

GB Transmission Charging Methodologies Forum

Minutes of the Meeting held on 14 March 2005 Brandon Hall Hotel

ATTENDEES

Richard Court	National Grid Transco (Chair)
Jamil Ahmed	National Grid Transco (Secretary)
Stuart Easterbrook	National Grid Transco
Richard Lavender	National Grid Transco
Craig Maloney	National Grid Transco
Colin Sausman	Ofgem
Gayle Cairns	British Energy
Bob Brown	Cornwall Consulting
Steve Drummond	EdF Trading
Stephen Moore	EdF Energy
Simon Lord	First Hydro
Sarah Owen	Centrica
Paul Jones	Powergen
Mike Harrison	Scottish Power UK Division
Jeremy Sainsbury	Natural Power
Andrew Neves	Central Networks
Richard Smith	Central Networks (Observer)
Jim McCulloch	SP Power Systems
Stephen Woodhouse	Ilex Consulting
Mo Sukumaran	Scottish & Southern Energy
Frank Prashad	RWE Npower
Richard Ford	British Wind Energy Association
Stefan Leedham	Chemical Industries Association
Richard Bujko	Manx Electricity Authority

1 Minutes and Actions

- 1054) Richard Court, NGT, welcomed attendees to the March GB TCMF meeting.
- 1055) Richard asked attendees for any comments on the minutes of the previous meeting. Richard Lavender, NGT, highlighted a typographical error in minute 1032, where the scaling of embedded generation is discussed. The minutes will be amended accordingly and published on National Grid's charging website.
- 1056) Action 1032: NGT to review the scaling of embedded generation. Richard Lavender commented that this is an issue which has previously been recognised as requiring further attention and NGT will be seeking to progress the issue as part of the Charging Issues Standing Group (CISG) in the near future.
Action Cleared
- 1057) Action 1036: NGT to confirm that embedded benefits will not be affected by the proposal to levy BSUoS on the CUSC party. Richard Lavender reported that National Grid had circulated a note shortly after the January TCMF to confirm that the consequence of the proposed change will not affect the ability of an embedded generator to "net off" their BSUoS liability. A post meeting note was added to the minutes of the January TCMF for further clarity.
Action Cleared

2 Current Charging Issues

- 1058) Stuart Easterbrook, NGT, reported that several industry comments had been received on the Short Term TEC (STTEC) product and suggested that it would be useful to have a debate at the TCMF to discuss how the product was working. Frank Prashad, RWE Npower, started the debate with his view that there is a lack of clarity on the reporting of any STTEC application activity and stated that it was difficult to distinguish STTEC generation from TEC generation. Frank reported that published data such as the October update for the SYS did not correlate with other reports such as the Balancing Mechanism (BM) report. Frank also suggested that there should be an adjustment to the Maximum Allowed Revenue (MAR) TNUoS figure for the following year to account for any additional revenue gained from the STTEC product in the previous year.
- 1059) Stuart Easterbrook responded that there is an annual STTEC report due to be published shortly which will contain further details and information on the STTEC product. Frank suggested that he was unsure if the STTEC report will provide the appropriate information. Stuart commented that there may be associated confidentiality issues which would restrict the detail of the report but noted that further information could be published as part of the updates to the Seven Year Statement (SYS). Frank highlighted that there could also be confidentiality issues with the TEC product but the relevant information is published and suggested that there could be an element of manipulation of the generation figures in the DCLF model as STTEC generation does not feature in the DCLF model.
- 1060) Richard Court summarised the discussion and highlighted two points of contention. The first being publication of STTEC data when an application has been accepted or rejected by National Grid and the second focusing on the inclusion of STTEC generation in the DCLF model. Mike Harrison, Scottish Power, suggested that it is correct not to include STTEC generation in the model as the generation would be utilising spare capacity.
- 1061) Simon Lord, First Hydro, was of the opinion that there should be a commodity or locational element in the STTEC charge and noted that the STTEC product is currently a product designed for the winter period. Simon also commented that a fundamental review of STTEC is required and the issue related to the price of the product, not the product itself.
- 1062) Paul Jones, Eon, commented that STTEC was an inferior product compared to TEC and stated that that the short term product is particularly unhelpful when used for the purpose of bringing a mothballed generator back on the system. Mike Harrison, Scottish Power noted his concern with charging for the STTEC product, that the price should not be based on the cost of providing additional capacity, and called for a review of its pricing. Frank Prashad, RWE Npower also voiced his support for a review of the product.
- 1063) Jeremy Sainsbury, Natural Power, raised some concerns with the allocation of firm access through the Bilateral Embedded Generators Agreement (BEGA) and TEC product.
- 1064) Richard Bujko, Manx Electricity Authority, asked for some clarification on the STTEC product. Richard asked if the STTEC product was available to generators over the summer season. Stuart Easterbrook confirmed that the product was available to generators all year round and noted that there was no movement in price between seasons.

