

# Charging Condition 6: Site Specific Maintenance

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Introduction to the forthcoming Questionnaire

CISG

26 April 2006

**nationalgrid**

# Agenda

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- ◆ Re-cap of charging condition
- ◆ Background
- ◆ Ofgem's proposed review of contestability
- ◆ Format and high-level content of the questionnaire
- ◆ Next Steps

# Charging Condition 6

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- ◆ Relates to the Connection Charging Methodology
- ◆ Requires National Grid to:

“review and potentially revise its calculation of charges relating to the maintenance of connection assets with a view to furthering the relevant objectives to charge cost reflectivity and to facilitate competition in connection works.”

- ◆ Any proposals to be implemented by 1 April 2007

# Background

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- ◆ Prior to BETTA in England & Wales:
  - ◆ site-specific maintenance charges initially based on forecast costs then reconciled to actual costs on site- and User-specific basis
  - ◆ reduction in site-specific maintenance charge if User elected to contest maintenance at a connection site
- ◆ No take-up since contestability introduced in 1997
- ◆ Proposed that contestable maintenance provisions should be reviewed before application on a GB-wide basis
- ◆ Simplified charging arrangements were approved for GB

# Present arrangements for SSM charges

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- ◆ Recovers costs and overheads associated with the maintenance of a User's connection assets
- ◆ Charge based on:
  - ◆ the GAV of the User's connection assets at a connection site
  - ◆ the GB average cost per £ GAV of maintaining these
  - ◆ expressed as a site-specific maintenance factor (0.47% of GAV)
- ◆ Site-specific maintenance factor re-calculated annually
- ◆ No reconciliation of actual costs incurred

# SSM charges in context

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- ◆ SSM charges account for about 8% of an average User's total connection charge
- ◆ SSM charges account for less than 1% of revenue collected by infrastructure charges
- ◆ Average annual SSM charge is ~ £30k per site

# Ofgem's proposed review of contestability

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- ◆ Ofgem is intending to review competition in distribution connections (construction and maintenance) and believes there are merits in extending this to transmission
- ◆ Two-stages:
  - ◆ initial views on key competition areas that need to be addressed
  - ◆ follow-up consultation on the key areas identified
- ◆ Expect process to run throughout Spring / Summer 2006
- ◆ Does not replace Charging Condition 6

# Contestability review

*Some thoughts from a charging perspective*

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- ◆ Needs to determine the benefits that can be accrued from contestability on a GB-wide basis. Should consider:
  - ◆ incentives on TOs including result of price control regulation
  - ◆ potential impacts on efficiency
  - ◆ commercial arrangements:
    - ◆ User – GBSO and GBSO – TOs
    - ◆ maintenance requirements: timing, frequency, specification
    - ◆ system and physical access
    - ◆ risks / liabilities for Users and TOs
- ◆ Future charging developments need to be proportionate to the benefits, and expected uptake, of contestability which should be revealed by the review

# Areas covered by the Questionnaire

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- ◆ Review of the existing charging arrangements
- ◆ The case for changing the existing charging arrangements
- ◆ Options for change

# Areas covered by the Questionnaire (1)

*Review of the existing arrangements*

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- ◆ Series of statements related to the charging, licence and other objectives, including:
  - ◆ cost reflectivity of charges
  - ◆ discrimination between Users
  - ◆ methodology proportionate to magnitude of costs to be recovered
  - ◆ methodology proportionate to expected uptake of contestability
- ◆ Respondents invited to state whether they agree, disagree, or are neutral to the statements

# Areas covered by the Questionnaire (2)

*The case for change*

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- ◆ Seeks to understand the relative balance between:
  - ◆ the perceived benefits, and
  - ◆ the perceived risks / liabilities } of contestable maintenance
- ◆ Seeks views on whether this balance is sufficiently great to justify considering developing suitable GB-wide cost capture systems to facilitate contestable maintenance

# Areas covered by the Questionnaire (3)

## *Options for change*

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- ◆ Seeks to understand the degree of support for a range of alternative options for charging for site-specific maintenance:
  - ◆ combine with transmission running cost factor
  - ◆ set locational site-specific maintenance factors
  - ◆ maintain the status quo but keep under review
- ◆ Respondents invited to state whether they support, are against, or are neutral to the alternatives

# Responses

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- ◆ Largely “tick-box” style – please tick one box per question!
- ◆ Targeting publishing questionnaire by the end of the week
- ◆ One month allowed for responding

# Next Steps

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- ◆ Responses received by the end of May 2006
- ◆ Initial Conclusions June / July 2006
- ◆ Consider whether any changes to the connection charging methodology should be progressed
- ◆ This would be subject to formal charging consultation
- ◆ Any proposals to be implemented by 1 April 2007