

Questionnaire on the Charging arrangements for Site Specific Maintenance

Introduction

As part of the Authority's approval¹ of the GB Charging Methodologies a number of conditions were imposed. Charging Condition 6 related to the GB Connection Charging Methodology. It requires National Grid to:

“review and potentially revise ... its calculation of charges relating to the maintenance of connection assets with a view to furthering the relevant objectives to charge cost reflectivity and to facilitate competition in connection works.”

National Grid is required to bring forward changes such that they could be implemented by 1 April 2007. National Grid believes that if, following a review of the charges for maintenance of connection assets, it was felt that no methodology changes were required, it would be appropriate to prepare a report setting out the conclusions of the review.

Charging arrangements for site-specific maintenance

Prior to BETTA in England & Wales, the charges levied to recover the costs of maintaining connection assets were based on an arrangement that passed through these costs on a site and User specific basis. Users were also able to contest the provision of certain elements of the maintenance activity and accordingly received a reduction in their connection charges.

During the development of the GB Connection Charging Methodology similar contestability and charging arrangements were considered for implementation across GB. However, it was noted that such arrangements could only be implemented if appropriate cost information was made available to the GBSO. Following discussions with the Scottish TOs, National Grid believed that implementing these arrangements on a GB basis would not deliver significant benefits over the implementation costs, particularly given no Users had elected to contest site-specific maintenance in England & Wales since 1997 when contestability in this area was introduced. Against this background, National Grid proposed that the contestable maintenance arrangements should be reviewed to ensure that the processes are effective and efficient, deliver the necessary benefits, and are appropriate for implementation on a GB basis.

Given the prospect of a wider review of contestable maintenance, much simplified arrangements for site-specific maintenance charges were developed, to enable consistent arrangements to be applied across GB. Accordingly, the GB Connection Charging Methodology that the Authority approved levies a site-specific maintenance charge that is derived from the forecast direct and indirect maintenance costs across GB and apportioning this on a percentage of GAV basis. These charges are not later reconciled to the actual costs incurred. One affect of basing this component of connection charges on average maintenance costs is to remove the lumpiness, and associated “cost-shocks”, that would be experienced had charges been based on actual costs.

¹ NGC's proposed GB electricity transmission use of system charging methodology: The Authority's Decisions, March 2005, 80/05. Available from: www.ofgem.gov.uk/ofgem/index.jsp

A number of alternative options were considered during the development of the connection charging methodology. Specifically, the inclusion of maintenance costs within the Transmission Running Cost component of connection charges (which is presently fixed for the duration of the price control period), or to introduce site specific maintenance factors that vary by TO area. The former option received some support by respondents during the consultation process, while the latter was viewed by some as being inconsistent with a GB-wide charging methodology.

Ofgem's proposed review of contestable maintenance

Ofgem wrote to National Grid in March 2006 regarding competition in the maintenance of transmission connections. Ofgem noted that it is intending to initiate a review of competition in distribution connections and, given the similarity of issues for contestability across networks, it considered there to be merits in extending this to transmission. In its letter, Ofgem stated it intends to seek views from interested parties on the key competition issues that require addressing and that this would be followed by a consultation. Ofgem has indicated that this process is expected to run through Spring and Summer 2006.

Interaction with National Grid's Charging Condition

Notwithstanding Ofgem's proposed review of contestability arrangements, National Grid is required by the Charging Condition to undertake a more focused review of the charging arrangements for recovering site-specific maintenance costs. Nevertheless, any changes to the methodology for recovering site-specific maintenance costs, in particular arrangements based on capturing the actual costs incurred for maintaining specific assets, need to be proportional to the benefit and the expected uptake of contestable maintenance arrangements.

The potential benefit to a User that contests its maintenance at a connection site is the prospect that it can undertake the same activity at a lower cost than the TO and would, following a reduction in the site-specific maintenance charge, receive a net cost benefit. National Grid and the Scottish TOs have operated under an "RPI-X" price control regime for many years, which has significantly reduced controllable operating costs including those related to the maintenance of connection assets. Users will have benefited from this through reductions in their charges. Against this background, National Grid and the TOs continue to have strong incentives to reduce the costs of maintenance, including consideration of outsourcing these activities if it were more efficient. One element of promoting efficiency in this area is the ability to make effective trade-offs between capital expenditure (to replace an asset) and enhanced maintenance expenditure (to extend its life).

The introduction of consistent contestable maintenance arrangements across GB would need to consider a number of different dimensions, including identification of the assets that can be maintained; the activities that should be open to competition; and the minimum duration for which Users could be responsible for maintenance. Appropriate commercial arrangements would need to be struck between Users and National Grid (as GBSO) and, in turn, between the National Grid and TOs. Amongst other things these would need to include consideration of:

- arrangements for TOs to specify and change, when necessary, maintenance requirements, including the timing, frequency and nature of maintenance activities;
- arrangements for agreeing access to the transmission system i.e. outages, and physical access to the assets that are in operation compounds; and

- ❑ the liabilities that may be placed on Users undertaking contestable maintenance activities, including those associated with:
 - moving, extending or cancelling outages for maintenance, which may expose the GBSO to additional system operation costs;
 - compensation paid by National Grid to generation companies for certain interruptions, as defined by the “CAP048 provisions” in the CUSC; and
 - compensating transmission licensees for any costs that might be incurred from loss of supply incentives.

It is worth noting that all transmission licensees are explicitly incentivised to avoid loss of supply through the transmission network reliability incentive schemes. In the case of National Grid, this scheme values the loss of supply at about £30/kWh (subject to a cap an annual cap).