- 1065) Richard Court summarised the discussion and noted that a review of the product would be beneficial with options to be discussed in terms of the pricing regime and flexibility of the product. Stuart Easterbrook added that the Charging Issues Standing Group (CISG) could be used to discuss the STTEC product in further detail.
- 1066) Mo Sukumaran, SSE, asked if any further details could be provided by NGT on the content of the STTEC report. Stuart Easterbrook responded that the final details of the STTEC report had not yet been finalised and agreed to take an action to provide further information on the form of the STTEC report.

Action: NGT to provide further details on the form of the STTEC report

Post meeting note: The reporting of STTEC information by National Grid is governed by section 6.31 of the CUSC. For accepted applications, the report may typically include the details of the STTEC period, maximum and minimum amount in MW requested, identity of the User and the Connection site for each respective application. For rejected applications, the report may include the details of the STTEC period and the maximum and minimum amount in MW requested for each respective application.

3 European Charging Issues

- 1067) Richard Lavender, NGT, provided a brief update of recent European events regarding transmission charging. With regard to the Inter TSO Compensation (ITC) scheme, Richard confirmed that the EU have appointed consultants to advise on the guidelines with regard to recommending a scheme, including a costing methodology, in time for implementation in January 2006. Given the tight timescales involved in drafting the guidelines in time for a Florence Forum due in Q3 2005 and the commitment process that follows; it is likely that any approved scheme will be similar to the existing voluntary ETSO scheme. Richard also reported that as the final tariffs have recently been published for 2005/06, NGT had been asked by Ofgem to confirm the Average G calculation. This was to inform the Harmonisation of Tariffs guidelines. There was no further update as to the date of the next Florence Forum.
- 1068) Steve Drummond, Edf Trading, asked if there were any further updates on moving the Average G charge to 0. Richard Lavender responded that draft guidelines suggested capping the Average European G charges of member states at the current respective positions to prevent any further divergence.
- 1069) Frank Prashad raised a question on the quoted unit of the average G charge in GB. Frank suggested that some sources of data had quoted the G charge in MWh whilst others used MW. Richard Lavender responded that as a capacity type charge as employed in GB, the conversion to MWh is based on a generator running for 5000 hours per annum with the charge being calculated as pence per MWh. Richard also added that GB's cap would be based on current prices.
- 1070) Richard Court reported that a mini congestion forum involving representatives from France, UK and Ireland had taken place recently in London. Debated issues included the sale of capacity on the Anglo-French interconnector and the feasibility of a United Ireland energy market.
- 1071) Steve Drummond enquired if there was any further update on the Interconnector's licence and charging methodology. Stuart Easterbrook responded that no there was nothing new to report.

4 GB Charging Issues

Authority's Decision

- 1072) Richard Court introduced Colin Sausman, Ofgem, to present on the Authority's recent decision to approve National Grid's Revised GB Charging Methodologies.
- 1073) With regard to National Grid's proposal for a GB Connection Charging Methodology, Colin confirmed that the Authority had approved the September 2004 proposals with the attached condition of reviewing the calculation of site-specific maintenance charges within the next two years. Colin also confirmed NGC's January 2005 proposal for a GB BSUoS methodology had been approved unconditionally by the Authority, with the expectation that NGC will keep the case for and against locational BSUoS under review.
- 1074) In relation to NGC's January proposal for a GB TNUoS methodology, Colin reported that on balance, and in the light of the information available to the Authority, it was decided that NGC's proposed use of system charging methodology should be approved, with five conditions attached – as specified in Ofgem's March 2005 decision document. Colin noted that Condition 1 (cost reflectivity) required National Grid to invite views, consult on, and propose an alternative way of addressing the issue of negative demand charges. Colin suggested that possible alternatives to NGC's proposed solution may include a reform to the charging base or a phased change to the G/D split, amongst other possibilities, and highlighted April 2006 as the deadline for implementation.
- 1075) On the second condition for approval, Colin reported that NGC were under an obligation to identify, review and assess further technical basis for modelling assumptions for the incremental cost of capacity, suggesting the first step in the process might involve a consultation, gauging the industry views to identify the scope for further work. A two-year timeline for the proposals was also highlighted with reporting requirements in the interim.
- 1076) The third condition for approval was based on the treatment of intermittent generation in the DCLF model. Colin highlighted that there was a requirement for NGC to reflect any changes following the review into planning standards and to investigate interim changes prior to the reviews completion. It was reported that a two-year time line has also been attached for implementation to this condition.
- 1077) Colin noted that Condition 4 (facilitating competition) related to the provision of longer term charging options with a two-year timeline imposed for implementation. The fifth and final condition, also relating to facilitating competition, concerned the publication of longer term information on possible paths of tariffs under different scenarios for charging, with a one-year timeline for publication.
- 1078) On the issue of a phased implementation, Colin confirmed that the Authority had considered but rejected a phased approach to the implementation of the GB Methodology. The rationale behind the rejection included concerns regarding the dilution of signals and distributional effects and signalling the magnitude of changes. An unphased approach on balance, was considered to be more consistent with the Authorities duties in the given circumstances. On issues pertaining to the small generators discount, Colin noted that the scheme as defined in Standard Condition C13 had a 'sunset' clause and would expire in April 2008 with the current discount set as 25% of the combined demand and generation TNUoS residual tariff. Colin also highlighted that there was recognition of the need to develop an enduring

