

## Meeting report

<b>Meeting name</b>	Transmission Charging Methodologies Forum
<b>Date of meeting</b>	12 <sup>th</sup> November 2014
<b>Time</b>	11:00am – 3:00pm
<b>Location</b>	Holiday Inn, Leamington Spa

## Attendees

<b>Name</b>	<b>Initials</b>	<b>Company</b>
Patrick Hynes	PH	National Grid (Chair)
Dave Corby	DC	National Grid (Technical Secretary)
Emily Leadbetter	EL	National Grid
Wayne Mullins	WM	National Grid (Representative)
Nick Pittarello	NP	National Grid (Presenter)
Stuart Boyle	SB	National Grid (Presenter)
Mike Oxenham	MO	National Grid (Presenter)
Tariq Hakeem	TH	National Grid (Presenter)
Christoph Horbelt	CH	Dong Energy
Zoltan Zavody	ZZ	Renewable Energy
Richard Smith	RS	National Grid
Colin Prestwich	CP	Smartest Energy
James Anderson	JA	Scottish Power
Peter Bolitho	PB	Waters Wye Associates
Jonathon Wisdom	JW	Npower
Bernard Kellas	BK	SSE
Saad Mustafa	SA	Ofgem
Fruzsina Kemenes	FK	RWE Innogy UK
Mo Sukumaran	MS	SSE
Peter Bingham	PBi	National Grid
Joanna Carter	JC	Centrica
William Chivers	WC	ESB
Peter Russell	PR	Ofgem
Richard Mawdsley	RM	Haven Power
Karl Maryon	KM	Haven Power
Lorraine Nicholson	LN	Scottish Power
Guy Phillips	GP	EON
Tim Collins	TC	Centrica
Lee Taylor	LT	GDF Suez

## Dial In

<b>Name</b>	<b>Initials</b>	<b>Company</b>
Paul Mott	PM	EDF Energy plc
Simon Holden	SH	LR Senergy

All presentations and supporting papers given at the TCMF meeting can be found at:  
<http://www2.nationalgrid.com/uk/Industry-information/System-charges/Electricity-transmission/Methodology-forum/>

## 2 Ongoing modification proposals – Dave Corby

1. Ongoing CUSC modification proposals were presented with updates for each. These were:
  - i. **CMP201:** Removal of BSUoS charges from Generation
    - Rejected on 02/10/14.
  - ii. **CMP222:** User Commitment for Non-Generation Users
    - Approved WACM1 on 21/10/14.
    - Implementation: 01/04/15.
    - National Grid will be contacting affected customers in advance of this to ensure appropriate financial security is in place.
  - iii. **CMP223:** Arrangements for Relevant Distributed Generators Under the Enduring Generation User Commitment
    - Ofgem open letter indicating they're minded not to approve original concluded 03/10/14.
    - The Mod has been sent back to the panel, with the working group to reconvene.
    - Working group focusing on the codifying the debt recovery process.
  - iv. **CMP224:** Caps the total TNUoS target revenue recovered from generation users
    - Ofgem approved the original proposal on 08/10/14.
    - This modification was implemented on 22/10/14, it comes in to affect for charges in 2015/16.
  - v. **CMP227:** Revise the G:D split of TNUoS charges, for example to 15:85
    - The workgroup consultation closed on 24/09/14. Based on the feedback received it is to undertake further analysis.
    - The workgroup has been granted a time extension until Feb 2015.
      - One attendee asked about the revised earliest implementation date. The TCMF attendees discussed this briefly and it became clear there is a range of possibilities. Given the required CUSC governance and the need to implement in line with the charging process, an April 2017 implementation is possible. However, the workgroup will be considering commercial implications and impact on competition, including interaction with EMR Capacity Mechanism. This may lead to a recommendation from the workgroup for a later implementation date.
  - **CMP234:** Incorporation of Biddable Indexation of OFTO revenues in TNUoS
    - Raised at the August CUSC panel
    - The Code Administrator Consultation closed on 24/09/14.
    - Panel unanimously voted to approve the modification under the self-governance process on 31/10/14, subject to any appeals received by 21/11/14.
    - Implementation planned for 01/04/15.

- vi. **CMP235 / CMP236** – Introduction of a new Relevant Interruption Type and Clarification of when Disconnection Compensation payments can be expected under a Relevant Interruption
  - New proposals to CUSC panel 26/09/14
  - Amalgamated by the CUSC panel into one proposal at this stage.
  - Sent to a workgroup. The first meeting took place on 30/10/14.
  - Workgroup industry consultation expected
- vii. **CMP237** – Response Energy Payment for Low Fuel Cost Generation
  - New proposal to CUSC panel 26/09/14.
  - Sent to a workgroup. The first meeting took place on 07/11/14.
- viii. **CMP238** – Application of Statement of Works Process when a modification application is made
  - New proposal to CUSC panel 31/10/14.
  - Proceeding directly to administrator consultation.
- ix. **CMP239** – Grandfathering Arrangements for the Small Generator Discount
  - New proposal to CUSC panel 31/10/14.
  - To be developed by a workgroup.
  - Nominations to the workgroup closed on 07/11/14.

