

Terms of reference for industry technical working group

This appendix sets out the terms of reference for the technical working group to support the development of the technical detail of potential options for generation and demand Transmission Network Use of System (TNUoS) changes, and indicative dates for the meetings. The draft terms of reference include our initial thoughts on the high level charging principles and assessment criteria to be applied by the working group in developing practical technical changes associated with each of the broad charging options we have identified.

1. Group composition:

Chair: Ofgem

Members: Up to a maximum of 15 industry representatives

The use of an alternate may be permitted depending on the circumstances. Any alternate will be expected to contribute proactively to the discussion and will be required to provide comments in both written and verbal form at meetings on the technical solutions and the form of methodology changes required under the broad options for change.

2. Purpose of the group

The purpose of the working group is to support the development of the technical detail of potential options for TNUoS changes.

The potential options for TNUoS changes within scope of the SCR range from postalised charging options to improvements to the current 'Incremental Cost Related Pricing' (ICRP) approach.

A key focus of the group will be to develop the technical detail associated with the options for potential change, building on the themes we have identified as requiring most urgent attention following consideration of the information received since the launch of TransmiT. The table below summarises the six broad themes of potential changes to TNUoS charging we have identified based on all issues raised so far. Each of the themes is applicable to the two broad options for potential TNUoS change in the shorter term.

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

3. The technical working group

We envisage that the technical working group will meet on approximately a fortnightly basis from the week commencing 18 July 2011. At this stage, Ofgem envisages the need for six meetings, between July and September 2011, concluding with the production of a final agreed and accepted written report summarising the group's technical conclusions and changes against each of the charging options. We expect that this report will provide a valuable contribution to the development of proposals for change that we intend to consult on in October 2011.

We expect National Grid Electricity Transmission (NGET) to be the lead party responsible for coordinating the drafting of the technical working group report. We will discuss the process for doing this at the first meeting.

We are specifically seeking the support of the working group to develop detailed changes under each of the themes identified across the two broad options. In particular, we expect the working group members to play a proactive role in contributing their technical expertise to the group and developing the form of methodology changes required under the broad options for change.

The conclusions of the working group will provide an important input to our thinking, but it is not a decision making body. Ofgem retains the responsibility to develop any proposals for changing the existing TNUoS charging arrangements and for these to be consulted upon with the wider industry in a transparent and open manner under the SCR process.

We are looking to bring together a small number (around 15) of technical experts who are representatives of all the key stakeholder groups. This necessarily rules out every interested party having a seat on the group.

All materials generated by the group will be published on the designated TransmiT section of the Ofgem website. Views on these materials will be welcome from all parties, including those who do not attend the working group. All responses received will be published on the web forum. In this way we can create a wider virtual forum to enhance the work of the group. We would also encourage anyone to approach the group if they identify specific issues they consider the group should take into account. We will set out a mechanism for doing this following our first meeting.

In addition, there will be further consultation and stakeholder events in the coming months to provide further opportunity for all stakeholders to feed into our review of the electricity transmission charging arrangements. There will also be additional stakeholder events to give all interested parties an opportunity to participate in the SCR process.

4. Scope of work

- Help Ofgem to identify the technical solution and the form of the methodology change required to give effect to this solution for each of the potential TNUoS change options; postalised charging options and improvements to the current ICRP approach.
- Help Ofgem to collect and review relevant evidence relating to the effectiveness of the current GB charging regime.
- Provide comment and expert technical views on the relative priorities of the six broad themes we have identified as requiring most urgent attention and detailed aspects of the current charging methodologies that require change under each of these themes applicable to the two broad options for potential TNUoS change.
- Comment on likely impacts of recommended changes on all relevant stakeholders including different types of generation and consumers, the achievement of relevant energy policy goals, as well as the appropriateness of the high-level objectives and principles.

5. Commitment

Between mid July 2011 and September 2011, approximately 6 days will be required from each member to attend 6 working group meetings. The successful representative will be required to provide comments in both written and verbal form at meetings on the technical solutions and the form of methodology changes required under the broad options for change.

The members are expected to attend meetings at Ofgem's offices in Glasgow and Millbank.

6. Deliverables

The key deliverable is:

- **A publishable report by mid September 2011** – this written report should summarise key information from the working group process in a form which is fit for publication and does not contain any confidential information and is factually correct and accurate. The report will briefly summarise the technical debate at each of the working group meetings and detail the technical solutions agreed and the form of methodology changes required under each of the broad options for change.

7. Charging principles and assessment criteria

It is important for us to make well-informed and robust decisions on the options to be adopted for the short term, if any. Ultimately, we want to develop a better understanding of the interaction between potential changes to the charging arrangements for allocating transmission costs (ie including costs relating to transmission assets and costs relating to system operation, such as constraints and losses) to users and decisions of generators in locating new plant, making retirement decisions and the impact of these decisions on transmission investment.

To help us assess the two broad options for potential change, we propose to assess the impact of these options in four key areas:

- The economic efficiency in both the short run (efficiency in generation despatch) and the long run (efficiency in transmission infrastructure investment decisions);
- The development of renewable generation across GB and the achievement of domestic environmental targets;
- Other areas of consumer interests such as security of supply;
- The efficient use of cross border transmission infrastructure and free trade of power across neighbouring European networks.

The above criteria have been developed following consideration of all the information received through our consultation process, from our dialogue with stakeholders, participation in discussions in Europe and academic advice.

Furthermore, we note that there are some 'must do' constraints that must form the baseline assessment of each of the emerging options associated with legal compliance, including requirements on transparency and non-discrimination.

We recognise that there are potential trade-offs between the impacts of any charging option in each of the above categories. For example, options that focus solely on the economic efficiency of the GB system may not all be compatible with the need to facilitate maximising the potential renewable generation development.

The working group assessment of the options therefore has to consider the impacts in each of the four individual areas, and seek to identify those that would deliver an overall benefit relative to the system as a whole.

In addition to the assessment of impacts in the above key areas, we also will consider a number of practical issues relating to the applicability of the options. In particular the simplicity and transparency of the arrangements (which to some degree is linked with the impact of a particular charging option in economic efficiency) and the transition / implementation cost in the context of both applying to postalisation and improved ICRP options.

8. Organisation of meetings

We envisage that the working group will meet on approximately a fortnightly basis from the week commencing 18 July 2011. In the first instance Ofgem envisages the need for six meetings between July and September 2011, concluding with the production of a final written report summarising the group's technical conclusions and changes for each of the charging options.

The first meeting will take place in Ofgem's offices in Glasgow on Tuesday, 19 July 2011. The meeting will discuss the draft terms of reference and comment on the potential technical solutions for each of the six broad themes identified and establish the priority for future working group discussion. Subsequent meetings will address the agreed themes in the context of both applying to Postalisation and Improved ICRP options.

9. Proposed meeting schedule

Meeting 1	Tuesday 19 th July (Ofgem's offices in Glasgow)	
Meeting 2	Monday 1 st August (Ofgem's offices in London)	Conference room 8
Meeting 3	Tuesday 9 th August (Ofgem's offices in Glasgow)	
Meeting 4	Thursday 18 th August (Ofgem's offices in London)	Conference room 9
Meeting 5	Tuesday 30 th August (Ofgem's offices in London)	Conference room 9
Meeting 6	Friday 9 th September (Ofgem's offices in London)	Conference room 9