

Charging Issues Standing Group

Minutes: 24th February 2010

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

ATTENDEES

Hëdd Roberts	National Grid (Chair)	Toby Manning	Toby Manning Ltd.
Pat Hynes	National Grid	Paul Jones	E.ON
Ivo Spreeuwenberg	National Grid	Michael Dodd	ESBI
Adam Sims	National Grid	Rachel Fowler	NPower
William Kirk-Wilson	National Grid	James Anderson	Scottish Power
Iain Pielage	National Grid	Richard Ford	RES
Nick Pittarello	National Grid	Tim Russell	Russell Power
Louise Schmitz	EdF Energy	Garth Graham	SSE
Ricky Hill	Centrica	Anthony Mungall	Ofgem

1 Wind Charging

National Grid presented analysis on a comparison of investment volumes between wind and thermal generation that had been undertaken. The work built on analysis previously undertaken for a single boundary and single timeframe, and used Imperial College's DTIM tool to investigate multiple boundaries and timeframes. The methodology and results were provided which showed that the ratio of investment between wind and thermal varied depending upon which generation type was dominant in the zone under consideration. The merit order which the model uses to match generation to demand sometimes turns off marginal plant in the south, and this causes additional reinforcement below the zone under consideration in order to support demand.

It was noted that the analysis was very sensitive to the many assumptions, in particular the merit order. Discussion took place, and it was noted that the assumptions on merit order dwarfed any inaccuracies caused by other aspects of the modelling. In the initial studies National Grid has also assumed a 0% rate of return in the annuitisation for simplicity, and that this merited further work. A respondent questioned how the investment baselines were arrived at, and it was confirmed that the optimum incremental investment was determined first before the additional generation was added (however at this stage 'spare' had not been removed). National Grid noted that the model accounted for different demand levels but not system dynamics, and the merit order was static over the 23 years considered. It was also noted that the assumptions for interconnectors were too unpredictable over the timescales to be included. A participant asked whether a dynamic merit order could be introduced, and National Grid noted that it was possible to change the bid price in each period (total of five periods).

National Grid presented the results of the analysis using the Gone Green 30 scenario, which showed wind generation requiring more investment than the equivalent thermal. It was explained that this was due to the ability of new thermal plant to share capacity created by large amount of wind generation, however the new wind could not share with existing wind and so additional reinforcement was identified. National Grid stated that whilst the analysis did not include ENSG reinforcements directly, they were implicitly included as the

model reinforced, but at the cost provided. Participants questioned why under this scenario wind was 160% of gas in zone 6 but only 140% in zone 1, as this seemed counter-intuitive.

Action National Grid to investigate.

One participant stated that the implications on BSUoS of the analysis would need to be investigated. A further participant questioned whether the SQSS review was required before any charging changes could be made, National Grid agreed but felt that the analysis could provide useful input into the review.

National Grid will continue to refine the analysis.

2 Triad Analysis

National Grid presented the results of the analysis into the continued appropriateness of triad charging and the impact of the interconnectors. The analysis determined that the triad was still a good approximation of peak demand, being between 97-99% of historical peak. Progressively greater numbers of days were looked at to see whether they would increase accuracy, however beyond about 10 days the closeness to peak declined. Less than three days were not considered as this would increase volatility and increase the chances of an extreme weather event setting charges.

The flow across the French interconnector was compared to the price spread to identify any patterns in behaviour. It was noted that in 09/10 the interconnector often stopped flowing even though there was still a positive price differential between the UK and France, and this was put down to attempted triad avoidance. One participant questioned whether this was evidence that the triad was working through reducing large loads at times of high demand. Another participant responded that the interconnector was not considered by the regulator to be a normal demand, and that its behaviour in trying to avoid the triad charging period was considered to be a barrier to free trade.

It was pointed out by one party that there were two separate issues arising from this: is it right/legal to charge interconnectors differently, and is charging on triad or capacity booking more appropriate for demand? National Grid agreed that there was an implicit assumption on access rights for demand but explicit assumption for generation, through TEC. The impact on energy prices if triad was removed was discussed, with some parties believing there would be a reduction in investment. One participant noted that the fewer charging periods meant that more trading periods were open, and hence triad could be considered to be beneficial to trading. One participant commented that it would be useful to include the commoditised cost into the analysis to see whether it increased or decreased the number of periods available to trade. **Action National Grid to investigate.**

National Grid noted that the interconnector was so large that its behaviour often defines when the triad period is. EU legislation may be implemented which directs the treatment of the interconnector. It was noted by one participant that interconnectors on the continent were often owned by TOs and hence could avoid “pancaking” of charges by recovering revenue through domestic revenue, but this was not the case for the Anglo-French interconnector and so some additional charging was inevitable.

Further quantitative and qualitative analysis will be undertaken with a view to implementing any necessary changes by April 2011.

3 Treatment of HVDC Reinforcement

National Grid presented further analysis on the determination of the most appropriate methodology for including the HVDC links into the transmission charges. This modelling had been undertaken by fully utilising the existing onshore system and then adjusting the reactance of the HVDC links to carry the additional flow only. This gave a flow split of 21% for each HVDC link plus 29% for each onshore AC line. The expansion factor of 9.6 is

based on ENSG work which assumes that offshore cable is cheaper than onshore, based on BritNed costs.

Security for the HVDC links is assumed to be provided by the existing AC system, providing a security factor of 1.21. One participant stated that the methodology was unable to be audited as it would always produce different numbers, however this was disputed as the existing figure of 1.8 is produced through the same SECULF program and that did not produce different numbers. The development of zonal security factors was raised, and National Grid agreed that the analysis did raise issues with the cost reflectivity of a national security factor.

One participant noted that the analysis could be redone using the same percentage utilisation for both AC and HVDC lines. **National Grid to investigate.** The interaction with the wind analysis that had previously been discussed was raised, and National Grid confirmed that more analysis would be done on both. One participant questioned the apparent discrepancy between the ENSG report and the results of this analysis, as one of the main arguments in the ENSG report of constructing the HVDC links was that they would cost the same as the equivalent onshore reinforcement. **National Grid to investigate and run Transport & Tariff model with the ENSG reinforcements included.**

National Grid will continue to refine the analysis.

4 Two Year TNUoS and Commitment

Russell Power raised the likelihood of the forthcoming DECC decision on transmission access requiring parties to commit to paying TNUoS charges for two years whilst having no certainty of what the tariffs for the second year would be. Possible solutions offered were to set tariffs for two years, move to fixed rate tariffs or pay two years at the prevailing tariff upon termination. National Grid noted that DECC recognised the liability issue for terminating plant, and was given to understand that the current drafting of the access reform decision commits parties to paying a minimum of one year and one day at the prevailing tariff rather than two years.

5 Application Fees

National Grid presented the final proposals for restructuring the application fees. These proposals are based on feedback from the industry to National Grid's open letter. It is anticipated that an annual review will be undertaken to account for future changes to the industry.

6 A.O.B.

National Grid provided an update on final sums liabilities, noting that they were being reviewed now with a view to consulting on proposals in March / April.

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

28th April, 2010

30th June 2010