

GB Transmission Charging Methodologies Forum

Draft Meeting Report: 21 February 2006

This report outlines the key discussions and actions of the GB TCMF meeting. All presentations, agendas, meeting notes and future meeting dates are available at the TCMF web page of the National Grid Industry Information website at <http://www.nationalgrid.com/uk/Electricity/Charges/TCMF>

ATTENDEES

Richard Court	Chairman	Stefan Leedham	Chemical Industries Assn.
Jan Gascoigne	National Grid (Secretary)	Kirsten Elliott-Smith	ConocoPhillips UK
		Bob Brown	Cornwall Energy
Stuart Easterbrook	National Grid	Stephen Moore	EdF Energy
Adam Brown	National Grid	Paul Jones	Eon
Patrick Hynes	National Grid	Simon Lord	First Hydro – by telephone
Craig Maloney	National Grid	Robin Miller	Gaz de France – by telephone
Nick Pittarello	National Grid	Tim Warham	Ilex Energy Consulting
Toby Thornton	National Grid	Michael Dodd	Ofgem
Kevin Lee	National Grid ICB	Grant McEachran	Ofgem (Scotland)
Malcolm Taylor	AEP – by telephone	Andy Manning	RWEnpower
Richard Ford	British Wind Energy	Frank Prashad	RWEnpower
Andrew Neeves	Central Networks	Alex Mackinnon	Scottish Power UK Division
Pat Wormald	CE Electric UK	Mo Sukumaran	SSE
Merel van der Neut	Centrica	David Densley	SSE
Kolfschoten			

1 Actions from previous meeting

Action: The meeting agreed the Minutes and Actions and these will be placed on the website.

2 GB Charging Conditions

- **Condition 2 – Incremental Cost of Capacity**

National Grid gave a presentation reviewing the work to date on Condition 2. The review actually carried out has extended considerably beyond the original remit. The presentation can be found on the National Grid Charging Website at <http://www.nationalgrid.com/uk/Electricity/Charges/>

National Grid went through the individual areas of the methodology it had looked at in connection with Condition 2. For each of these, National Grid reviewed the main issues, the analysis undertaken and, where appropriate, the options available. Finally, for each area, National Grid summarised its conclusion.

National Grid noted where further transparency could be added to the current charging methodology and also how amending the methodology might improve transparency.

National Grid discussed whether it is more appropriate to use forward-looking costs or historic costs in calculating the incremental cost of capacity. In order to treat new and existing Users equally, National Grid believe that the methodology needs to be forward-looking, though recognises that there is significant scope for considering exactly how forward-looking and which elements should be included.

Discussion with the industry had highlighted no real alternatives or benefits to changing from the current approach. National Grid considered that the current tariff based on average historic costs adjusted by known indices to reflect future trends was reasonable. An improvement in terms of the Condition 5 report would be considered when it could be shown the forecasts were reasonably accurate.

In the first workshop the assumption of unity power factor was queried. Whilst the incremental cost of capacity is derived from MVA figures, the Direct Current Load Flow (DCLF) transport model produces a MW figure. National Grid noted alternative methods that recognised unity power factor was a simplification. Following much discussion at CISG National Grid had concluded that unity power factor was a reasonable simplification. National Grid noted it would include the alternatives, along with an assessment of impact in the final report.

During the review National Grid had also looked at the handling of spare capacity, previously it had been suggested this should be reflected in the incremental cost of capacity. It was noted that the issue of spare capacity was discussed at great length during the GB charging consultation process.

In discussions at CISG no alternatives to the current regime were offered during the meeting. It was concluded that further review of the treatment of spare capacity was not necessary.

National Grid had extensively reviewed the issues of cost reflectivity of the incremental cost of capacity.

The incremental cost of capacity is made up of a number of areas. Each of these has been reviewed and national Grid put forward alternatives for many of the areas. Discussion at CISG generally focused on ensuring that the costs were reflective of GB rather than just E+W costs.

National Grid highlighted the next step was to produce a draft report for CISG. In this report National Grid would focus on 3 main issues. Firstly ensuring that the methodology explained how Incremental Cost of Capacity was derived, and how it is used in the model. Secondly, it would highlight the issues presented with a particular focus on ensuring Incremental Cost of Capacity was representative for GB rather than E+W. Finally, the report would seek to justify the use of new overhead line cost as a proxy for all types of new build.

- **2006/2007 TNUoS Tariffs**

The 2006/7 TNUoS Tariffs presentation explained the processes and data involved in calculating TNUoS demand and generation tariffs. It showed an analysis of the various elements of the data and methodology to explain how each one affected the tariffs for 2006/7 compared with 2005/6. The many elements were grouped into categories such as 'target revenue', 'generation and demand background' and 'expansion constant and network' for ease of presentation. Key points of the presentation were that the tariff increases were primarily due to the increased revenue allowance from the outcome of Ofgem's mini price review (10% including inflation), generation tariffs were less stable than the demand tariffs and each of the various elements comprising the calculation of the tariffs played their part in the overall tariff changes from 2005/6 to 2006/7. The presentation can be found on the National Grid Charging Website at <http://www.nationalgrid.com/uk/Electricity/Charges/>

- **Condition 3 – Intermittent Generation**

National Grid provided an update of how it is intended that Condition 3, which relates to intermittent generation, is to be taken forward. The presentation can be found on the National Grid Charging website at <http://www.nationalgrid.com/uk/Electricity/Charges/>

National Grid explained its interpretation of the SQSS and how this feeds through to investment signals. The GB security and quality of supply standard, GB SQSS, includes a deterministic and an economic assessment approach. This deterministic approach deals with the minimum transfer requirement and only applies to groups greater than 1500MW. National Grid also believed this was therefore not drafted with the current situation of relatively small renewable generation projects in mind. The current deterministic approach treats thermal (modelled at 83%) and wind generation (modelled at 60%) differently, but for local connections of less than 1500MW, there is no guidance.

