

Developmental GB Transmission Charging Methodologies Forum

Minutes of the Meeting held on 11 January 2005 Brandon Hall Hotel

ATTENDEES

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| Richard Court | National Grid Transco (Chair) |
| Jamil Ahmed | National Grid Transco (Secretary) |
| Stuart Easterbrook | National Grid Transco |
| Richard Lavender | National Grid Transco |
| Kevin Lee | NGT Interconnectors |
| Colin Sausman | Ofgem |
| Gayle Cairns | British Energy |
| Bob Brown | Cornwall Consulting |
| Steve Drummond | EdF Trading |
| Rupert Judson | EdF Energy |
| Simon Lord | First Hydro |
| Shona Watt | Npower |
| Paul Jones | Powergen |
| Cheryl Mundie | Scottish Power UK Division |
| Rekha Patel | Conoco Philips |
| Keith Munday | Bizz Energy |
| Scott MacKenzie | Fred Olsen Renewables |
| Jim McCulloch | SP Power Systems |
| David Porter | Ilex Consulting |
| Jan Devito | Jade Energy |
| Frank Prashad | RWE Npower |

1 Minutes and Actions

- 1010) Richard Court, NGT, welcomed attendees to the January GB Developmental TCMF meeting.
- 1011) Richard asked attendees for any comments on the minutes of the previous meeting. None were received and the minutes were therefore approved to be published on National Grid's charging website.
- 1012) Action 976: Ofgem to confirm their view on the participation in the ITC scheme and the impact on the charging methodology. A note circulated by National Grid on behalf of Ofgem confirms that there is no impact on use of system or interconnector charges for the year 2005.
Action Cleared
- 1013) Action 978: Ofgem to confirm the value of average G charge for tariff harmonisation. Ofgem note that Guidelines on Tariff Harmonisation are still under development. Current thinking suggests that the Guidelines will stipulate an 'annual national average G' value relating to use of system charges, likely to fall within a range of 0 to 0.5 €/MWh. However, there will be a transitional period for several member states, situated outside the European "Continental Plate", including GB (the length of the transitional period is not specified in the Guidelines, except for stating that "complete harmonisation can only be achieved in the long run"). In the most recent version of the Guidelines, the national average G value for the GB system is undetermined and the Commission proposes that this value will be equal to the "actual average G

charge in GB". In the earlier versions of the guidelines the average G for UK was in the range of 1.8€/MWh to 2.5€/MWh. Both figures are higher than the actual national average G charge in the UK estimated at around 1.25€/MWh to €1.44€/MWh.

Action Cleared

1014) NGT to investigate the possibility of Users delaying TEC forecasts pending the confirmation of GB tariffs. Jamil Ahmed, NGT, noted that National Grid had written to the industry in November, requesting Users to submit a forecast of expected TEC forecasts for 2005. Jamil reported that it was a CUSC requirement for Users to submit data for charge setting and added that the forecasts are required to finalise GB tariffs. Therefore, the submission of forecasts cannot be delayed. A post meeting note has been added to the minutes of the December TCMF for further clarity.

Action Cleared

1015) Action: NGT to circulate indicative timetable for the methodology resubmission. Richard Court noted that an indicative timetable was circulated shortly after the publication of Ofgem's Decision Letter on GB Charging.

Action Cleared

1016) Action 998: NGT to publish revised Connection Charging Statements for Industry comment. Stuart Easterbrook noted that the Statements were published for comment on 24 December 2004.

Action Cleared

1017) Action 1003: NGT to review the Terms of Reference (TOR) for the TCMF to formalise the relationship between the TCMF and the established standing group. Stuart Easterbrook noted that the TOR had been amended and will shortly be published on the TCMF webpage.

Action Cleared

1018) Action 1005: NGT to review the TOR for the DCLF Expert Users Group (EUG). Stuart Easterbrook commented that the TOR of reference had been amended and a further update will be provided under item 2 of the agenda.

