socialised approach to charging and potential improvements to the existing incremental cost related pricing (ICRP) approach. The six themes are:

<sup>1</sup> Available here:

<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=118&refer=Networks/Trans/PT/WF>

Theme
1. Reflecting characteristics of transmission 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

Ofgem's presentation also set out 'strawmen' models for potential options for a socialised charging approach and improvements to ICRP. Ofgem emphasised that these are potential options only – they should not be considered to be Ofgem's preferred approach, and are purely set out for the purposes of stimulating debate.

NGET also gave a presentation, setting out additional technical detail of potential options for change, identifying issues relevant to the six themes above. NGET's presentation (available from the link in the footnote above) focused in the main on potential options for changes to ICRP.

#### *Draft Terms of Reference*

- Ofgem circulated to the WG, in advance of WG 1, the draft terms of reference for the WG for comment. There were a small number of changes proposed to the document and it was confirmed that demand charges are within the scope of the project. Revised terms of reference will be circulated to the WG prior to WG meeting 2.

As well as some initial discussion by the group of the technical detail under each of the six themes discussed (which will be developed and set out in more detail at later WG meetings) the following issues were raised in the group discussion in the course of the WG meeting:

#### *Process*

- Is the WG expected to deliver a preferred model for change, or just identify possible options for change? Ofgem noted that it would be helpful for the group to deliver "front runners for success" under each of the six themes.
- Some in the group considered clarity on 'the endgame'/weight of objectives of what the group should be trying to achieve would be helpful. What would a credible option look like? Ofgem noted that the role of the group was to produce the technical detail of options relating to each of the six themes identified (where applicable), these would be modelled by Redpoint to identify quantitative impacts, and this, amongst other things, would feed into our October consultation. (One member of the group noted that there was a need to quantify the status quo, in order for Ofgem to have something to measure potential benefits against; Redpoint will quantify the status quo).
- Some in the group considered it would be difficult for the group to identify a preferred option or front runner, ahead of the results of the modelling work being available – or even for the group to reach consensus, given the different interests represented. Others noted that there may be analysis the group could do, or alternatively the group should be able to undertake a qualitative assessment of

what potential changes would mean. In terms of consensus, Ofgem urged the group not to rule out at such an early stage collaborative working and the potential to reach some form of consensus. IS indicated that support is potentially available from NGET in assessing the impact of changing parameters of the charging model subject to how the work of the group develops. He also noted that there are useful tools available from NGET's website ('ELSI'<sup>2</sup>) that could assist the WG in providing some high level analysis.

- NGET noted the importance of timing; there will be a point at which changes are not implementable by 1 April 2012, as a result of the need for information system changes.
- The group discussed how 'implementable' the outcomes of their work should be. For example, should they produce legal text, and should this be clarified in the terms of reference for the WG? Ofgem noted that the level of detail that the WG can identify will become clearer as the process evolves.
- Ofgem urged the WG to bring forward any comments or concerns identified by those stakeholder groups that individual members of the group were there to represent. The opportunity to discuss any concerns raised will be listed as standing item on the WG agenda.

#### *Europe*

- Should the WG focus on areas of change that move towards greater integration with Europe, or develop transmission network use of system (TNUoS) charging changes in isolation of European developments? Ofgem confirmed that developments in Europe were potentially a longer term issue; the focus of the group should be on TNUoS charging issues that are an immediate priority, and should enable changes to be introduced in the shorter term.
- Are there any longer term developments ruled out in the European context? Ofgem noted the direction of travel in Europe was towards LMP. Others in the group also noted the lack of clarity at this stage from Europe was the zonal delineation test in capacity allocation.

#### *Modelling work*

- Ofgem circulated to the WG, in advance of WG 1, the terms of reference for the modelling work that Ofgem has commissioned Redpoint to undertake. The modelling work will quantify the impacts of potential options for change, drawing amongst other things on the WG development of the technical detail of the options. Time constraints meant the terms of reference were not discussed at WG 1. The group agreed to provide any comments by email, noting that Redpoint will attend WG 2 to discuss their modelling approach.
- The group noted that the terms of reference for the modelling work are wider than the remit of TransmiT, as Redpoint has been asked to quantify the impacts of LMP options in addition to the options within scope of TransmiT (ranging from socialised charging, status quo, improved ICRP). Some members were concerned this could undermine to the outcomes of the TransmiT SCR. Ofgem clarified that Redpoint would, in the first instance, focus its work on the impacts of options for

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<sup>2</sup> The Electricity Scenario Illustrator Model is available for download from NGET's website: <http://www.nationalgrid.com/NR/rdonlyres/CBB795B4-EFB6-48C0-95E7-51136C48F66D/46096/ElectricityScenarioIllustrator.pdf>.

change under the SCR; the modelling work on potential wider change, such as LMP, will feed into the work Ofgem's Europe and Markets team is doing in parallel to consider potential implications of developments in Europe for GB.

