

GB Transmission Charging Methodologies Forum

Draft Meeting Report: 15 August 2006

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

ATTENDEES

Richard Court	Chairman	Paul Mott	EdF Energy
Jan Gascoigne	National Grid (Secretary)	Felix Mutonono	EdF Distribution Methodology
Hedd Roberts	National Grid	Paul Jones	E.On
Tom Ireland	NG Charging & Access	Mike Wilks	KEMA
Craig Maloney	NG Charging & Access	Michael Dodd	Ofgem
John Greasley	NG Offshore	Dafydd Elis	Poyry Energy Consulting (ILEX)
Malcolm Taylor	AEP	Frank Prashad	RWEinnogy
Robert Longden	Airtricity	Andy Manning	RWEpower
Louise Allport	British Energy	Peter Roper	SP Systems (by telephone)
Richard Ford	RES Limited	Colin Taylor	SP Systems (by telephone)
Pat Wormald	CE-Electric UK	James Anderson	SP Commercial & Regulation
Merel van der Neut	Centrica	Aileen Macleod	SSE
Kolfschoten			
Kirsten Elliott-Smith	ConocoPhillips UK	Tim Pickup	Thames Power (by telephone)
Nigel Cornwall	Cornwall Energy (by telephone)	David Walker	West Coast Energy (by telephone)
Steve Drummond	EdF Trading		

1 **Actions from previous meeting**

Action: The meeting agreed the Minutes and Actions and these will be placed on the website at <http://www.nationalgrid.com/uk/Electricity/Charges/TCMF>.

2 **GB Charging Conditions**

• **Condition 2 – Incremental Cost of Capacity**

National Grid indicated that the four responses to the Condition 2 report published in April are now available on the information website. National Grid also confirmed that draft changes to the statement of the methodology, aimed at making it more transparent by providing further details regarding how incremental cost of capacity is calculated, would shortly be released for industry comment.

• **Condition 3 – Intermittent Generation**

National Grid stated that the Condition 3 report was published on Thursday 10 August. As indicated at previous TCMF meetings, the report confirmed that National Grid was not intending to take any methodology changes forward. The report found no evidence that intermittent generation leads to a lower level of investment than conventional generation. This is a result of the Security and Quality of Supply Standard (SQSS) which includes both deterministic and economic criteria. Since the rights provided to intermittent generation are the same as those provided to conventional generation, the economic assessment leads to equivalent levels of investment. The report also states that a review of the SQSS is currently underway and that if this work leads to an SQSS change, such that lower infrastructure is installed for intermittent generation, then the charging methodology will be updated in order to ensure that charges continue to reflect costs.

An industry attendee indicated his disappointment regarding the conclusions of the Condition 3 report and requested an explanation as to why the SQSS review completion date, previously scheduled for March 2006, had slipped back.

Action 1: National Grid to provide an update on the SQSS review timescales and reasons for change.

An industry attendee questioned the consistency between the graph on page 11 and the assertion that the winter Q/P ratio is highest in the morning. National Grid stated that they thought the assertion was correct but that the scale of the graph hid the peak.

Action 2: National Grid to confirm time of maximum winter Q/P ratio.

• **Condition 4 – Long-Term Fixed Access Products**

National Grid noted that the Condition 4 report was published on Friday 11 August. As indicated at previous TCMF meetings, the report confirmed that National Grid was not intending to progress the development of multiple-year fixed-price charges at this stage because:

- Users on variable tariffs would be unwilling to be exposed to the financial consequences arising from differences between fixed and variable tariffs;
- The trade-off between the risks and duration covered by a hedging contract and the associated premium is such that only limited risks and short durations could be hedged against, limiting the attractiveness;
- Users concerns about the appropriateness of National Grid setting tariffs and offering a hedge for changes to these tariffs;
- The provision of cost-reflective locational signals could be restricted which may result in less efficient outcomes.

In the report, National Grid has proposed a number of steps to enhance the stability and predictability of charges.

An industry attendee suggested that National Grid discuss the findings of the report with Mike Davies of Wind Energy and that the first sentence in paragraph 109 should read as follows 'It is not immediately obvious that generation and demand should be treated differently, as to do so could **cause undue discrimination** between classes of user.'

Action 3: National Grid to consider further discussion and a modification to paragraph 109.