solution to the issue, with the first step in the process coming in the way of an Ofgem consultation in 2005/06.

- 1079) Colin suggested that the next steps to address the highlighted issues and conditions would be for NGT to develop a plan of work for progress on the identified areas, with the TCMF and Charging Issues Standing Group (CISG) expected for effective involvement. National Grid agreed to take an action to present initial plans for progressing the identified work at the April TCMF.
Action: NGC to present initial plans for progressing work identified in Ofgem's decision document
- 1080) With regards to the issue of renewables in peripheral areas, Colin confirmed that a recent DTI announcement suggested a transmission cap for TNUoS charges may be implemented for projects located on the islands of Scotland. Colin also noted that a DTI consultation expected for publication in summer will discuss the possibility of extending the cap to renewable projects located on the mainland.
- 1081) Jeremy Sainsbury, Natural Power, asked if issues of spare capacity and the security factor were to be included in the scope of the review under Condition 2. Stuart Easterbrook responded that the approved methodology did not include any adjustment for spare capacity but did include a review of the locational security factor.
- 1082) Jeremy Sainsbury stated that the complex arrangements and interfaces with Suppliers and DNOs made it particularly difficult for small generators to declare a TEC and asked if the small generators discount will be applicable to embedded generators. Colin Sausman responded that only directly connected small generators were eligible for the discount. Stuart Easterbrook added that Licence Condition C13, which governs the application of the discount, stipulates that small generators directly connected to the 132kV transmission system are only eligible for the discount. Embedded or licensable generators will not benefit from the discount.
- 1083) Mo Sukumaran, remarked that there may be an element of confusion surrounding the agreements and frameworks under which a newly connecting party will operate under. Mo also suggested that there could be some uncertainty regarding the financial impacts for the generators concerned.
- 1084) Paul Jones, Eon, highlighted that Conditions 1 and 4 required NGT to review and propose alternative solutions to specific areas of the methodology whereas Conditions 2 and 3 solely involved a review of the issues concerned. Colin responded that there was general recognition that the current negative demand proposal (Condition 1) was not an enduring solution and therefore it is expected that an alternative, longer-term solution should be proposed. Colin also commented on NGC's original, preferred proposal to move the G/D split to 10/90, stating that a phased approach to moving the G/D split may be an alternative, among others which should also be considered.
- 1085) Frank Prashad disagreed with the view that negative demand charges may encourage a waste of energy. Frank suggested that negative demand charges will not incentivise energy wastage and may only cause a demand customer such as a factory to locate in a particular area. Richard Ford, BWEA, commented that whilst this might be true in the first year of the charges, the issue could evolve into something else over the coming years. Richard added that a thorough review of the issue would be a challenging task. Stuart Easterbrook agreed and stated that the timescales for BETTA made it especially challenging to identify an enduring solution to the issue.