Action Cleared

2 GB Charging Issues

Revised GB Charging Consultation

1019) Stuart Easterbrook presented on National Grid's revised GB Charging proposals which were published for consultation on 20 December 2004. Stuart noted that National Grid believed Option B of the Charging Proposals should be used as the basis of the revised GB Charging Methodology as it was clear from the Authority's decision document that Option B better meets National Grid's relevant licence objectives. Stuart also noted that further analysis had been undertaken on an alternative proposal to manage negative demand charges, calculation of the expansion constant, voltage expansion factors and treatment of circuits with spare capacity. In relation to the G/D split, Stuart confirmed that National Grid proposed to maintain the current England and Wales G/D split of 27:73 with the issue of negative demand charges being tackled by introducing a minimum £0.00/kW demand charge. Stuart reported that the revised proposals included amended voltage expansion factors to account for the proportion of lower voltage circuits likely to be uprated, and capable of operating at, 400kV. With regard to the indicative timetable and next steps in the process, Stuart confirmed the charging consultation closes on 21 January 2005, with National Grid to submit their conclusions to the Authority by 28

February. Ofgem are then expected to publish an Impact Assessment in early February with a final decision anticipated from the Authority at the end of February.

- 1020) Jan Devito, Jade Energy, noted that the G/D split of 27:73 in England and Wales was based on an overall 25/75 split when connection charges are also taken into account, and asked if that split will be maintained. Stuart responded that the actual G/D split is likely to remain very close to 25:75 and that there were no plans to revise the TNUoS split of 27:73. David Porter, Ilex Consulting, asked when NGT would consider moving the G/D split to 10:90. Stuart Easterbrook responded that the aim of introducing the 10:90 split was to counter negative demand tariffs in the north of Scotland, and the Authority concluded that this would be disproportionate, with around £190m moving from generation to demand to avoid approximately £1m in negative demand payments. Stuart accepted that collaring negative demand tariffs at £0.00/kW may be viewed as a short term measure, suggesting that a move towards a 10:90 split may be phased in over a number of years to provide a longer term solution to the problem. Stuart further commented that the issue may be discussed in further detail post implementation of BETTA, as changes to the G/D split may not be the only longer term solution to managing negative demand tariffs
- 1021) Rekha Patel, Conoco Philips asked if NGT had a view on the timescales for moving the G/D split. Stuart noted that it was difficult for NGT to take a view in isolation and that any decision would need to be informed by the impact on the industry. Scott MacKenzie, Fred Olsen Renewables, suggested that Ofgem could play a role in defining timescales for amending the G/D split.
- 1022) Richard Court suggested that it may be beneficial to discuss each highlighted issue in turn and asked for any industry comment on the issue of negative demand tariffs. Scott MacKenzie started the debate with his view that capping negative demand payments was economically biased, as the benefit of capped payments was spread across the GB demand market. Scott added that any financial benefit from the capping of tariffs should remain in the north of Scotland, where the negative demand zone exists, to support the development of the electricity market in the area. Scott further commented that there was an element of bias in capping demand tariffs as negative generation tariffs are not capped. Stuart Easterbrook stated that NGT believed demand and generation were different and therefore could not be compared as such. Stuart added that in order to keep negative demand tariffs, the charging base in the tariff model would have to be amended to ensure the correct revenue was recovered. Stuart reiterated the view that the proposal was a pragmatic solution under the circumstances and only had a very minor impact on GB demand charges away from the north of Scotland. On the G/D split issue, Stuart noted that there was scope to amend the split to 10:90 over a number of years and encouraged Users to respond with views to the charging consultation.
- 1023) Gayle Cairns, British Energy, noted that other options to avoid negative demand tariffs were discussed during the charging consultation process and suggested that the NGT revised option may be discriminatory. Stuart responded that the G/D split proposal to remove negative demand charges was rejected by the Authority on the grounds of disproportionality. In light of the Authority's comments, National Grid had to propose an alternative option which removed negative demand charges without moving large sums of money from generation to demand. There was therefore a requirement to balance all the relevant licence objectives and also to consider the proportionality of each proposal.
- 1024) Paul Jones, Powergen, commented that the negative demand tariff issue doesn't really present much of a change when compared to the implementation of the Hydro Benefit scheme introduced to subsidise the region for high electricity distribution

costs. Scott MacKenzie questioned if amending the G/D split to avoid negative demand tariffs was a more cost reflective approach. Stuart Easterbrook responded that amending the G/D split would be cost reflective but that it was seen as disproportionate as even with a 20/80 GD split it would require shifting approximately £55m from generation to demand to avoid £1m in negative demand charges.

