

# GB charging: the Authority's decisions

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# Scope

- Connection charging methodology
- Use of system methodology
  - Transmission Network Use of System (TNUoS)
  - Balancing Services Use of System (BSUoS)
- Discount for small transmission-connected generators
- Other DTI-led issues
  - ‘Hydro benefit’ replacement
  - Transmission cap in peripheral areas
- Ofgem organisational changes

# Overview

- Connection methodology approved - one condition attached to approval
- Use of system methodology approved – five conditions attached to approval
- Small generator discount set at 25% of residual tariff – until April 2008 at latest
- Recent DTI consultations (hydro benefit) and announcements (transmission cap)

# Connection

- Authority approved NGC's September '04 proposals
- 'Shallow' charging methodology
- Condition relating to calculation of site-specific maintenance charges

# BSUoS methodology

- Authority approved NGC's January '05 proposals
- No conditions attached to approval
- Expectation that NGC will keep case for and against locational BSUoS under review

# TNUoS methodology

- Authority approved NGC's January '05 proposals
- Assessment:
  - Against relevant objectives in NGC's licence
  - Compliance with statutory and other legal requirements, e.g. European law
  - Compared to available alternatives
- On balance, and in the light of the information available to the Authority, concluded that NGC's February proposals should be approved
- Five conditions attached to approval

# Condition 1 (cost-reflectivity)

- Invite view, consult on and propose an alternative way of addressing negative demand charges
- General recognition that February proposals are not an enduring solution in this regard
- Possible alternatives would appear to include reform of charging base or phased change to G/D split
- Might be others
- Proposals for implementation not later than April 2006

## Condition 2 (cost-reflectivity)

- Identify, review and assess further technical basis for modelling assumptions re. incremental cost of capacity
- First step is consultation with interested parties to identify scope
- 2 year timeline with reporting requirements on NGC
- Some significant methodological changes have been made in developing February proposal
- Potential for further changes should be progressed in a structured and inclusive manner

## Condition 3 (cost-reflectivity)

- Treatment of intermittent generation in charging model
- Ongoing work in the context of planning standards
- Should be reflected in charging model
- 2 year timeline – with reporting requirements
- Interim changes prior to completion of planning standards work should also be investigated

## Condition 4 (facilitating competition)

- Longer term fixed price access products
- Current rights are long term (for duration of connection agreement) in the absence of CUSC changes and modifications to bilaterals – but tariff varies year on year
- Two year timeline
- Might be interactions with CUSC

## Condition 5 (facilitating competition)

- Publication of longer term information on possible paths of tariffs under different scenarios
- Scenarios referable to the Seven Year Statement
- 1 year timeline – and before April 2006 if possible

# Conditions - general

- Do not detract in any way from NGC's licence obligations to keep its methodologies under review
- The Authority considered and rejected condition to phase implementation. Reasons included:
  - Dilution of signals and distributional effects
  - Signalling and magnitude of changes
  - On balance, un-phased approach considered more consistent with duties in these circumstances

# Small generators discount

- Interim measure – sunset clause means expires in April 2008
- Set at 25% of NGC's residual tariff (around £3.70/kW)
- Recognition of need to develop enduring solution
- First step will be Ofgem consultation in 2005/06

## Next steps

- NGC to develop work plan to progress these issues
- Expect NGC to consider how to use TCMF and CISG effectively in this process
- Helpful if NGC could present initial plans to next meeting of TCMF

# DTI initiatives

- Replacement of Hydro Benefit – to be in place, following consultation, by BETTA go live
- Transmission cap for peripheral renewables
  - Announcement re. islands
  - Consultation in Summer re. mainland
  - No impact on tariffs in 2005/06
  - Ofgem will be keen to see evidence for subsidy and will advocate strongly the interests of consumers

# Ofgem organisational changes

- BETTA team was part of Markets Division (Steve Smith)
- Enduring transmission arrangements (including charging) are Networks Division (David Gray)
- Director of Transmission being recruited - Andrew Walker is in this role currently
- Associate Director, Transmission is Colin Sausman (020 7901 7339)
- Charging team – covering electricity and gas – will include Grant McEachran (0141 332 5647) and Mark Copley