

## TAR Enabling Sub Group

Meeting Name	Transmission Access Review (TAR) Enabling Sub Group
Meeting No.	3
Date of Meeting	4 <sup>th</sup> June 2008
Time	10:00 – 15:00
Venue	EdF offices, 80 Victoria Street, London

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This note outlines the key action points from the third meeting of the TAR Enabling Sub Group.

### **1. Introductions/Apologies for Absence**

1. Apologies for absence were received from Barbara Vest, Robert Longden, Paul Mott Anthony Mungall, Nigel Scott and Simon Lord.

### **2. Decisions made and key points**

1. Actions were agreed.
2. HR provided a high level summary of the progress from the other TAR WGs. HS asked whether the intention was to do a full impact assessment, e.g. including the cost of carbon? And if so would this be done during the time that the working group was sitting?

### **Charging of the Residual**

3. Locational TNUoS tariffs recover around 15-20 percent of TNUoS revenues. Whilst the gross revenue flows are much greater than this, the netting off of positive and negative tariffs means that the remaining 80-85 percent of TNUoS revenue is recovered through the non-locational residual element. Whilst balancing allowed revenue, the residual tariff effectively recovers the costs of (i) substation assets, (ii) historical investments and (iii) lumpy investment.
4. National Grid proposed that the residual element of generation charges should be commoditised as Users of both long and short-term access products make use of historical investment and should therefore be liable for this element of TNUoS tariffs.
5. The working group seemed comfortable with the principle that all users should pick up a part of the residual. In addition, it was generally thought that leaving the 27:73 revenue split is appropriate.
6. There was broad agreement not to look at the demand residual, although it was reiterated that the proposals must not prohibit a similar treatment of the demand residual in the future. PJ – Not so sure that this should be a primary focus as the narrower the focus the better.
7. An alternative to commoditisation was proposed by LS, whereby the residual element of the TNUoS tariff would continue to be charged on a capacity basis, pro-rated for those Users which make use of short-term access products but do not necessarily have TEC.
8. SE – A residual that varies with time may not be a significant factor for a Network Operator but it is for generation. Proposals will be judged against the charging objectives and the option that best meets them should be proposed. PJ – It is important to not Kt costs between years or there is a detrimental impact to cost reflectivity. NG confirmed that there are punitive arrangements in the transmission license to deal with over and under recoveries of revenue.

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9. As a principle is it correct to collect a fixed amount (i.e. MAR) from 'pay as bid' auctions?
10. When there is uncertainty from the locational charge component how is stability improved in the residual charge. Example may include: reassess periodically (six months?), or ad hoc upon specific triggers.
11. Gas charging modification GCM 11 and 12 were discussed. Both modifications were proposed by National Grid to deal with over recovery from TO entry commodity charges. GCM11 proposed a rebate on the TO commodity charge to reduce the risk of over-recovery from TO entry, this was approved by the Authority. GCM11 proposed a retrospective negative adjustment to TO entry commodity charges, but was vetoed by the Authority on the grounds that it may be appropriate to over-recover from entry capacity auctions as this reflects the value placed on entry products, whilst a retrospective negative charge would completely remove the possibility of over-recovery on entry and only under-recoveries would be fed through to the following charging year, 50% of which would be picked up by exit Users.
12. A commodity based charge is more predictable than one based on peak demand e.g. if a User goes bust, another User will fulfil the energy generation deficit as the demand does not go away.
13. HR suggested it may be useful to review the various residual models once we have a better view of what the auctions may look like. The models should be assessed against the correct parameters e.g. forecastability, simplicity, security, cost reflectivity, discrimination, TO business, stability (setting and predictability), transparency, promoting competition. Models include peak use of system, or local connection capacity or commoditisation of the residual.
14. DW suggested that an alternative approach would be to commoditise the residual for Overrun whereas those choosing Short Term SO Release would pay a residual derived from the maximum short term access they are awarded for the entire duration of short term access.
15. It was stated that the full commoditisation of the residual is a move away from charging for the ability to put power on the system rather than the energy you do import onto the network.
16. It was reiterated the total revenue that NG will collect from total generation will not change.
17. It was questioned whether there is a rational to ditch the ICRP transport and tariff model and start again with something else. Do we need to justify the entire methodology as a whole?
18. If someone is buying long term finite rights should their residual also be fixed (and RPI-ed)?

