GB Transmission Charging Methodologies Forum

Draft Meeting Report: 27 August 2008

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

Chris Bennett	National Grid (Chair)	Craig Maloney	National Grid
Hêdd Roberts	National Grid	Andrew Truswell	National Grid
Patrick Hynes	National Grid	Tom Ireland	National Grid
Chris Stewart	Centrica	Paul Jones	E.ON
Dan Jerwood	Gaz de France	Frank Prashad	REW npower
Peter Waghorn	Cornwall Energy	Anthony Mungall	Ofgem
Louise Schmitz	British Energy	Michael Dodd	Ofgem

1 Actions from previous meeting

Action: The meeting agreed the Minutes and Actions, these can be located on the website at http://www.nationalgrid.com/uk/Electricity/Charges/TCMF.

Action on National Grid to provide clarification concerning the proposed charging arrangements for CEC before TEC applications – why are these works treated as exceptional and as one-offs?

All presentations have been placed on the Industry website.

2 Current Charging Issues

- **Offshore Transmission – Hêdd Roberts**
  - HR provided some background regarding both the pre-consultation and consultation documents and noted that following these, Ofgem had contacted National Grid on 30 May, 2008 requesting that National Grid undertake a supplementary consultative process. National Grid noted that this further consultation should also cover the "embedded transmission" issue following the conclusion of the Offshore Transmission Embedded Working Group.
  - Following this, National Grid presented its proposals for the forthcoming consultation:
    Connection / Use of System boundary: Offshore substations and cables could potentially be shared, which means that treatment as connection assets would require a sharing methodology exposing Users to the actions of other generators and OFTO decisions for wider reasons. Consistent with local charging, higher substation costs would be reflected through TNUoS without exposing Users to the actions of others. FP noted that there is currently no demand offshore and that generators should therefore pick up an appropriate share of these costs
    Expansion / Security factors and Substation tariffs: HR proposed that specific expansion factors be used to cover locational revenue, including the cost of reactive

compensation equipment. Consistent with local charging, HR proposed specific Locational Security Factors (LSF). HR proposed that substation tariffs should reflect the difference between offshore platform on onshore civil costs and whilst although potentially shareable, offshore substations assets should be targeted to generators rather than socialised. It was noted that reflecting such costs through TNUoS rather than connection charges would protect Users from the actions of others.

HVDC: HR proposed that there was no intention to change the proposals from those detailed in the December 2007 Consultation, although it was noted that further thought was required regarding the consistency of treatment between HVDC and AC cables (and substation costs) which would be fleshed out in the forthcoming Consultation.

Embedded transmission: Consideration was given as to how National Grid (as GBSO) should reflect the DNO charges levied upon it in transmission charges. The options presented were 1) charge the OFTO and treat the revenue as an excluded service; 2) charge offshore generators and treat the revenue as an excluded service; 3) charge offshore generators and include in the RPI-X revenue restriction; or 4) include in the RPI-X revenue restriction and socialise through the residual TNUoS tariff. HR noted that the current preference of National Grid is Option 1 which is perceived to be simple and charge generators on a cost-reflective basis. PJ questioned as to why the DNO would be levying charges on National Grid in preference of the User and noted that whilst a generator would be paying transmission charges, they would not be receiving the associated benefits of being connected to the transmission system.

Industry Comments: FP made the following comments 1) In general there should be consistency between on and offshore although there are genuine differences between the two and may require some different treatment 2) Offshore is just for generation, there is no feasible offshore demand, therefore a connection sharing methodology should not be too problematic.

PJ questioned whether the offshore methodology targeted all the costs. HR confirmed that a degree of cost targeting was being introduced to the non locational element so as to eliminate any incentive to move costs from one 'pot' to another.

- **Inter TSO Compensation Scheme – Pat Hynes**
  - PH provided presented an overview of the ITC scheme that National Grid as GB TSO has signed up to, with the conditional agreement of Ofgem. National Grid described the basis of charges and cost recovery within the scheme for both infrastructure and losses. National Grid explained that the major proportion of the cost was associated with compensating other TSOs for use of their grids to transport MWs to the UK. A much smaller element was for losses caused on other grids. There was also a small element of benefit that associated with losses that are saved on GB system as the flow of transit is counter to the actual flow i.e. the transit flow is from Sellindge to Auchencrosh and the system flow id from Auchencrosh to Sellindge.
  - National Grid indicated that its current understanding of the Regulation leads to the conclusion that costs cannot be explicitly charged to interconnector parties, this being the case National Grid believed it would be inconsistent to pass though any smaller benefit to interconnector parties.
  - National Grid is expecting to publish a consultation on this issue shortly. Whilst at this stage National Grid was not proposing a change, views were being sought on the subject. Following consultation National Grid would bring back initial conclusions to TCMF.