### 3 User Commitment for Generator Focused Anticipatory Investment Update – Wayne Mullins

2. WM provided an update on the GFAI work, focussing on the risks faced prior to commissioning of generation associated with the following possible build scenarios:
  - i. A developer building assets shared between stages of their own project(s);
  - ii. An OFTO building assets between stages of a single developer's project(s);
  - iii. A developer building assets shared between multiple developers' projects; and
  - iv. An OFTO building assets shared between multiple developers' projects.

It was noted that under scenarios i, ii, and iv, it seemed that the existing user commitment arrangements could be applied without any major code changes.

3. One TCMF attendee commented that under Scenario iii the developer building the shared assets faces more than just asset stranding risk. A large risk they face when being asked to facilitate other developers' projects is the increased level of funding that they would be required to provide. This could affect investors' appetite to invest, as the additional funding requirement during the build may not justify the resulting return and presented additional project risk. Ultimately this could prevent a project from progressing.
4. One attendee asked what the benefit is for the developer building the shared assets under scenario iii? The TCMF attendees discussed this concluding that the actual advantage would depend on the details of the development. It can be assumed that a single larger asset would expect to be cheaper than two smaller assets. This would provide a cheaper TNUoS charge per developer. One attendee suggested analysis shows roughly a 25% saving, depending on relative developer sizes.

5. The TCMF attendees noted the need to demonstrate to Ofgem that the overall package is efficient for the industry. WM asked if developers are willing to take the risk for the reward of cheaper charges. The attendees noted that there is nothing mandating the regime to connect in this way, but did note that under ITPR when the SO advises a coordinated solution, there is a realistic risk that developers opting for a non-coordinated route will not get the full value of the assets they install when transferred to an OFTO if Ofgem don't think it is the most economic and efficient development.
6. The TCMF attendees engaged in a discussion of the perceived risk versus the expected reward. Some attendees agreed that under the current regime the risk in these projects is too large to be balanced by the potential reward. One attendee commented that if developers were expected to take on the additional risk for building shared assets then there should be some additional reward available, such as under the merchant model for interconnector development. However, it was acknowledged that this would involve significant changes to the regulatory regime.
7. The TCMF attendees noted that the relative sizes of the parties under scenario iii would affect developers' appetite to build shared assets. For example, a developer of a 2GW project may be willing to facilitate another developer's 100MW project, but not vice versa.
8. One attendee suggested that there may be an interaction between User Commitment and the CfD allocation process, as both could have an effect on the timing of developers' final investment decisions. NG and Ofgem accepted an action to investigate further, with Ofgem also to consider this issue under ITPR.
9. One attendee asked concerning materiality, how many examples of projects had National Grid come across in which coordination was considered. WM responded that he was aware of at least two projects in the past for which this was looked at.
10. One attendee noted that the current arrangements are stable and provide certainty, and that the coordinated route seemed to exchange this for a potentially cheaper, more efficient but less certain investment? Where the project risk resented by coordination outweighed the saving from the view of a developer the project would not proceed. It was recognised that these were similar arguments on risk that led to 'developer self-build', although clearly iii) this was not self-build for all affected parties.
11. National Grid noted that there appeared to be no perfect user commitment solution for scenario iii. Those developers being facilitated by shared assets being built by another developer would require some assurance that the transmission assets they require will be delivered. However, asking the building developer to provide security to cover this (in addition to the concerns relating to project financing) may dissuade developers from building shared assets. The attendees noted that this was more likely to lead to an OFTO build scenario, but this is dependent on Ofgem's current work developing OFTO build arrangements.

#### 4 Statement of Works Trial – Mike Oxenham

12. MO presented to give the TCMF attendees an update on the ongoing trial of the Statement of works process, focussing on the data in the interim report passed to Ofgem on 12/11/14.
13. MO noted that the time saving of 840 days is a conservative estimate. There would be extra days saved relating to raising invoices and other administration, as well as unknown timescales for the developer turnaround (up to 90 days per project), although it appeared clear there was a significant benefit.

14. One attendee asked how has the trial been communicated to the DNOs? The attendee noted that in their experience the DNO is not aware of the trial, although this may be specific individuals. MO agreed to take this away, as he did not have the detail about the original communication. Another attendee suggested this may be geographical as the Scottish DNOs are probably very well aware.
15. The TCMF attendees were invited to send any further questions or feedback to Mike at [Michael.Oxenham1@nationalgrid.com](mailto:Michael.Oxenham1@nationalgrid.com).

## 5 Recovery Demand Side Balancing Reserve – Tariq Hakeem

16. TH presented slides to update TCMF on the Demand Side Balancing Reserve and Supplementary Balancing Reserve. TH focussed on the costs incurred, timescales for notice to the Authority, the Authority determination and proposed options for recovering the costs.
17. One attendee enquired concerning detail of adding the cost recovery to the RF invoice.
18. The TCMF attendees asked if it is correct that the Non-utilisation costs will be smeared across the annual period (November to February, inclusive), whereas Utilisation costs are applied on the day of use? TH confirmed this.
19. One attendee asked when will the costs appear on the BSUoS invoice? TH responded that the costs will be on the November invoice.
20. TH highlighted that a circular communication is to be passed to the BSUoS distribution list, and will be published on the National Grid website also.
21. The TCMF attendees were invited to send any further questions or feedback to Tariq at [Tariq.Hakeem@nationalgrid.com](mailto:Tariq.Hakeem@nationalgrid.com).

