1. Attendees

Ivo Spreeuwenberg (IS), NGET	Andy Wainwright (AW), NGET
Frank Prashad (FP), RWE npower	Ricky Hill (RH), Centrica
Louise Schmitz (LS), EDF Energy	James Anderson (JA), Scottish Power (dial in)
Guy Nicholson (GN), RenewableUK	Cem Suleymen (CS),Drax Power *alternate*
Garth Graham (GG), SSE (dial in)	Jonathan Hodgkin (JH), Ofgem
Paul Jones (PJ), E.ON	Scott Hamilton (SH), Ofgem
Apologies for absence: Simon Lord (SL), First Hydro; Michael Dodd (MD), ESB International; Helen Snodin (HS), Scottish Renewables and HIE; Tim Russell (TR), REA; Stuart Cotten (SC), Drax Power Limited; Anthony Mungall (AM), Ofgem; Robert Longden (RL), Mainstream Renewable Power.	

2. Overview of discussion

NGET opened the meeting, noting the purpose of the meeting was to advance the Technical Working Group's (WG) thinking on Project TransmiT's charging review Theme 1 (Reflecting Characteristics of Users). NGET stated the ultimate objective of the meeting was to take stock of current thinking on Theme 1 and to capture these ideas as a basis for identifying areas of consensus, and to flush out and clarify areas of difference. It was hoped this would help 'frame' the existing debates ahead of WG meeting 5 (30 August) and aid the development of the WG Report.

As a general point, IS noted his hope that the agenda would cover the high level areas of discussion to identify common principles for reflecting user characteristics which would then feed into more detailed technical discussion of how those principles can be implemented in a charging model.

Clarifying the key issues:

IS sought to clarify with the WG that the key issues pertaining to Theme 1 generated via the Project TransmiT consultation had been suitably captured by Ofgem's 'mapping document'. These were identified as:

- Current methodology does not recognise that low load factor generation requires less transmission investment to accommodate its output pattern
- Current methodology does not recognise the possibility of sharing transmission capacity between generators
- Examine whether charging should continue to be based on capacity and peak demand (or replace with MWh for part of the methodology)
- Current methodology does not recognise the potential impact on transmission cost that storage and peaking plant provide

The WG agreed that the outstanding issues fell within these broad areas.

- ***Discounted options***

IS gave an overview of discounted options for Theme 1 thus far in order to clarify what options remained 'on the table'. IS noted that a number of explicit capacity sharing options and an option for implicit sharing based on full cost benefit analysis (CBA) based charging had been ruled out. NGET noted that its proposal made the assumption that generators implicitly share network capacity. The WG noted that sharing was practiced under the current arrangements. Some members of the WG noted that while explicit sharing was not being considered under the current TNUoS review, it was something that should be considered in the future under an 'explicit sharing modification'.

- ***Dual background***

NGET explained the current premise upon which they plan the network was on the basis of a peak security and year round assessment. The WG generally accepted this assessment. Following on from this, NGET explained its belief that it was therefore appropriate that peak security and year round backgrounds should form part of the charging system.

For that reason, NGET was proposing a change from the existing 'single background' to a 'dual background' transport model which they believed better accounted for a user's characteristics in relation to the required investment in the network. These two backgrounds, which utilise concepts and scaling factors developed through CBA analysis undertaken by the GSR009 review group, would be used as a means of identifying whether the incremental investment requirement on a given circuit is triggered by 'peak security' or 'year round' requirements. In terms of developing ideas on the form of an Improved ICRP model to be simulated by Redpoint, NGET proposed that the dual background approach would link to a 'peak security' and 'year round' tariff element, in addition to the residual used to collect transmission revenue. NGET suggest that because intermittent generation is not deemed to contribute to the need for peak security network capacity, the peak security element should not apply to an intermittent generator's tariff.

The WG generally accepted that it was appropriate to use dual (peak security and year round) backgrounds to derive MWkm from the transport model. However, some WG members noted the point that they would be more accepting of this assessment if the GSR009 had been approved.

