



Promoting choice and value  
for all gas and electricity customers

# Charging Methodology Governance-update

*TCMF*

*5 March, 2009*

## Introduction – Key governance issues

- September document identified 6 key issues -
  - Accountability and accessibility of CMs
    - Significant impacts on users operational and siting decisions
    - £10billion network expenditure on energy networks over coming years
  - Increased costs and price volatility
    - Key concern for many including competitive market participants
    - Mitigation measures important
  - Network Operator Revenue recovery
    - Key concern for networks
  - Industry Code and charging methodology relevant objectives
  - Challenge and appeal mechanisms
  - What is the best approach to dealing with the issues?

## Consultation options

- 4 Options:
  - Option 1 - Maintain the status quo;
  - Option 2 - Modify the current licence regime;
  - Option 3 - Industry code governance;
  - Option 4 - A new charging methodology change management code.

## Responses

- 22 responses (including 1 confidential)
  - 7 supported Option 1 (NWOs and 1 generator),
  - 4 supported a modified Option 1
  - 1 supported a modified Option 2
  - 5 supported Option 3 (4 suppliers and 1 DNO(if commonality is achieved),
  - Centrica supported Option 4,
  - The remainder had no strong view other than the Status Quo was not a viable way forward.

## Supplementary comments

- iGT/iDNO - legacy pricing and RPC,
- Project requires fuller impact assessment,
- If governance regime change:
  - Transmission to be considered first (Scottish Power/ SSE/ Centrica)
  - Electricity distribution considered second (Centrica)
  - Eon took an alternative view – distribution first then transmission

## Key issue – how to quantify impacts?

### Costs

- Difficult to quantify.
  - **NG** suggests: 3 – 6 mods would require 1.5 – 6 FTE (senior management level) and an increase of 10-20% in admin costs.
  - **WWU** suggest for options 2-4 an increase of £150K/annum.
  - **NGN** suggests 1 FTE and £60K on costs. Additional £100k for management input.
  - Should a proposal be approved and implemented **xoserve** costs could range between £300k and £1mil.
  - **DNO** suggests the evaluation of a CM mod cost £10k/ mod with addition admin costs of £15k/annum.
  - Suppliers expect increased costs but these are miniscule in relation to the value of the charges.

### Take up

- Difficult to predict
  - SSE would have raised one modification.
  - Centrica would have raised 3/4 per annum across all CMs

## Risk mitigation measures

- Annual or bi-annual windows
  - Most support
- Restrict number of annual changes
  - No support – problem with “first come first serve”
- Modification thresholds
  - Potentially anti-competitive, unfair to smaller parties

## Recent Activities

- SoC: DCMF and ENA working up CM governance arrangements (HV/LV) that bolt on to DCUSA.
- Transmission Access: CUSC mods and CMs developed in parallel.
- User Pays (gas): UNC proposals need to identify costs and liabilities at the outset  $\implies$  requirement CM changes.
- Alignment of code and CM modifications has caused issues
  - UNC210: capacity : commodity split.

## Next Steps

- Consideration of the responses to the charging methodology consultation,
- Further consultation document and impact assessment – late April/May

The background of the slide is a composite image. On the left, there are rows of solar panels under a bright sun. On the right, there are wheat stalks. In the foreground, there is a close-up of a gas burner with blue flames. The overall theme is energy and natural resources.

*ofgem*

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