National Grid concluded that there is currently no evidence to suggest that economic investment proposed for current generation projects is less for intermittent generation than for thermal. As such, there is no justification to modify the Use of System charging methodology for intermittent generation. National Grid agreed to keep the issue under review and to specifically consider the SQSS review.

- **Condition 4 – Long-Term Fixed Access Products**

National Grid updated the group on the progress made on this charging condition. National Grid noted that the consultation process had revealed two strands:

- the development of long term fixed access products; and
- the development of long term fixed tariffs.

On the first of these, National Grid proposed to take this work forward outside the charging condition and develop such arrangements through the user commitment models being considered in the transmission price control review. This would also need to consider the associated implications for charging.

[Post meeting note: Ofgem has subsequently announced the formation of a working group that it will lead to consider the design of these models.]

With respect to the second of these strands, National Grid proposed to develop arrangements to enhance the stability and predictability of transmission charges, as there was little appetite for longer term fixed tariffs without consideration of other issues (not least the appropriate party to bare the risk of over or under recovery of revenue).

National Grid proposed that it would prepare a report covering both strands of the charging condition and that a draft of this would be discussed at the next CISG meeting. The consensus at the meeting was that this was an appropriate way forward.

3 Charging Issues Standing Group (CISG)

Stuart Easterbrook gave a summary of the meeting on 31 January. A draft of the report is required before the next meeting and will be ready by 7 April. It was suggested that the meeting on 29 March be cancelled or the date used as an opportunity to run through the model for those who are new to Transmission Charging. It was agreed that 29 March be so used and that the draft report be taken at the TCMF on 18 April.

[Post meeting note: The CISG meeting has been arranged for 26 April and due to public demand a further tutorial day has been arranged for 11 May.]

4 Current Charging Issues

- ❖ **Ofgem CAP093 - Enabling the flow of electricity from distribution systems into the transmission system at Grid Supply Points - Decision**

National Grid presented a summary of Ofgem's decision in relation to CAP093 -. Ofgem's rejection of CAP093 was primarily based on the lack of consistency the proposed definition of "GSP" would have had in the CUSC compared to the current definition outlined in the Electricity Transmission Licence. This lack of consistency, in Ofgem's view, would increase the risk of National Grid being unable to fulfil its licence obligations. Ofgem were also concerned by the CAA proposing a definition of "GSP" that would include Connection Sites that did not at any time deliver electricity from transmission to distribution.

In the decision letter Ofgem did however point out that the CUSC definition of "Distribution System" was not consistent with the Electricity Licence decision and that it would be beneficial if the Electricity Licence definition was better reflected in the CUSC. Ofgem further noted that there is flexibility within Bilateral Connection Agreements to cater for non-standard types of customer requests and that the CUSC should clarify the types of connections available to DNOs. These options should be fully reflected in the Exhibits of the CUSC.

National Grid is presently reviewing Ofgem's decision.

- ❖ **FMS Metering**

National Grid updated the TCMF on the discussion at 31 January CISG, regarding the proposed modification to the GB Connection Charging Methodology for the treatment of FMS assets. During

the CISG, an industry attendee commented that it might not be equitable to transfer FMS assets into infrastructure and charge as TNUoS, where generators would be eligible for 27% of the charge when they already pay connection charges on their own assets. National Grid presented the scale of the proposal and invited comment from the TCMF attendees as to whether the proposal was sufficiently material for this to be regarded as inequitable, considering that the impact on generators would be an increase in the average generators TNUoS charge of less than 0.1%.

The general consensus was that the proposal was sufficiently immaterial for the proposal to be considered, although one attendee questioned the principles behind the proposal if not the materiality. National Grid confirmed that an industry consultation will be published in the near future.

The slides presented can be found on the National Grid Charging website at <http://www.nationalgrid.com/uk/Electricity/Charges/cisg/>

5 European Charging Issues

National Grid noted the future ITC scheme, for implementation in 2007, was being discussed at the regulatory level. National Grid indicated that, as per previous discussions, consequential changes to the GB charging methodology would be dependant on the model chosen for ITC. National Grid would also need to discuss with Ofgem the wider revenue recovery issues. It was noted that National Grid was expecting the regulators forum to propose a model by the end of March 2006. Following this National Grid would discuss detailed option with CISG.

6 Events before Next Meeting

- The CISG Meeting on 29 March 2006 has been cancelled and the date is now being used as a Charging Tutorial Meeting. Another Charging Tutorial is to be held on 11 May 2006.
- The next CISG Meeting is on 26 April 2006
- Decision on CAP094 Limited Duration TEC

7 Any Other Business

- Stephen Moore and Stuart Easterbrook informed that this would be their last meeting.

❖ Date of Next Meeting

18 April 2006 in National Grid House, Warwick.

End of Report