- 1086) Stephen Woodhouse, Ilex Consulting, noted that the basis for demand charges was the triad peak and commented that embedded generators could be incentivised to stop generating electricity at system peak which was another underlying problem behind the issue of negative demand charges.
- 1087) Jeremy Sainsbury held the view that revenue which would have been paid if negative demand charges were implemented should be used to incentivise generation to locate to the region and suggested that generators were being penalised on the locational element of charges for north of Scotland and by not being incentivised to locate. Paul Jones disagreed, noting that a balance has to be struck between demand and generation. Paul also added that the locational signal for demand in the north of Scotland had been slightly diluted by capping the demand charges in the zone.
- 1088) Mo Sukumaran, SSE, noted that renewable generation is being encouraged to locate to the north of Scotland which natural resources for producing renewable electricity is in abundance and asked how that is being accommodated. Paul Jones responded the Renewable Obligation provided significant support for renewables and that the proposed DTI renewables subsidy could be used to incentivise renewable generation not the transmission charging regime.
- 1089) Richard Court summarised the discussion and noted that clearly there was a need to progress the issue in conjunction with the TCMF so that a longer term solution can be identified for the issue.

Next Steps

- 1090) Stuart Easterbrook updated the TCMF on the approval process for the charging statement. Stuart confirmed that National Grid had published the TNUoS methodology statements for industry comment in February, adding that updated Statements are being prepared to be sent to Ofgem for approval. Stuart also confirmed the BSUoS methodology statements were currently open for industry comment and was due to close on 16 March. With regard to the statement of the use of system charges, Stuart noted that the form of the statement had to be approved by Ofgem and was also currently out for consultation with all Statements being sent to Ofgem in a package for approval shortly after the current consultation period for the statements closed.

Assistance for Areas with High Electricity Distribution Costs

- 1091) Richard Lavender, National Grid, presented an overview of the hydro benefit scheme comes into effect on 1 April 2005. Richard confirmed that as part of the scheme's operation, NGT would collect a designated payment from all GB suppliers, to be passed to Scottish Hydroelectric (SHE) Distribution on a quarterly basis. The benefit received to SHE distribution would be expected to be passed to suppliers in its region through a reduction in its Distribution Use of System (DUoS) charges. Richard reported that the assistance payment to SHE distribution is £41.95m in 2005/06 with the figure subject to adjustment for RPI.
- 1092) With regard to the charging and billing of the scheme, Richard noted that suppliers will be expected to pay an annual fixed tariff (p/kWh) on a quarterly basis, with invoices based on actual metered data. For 2005/06, tariffs are estimated to be around 0.013p/kWh. Richard also highlighted that Suppliers have 28 days to pay quarterly invoices with late payments resulting in an interest charge of Barclays base rate plus 8%.

- 1093) With regards to the timetable for the scheme, Richard reported that NGC are expecting to publish tariffs/statement for the charges by mid July 2005. Invoices are expected to be sent to suppliers in August 2005 for the preceding quarter.
- 1094) Sarah Owen, Centrica, asked what the administration costs are for the scheme. Richard responded that administration revenue for the first year of operation is set at £150,000 with the figure dropping in the second year and third year to £80,000. Thereafter, the figure will be raised in line with RPI.
- 1095) Steve Drummond asked what parties are liable for the charges. Richard responded that all GB suppliers will be liable for the charges. Paul Jones questioned the size of administration costs for the scheme. Richard responded that there are associated IT system costs involved for updated the billing systems which affects the total administration cost.
- 1096) Sarah Owen asked what the likelihood was of a supplier under or overpaying by using SF data. Richard Lavender responded that the issue of settlement runs was discussed in the DTI consultation and noted that the decision not to reconcile payments against RF data was a compromise between accuracy of data and efficiency in calculating the payments. However, National Grid will endeavour to use the latest data available each quarter. Richard Court suggested that National Grid may be able to provide further data for the ratio between SF and RF settlements.
Action: NGT to provide further data on settlement runs.
- 1097) Colin Sausman, Ofgem, raised a question regarding the timescales and duration of the scheme. Richard Lavender responded that the scheme is expected to be reviewed after three years of operation. Richard Ford suggested that the scheme would continue until the Authority changes National Grid's Licence Condition governing the scheme.
- 1098) Mo Sukumaran asked what RPI rate National Grid are intending to use. Richard Lavender responded that Barclays Bank RPI rate will be used in the scheme. Frank Prashad asked if the hydro benefit scheme would be applicable to directly connected large Users. Paul Jones responded that the scheme should be applicable if these Users are included in the new definition of supply contained in the Energy Act.
- 1099) Mike Harrison asked if the next published figure for the scheme is expected in mid July. Richard Lavender responded that the statement for the charges will be expected for publication shortly before mid July, but would depend on submissions of the demand forecast figures. Richard Ford noted that an understatement of demand could result in an under-recovery for the scheme and asked if the shortfall will be carried forward to the next year. Richard Lavender confirmed that under/over recoveries will be carried forward to the following year.
- 1100) Richard Court summarised the discussion and introduced Stuart Easterbrook to present on the Charging Issues Standing Group (CISG). Stuart highlighted six potential issues for initial discussion at the CISG meeting scheduled on 23 March. Initial issues highlighted for discussions included one off charges for operational intertripping schemes, deterministic generation zoning criteria, non half hourly and half hourly demand switching, STTEC pricing, treatment of embedded generation and notice periods for changes to charges. The TCMF agreed the issues and scope for initial discussions at the CISG's first meeting in March. Stuart added that a verbal update of the CISG meeting could be expected at the April TCMF and options for progressing issues to be presented at the May TCMF. Stuart also marked the July TCMF as a target for any NGT proposals on the highlighted issues.