An important part of NGET's proposal rests on the process through which circuits are allocated to 'peak security' or 'year round' backgrounds. The WG identified two options for allocating circuits:

- Binary – circuits either peak security or year round (NGET's proposal)
- Proportional – a proportion of each circuit allocated to each background in proportion to the MW flow in each background (proposed by TR)

The WG agreed that the binary approach was, in some sense, potentially more cost reflective (although potentially less consistent with ICRP) in empirical terms (based on MWkm) and was generally consistent with investment decisions. Conversely, the proportional approach was likely to be more stable for borderline circuits and possibly more consistent with ICRP principles. For the purposes of Redpoint's modelling, the WG agreed to model the binary approach. The WG acknowledged there was, in fact, little to

distinguish between each method and noted that the merits of the proportional approach would be noted in the WG report.

- ***Deriving the tariffs***

NGET began discussion of the tariff models by reiterating their view that intermittent generation should not pay the peak security tariff and conventional plants should be subject to a peak security charge.

Following this, the WG identified two options for converting MWkm from the transport model into tariffs:

- Option 1: Two part (peak security and year round) tariff. The WG agreed that charges applied for peak security and year round would be TEC based.

- Option 2: Two part (peak security and year round) tariff. Peak security charged on the basis of TEC only, or TEC and load factor. Year round charged on the basis of TEC and load factor.

The WG group agreed that under both options the peak security charge could be levied on all generators, conventional generators only or none. It was agreed in principle that if the peak security tariff applied to conventional generators only, then the year round tariff should not be extended to cover peaking plants as well.

For Option 2 the WG identified three options for levying the peak security tariff:

- TEC
- Ex-ante probability / % contribution at peak x TEC
- Ex-post contribution at peak, although it was noted this would potentially give generators perverse incentives to curb generation at peak.

After lengthy discussion, the WG identified five possible methods for calculating the year round tariff. These were deemed to fall within two categories, generic and plant specific options.

Ex-ante
1. TEC x generic historic load factor
2. TEC x background scaling
3. TEC x specific historic annual load factor (ALF)

Ex-post
4. TEC x requested load factor plus cash out
5. Ex post MWh

The WG debated these options at length. The WG was unable to reach a consensus as to whether TEC alone or TEC multiplied by some derivation of load factor was a better indicator of a generator's likely contribution to network operation (ie constraint) costs. Much of the debate centred on the opposing views as to the degree to which intermittent generation impacts upon network operation and investment.

Some members of the WG noted that until the link between constraints and load factor had been proven more conclusively, they would retain reservations about supporting a year round tariff based upon some form of ALF. For this reason, they noted their preference for a 'TEC only' based year round tariff at this time. IS requested specific comments on the evidence presented by NGET in their paper on Theme 1. This was countered by some members of the WG who noted that the correlation between constraints and TEC was potentially even more tenuous. NGET concluded the discussion of the year round tariff options by summarising that there were a spectrum of competing views within the WG, ranging from those favouring TEC only, starkly contrasted by those favouring 'Ex-post MWh'. IS noted his hope that, moving forward, the majority of the

WG would find some middle-ground upon which to coalesce on the form of an Improved ICRP model to be simulated by Redpoint. In addition, NGET noted their view that modelling an approach based on TEC only was likely to result in tariffs very similar to those under the status quo.

In closing, IS acknowledged the value of the day's meeting in clarifying the key Theme 1 issues pertaining to the development of an Improved ICRP model. IS hoped this would leave the WG in a better position to address these issues at the next WG meeting.

Ofgem reiterated to the WG that while progress had been made in clarifying WG thinking, it was important to remember that the WG was seeking an improvement on the existing ICRP charging methodology and so change options should be judged in terms of whether or not they represented a progressive change from the existing arrangements. Ofgem requested this be taken into consideration in WG 5 when WG members were appraising the options shortlisted in the course of the day's meeting.