The Questionnaire

The questionnaire seeks views on:

- a. the appropriateness of the existing arrangements for recovering the costs of site-specific maintenance;
- b. the perceived benefits and liabilities associated with assuming responsibility for site-specific maintenance and, against this background, the case for changing the present charging arrangements; and
- c. a number of options for reforming the connection charging arrangements.

The questions have been designed around a “tick-box” structure. Respondents are requested to tick one box per question and, where necessary, add additional comments in spaces provided.

Next Steps

The purpose of this consultation is to gauge industry views on the key questions regarding the charging arrangements for recovering the costs associated with site-specific maintenance. National Grid intends to publish initial conclusions in June / July 2006 and will also discuss these in the relevant charging forums. Any changes to the connection charging methodology that may be proposed will be subject to a further formal consultation.

Industry participants are invited to submit their responses by 17:00 on 26 May 2006 to Adam.Brown@uk.ngrid.com or in writing to:

Adam Brown
Electricity Charging and Access Development
National Grid
National Grid House
Warwick Technology Park
Gallows Hill
Warwick, CV34 6DA

Those responses that are not marked confidential will be published on National Grid’s industry website.

Questionnaire

About your organisation

Name of respondent	Oliver Day
Company	EDF Energy Networks Branch
Responding on behalf of	EDF Energy

Existing charging arrangements for site-specific maintenance

1. Charges for site-specific maintenance presently account for about 8 per cent of revenue collected from connection charges and around 1 per cent of the total revenue collected through infrastructure charges. The annual average charge for site-specific maintenance is £30k per connection site.

To what extent do you support the following statements?

- a. The existing connection charging methodology is sufficiently cost reflective to not justify developing cost-capture systems to further enhance the cost reflectiveness of the site-specific maintenance component of the connection charge.

Agree		Neutral		Disagree	✓
-------	--	---------	--	----------	---

- b. The present arrangements for charging for site-specific maintenance costs do not discriminate between Users or classes of User.

Agree		Neutral	✓	Disagree	
-------	--	---------	---	----------	--

- c. The current methodology for recovering the costs associated with site-specific maintenance is proportionate to the level of these costs.

Agree		Neutral	✓	Disagree	
-------	--	---------	---	----------	--

- d. The existing charging methodology for recovering site-specific maintenance costs is proportionate to the current contestability arrangements.

Agree		Neutral	✓	Disagree	
-------	--	---------	---	----------	--

Please add any justification you feel appropriate for your choices above.

It would be beneficial to have an option for 'cost captured' charges at particular sites if the DNO is required to pass those charges to an end user.

Relative merits of reforming the contestability arrangements

2. Do you believe the benefits to your organisation of contestable maintenance are:

Significant		Limited	✓	None		Negative	
-------------	--	---------	---	------	--	----------	--

If you have answered "significant" or "negative" benefit, please elaborate:

--

3. If you answered "significant" or "limited" benefit in 2 above, to what extent do you believe these benefits outweigh the perceived liabilities and risks associated with assuming responsibility for site-specific maintenance:

More benefit		Similar		More liabilities	
--------------	--	---------	--	------------------	--

4. Given your views on the balance between the benefits and liabilities, and the magnitude of your site-specific maintenance charges, do you believe the site-specific maintenance charging arrangements should be changed at the present time?

Yes		No		Balanced	✓
-----	--	----	--	----------	---

5. In order to best facilitate contestable maintenance site-specific maintenance charges should ideally be based on actual costs incurred. This requires new systems and frameworks to capture, process, communicate and report individual maintenance costs on an asset-specific basis, and convert them into maintenance charges for each User on a site-by-site basis. To implement these arrangements on a GB basis is likely to give rise to additional one-off and ongoing costs for TOs and the GBSO, including the development of suitable contractual frameworks and cost-capture systems.

Do you believe the potential benefits of contestability are such that systems should be developed by the transmission licensees to capture costs on a site, user and asset specific basis?

Yes		No		Balanced	✓	Don't know	
-----	--	----	--	----------	---	------------	--

Options for changing site-specific maintenance charges

6. Similar systems and processes would also be required to implement "pass-through" arrangements for site-specific maintenance costs.

If these systems were not implemented, to what extent would you support any of the following options:

- a. Absorb site-specific maintenance costs within the transmission running cost factor (which would result in a connection GAV-related non-locational charge) set for the duration of the price control period:

Support	<input type="checkbox"/>	Neutral	<input checked="" type="checkbox"/>	Against	<input type="checkbox"/>
---------	--------------------------	---------	-------------------------------------	---------	--------------------------

- b. Absorb within the transmission running cost factor, as in (a) above, but determine this factor on an annual basis:

Support	<input type="checkbox"/>	Neutral	<input checked="" type="checkbox"/>	Against	<input type="checkbox"/>
---------	--------------------------	---------	-------------------------------------	---------	--------------------------

- c. Introduce regional site-specific maintenance factors for each TO area:

Support	<input type="checkbox"/>	Neutral	<input checked="" type="checkbox"/>	Against	<input type="checkbox"/>
---------	--------------------------	---------	-------------------------------------	---------	--------------------------

- d. Maintain the status quo for the time being and keep the methodology under constant review in accordance with the requirement of National Grid's Transmission Licence:

Support	<input type="checkbox"/>	Neutral	<input checked="" type="checkbox"/>	Against	<input type="checkbox"/>
---------	--------------------------	---------	-------------------------------------	---------	--------------------------

Please add any justification you feel appropriate for your choices above.

--

Other comments

7. Please provide any further comments you have on the charging arrangements for site-specific maintenance.

--