

Structure of charges: Implementation Steering Group meeting

Tuesday 27 September 2005, 10am
Ofgem, 9 Millbank, London

Attendees:

Ofgem:

Mark Cox (Chair)
Colette Schrier
Clover Powell

DNOs:

Andrew Neves	CN	Max Lalli	SSE
Elizabeth Howles	CN	Nigel Turvey	WPD
Oliver Day	EDF Energy	Simon Brooke	UU
Tony McEntee	SP	Andy Jenkins	CE Electric

Generator Reps:

Malcolm Taylor	AEP
Stephen Andrews	RPA, Alcan

Supplier Reps:

Andy Manning	RWE npower	Gayle Cairns	British Energy
David Tolley	RWE	Tim Roberts	Scottish Power
Sarah Owen	Centrica	Glenn Shearn	Powergen

IDNO Reps:

Mike Harding	Laing Energy	Gareth Jones	IPNL
--------------	--------------	--------------	------

Customer Reps:

Hugh Mortimer	BOC	Megan Goss	Corus
---------------	-----	------------	-------

Apologies:

Carole Pitkeathley	energywatch	Jim Johnston	GUC
Dave Sowden	Micropower Council	Jonathan Purdy	EDF Energy
Jeremy Nicholson	EIUG		

1. Introduction

Mark Cox welcomed the group, and noted that both actions from the July meeting would be picked up under later agenda items.

2. Tariff and charging issues – Supplier perspective

Andy Manning presented his paper on tariff structure issues, which highlighted the key areas where inconsistency between the DNOs caused problems for suppliers, and where increased transparency would help customers understand their charges better. He also noted that structures should be reasonably simple, as this increased the likelihood that DNO pricing signals would be passed through in supplier tariffs.

Capacity charging: Andy noted that the DNOs adopt a variety of methods for excess capacity charges, and this is a frequent subject of customer queries.

kVA calculation (conversion of kW to kVA): again, Andy noted that the DNOs' methods for calculating kVA figures (both for agreed supply capacities and for excess capacity usage) are not consistent or transparent, and it is likely that DNOs are using different power factors. A generator representative noted that a helpful first step would be for the formulae for kVA calculations to be published.

Reactive power charges: Andy noted that for those DNOs that charged excess reactive charges, there were different charging thresholds, and that this was likely to become more of an issue as more DNOs began charging for reactive power. Suppliers needed to understand whether these differences were legitimate, in which case this could be explained to customers. If, however, there was no particular reason for them, suppliers would press for a common DNO approach. Andy suggested the power factors used in the calculation of reactive power charges, including any default power factors needed to be clear in the methodologies.

De-energised sites: Andy said that this referred to a range of sites, from those which have been vacant for an extended period of time to those which were genuinely disconnected. DNOs approaches differed, but it was possible that standing and availability charges (if not kWh charges) might continue for both types, and the supplier would be forced to take responsibility for these. A DNO confirmed that charges for vacant energised sites were intended to provide an incentive on suppliers to permanently de-energise the site, as was their responsibility. Suppliers noted that gaining access to these sites could sometimes be difficult. It was also noted that de-energised NHH sites could cause a cost if EACs were still assigned to them. The group also noted that there were wider issues here regarding the accuracy of the settlements system, where sites were often incorrectly registered as energised or de-energised.

Site specific Profile 5-8 billing: npower noted that the inconsistency (only 3 DNOs bill at a site specific level for profiles 5-8) was an administrative burden. One of the DNOs stated that this was a feature of their billing system and they would not be changing it. An IDNO noted that billing via the supercustomer system would be cheaper, but did not allow for reactive charges, which was likely to be an issue in the future. A DNO noted that some customers on NHH metering are keen to move to HH metering.

Charging statement formats: it would save suppliers time and reduce errors if tariffs were published in an electronic format, rather than as PDF files. The group noted that further work was needed on the feasibility of a truly common format for publication, which would feature standardised units (eg p/day) or multiple columns for different units. The group also noted there might be issues about the application of line losses and/or tariffs on a GMT or clock basis, and consideration should be given to deleting preserved tariffs.

