

Charging Issues Standing Group

Actions & Issues from the second meeting on Monday, 16th May 2005

Actions from the March 2005 CISG Meeting

1. National Grid agreed to update a paper on Seculf published in November 2004 with a worked example to clarify the use of contingencies in the Seculf studies.

National Grid reported that a paper is currently being prepared with a three node example to demonstrate the application of the Seculf study on a simplified, unsecured network. Attendees suggested that it may be more appropriate for National Grid to present on the issue as opposed to publish a paper. National Grid agreed to update the Seculf paper with the worked example and to present it at the next CISG meeting.

Action: Ongoing

2. National Grid reported that remaining actions stemming from the previous CISG meeting would be tackled under the respective agenda items.

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3. National Grid presented on the pros and cons of alternative STTEC charging regimes, highlighting four alternative options to progress the issue of STTEC charging. National Grid noted that Users had circulated several papers on the STTEC product which have been published on the CISG Industry website, available via the following link: http://www.nationalgrid.com/uk/indinfo/charging/mn_cisg. The alternative regimes included a reduced charge for STTEC, an annual cap on the total charges paid by a generator, an escalating charge with each use/limiting use and a non-winter STTEC charge. For the reduced charge approach, National Grid suggested that the 'excessive' premium could effectively be reduced without undermining the primary TEC product, resulting in a simple charging modification to help increase the attractiveness of the STTEC product. National Grid highlighted an alternative regime could involve a cap on the STTEC charge to maintain the premium charge when compared to TEC. The proposed cap could help to increase the attractiveness of the product for Users, although disadvantages such as complex administration and the potential to undermine the TEC product were also noted. An annual cap on the combined STTEC and TEC charge was another option on STTEC charging presented by National Grid. In this instance, should a User wish to apply for a STTEC period shortly before being granted TEC, the total paid by the User for both products would effectively be capped. National Grid noted that this would address the issue of Users 'paying twice' for capacity and would help increase the attractiveness of the product. Some noted cons for the option were that the approach may be seen as discriminatory, could involve complex administration and possibly increase the incentive to move to STTEC from TEC. Users discussed the merits of each option along with the associated cons but support was varied amongst the alternatives, with suggestions that the issues being addressed related to the access products rather than the charges. National Grid agreed to consider the issue further with an update to be presented at the May TCMF for the next steps. During the discussions, National Grid also agreed to circulate previous Industry consultations on the allocation of access rights under BETTA.

Action: National Grid to discuss next steps for STTEC Charging at May TCMF

4. On the issue of STTEC reporting, National Grid confirmed that arrangements had been made for a quarterly update to report on accepted and rejected STTEC applications. For accepted applications, it was noted that National Grid would publish the identity of User, Station Name, Grid Connection Point, STTEC period and

Maximum and Minimum amount of STTEC granted. For rejected applications, National Grid would disclose the details of STTEC period and Maximum and Minimum amount of STTEC requested. All updates will be published on the Short Term Firm Access website, which is available via the link: http://www.nationalgrid.com/uk/indinfo/cusc/mn_sttec_apps.html. The next update is expected on the website on week commencing 4 July 2005. National Grid also highlighted that information for accepted STTEC applications would only be published when the STTEC period has ended within the respective quarter.

5. At the first CISG meeting in March, National Grid agreed to take an action to obtain further information on NHH –HH demand switching for the purposes of assessing the materiality of the problem. National Grid reported that Elexon had been contacted to request demand volume data switching from NHH – HH and HH – NHH. Elexon reported that the necessary data was held at the Supplier Data Collector level, which we had not been able to obtain, and was not therefore in a position to propose a ‘quick fix’ to the problem. A paper tabled on behalf of Cornwall Consulting was also briefly discussed at the meeting, which indicated the possible materiality of £400 per customer. The paper recommended that National Grid should explore the issue further to establish the potential costs of implementing changes to the charging mechanisms. National Grid suggested that as the issue was of a technical nature, a sub-group could be established to progress the issue. National Grid agreed to take an action to establish a sub group to the CISG for the NHH – HH demand switching issue, with the aim of obtaining the necessary information to identify the materiality of the problem and to consider possible solutions.

Action: NGT to establish a CISG sub group to progress the issue

6. National Grid presented an example on how negative weights affect the zonal calculations in the DCLF model. National Grid highlighted that negative weights which result from negative demand figures in the transport element of the model affects the weighting factor on two ways; in a micro effect on a nodal basis and in a macro effect on a zonal basis. Several options were discussed to overcome the effect of negative weights and included the use of absolute values, excluding the negative demand values in the transport model, substituting the ‘average’ value for negative demand values and using the average for zonal MWkms as opposed to weighting. During the debate, one attendee suggested an alternative option which involved having a zero minimum figure for demand in the transport model and would effectively stop negative weights. National Grid’s presentation included the impact of the most likely “quick win” solution of using a straight average, which showed small but significant changes to all demand tariffs. It was agreed that as this issue was not having a major affect on tariffs at present, then this problem should be considered during the work to address the wider concerns regarding the impact of embedded generation.
7. The penultimate issue for discussion was that of notice periods for charge setting. National Grid reported that the issue of extending the notice period for charge setting had been raised on previous occasions by various Users. National Grid highlighted that any change to the charge setting process would rely on Ofgem’s agreement to relax the relevant licence conditions governing over and under recovery and widening the tolerance band for revenue recovery. Uncertainties for National Grid included the issue of Price Control reviews and associated target revenue figures. National Grid also reported that a six month notice period would increase the risk of a mid year reconciliation of tariffs due to the use of less robust data when confirming tariffs in October and the absence of triad and NHH demand data. Ofgem stated that the Authority was unconvinced with the merits of relaxing National Grid’s relevant licence conditions on under/over recovery and widening the tolerance band, suggesting that further evidence was required from Users to support claims that a six month notice period would provide sufficient benefits to justify the changes. Ofgem agreed to continue to review the arguments for extended notice periods. National Grid also confirmed that any methodology changes could also affect the charge setting process

and agreed to take action to investigate the possibility of having a voluntary timetable for methodology modification and approval dates.

Action: NGT to provide a voluntary timetable for changes to the charging methodologies

8. The final issue for discussion was that of deterministic generation zoning criteria. National Grid accepted that there was an industry preference for further transparency on the current zoning process and proposed a series of measures to provide more transparency on the process. National Grid proposed to consult on any required zonal changes as early as possible prior to the January notification of tariffs and agreed to publish future year tariffs with potential zonal changes as part of October SYS updates. National Grid also proposed to highlight and consult on any 'exceptional circumstances' which could affect established zonal definitions as soon as possible. The target date for publication of future year tariffs and potential zonal changes is October 2005.
9. Finally, National Grid noted that some attendees had responded to invitations to the CISG past the required date and urged Users to respond to requests by the due date to ensure that appropriate arrangements for the meeting have been made.

End of Report