### **Local charging**

19. Substation Local Charging costs need to be robustly cost reflective. Does the generic designs that have been proposed provide cost reflectivity in all instances? The generic design is based upon a spur circuit which will not be always present.
20. More detail needs to be given for the methodology of converting substation local costs into unit values (i.e. an annual £/kW).
21. The demand cost weighted based zonal hub presented was for pre re-referencing marginal costs. It this was calculated for post re-referencing marginal kms, the negative differential issue may be sorted. Then it was questioned whether this was appropriate.

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22. Need to test the marginal/ incremental investment approach for a variety of scenarios.
23. PJ drew a simplified diagram to show the arbitrary position of the zonal hub for a radially connected zone. TI to produce a diagram of several real generation zones and their resultant zonal hubs to access the approach.
24. The "Generation Only" variety of the Specific Treatment of Generation Connections was ruled out as not sufficiently cost reflective. A Hybrid solution was raised where a specific zonal hub was chosen for each zone and used to determine local charges.
25. PJ raised a concern with the distance to zonal hub approach. The local charge is very dependant upon where each node is located in a zone and therefore if a generation node moves from the top of one zone to the bottom of another and has a 'Local Only short term' connection, their Local Charge could dramatically change although the actual assets are the same. Not an issue for long-term access holders as the wider charge would move in the opposite direction to the local charge.

### 3. Actions and Next Steps

1. Ofgem legal team to confirm that parallel/ conflicting charging modification proposals are feasible  
**Action: AM**
2. The first headline report is to be completed for the 20<sup>th</sup> June, for CUSC panel meeting submission.  
**Action: TI**
3. Charging ToR to go to TCMF on the 17th June and Access ToR to be submitted to the CUSC panel meeting on 20th June.  
**Action: CM**
4. Progress various work on a zoning methodology  
**Action: QZ/ BHT**
5. Update ToRs for next meeting and circulate  
**Action: CM**
6. Put meeting 3 slides on WG3 web-page  
**Action: TI**
7. Prepare a document outlining the options with pros and cons that all WG members can add to and comment upon. To include NG's view of the rationale against the relevant license objectives.  
**Action: CM**
8. Test substation local charge cost reflectivity in more instances than just spur connections.  
**Action: TI**
9. Test marginal investment approach for different 'types' of generation connection  
**Action: TI**
10. Produce a diagram of several real generation zones and their resultant zonal hubs to access the approach.  
**Action: TI**
11. The location of the next meeting 4 on 16<sup>th</sup> June, is at the National Grid Warwick office:

Warwick Technology Park

## TAR Enabling Sub Group

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Warwick  
United Kingdom  
CV34 6DA

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### Appendix 1 – Working Group Attendance

#### Members Present:

Allan Kelly	AK	Scottish Power
Craig Maloney	CM	National Grid
Dave Wilkerson	DW	Centrica
Hêdd Roberts	HR	Chair
Dennis Timmins	DT	RWE npower
Frank Prashad	FP	RWE npower
Louise Schmitz	LS	British Energy
Paul Jones	PJ	E.On
Helen Snoddin	HS	SSE (SRF)

#### In Attendance:

Michael Dodd (alt)	MD	Ofgem
Tom Ireland	TI	National Grid
Sebastian Eyre (alt)	SE	Edf
Emma Luckhurst	EL	Edf
Andrew Rimmer (alt)	AR	International Power
Dan Jerwood (alt)	DJ	Gaz de France

#### Apologies:

Barbara Vest	BV	Gaz de France
Anthony Mungall	AM	Ofgem
Paul Mott	PM	EDF Energy
Simon Lord	SL	First Hydro
Robert Longden	RL	Airtricity
Nigel Scott	HS	SSE (SRF)