The group considered how this work could be taken forward, and suggested that it could prompt both quick wins and longer term projects, and there was a need to distinguish between format, formulae and conceptual differences. Tony McEntee noted that the COG was reviewing the DNOs' current tariff structures, and would produce a report for circulation before the next ISG on this. This would also respond to the issues in Andy Manning's paper and add any other issues raised by the DNOs. The group also agreed that for December indicatives and April 2006 final charges the DNOs would publish tariffs in a downloadable (ie Excel) format.

Action: DNOs (tariff publication format)

3. DNO proposals

Mark Cox told the group that the Ofgem request for the DNOs' project plans had not elicited a very detailed response, and that progress had proved slower than Ofgem had expected this year. However, the DNOs were now beginning to submit proposals to deal with conditional approvals and modifications arising from reviews of the charging methodologies. CN, EDF, SP and WPD had offered to present their plans to the group.

CN

Charging model: Andrew Neves outlined CN's plans for a revised 500MW model to deal with the condition to introduce a cost reflective model for April 2006. This would bring them more into line with the other DNOs' current approaches. A customer representative questioned the need for a demand model based on forward looking costs when little change was expected in the pattern of demand networks in the future, and asked whether this change was driven by pressure from Ofgem. CN suggested that long run marginal cost based charging formed a good economic method of influencing long term investment, and that their previous model was criticised as being overly reliant on price control information rather than network costs.

A customer representative was concerned that CN had no indication of illustrative charges from the new model yet, and questioned what CN would do if the output charges required significant scaling or transition from previous rates. Customers felt that they had insufficient input into the model development process, and that too often no indication of significant changes was provided until it was too late to plan for them. Ofgem and the DNOs must note that while a robust long term charging regime might provide a good solution for all, there would be serious cause for concern if the transition to this long term solution involved unpredictable interim solutions and repeated price shocks. Certainty was needed on the approach that the companies would take in this transitional period.

Another customer representative queried why CN was not planning to publish its new model. Mark Cox noted that there might be some commercial issues over current cost information, but that Ofgem supported the publication of models in general, noting that it expected that DNOs will publish models developed under the long term charging framework. Another DNO noted that there could be costs in making the model suitable for public use and queried whether customers would be willing to pay for this.

Half hourly charges: CN were planning to place a greater emphasis on capacity charges for HH tariffs, although they were not yet clear what the fixed/variable split would be.

Excess charges: CN outlined a proposal to bring in cost reflective monthly charges for customers who exceeded agreed supply capacities (ASC) to replace their previous excess charges, which were based on a penal 3x multiplier of the excess kVA. These would be based on an assessment of the extra network costs needed, apportioned between those who breached ASCs (subject to a cap and collar). CN suggested that this sent a clear signal to customers to reset their ASCs or change their usage patterns and in theory would lead to reduced network costs long term. Another DNO representative noted that excess charges often incorrectly viewed as a DNO money-making scheme: given that the allowed revenues were fixed, these charges actually had the effect of

reducing charges to customers who kept within their ASCs. A supplier representative suggested that customers needed a clearer idea of the access 'rights' represented by payment of capacity charges: then they would also have a clearer idea of the implications of breaching their agreed capacities.

A customer representative queried whether the costs of the extra network to accommodate excesses would already be in CN's 500MW model, and therefore would already be paid for in general charges. A generator representative also questioned the appropriateness of the lack of seasonal differentiation in the charges.

Reactive charges: CN stated that they were planning to introduce excess reactive charges. A generator representative asked whether these would be penal or cost reflective: CN said they were cost reflective, but accepted that there were issues surrounding charging generators for reactive power that needed further consideration by the industry.