- 1025) Rekha Patel suggested that it would be beneficial for the industry to be presented with a proposed timetable for amending the G/D split going forward. Rekha was of the opinion that the process of moving the G/D split currently lacks transparency and the industry would welcome further clarity. Stuart Easterbrook responded that NGT are looking to the Industry and Ofgem to define the timescales and approach to the amendment. Rekha noted that Ofgem could conditionally approve the GB charging methodology and asked if conditional approval on the basis that the G/D split is revised in the near future was an option.
- 1026) Colin Sausman, Ofgem, agreed in principle that Ofgem can reserve the right to approve the methodology with conditions, referring to the recent conditional approval of the GB Connection Charging methodology as an example. Scott MacKenzie added that a commitment to address the issue of negative demand tariffs in a fundamental way would be helpful. Richard Court summarised the discussion and noted the GB Charging Revised Proposals consultation had flagged issues which require a longer term solution. Richard added that Ofgem may exercise the right to conditional acceptance with regard to reviewing one or two issues going forward.
- 1027) Cheryl Mundie highlighted that the GB Charging Consultations contained forecasts of tariffs for 2005/06 and asked if NGT had analysed the impacts on 2006/07 and 2007/08 tariffs with regard to future developments on the transmission system in order to assess the robustness of the proposed mechanism for dealing with negative demand tariffs. Stuart Easterbrook responded that the contracted position on future developments including the associated network changes is extremely uncertain and that publishing tariffs on that basis would not be transparent or constructive.
- 1028) Keith Munday, Bizz Energy, was of the opinion that stability was the key issue in GB charging and noted that there were no tariffs published for future years. Keith added that it would be beneficial if NGT conducted a sensitivity analysis to provide Users with a better view on how tariffs would change going forward. Stuart Easterbrook responded that long term TNUoS tariffs had been highlighted as an issue which required further attention and suggested it may be appropriate to look at the issue post BETTA.
- 1029) Scott MacKenzie commented that the number of zones had made it particularly difficult in terms of judging stability. Stuart Easterbrook noted that generation zones are fixed for five years to provide stability and are only reviewed at the start of a new price control or in exceptional circumstances, for example, should an offshore generator require a connection to the transmission system. Stuart further commented that any rezoning which is required during a price control period is undertaken with the intention of minimal disruption to the established zonal boundaries. Richard Court suggested that NGT can look at providing long term tariffs following publication of the GB Seven Year Statement later this year.
- 1030) In relation to National Grid's final methodology submission to the Authority, Rekha Patel asked if NGT could consider submitting an additional option with attached conditions to review longer-term issues such as the G/D split and negative demand tariffs. Stuart agreed that National Grid would consider proposing an additional submission with conditions, but it was noted that this would create further uncertainty until a methodology was approved.