An industry attendee commended National Grid's report for including all of the relevant issues but was concerned that a number of the issues raised were not supported by quantitative analysis. National Grid stated that quantitative analysis had been included where possible but that some of the issues were, by their nature, qualitative.

• **Condition 6 – Site Specific Maintenance**

National Grid stated that, following the discussions at the June TCMF meeting, the Condition 6 report would be published shortly.

3 Current Charging Issues

• **Charging Arrangements for Design Variations – pre-consultation:**

On Friday 11 August, National Grid released a pre-consultation identifying the main options available for modifying the charging and access arrangements associated with SQSS design variations that arise from customer requests.

The options described in the pre-consultation are:

- Status Quo – Accept that the advantages associated with the existing arrangements of minimising the risk that facilitating competition is made more difficult and protecting customers from decisions taken for wider system reasons outweigh the disadvantage that no cost reflective signal is provided for a generator to consider an SQSS design variation.

- SQSS Modification – A modification to the SQSS to remove the design variation clauses and replace with a clause which permits TOs to design to a lower standard provided there is an economic justification. Under these arrangements, the generator would receive full access rights.
- Deeper Connection Boundary – A modification Connection Charging Methodology to charge generation connection substation and spur circuit assets as connection assets such that the savings associated with single circuit connections are passed through to generators.
- TNUoS Methodology Amendment – A modification to the Use of System Charging Methodology to introduce cost reflective circuit and substation savings for single circuit connections.

The associated presentation may be found on the TCMF website under <http://www.nationalgrid.com/uk/Electricity/Charges/TCMF>

Comments and views are invited on all of the issues raised in the pre-consultation document and are requested by close of business on Friday 8 September, to ensure that they are considered as part of the forthcoming consultation document.

An industry attendee disagreed with the assertion in the pre-consultation that the present arrangements could lead to inefficient investment in extreme cases only, stating that there are a number of single circuit connections in the Scottish and Southern transmission area. The industry attendee went on to express concern with the level of savings passed through to customers that choose single circuit connections and asked whether an assessment of the number of generators that would choose single circuit connections had been performed. National Grid stated that this analysis had not been performed and that the intention was to pass cost reflective savings through to generators so that they could perform a cost benefit analysis against the potential loss of revenue associated with the access restrictions. National Grid believe that this is the only way to ensure efficient outcomes.

Another industry attendee expressed support for the change options since a generator under the current arrangements gets both access restrictions and is charged full use of system charges.

- **Charging Arrangements for Offshore Connections:**

National Grid presented an introduction into Offshore Transmission networks and connection to them. National Grid presented its view on the expected regulatory approach for offshore assets. Future principles for an offshore charging methodology were laid out, along with potential areas of further work. An illustrative example demonstrated how off of the 'Customer Choice' options would handle an offshore connection and what the expected TNUoS charges may be.

Action 4: National Grid to add Offshore Charging Methodology as a standing item to CISG and TCMF

Further details on Offshore Connecting may be found on the CISG website under <http://www.nationalgrid.com/uk/Electricity/Charges/TCMF>

- **Manifest Errors:**

National Grid presented a summary of the manifest errors consultation which was published on Friday 11 August. The deadline for responses is Friday 8 September. In summary, the consultation seeks industry views on:

- i. How a manifest error should be defined.
- ii. The level of materiality of a manifest error that should be applicable for reconciliation.
- iii. The period eligible for reconciliation.
- iv. The mechanics of reconciliation.

The consultation can be viewed on the National Grid Charging Website at: <http://www.nationalgrid.com/uk/Electricity/Charges/modifications/uscmc/>

A presentation summarising the proposals can be viewed at: <http://www.nationalgrid.com/uk/Electricity/Charges/TCMF/>

- **Generation Zoning Criteria:**

National Grid identified that prior to the determination of new TNUoS generation zones for the 2007/8 charging year, a zoning consultation will be published in September 2006 for discussion at the forthcoming CISG regarding the application of the existing methodology.

4 Events before Next Meeting

The next Charging Issues Standing Group Meeting is on 27 September 2006.

5 Any Other Business

- Richard Court advised that this would be his last meeting in the Chair as he has moved to another position within National Grid. Chris Bennett (Regulatory Frameworks Manager) will be Chairing the Meetings from 24 October onwards.

- **Date of Next Meeting**

24 October 2006 in National Grid House, Warwick at 10am.

End of Report