Action: CN to submit proposals

EDF Energy

Conditional approvals: Oliver Day presented an update on EDF Energy's progress in meeting their conditions on the removal of replacement costs from their model and on changes to NHH tariffs and LLFCs. On EHV, EDF were proposing (subject to Authority approval) to repeat the 2004 transition strategy and apply another 15% cap on increases (ie charges would be a maximum 30% increase from April 2004 prices).

Action: EDF to submit proposals

Ongoing methodology review: EDF said that April 2005 had marked a significant change for them, with the move to a common methodology across the three areas. They would be examining input costs further, in parallel with work on the longer term regime.

SP

Ongoing methodology review: Tony McEntee summarised SP's position on its charging methodologies. The approved April 2005 UoS methodology had involved some changes from previous methods, and SP had carried out considerable rebalancing. SP noted that they would not be publishing this model. For April 2006, SP had reviewed the model and decided to submit some changes to Ofgem, although SP considered these to be minor housekeeping changes/clarifications only.

Action: SP to submit methodology modification proposals

WPD

EHV charges: WPD explained the actions they are proposing to cover off the condition on the transition of EHV charges, which have now been submitted to Ofgem. This involved a new method of calculating charges, applying the current connection boundary to EHV yardsticks rather than using historical connection charge adjustments. This results in some significant price increases for EHV customers, which WPD would propose to cap at the average price increase plus 5% (ie a 20% rise from April 2004 plus the 2006 average rise). A customer rep noted that WPD's method used average yardsticks for EHV, while, for example, EDF Energy's was site specific, and questioned whether it was justified for the companies to be moving in different directions.

The customer reps also noted that the DNOs and Ofgem should take responsibility for ensuring that consultations, such as that carried out by WPD, reached affected customers. Suppliers could not necessarily be relied upon to act on their behalf, given that DUoS charge increases could be passed straight on to customers. Nigel Turvey noted that WPD always took care to ensure that large customers were copied in on consultations or correspondence on these matters.

Longer term framework

WPD

Nigel Turvey presented an update on the work WPD is currently carrying out with Bath University to develop a new charging model. Initial thoughts were that this would apply at EHV level only, where data from load flow studies was already readily available. There were, however, issues to resolve regarding the apportionment of the costs of unused capacity where system utilisation was low.

A customer representative queried this problem, suggesting that at EHV there would be less unused capacity and customer generally had higher load factors. WPD noted that this resulted partly because of required security standards, which were unrelated to load factors, and other factors such as standard kit sizes would also have an effect.

A generator rep suggested that if MVar charging worked at distribution level, this could also have implications for transmission charging. A DNO representative asked whether there might be a system VAr peak which did not align with the MW peak. WPD agreed that this was a valid point, and one which may need investigating in the future, but it was not something that the Bath work had so far considered.

Action: WPD to provide further updates on progress

ENA Commercial operations group (COG)

Tony McEntee, acting as Chairman of the COG, presented an update to the group on a project by the DNOs to work together on a long term charging solution, and noted that he was hoping to counter accusations of apathy levelled at the DNOs. The DNOs are currently working together on creating a specification of principles and outputs for long term arrangements, with the possibility of this leading to consultancy work on a common combined demand and generation methodology (incorporating a cost attribution model, a price setting model and a scaling model) and, if possible, common tariff structures.

A generator representative queried whether the DNOs were keen to return to a deep connection boundary, noting that this seemed like a step backwards. Tony confirmed that this was not the case, but that SP were not in favour of moving the boundary any further towards shallow.

Other DNOs

Mark Cox asked for an update from those DNOs who had not presented to the group.

UU stated that a proposal on their EHV transition condition would be submitted to Ofgem soon, and would also propose some other changes to the methodologies. CE

Electric suggested that their proposals for a new allocation model flexible enough to consider any combination of historic and forward looking costs would be submitted by the end of October. They were also looking to maintain a location element to EHV charges, basing the output on site specific models. For the LV and HV customers charges would remain on an average basis.

Action: UU and CE

SSE stated that they had no plans to make any changes.

