

Charging Arrangements for Site Specific Maintenance

Summary of responses and Initial Conclusions

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.

Industry consultation

Recently a “tick-box” questionnaire was sent to industry participants seeking views on three main areas that could be summarised as:

- The appropriateness of the existing arrangements for recovering the costs of site-specific maintenance;
- 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
- A number of options for reforming the connection charging arrangements.

This was followed up by an invitation to the Scottish Transmission Owners to provide comment whom both did. Six responses, for the questionnaire, were received and this document presents National Grid's initial conclusions with the purpose of initiating further debate at the relevant charging forums. The views represent 5 Distribution Network Operators and 3 Generators, as some responses reflect multiple parties. It is felt that the relatively low response rate reflects a certain apathy towards the area and a broad industry acceptance of the existing arrangements.

Summary of responses

The Users' replies have been listed in the appendix and the broad conclusions drawn out below and summarised into the three main areas.

Appropriateness of existing arrangements

None of the parties believe that the present connection charging methodology is disproportionate to both the magnitude of the cost of site specific maintenance and the current contestability arrangements.

The two parties representing DNOs believe existing arrangements are not cost reflective, in part because not enough information is available to judge. The other parties do not support this view. No parties believe that the existing arrangements discriminate against any type of connectee.

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

The case for changing the present charging arrangements

No respondents think there are significant benefits to contesting site specific maintenance. One party states a negative benefit to their organisation of contestability, with liabilities outweighing benefits.

Against this background, only one respondent supported changing the charging arrangements and no respondents supported developing systems and processes to capture costs on a site, asset, and user specific basis. The respondent that believed the charging arrangements should be changed supported one of the alternative options presented in the questionnaire.

Support for options reforming connection charging arrangements

The following options were proposed:

1. 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:
2. Absorb within the transmission running cost factor, as in above, but determine this factor on an annual basis:
3. Introduce regional site-specific maintenance factors for each TO area:
4. Maintain the status quo for the time being and keep the methodology under constant review in accordance with the requirements of the National Grid's Transmission Licence:

Two of the options include the combination of transmission running cost and site specific maintenance charge. For one variation, this combined value would be set for the duration of the Price Control, and for the second option it would be recalculated on an annual basis, which would more closely reflect the actual cost but the associated reduction in predictability may hinder competition. Both received support and rejection with the majority ambivalent.

No Users supported a regional solution based on unique Site Specific Maintenance factors for each TO region, although one respondent was neutral.

The final option is to retain the existing methodology and keep under constant review, which had one against, one neutral with the remainder supporting it. However, the opposing party felt that while the charges did not need to be any more cost reflective it should be rolled-into the transmission running cost as both were similar expenses.

Initial conclusions

National Grid believes that competition in connections is an important element in protecting the interest of consumers where this is effective. Historically there has been very little evidence that competition in the maintenance of connection assets exists, particularly given the level of uptake observed in England & Wales since such provisions were introduced in 1994. The responses to the recent questionnaire appear to support this view. We anticipate that Ofgem's review on competition in connections will seek further views in this area.

Against this background, National Grid believes that it would be inefficient for it and the Scottish TOs to develop the charging systems needed to capture maintenance costs on asset, site, and User specific basis. Furthermore, the prevailing view from Users is that the present charging arrangements are proportionate to the costs to be recovered through the charges and the arrangements for contestability. Accordingly, National Grid's initial conclusions are that the current connection charging arrangements should remain unchanged but be kept under constant review in accordance with the Transmission Licence.

Next steps

National Grid believes that as no methodology changes are justified it is appropriate to prepare a report setting out the conclusions of the review. One of the DNOs suggested that it was difficult to judge how proportional the Charging Methodology is without a more detailed breakdown of what work has been performed. The report will include an assessment of whether there is value in providing enhanced feedback of work scheduled and completed. The Transmission Owners currently do not have the asset management system to provide detailed work break down information.