- **Generator Local Asset Charging - Tom Ireland**
  - The high level aspects of the ongoing local charging consultation were reviewed, with the consultation closing two days later. Two solutions were presented:

    a) Specific Treatment – Deterministic criteria used to identify MITS nodes and local tariff based on incremental circuit flow to the proximate MITS node(s). Cost reflectivity improved by the application of local security factor and local expansion factor.

b) Distance to zonal hub - Local charge base upon difference between the generator's marginal cost and the generation node with the lower marginal cost in its generation zone. A secured load flow model is used which inherently factors in post outage power flows. Local expansion factors are also used.

- A Substation tariff (£/kW) would also be applied with both options levied on all directly connected generators.
- **Action:** Consideration needs to be given in how or if a partial redundancy factor can be included in the final proposals.

- **CEC before TEC**
  - HR noted that in this instance, a one-off charge under the connection charging regime is only a temporary charge on non-standard incremental costs, not the cost of the entire asset. It was considered that local charging may address this issue, but further thought was required. It was noted that the introduction of the concept of LCN may not address the issue as a User may still be able to apply for CEC prior to applying for LCN.
  - **Action:** National Grid to take this away and consider a bilateral meeting with a subsequent note to the industry. TAR Working Group 3 to consider the role of LCN in this context.

- **Transmission Access Review**

Fixed Tariffs – Hêdd Roberts

- HR provided a verbal update on the progress made to date on fixed TNUoS tariffs. It was noted that the CAP165 CUSC Amendment Proposal will change the definition of an access right and that the TAR Working Group 2 had shown little enthusiasm for fixed tariffs to date given the element of risk which would be prevalent for Users that cannot obtain a fixed tariff. Additionally, the Working Group had raised concerns over the role of the residual TNUoS tariff as a revenue balancer in this instance. PJ noted that Users can already hedge against changes to their TNUoS tariffs if they wish, although it was noted that this is not easy. LS considered that many of the arguments made in the Condition 4 Report which followed the implementation of BETTA remain valid.

Charging of the Residual – Craig Maloney

- CM gave an update on the progress made to date from the TAR Working Group 3. An overview of the principles of TNUoS charges and current revenue structures was provided. It was noted that the potential change in the nature of how transmission access is allocated presented the case for change in how the residual element of the TNUoS tariff should be charged, in that Users of short-term access products should be liable for a proportionate element of the residual tariff to reflect their use of transmission assets which exist as a result of historical and 'lumpy' investment.
- CM noted that a pre-consultation document will be published in September 2008, presenting three potentially suitable options to the industry in the form of:
  Commoditisation: whereby the residual element of the TNUoS generation tariff is levied as a uniform charge on generation Users of the transmission system on a half-hourly metered generation basis (£/MWh) for every Settlement Period throughout the charging year;
  Local Capacity Nomination: whereby the residual element of the TNUoS generation tariff is levied on a capacity basis on generation Users of the transmission system based on their 'Local Capacity Nomination' (£/MW); and
  Daily Peak Generation: whereby the residual element of the TNUoS generation tariff is calculated as a daily peak utilisation charge based on the metered

generation over the period 16:00 hrs to 19:00 hrs inclusive (i.e. settlement periods 33 to 38) every day over the charging year (£/MWh).

Short-term Access Update – Patrick Hynes

- PH updated TCMF on the progress in Working Group 1.
- SO Release, three options are being discussed: Auctions at 5 weeks ahead and 2 days ahead, and CLDTEC, which is a more flexible version of the existing LDTEC. The auctions are pay a bid and CLDTEC is pay as NGET forecast (accept on). The general methodology is that National Grid would allocate access if it believed that it could accommodate this efficiently through the Balancing Mechanism i.e. the access was priced at the cost in operations.
- Overrun, the main discussion had been around overrun charging. The working group have been developing and assessing three methodologies, a simple ex ante charge indexed (to BSUoS-RCRC) on the day, ex post Cost Recovery where a degut process is carried out to determine the cost of overrun, and a marginal methodology where the incremental cost of facilitating overrun is used to set the charge. Within these models the issue of negative pricing has been discussed extensively and yet to be fully concluded, particularly on the Cost Recovery model.
- Sharing, the main discussion in the group had been around the process of sharing. On the understanding that the zones would be set to an 'efficient' size, or that any alternative exchange rate options would mitigate and additional costs, there is not expected to be a significant changing implication.

3 Events before Next Meeting

- Working Group Consultations for the CUSC Amendment Proposal CAP161-166 to be published for a 4-week consultation.
- Corresponding charging consultations to be published.

4 Any Other Business

- **Date of Next Meeting:**

  The next TCMF meeting is to commence at 10am on 28th October at National Grid House Warwick

  The CISG meetings are to be cancelled throughout the Transmission Access Review in order to allow Industry member to attend the various Working Groups sessions.

  End of Report