Modification process

Clover Powell summarised the modification process guidance Ofgem had drafted. The intention was for this guidance to improve efficiency of the approvals process, and give the industry some idea of how changes would be made, although Ofgem was open to either comments now or amendments in the future. A supplier representative suggested that it would be easier for suppliers if the review and modification process was carried out at a similar time of year (probably early autumn) by all the DNOs. A DNO suggested that this process should not be necessary for housekeeping amendments. Ofgem noted that opinions on what counts as a minor modification often vary between parties.

Action: Ofgem to publish guidance

4. Line loss factors

Mark Cox provided a brief update on the industry project to publish line loss factor methodologies. Ofgem had recently received a commitment from the ENA that the DNOs would publish their current line loss factor methodologies in their use of system charging methodology statements by April 2006, but with a note that these methods were not subject to Authority approval. The ENA letter also noted that the DNOs were working towards adopting a common methodology, which involved those DNOs not currently using the EA Technology model developing a version of this model.

Action: DNOs to publish methodologies/continue development work

A supplier representative asked why the DNOs were not happy for the methodologies to be approved by the Authority, and whether this situation was permanent.

5. Generator use of system charges

Ofgem noted that the question of the development of robust GDUoS charges had not been given much consideration in the earlier presentations. Looking at the DNOs' current charges, there seemed to be a wide range of prices and approaches, and it was now appropriate for the industry to resume discussions on this. Some of the DNOs noted that they had had no generators connect since April 2005, so this did not seem like a high priority. A generator representative noted that there were various reasons for the rush of connection applications before 1 April.

A supplier representative noted that there were current issues: generators were already being charged for reactive power, and there were numerous issues regarding the appropriateness of this and the apportioning of reactive units between generators and their suppliers. Stephen Andrews noted that a paper on reactive power charging for generation had recently been submitted by Econnect to the Distribution Working Group. That group was reworking the paper, and following this, it would be submitted to the ISG for consideration and discussion.

Action: DWG

Mark Cox also noted that it was important to put robust charges in place in anticipation of connections, and this would be vital come 2010, if there was a transition for existing generators onto the new arrangements. Colette Schrier presented some slides on this topic, outlining the two options put forward so far (valuing access rights or making a historic cost adjustment) for bringing existing generators into the arrangements, and views put forward in Ofgem's May 2005 consultation paper. The group discussed the issues surrounding the two options. A DNO had some concerns that providing rebates or access rights to generators could be discriminatory, since demand customers had to cope with changes in the charging regime without compensation. Another DNO noted that much of the information on historic connection charges would be lost, and Ofgem agreed that with approximately 4-6GW of connected generation, this could involve a significant amount of work. A DNO also noted that the question of how to treat sites with both demand and generation needed to be considered. A generator representative agreed, and suggested that it was likely that these sites had been charged in different ways to generation-only sites.

A generator representative said that access rights were evergreen. A DNO suggested that this went against the economic principles that the group was trying to support: access should be awarded to the person willing to pay for it, and should never be considered as completely firm or permanent. A supplier noted that there would always be disadvantaged parties under any scheme: currently it was likely that there were lines paid for in full by one party, but subsequently used by many others without charge.

Mark Cox said that Ofgem would capture some of these issues and circulate a paper for more detailed discussion at the next meeting.

Action: Ofgem

6. AOB

A DNO representative asked whether Ofgem had any comments on the energywatch campaign on smart metering. Mark Cox said that Ofgem was currently considering the matter, but that this seemed like a positive initiative. A generator representative noted this subject was also covered by the recently closed DTI microgeneration consultation.

A DNO also asked for an update on Ofgem's progress in commissioning cost benefit analysis for new charging models, and whether Ofgem was planning on publishing a document soon. Ofgem confirmed that Bath University had been employed, and agreed to consider whether the scope of work could be circulated to the group. It was expected that the document would be published in November.

Action: Ofgem

Mark Cox thanked the presenters and the group for a very productive meeting.