

## Charging Issues Standing Group

### Draft minutes: 6<sup>th</sup> November 2009

*This report outlines the key discussions and actions of the CISG meeting. All presentations, agendas, meeting notes and future meeting dates are available at the CISG web page of the National Grid Industry Information website at <http://www.nationalgrid.com/uk/Electricity/Charges/cisg/meeting/>*

#### ATTENDEES

Hêdd Roberts	National Grid (Chair)	Paul Jones	E.ON
Pat Hynes	National Grid	Michael Dodd	ESBI
Adam Sims	National Grid	Mike Wilkes	KEMA
Ivo Spreeuwenberg	National Grid	Rachel Fowler	NPower
Sarah Hall	National Grid	Daffydd Elis	Pöyry
William Kirk-Wilson	National Grid	Frank Prashad	RWE
Louise Schmitz	British Energy	James Anderson	Scottish Power
Ricky Hill	Centrica	Garth Graham	SSE
Chris Stewart	Centrica	Toby Manning	Toby Manning Ltd.
Peter Waghorn	Cornwall Energy Associates	David Walker	West Coast Energy
Ian Lomas	DECC	Helen Snodin	Xero Energy

#### 1 Appropriate charging for wind

National Grid presented initial analysis of the impact of generation on the network constraint costs over a whole year. This showed that load factor had an effect on constraint costs. The costs were then split by generation technologies (wind, base gas, marginal gas, nuclear). It was noted that as the load factor for wind was significantly lower than the other generation types, this warrants further investigation with a view to reflecting this through charging.

Discussion then centred around generation charging based on network peak (reflecting the current SQSS network investment incurred costs) or whether it was appropriate for wind to move to using a cost benefit approach based on operational costs. Several suggestions were put forward to take the work further:

- Charging wind on the basis of their output over peak as opposed to their capacity holding, however this may lead to a perverse incentive of discouraging generators from generating at system peak.
- Split the current wider TNUoS into 2 charges, one part based on peak, the other on a cost benefit approach.
- Creating a wind capacity holding and charging it out as a commodity price, similar to the current NHH demand methodology.

National Grid thanked the industry for its input and agreed to continue the analysis, the next steps being to analyse multiple boundary constraints/test sensitivities.

#### 2 Stabilising BSUoS charges

Centrica presented BSUoS charges as being highly volatile in 2008/09 with this volatility creating a cash flow issue for generators and suppliers. Centrica's proposed methodology smoothed BSUoS payments within year by charging 1/12<sup>th</sup> of each of the previous 12 months' outturns in a given month, although the actual incurred liability would remain

unaltered. Any mismatch between payments and liability would feed through as an adjustment term.

It was pointed out that this is not a monopoly service and BSC parties can already procure such a service from the market. Therefore it was unclear as to whether there would be a cost benefit to industry participants of National Grid providing such a financial tool once administration costs are factored in. Further, the requirement to provide securities might prove onerous/prohibitive to smaller industry suppliers, and therefore the very participants who could benefit from the smoothed cash flow, might not have access to it. There was also a question as to how new entrants' payments would be calculated as they would have no historical data to draw on.

### **3 Largest loss**

Frequency response is required to maintain a stable system by balancing supply and demand in short timescales. Plant must be able to provide a minimum of 10% capacity as frequency response. The cost of obtaining this service is socialised across all users of the system through BSUoS charges. In future, the introduction of generating units larger than the current infrequent infeed loss risk, as defined in the NETS SQSS has led to the need to review this parameter. The technical aspects of this review have concluded through GSR007, which recommended an increase in the normal infeed loss risk from 1000MW to 1320MW and an increase in the infrequent infeed loss risk from 1320MW to 1800MW. The cost of procuring the necessary response services is likely to increase to cover these larger risks.

A review of response charging will seek to ascertain whether the socialisation of all response costs is still appropriate. The high level options would be to retain this socialisation of all costs, to target the additional costs at units that create them or create a new charging regime entirely. It was observed that experience in other countries had shown that charging the costs of procuring extra balancing services to the companies that caused them created a significant barrier to entry for the first market entrant. Further, the growth of wind generation is also likely to increase balancing services costs.

### **4 Island charging**

National Grid presented its charging ideas on island generation connections. The proposal extends the high level treatment applied to offshore charging arrangements to island connections. Although there is no certainty yet as to how island connections will be developed, either through an offshore-style competitive tender or by allowing existing TOs to extend their networks, National Grid believe that the offshore arrangements are sufficiently flexible to cope with either process with relatively minor changes.

The impact to demand charges was shown if a small island connected through 50km of subsea cable to the north of Scotland. The effect of the island connection, if it was included within the Northern Scotland demand zone, would reduce the zonal tariff by 20p. This is because tariffs are a zonal weighted average and the rest of the zone averages out the effect of the island. It was noted that there might well be considerable cost if any island demand was separated out into a new charging zone and the impact is unlikely to warrant such a substantial change.

The next step is to publish a consultation, expected November 2009, with responses due by Christmas and a recommendation to the Authority in February 2010.

### **5 Offshore transmission**

National Grid gave a verbal update confirming that it was looking into 132kV offshore generation and whether there was a discrimination issue compared with onshore generation.

## **6 Embedded generation**

National Grid gave a presentation indicating that even though the effect on transmission is similar between an embedded generator and a directly connected one, there is a financial incentive to embed for generation less than 100MW. The example used was if a supplier contracted with embedded generation in Glasgow, but sold the power to customers in Edinburgh. The supplier obviously uses the transmission system, however TNUoS is not charged as both the generation and demand are in the same DNO zone. The total value of this “embedded benefit” was forecast to be £265m a year. National Grid’s view was that this was discriminatory and distorted competition in generation. Further in exporting areas it leads to a perverse signal where embedded generators are being paid to connect, even though TOs were making transmission investments partly due to increasing embedded generation.

To remedy the distortion, the Gross Nodal Supplier Agency Model (GNSAM) would separate out suppliers’ demand into generation and demand components, so instead of a embedded generation netting off against demand, the separate components would be brought out and charged separately. There are variants and a pre-consultation will be published exploring the alternative models for implementation by April 2011.

Discussion focussed around whether £265m was in fact an underestimate as it did not include large generating stations less than 100MW.

## **7 Locational BSUoS**

National Grid confirmed that the report is being finalised for imminent submission to the authority.

## **6 AOB**

National Grid stated that it was it would soon be sending out a consultation confirming the treatment of multiple TNUoS tariffs within year. There is a need to change charges mid-year as the TO revenue stream will undergo a step change at the offshore regime ‘go-live’ date (June 2010), and the charging methodology is silent about how multiple tariffs should be handled within year. Therefore to give industry participants clarity, a consultation will be issued in November.

### **Dates of future meetings to be held at National Grid House, Warwick:**

6<sup>th</sup> January, 2010

24<sup>th</sup> February, 2010

28<sup>th</sup> April, 2010

30<sup>th</sup> June 2010