1101) Stuart confirmed that the Terms of Reference (TOR) for the CISG had been published for industry comment in February 2005. A final, change marked version updated with industry comment had also been circulated at the meeting. Stuart asked if the TCMF had any final comments on the TOR. Stephen Woodhouse, Ilex Consulting, asked for further clarity on the issue of admitting one attendee per CUSC party, stating that consultants have undertaken various pieces of modelling work and represent Users which may not fit into the membership category. Jamil Ahmed, NGT, responded that membership of the CISG is open to all GB electricity industry members as stated in the TOR, however in the interests of having a productive working group, it may be necessary to limit the attendance. Jamil added that only where requests greatly exceeded a reasonable figure will the criteria of admitting one attendee per CUSC party be used or one attendee per parent company be used. Mike Harrison, Scottish Power, highlighted that the criteria of admitting one attendee per parent company would appear to conflict with Ofgem's requirement for regulatory separation between associated energy and infrastructure businesses. National Grid agreed to amend the CISG's TOR to allow a Transmission Owner (TO) to be counted separately from other subsidiaries within the respective overall group.

Action: NGT to amend the CISG TOR

1102) Stuart Easterbrook reported that proposed meetings have been scheduled for afternoon slots but noted that meetings could be extended to full day slots depending on the agenda and circumstance. The issues and scope for the first CISG meeting was also agreed.

5 Events Before Next Meeting

- ❖ BETTA Go-Live
- ❖ Ofgem Consultation on SO Incentive Scheme closes

6 AOB

1103) No comments received

7 Actions

1104) Mo Sukumuran, SSE, asked if any further details could be provided by NGT on the content of the STTEC report. Stuart Easterbrook responded that the final details of the STTEC report had not yet been finalised and agreed to take an action to provide further information on the form of the STTEC report.

Action: NGT to provide further details on the form of the STTEC report

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1105) Colin suggested that the next steps to address the highlighted issues and conditions would be for NGT to develop a plan of work for progress on the identified areas, with the TCMF and Charging Issues Standing Group (CISG) expected for effective involvement. National Grid agreed to take an action to present initial plans for progressing the identified work at the April TCMF.

Action: NGC to present initial plans for progressing work identified in Ofgem's decision document

- 1106) Sarah Owen asked what the likelihood was of a supplier under or overpaying by using SF data. Richard Lavender responded that the issue of charging runs was discussed in the DTI consultation and noted that the decision not to reconcile payments against RF data was a compromise between accuracy of data and efficiency in calculating the payments. However, National Grid will endeavour to use the latest data available each quarter. Richard Court suggested that National Grid may be able to provide further data on the ration between SF and RF settlements.

Action: NGT to provide further data on settlement runs.

- 1107) Stuart confirmed that the Terms of Reference (TOR) for the CISG had been published for industry comment in February 2005. A final, change marked version updated with industry comment had also been circulated at the meeting. Stuart asked if the TCMF had any final comments on the TOR. Stephen Woodhouse, Ilex Consulting, asked for further clarity on the issue of admitting one attendee per CUSC party, stating that consultants have undertaken various pieces of modelling work and represent Users which may not fit into the membership category. Jamil Ahmed, NGT, responded that membership of the CISG is open to all GB electricity industry members as stated in the TOR, however in the interests of having a productive working group, it may be necessary to limit the attendance. Jamil added that only where requests greatly exceeded a reasonable figure will the criteria of admitting one attendee per CUSC party be used or one attendee per parent company be used. Mike Harrison, Scottish Power, highlighted that the criteria of admitting one attendee per parent company would restrict the attendance of a representative from Scottish Power Transmission. National Grid agreed to amend the CISG's TOR to allow a Transmission Owner (TO) to be counted separately.

Action: NGT to amend the CISG TOR

8 Date of Next Meeting

The next meeting is scheduled for Tuesday, 12th April at the Brandon Hall Hotel, near Coventry.

End of Minutes