

## Transmission Charging Methodologies Forum

### Draft Meeting Report: 30<sup>th</sup> September 2009

*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

Mark Ripley	National Grid (Chair)	Anthony Mungall	Ofgem
Hêdd Roberts	National Grid	Bridget Morgan	Ofgem
Patrick Hynes	National Grid	Paul Jones	E.ON UK
Nigel Fox	National Grid	Michael Dodd	ESBI
Adam Sims	National Grid	Mike Wilks	KEMA
Sarah Hall	National Grid	Rachel Fowler	RWE npower
Adam Brown	National Grid	Frank Prashad	RWE
Ivo Spreeuwenberg	National Grid	Garth Graham	Scottish and Southern
Ian Lomas	DECC	James Anderson	Scottish Power
Louise Schmitz	British Energy	Helen Snodin	Xero Energy
Chris Stuart	Centrica	Peter Waghorn	Cornwall Consulting
Ricky Hill	Centrica	Gurpal Singh	St. Clements Services

#### 1 Minutes and actions from previous meeting

The Minutes and Actions were circulated, these are available on the National Grid charging website at <http://www.nationalgrid.com/uk/Electricity/Charges/TCMF>.

**All presentations can be viewed on the National Grid website:**

<http://www.nationalgrid.com/uk/Electricity/Charges/TCMF/>

#### 2 Stability of Charges - Centrica

Centrica presented BSUoS charges as being highly volatile in 2008/09 with this volatility being an issue for generators, suppliers and consumers in the form of negative impacts on the market due to a potential for uneconomic dispatch. Centrica's proposed methodology smoothed BSUoS charges within year by charging 1/12<sup>th</sup> of each of the previous 12 months' outturns in a given month. In order to overcome the issue of over and under-recovery an adjustment for previous errors could also be included. The presentation is available on the National Grid website.

[http://www.nationalgrid.com/NR/ronlyres/DC114EB8-D0BC-4745-ABCF-F4CAC8F573A3/37279/TCMF\\_presentation\\_30092009Centrica.pdf](http://www.nationalgrid.com/NR/ronlyres/DC114EB8-D0BC-4745-ABCF-F4CAC8F573A3/37279/TCMF_presentation_30092009Centrica.pdf)

Some discussion clarified that this methodology would impact when a payment would be made, but not what one would have to pay and that it was therefore more about impacts on cash flow. There was some question as to whether National Grid was best placed to provide this service. More fundamentally the question of whether this methodology could have a negative impact, rather than a positive one, on the efficient dispatch of generation arose. Centrica undertook to take this away for consideration.

### 3 **GB-ECM17 – Transmission Charging a new approach**

National Grid presented a summary of the analysis completed for the proposal to move to a flat, rather than locational TNUoS charge as raised by the Scottish Executive. The perceived need for change was based on the proposition that existing tariffs create an uncertain environment for investment and discriminate against renewable generation. The analysis received by National Grid in response to consultation and carried out by National Grid itself showed that TNUoS charges were not volatile when illustrated on an absolute value rather than a percentage basis. Further analysis was also presented that showed that the original proposals did not compare like for like when comparing TNUoS tariffs and investment cost. When a like for like comparison is carried out the correlation between tariffs and investment cost is very strong. Therefore it was concluded that the existing approach was more cost reflective than the Scottish, flat proposal. Overall, the existing approach was deemed to better facilitate the relevant objectives and National Grid could therefore not progress the proposal further.

National Grid thanked the industry for their engagement with detailed and useful analysis of issues provided in their responses to the two rounds of consultation held. National Grid also noted that tariff volatility caused by re-zoning and appropriate charging for wind generation were identified as important areas for improvement to the existing methodology that would be further investigated. National Grid's initial options for these two areas were presented.

The presentation is available on the National Grid website.

<http://www.nationalgrid.com/NR/rdonlyres/65DFC0B7-27CA-4825-BD56-528B93BFC543/37274/ConclusiontoECM17.pdf>

It was noted that the graph evaluating cost reflectivity in this presentation did not include offshore costs. However, a similar graph included in the conclusions report did. This was simply a different way of illustrating the same data (with or with out offshore costs and tariff included) and they both led to the same conclusion.

For work on *tariff volatility caused by re-zoning* it was suggested that some analysis to fully understand the nodal situation would be beneficial as a comparator for how relatively fair any solution may be. In addition, whilst some parties will change zones to their detriment, others will benefit from such a move. Any mechanism that dampens the effect of moving zones will have to apply to all parties. The Charging Issues Standing Group will be looking at this issue

For work on *appropriate charging for wind* National Grid demonstrated how based on the principles of the 'value of transmission' (SRMC vs. LRMC) the charging elements of CAP171 could still be relevant even if the whole package was previously rejected. Some analysis undertaken by National Grid using a number of assumptions, illustrated that wind could be paying around double what it should be. There was some sentiment that further work on this could amount to wasted time and resources without the decision on access from DECC that is imminent. However, the DECC representative present indicated that to the extent this work would inform DECC's ongoing conversation with National Grid on these matters that this work would be useful.

### 4 **Embedded Generation Charging**

#### **a) Offshore transmission – E.ON**

E.ON UK presented views on exemptable generation connecting to embedded transmission assets. The main premise was that currently this type of generator is not liable for onshore TNUoS and that it was not clear why this should change simply due to an alteration in the ownership of the offshore network. E.ON asserted that generation projects designed and built to one regime should not be unduly disadvantaged by the new arrangements, promoting investor confidence. The presentation is available on the National Grid website.