- It was clarified that the Redpoint modelling would assume the status quo on transmission losses.

#### *Transition*

- Several members of the WG considered transition was likely to be a significant issue, and something that the group and Ofgem would need to consider carefully.
- In particular, some considered that changes/uncertainty to demand tariffs was not a trivial issue. It was noted this would be a real concern for suppliers, who enter into contracts often 2 years ahead.
- Decisions by users on the level of Transmission Entry Capacity (TEC) were also noted by some to be an issue – parties agree levels of TEC in April 2011 on the basis of 2 year commitment, there was a concern that changes could come into effect that could significantly affect tariffs from April 2012.

#### *Other issues*

- The group asked if NGET would produce indicative tariffs for the potential options for change, to enable individual parties to better understand the impacts in their particular circumstances. Ofgem/NGET confirmed this could potentially be done, subject to how the work of the group develops.
- There was discussion on what exactly the range of changes Ofgem had identified meant in terms of the work of the group. Some considered that instead of there being two broad options, identifying three points on the spectrum would be more helpful. There was also discussion of what exactly was meant by a socialised approach – was 'pure' socialisation the only option (ie same uniform tariff for generators and separately for suppliers) or could it include some targeted costs. Ofgem clarified that the language used in the SCR launch letter to describe a 'socialised' approach should not constrain the group's approach to what model of socialised charging they develop.
- One member of the group considered that the method for calculating locational difference should not be confined to options for improved ICRP (eg the Irish methodology provided another method for identifying locational differences). Ofgem explained that the scope of options under the SCR were identified based on careful consideration of stakeholders' responses and the practical implications.
- Some considered that there are interactions with CMP192; they considered that the outcome of CMP192 together with potential TNUoS changes in April 2012, may affect closure decisions.
- Treatment of HVDC – the WG discussion needs to be clear and distinguish radial links from integrated offshore systems and "bootstraps". Onshore versus offshore in general was something that the group considered needed to be a feature of the ongoing discussions, particularly the treatment of the local and wider charging boundary.
- The group discussed the need to identify a clear rationale for any proposal to move away from the status quo (ie 27/73). There was also consensus that a discussion should also consider the implications of aligning with our immediate

European neighbours and examine the costs included in the proportions that generators pay in these areas.

### 3. Future meetings

The WG agreed that discussion at future meetings would be theme based, centred on the six themes Ofgem identified in the WG terms of reference. The group agreed that it should assess the implications of various 'choices' to be decided upon under each of these themes, for **both** of the broad options for change – ie, for both socialisation and improved ICRP. Some in the group considered it was important to highlight this, to avoid the risk that the group focuses all of the discussion on ICRP alone.

The group agreed that the remaining WG meetings would be structured as follows:

WG 2 (1 <sup>st</sup> Aug)	Redpoint attending, to give an overview of their modelling approach.  Group discussion will then focus on themes 1 and 2: NGET to bring supporting evidence in relation to certain of the points made in the high level presentation (WG 1) on these themes.
WG 3 (9 <sup>th</sup> Aug)	HS to present 'socialised charging' strawman.  Group Discussion will focus on themes 3 and 5.
WG 4 (18 <sup>th</sup> Aug)	Group Discussion will focus on themes 4 and 6.
WG 5 (30 <sup>th</sup> Aug)	'Tidy up' session across all 6 themes.
WG 6 (9 <sup>th</sup> Sep)	Group discussion will focus on transitional issues.

#### Next meeting:

- Monday 1st August (Ofgem's offices in London) - 09:45 start.
- An agenda and materials for discussion will be circulated on Friday 29<sup>th</sup> July.

**List of Actions**

	<b>Action</b>	<b>Date for completion</b>	<b>Owner</b>	<b>Status</b>
<b>1.</b>	Circulate link to 'GSR009' Report.	20/07/11	IS/AM	<i>completed</i>
<b>2.</b>	Circulate links to relevant papers (in particular, from ACER) discussing European developments (ie, issues NOT within scope of TransmIT).	20/07/11	AM	<i>completed</i>
<b>3.</b>	Publish Ofgem and NGET presentations from WG1.	20/07/11	AM	<i>completed</i>
<b>4.</b>	Verbal update at WG 2 on Ofgem process for GSR009.	01/08/11	AM	
<b>5.</b>	Develop 'socialised charging' strawman, identifying key choices to be made under each of the 6 themes Ofgem has identified.	09/08/11	HS	
<b>6.</b>	NGET to arrange briefing session for interested parties in the WG to explain NGET's potential options for change (in particular in relation to theme 1 – reflecting characteristics of users) in more detail; explore possibility of this being held Ofgem's Millbank office on 28 July, following the CAP192 workshop.	28/07/11	IS/AM	
<b>7.</b>	Email any comments on modelling work terms of reference, for discussion with Redpoint at WG 2.	31/07/11	All	