- 1031) With regard to the generation zoning criteria, Frank Prashad, RWE Npower, highlighted that the current threshold for nodal cost spread is +/-£1/kW. Frank proposed a reduction in the threshold to improve cost reflectivity and reduce the step change in charges between zones. Stuart Easterbrook responded that an increase in the number of zones would reduce stability for Users, stating that there must be a balance between cost reflectivity and stability. Paul Jones reported that historically tariffs and zones have changed due to methodology changes but not due to price control reviews.
- 1032) Simon Lord, First Hydro highlighted that an additional 1000 MW of generation had been introduced in Scotland, with approximately half being treated as negative demand and therefore not scaled in the DCLF model. Simon asked if the issue of scaling generation in the model requires further clarity. NGT agreed to take an action to review the scaling of embedded generation.
Action: NGT to review scaling of embedded generation
- Post Meeting Note:** The issue of not scaling embedded generation in Scotland is entirely consistent with the treatment of similar size generation in England and Wales. Generation that is liable for generation TNUoS charges is explicitly modelled as generation and hence scaled. Whilst non liable generation is treated as negative demand for both modelling and charging purposes. We propose to review the wider issue of modelling embedded generation in conjunction with Ofgem going forward.
- 1033) Richard Court summarised the discussion and closed off the debate on the negative demand tariff issue. Richard asked attendees for any views on the revised proposals pertaining to the calculation of expansion constant or the TO specific expansion factors.
- 1034) Shona Watt, Npower, initiated the debate with her view that NGT's proposal based on specific TO regions was arbitrary. Stuart accepted that the introduction of TO specific expansion factors was a step away from the general principle of a GB methodology GB, but noted that in light of the Authority's Decision Letter concerning expansion factors, National Grid considered it appropriate to split the expansion factors to TO regions. Shona suggested that there was an element of discrimination in the introduction of TO expansion factors and noted that no analysis had been provided to support why regional or zonal expansion factors are more cost reflective within Scotland but not England and Wales. Stuart Easterbrook responded that there was no evidence which supported the argument that zonal expansion factors would be more cost reflective. Paul Jones thought the NGT proposal on expansion factors was arbitrary and that the TO specific expansion factors were a step away from a single GB market.
- 1035) Richard Court summarised the discussion and proceeded to ask for views on NGT's proposal on the spare capacity issue. No comments were received and the debate therefore moved to the final topic of the BSUoS methodology.
- 1036) David Porter stated he was concerned with National Grid's intention to review the BSUoS methodology with regard to levying BSUoS charges on large license exemptible embedded power stations. Stuart Easterbrook clarified that the review will not impact Supplier Volume Allocation (SVA) registered generation and will relate to embedded generators involved in a Bilateral Embedded Generation Agreements (BEGA). David asked for confirmation that there was no intention to change the financial benefit afforded to embedded generators. National Grid agreed to take an action to publish a note to confirm that embedded benefits will not be affected by the proposal to levy BSUoS on the CUSC party.

Action: NGT agreed to take an action to confirm embedded benefits will not be affected by the BSUoS proposal

Post Meeting Note: National Grid circulated a Clarification Note to the Proposed Modification to the BSUoS methodology with regard to Embedded Generators. The note confirmed that the consequence of the proposed change will not affect the ability of an embedded generator to “net off” their BSUoS liability. The option to form a Trading Unit with a supplier or other demand BM Unit remains a BSC condition and is unaltered by the charging proposal.

- 1037) Gayle Cairns noted that the Authority’s Decision Letter stated the BSUoS would have been suitable for approval had it been submitted as a separate option and asked if there was any intention to separate the BSUoS methodology from TNUoS. Stuart Easterbrook responded that it would require a change to National Grid’s licence to enable the separation. Colin Sausman added that there is no compelling case to separate the methodology from TNUoS and therefore, is not considered as an option.
- 1038) Shona noted that the target revenue had reduced from £1100m as stated in National Grid Final Proposal’s Consultation, to £1070m in the Revised Proposals consultation. Shona asked for NGT to quote a possible confidence range on the revised figure. Stuart Easterbrook responded that the variance range was around +/- £10M, but highlighted that the figure was subject to change pending confirmation of final price controls information.
- 1039) In relation to the TO Network Reliability Incentive scheme, Shona asked how NGT’s performance will affect the target revenue figure. Stuart Easterbrook responded that the scheme does not take full effect until 2006 and therefore does not affect the target revenue figure for 2005/06.
- 1040) Keith Munday, reported that proposals for GB charging may result in a step change of tariffs for Users and suggested that in order to aid efficient operation of the electricity market, any step change in tariffs must be managed better. In his response, Stuart Easterbrook highlighted a recent presentation given by Cornwall Consulting to the TCMF which related to the phasing of tariffs and suggested that it could be a topic for discussion of the Charging Issues Review Group (CISG).
- 1041) Keith reiterated that there will be a step change to tariffs by implementing the charging proposal for BETTA in April and stated that the step change must be phased to allow the electricity market to adjust to the new charges. Stuart Easterbrook responded that there was no guidance from Ofgem in terms of phasing the GB tariffs for BETTA and reported that there was no licence condition that obliged NGT to phase the introduction of new charges.
- 1042) Richard Court asked attendees for any further comments on this issue of GB charging before moving to the next item on the agenda. Cheryl Mundie, Scottish Power reported that she had some further questions.
- 1043) Cheryl Mundie asked for clarification on the unconfirmed parameters of the model which could potentially have a material affect on tariffs published in the Revised Proposals Consultation. Stuart Easterbrook responded that NGT were still awaiting Scottish Distribution Network Operator (DNO) demand data which was required to confirm final tariffs. Richard Lavender confirmed that the Expansion Constant and Security Factor had been finalised.