<http://www.nationalgrid.com/NR/rdonlyres/8AFACA75-F10F-4A54-9859-785BCDE7A9E8/37273/EmbeddedTransmissionChargingforTCMF300909EON.pdf>

The general feeling was that everyone would benefit from more clarity on the different kinds of generators (licensed/unlicensed, transmission connected/embedded, etc.) and the different elements of charges for which they are liable. E.ON undertook to produce such a summary for all attendees.

National Grid agreed to take this away and raise a modification within the timescales requested. However, it was noted that there is still a larger issue around embedded generation that National Grid is obliged to take forward.

#### **b) C13 – Discount for small transmission connected generators – Next steps**

National Grid has a licence condition to look at transmission arrangements for distributed generation. No new models have come to light since the work undertaken through the transmission arrangements for distributed generation (TADG).

A pre-consultation will be released by National Grid outlining the two models previously worked up and calling for any others.

### **5 Inter TSO Compensation (ITC)**

National Grid outlined the ITC mechanism and its purpose including the fact that it is currently in a voluntary, 2 year deal with the regulator. However there is no ITC in place for next year (2010) at this time and this is currently under discussion with ENTSO-E.

It is up to National Grid to assess the costs of this scheme and the relative benefits for the industry as a whole and make a recommendation to Ofgem on whether or not to enter into a deal. National Grid updated the industry on progress and that the potential renewal of the scheme will most likely not conclude until just before the deadline.

There was a request that when tariffs were published that it was made clear whether ITC costs were included or not. For 2009 these costs were €9.73m and it is thought that they are unlikely to be significantly different for 2010. Therefore, the impact on overall charges, amounting to ~£1.4bn, will be minimal.

### **6 GB-ECM – Locational BSUoS**

National Grid presented the analysis undertaken to date on locational BSUoS. The analysis showed that locational BSUoS signals the cost of constraints to generators so that they can factor the cost of these into dispatch decisions. The model used was very sensitive to the merit order assumptions of marginal plant and assumed that generation would react to the signals i.e. adjust their merit position accordingly.

The model showed that when locational BSUoS is introduced the 'wholesale' price generally reduces, that users can still exercise market power, but to a lesser degree and that the main revenue flow is from non Balancing Service providers (inflexible plant) to those who do provide Balancing Services (flexible plant) behind a non-compliant boundary. The presentation is available on the National Grid website.

<http://www.nationalgrid.com/NR/rdonlyres/EECB6D5E-38E2-4A9F-BAAA-5A42F14FA211/37270/LocBSUoS.pdf>

Locational BSUoS reduces the cost of constraints because it changes the unconstrained merit order of generation (i.e. parties take this cost into account within their dispatch decisions). National Grid noted there may be a requirement from generation to develop an option to hedge against these costs.

National Grid will be writing up the results of the analysis and publishing them shortly.

## 7 SQSS – Change to largest loss

Frequency response is required to maintain a stable system by balancing supply and demand in short timescales. Plant must be able to provide a minimum of 10% capacity as frequency response. The cost of obtaining this service is socialised across all users of the system. In future, the introduction of generating units larger than the current *infrequent infeed loss risk*, as defined in the NETS SQSS has led to the need to review this parameter. The technical aspects of this review have concluded through GSR007, which recommended an increase in the *normal infeed loss risk* from 1000MW to 1320MW and an increase in the *infrequent infeed loss risk* from 1320MW to 1800MW. The cost of procuring the necessary response services could increase to cover these larger risks.

A review of response charging will seek to ascertain whether the socialisation of all response costs is still appropriate. The high level options would be to retain this socialisation of all costs or to target the additional costs at units that create them. An alternative may also be a new approach that charges according to different bands of generation. The presentation is available on the National Grid website.

<http://www.nationalgrid.com/NR/ronlyres/B59CAE4A-A1CF-492D-8558-E1BB2F3D6672/37269/LargeUnitLossTCMF300909.pdf>

This issue is to be taken forward under the Charging Issues Standing Group.

## 8 Multiple tariffs within year

Normally the amount of revenue that a TO is able to recover (within E&W and Scotland) does not change within year. This will have to change in the near future due to the timing of 'go-live' for the offshore regime (June 2010) when new OFTOs will be appointed and potential TAR arrangements within the same timescale. At this stage NGET as NETSO will have to collect revenues for offshore TOs that are additional to those set at the start of the financial year. Currently, the charging methodology does not outline how this can be done. The presentation is available on the National Grid website.

[http://www.nationalgrid.com/NR/ronlyres/2C7EF190-8637-483A-8718-536B69C506C2/37268/Proposalsformultipletariffswithinyear\\_Final.pdf](http://www.nationalgrid.com/NR/ronlyres/2C7EF190-8637-483A-8718-536B69C506C2/37268/Proposalsformultipletariffswithinyear_Final.pdf)

There is a need to clearly define how users' charges would be determined if there is multiple tariffs in a year whilst minimising uncertainty. Those in attendance indicated that a look up table that outlines the impact on charges for a range of additional offshore costs would be helpful. A necessity for clarity of what tariffs are being charged to whom and when was also reiterated.

## 9 A.O.B.

National Grid will arrange some charging issues standing group meetings.

### Dates of future meetings to be held at National Grid House, Warwick:

Thursday 26<sup>th</sup> November, 2009

Wednesday 27<sup>th</sup> January, 2010

Wednesday 31<sup>st</sup> March, 2010

Wednesday 26<sup>th</sup> May, 2010