- 1044) Cheryl Mundie asked if the unconfirmed data would impact the established zonal boundaries published with the Revised Proposals consultation. Richard Lavender stated that NGT was not expecting the DNO demand data to vary significantly and it was therefore unlikely the zonal boundaries would change as many of the model parameters had been confirmed. Stuart Easterbrook further commented that the step change of tariffs witnessed in the December consultation document resulted from the use of a revised data set taken from the GB Interim SYS.
- 1045) Cheryl noted that the final details of the Hydro benefit scheme and decision on renewables assistance mechanism were still outstanding and asked if NGT could update the TCMF with any further information. Stuart Easterbrook reported that the final proposal on the Hydro benefit scheme had been consulted upon by the DTI and the final arrangements will be confirmed with the publication of the final order. Any government decision to adjust transmission charges for renewables in peripheral areas in accordance with the powers in the Energy Act will be driven by the confirmed GB charging methodology. The DTI had previously undertaken some work on National Grid's previous GB charging options of Scenarios A and B and will base any final on the approved GB charging methodology.
- 1046) Cheryl Mundie commented that one of the reasons for the rejection one option to deal with negative demand charges was the additional burden on NGT to implement the necessary system changes to facilitate billing. Cheryl noted that the Hydro Benefit proposal may also require system changes and asked NGC to comment on the associated administrative burden. Stuart Easterbrook responded that the respective solutions for negative demand tariffs and hydro benefit had very different system requirements and to implement a negative demand tariff solution, NGT would be required to have new charging systems in place for 1st April 2005. The Hydro Benefit mechanism which uses ex-post data and systems would not be required until later in the year. Stuart added that the current charging systems used by National Grid are flexible enough to accommodate the changes required for the proposal to apply a £0.00/kW minimum demand charge. Richard Court added that contractual changes to the CUSC would also be necessary for NGT to implement the alternative negative demand tariff solution.

Charging Issues Standing Group

- 1047) Stuart Easterbrook reported that the topic of creating a Charging Issues Standing Group (CISG) had briefly been discussed respectively at the December TCMF and DCLF Expert User Group (EUG) meetings. Stuart proposed evolving the DCLF EUG to the CISG and asked for Industry comment on the Terms of Reference (TOR) which had been circulated for industry comment. Richard Court added that the TOR for the CISG would be presented for approval at the next TCMF meeting.

3 Current E & W Charging Issues

- 1048) Stuart Easterbrook commented that there were no issues to report on and asked if any attendees would like to raise any topics. No comments were received.

4 European Charging Issues

- 1049) Richard Lavender reported that there was no update on any European charging issues.
- 1050) In relation to the Inter TSO Compensation guidelines, Steve Drummond, Edf Trading, asked if there is likely to be any changes to the proposed 2005/06 charging arrangements as a result of the mechanism being approved and introduced on 1

January 2006. Steve also enquired if any required changes would be made immediately or postponed to the following April. Richard Court responded that the implementation will depend on what changes are required. In relation to timescales, Richard added that the changes may have to be implemented immediately as opposed to delaying proposal until the following financial year.

5 Events Before Next Meeting

- ❖ GB Revised Proposal Consultation closes
- ❖ Ofgem Impact Assessment consultation period
- ❖ Authority Decision on GB Charging

6 AOB

1051) Keith Munday asked what the contingency charging arrangements are should the Authority veto the revised proposal. Colin Sausman, Ofgem, responded that the delay of BETTA is one possible outcome if the Authority decides to reject the revised proposals.

7 Actions

1052) Simon Lord, First Hydro highlighted that an additional 1000 MW of generation had been introduced in Scotland, with approximately half being treated as negative demand and therefore scaled in the DCLF model. Simon asked if the issue of scaling generation in the model requires further clarity. NGT agreed to take an action to review the scaling of embedded generation.

Action: NGT to review scaling of embedded generation

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8 Date of Next Meeting

The next meeting is scheduled for Friday, 4th March at the Brandon Hall Hotel, near Coventry.

End of Minutes