## 6 Offshore Charging Issues – Wayne Mullins

22. WM presented slides detailing thoughts on two Offshore Charging Issues. The first set of slides focussed on Tender Fee Reconciliations and the options for recovering such via the TNUoS charges, and the second set of slides focussed on Bespoke Elective Spares and the options for treatment of the costs.

### 23. Tender Fee Reconciliations:

- i. WM highlighted that Ofgem were reconciling tender fees charged in relation to tender round 1, which will result in a one-off adjustment to OFTO revenues. It was highlighted that under the current charging methodology, local offshore charges are effectively fixed (subject to indexation) for each onshore price control period. This means that the adjustments resulting from the reconciliation may not be fed into charges faced by offshore generation.
- ii. Whilst the full materiality of the reconciliations had not been confirmed, WM noted that the materiality was expected to be below (well under £10m in total, with values being calculated on a project level, and could be positive or negative).
- iii. WM noted that CMP224 may have impact on this issue. As charges for generators were expected to be capped by the €2.50/MWh limit, the full effect of the reconciliation would be seen by demand. For generators, any change revenue collected through local tariffs will be offset by an equal and opposite change the amount recovered via the residual to all generators. If no change

is made from the current regime then the impact is socialised, where it would be more cost reflective to be targeted at the specific generator.

- iv. One attendee asked about the timescales for implementation. A CUSC mod would need to be processed fairly quickly to align with the Ofgem process, however the precise timescales have not yet been confirmed by Ofgem.
- v. The attendees noted that the materiality is key to the discussion and that they cannot comment strongly without knowing this. One attendee suggested the number could be larger for Tender round 1, than for subsequent rounds.
- vi. One attendee noted that impacts on the revenue next year are not very welcome, but this was more about regulatory process than the CUSC. Attendees would need more than two months' notice on revenue instability to manage it.
- vii. The TCMF attendees agreed predictability and stability are paramount. It was agreed that the current manifest error limits provided a good benchmark to assess whether or not the issue was material, and that if the changes in charges that would result from a CUSC modification to amend the treatment are larger than this limit then a change should be progressed.

#### **24. Bespoke Elective Spares**

- i. WM noted that it was possible for a developer building offshore transmission assets could elect to purchase spare assets for use at a specific location over and above what would normally be deemed economic and efficient. In this scenario, the OFTO would benefit from holding a spare through its availability incentive, whilst the developer's generation project would have assurance that interruption of access to the network would be limited in the event of asset failure. As a result Ofgem are minded to allow the assets to form part of the asset transfer.
- ii. One attendee noted that if Ofgem have allowed these to be included on asset transfer then surely they are economic and efficient? When the case is made for the spares Ofgem do make an assessment of the assurance / insurance of the spares. Why have Ofgem deemed them efficient and in interest of consumer? WM responded that this is probably because these are significant capital items, which would be deemed efficient if the party requesting them is willing to pay the associated cost. As a result Ofgem have asked National Grid to consider the associated charging arrangements to ensure the requesting party did pay the costs.
- iii. The TCMF attendees discussed the possible options. One is to include the cost of the assets within the TNUoS charge, and the other is to treat the provision of the assets as one-off works and charging for the assets via a "transmission charge" over the regulatory life of the assets. It was noted that the status quo represents zero cost reflectivity with all charges socialised. The TCMF attendees also noted that the TNUoS option represents approximately 70% cost reflectivity and the transmission charge option 100%.
- iv. One attendee asked if there are going to be future occurrences as oppose to just this one-off extreme example? The TCMF attendees noted that National Grid are trying to establish a principle as there could be further occurrences.
- v. The attendees noted that option one would require a CUSC mod. WM suggested that option two might also potentially need a CUSC mod to clarify the treatment within the CUSC.
- vi. The TCMF attendees discussed the timescales. Ideally an arrangement needs to be in place by spring 2015, so there is a need to bottom this out in the next few weeks. A mod could be raised to Nov panel.

## 7 2015/16 TNUoS Tariff Forecast – Stuart Boyle

25. SB talked through the slides presented recently to the TNUoS webinar, focussing on the forecasting cycle, changes since the last update and variables still subject to change before the final tariffs are published.
26. One attendee noted that the capping of generation tariff and the consequential effect on demand is quite profound, although it may not last very long. It was also noted that whilst the cap is 'active' all revenue changes impact demand only.
27. One attendee asked if the impact on Scottish hydro revenue due to Caithness-Moray is definitely going to be in 2015/16 tariffs? The TCMF attendees noted that this is the Ofgem proposal and the Consultation on this closes on 24/11/14. NG hoped to have information available to include the effect in the December draft tariffs.
28. The TCMF attendees noted that the forecast the slides are based on is on the National Grid website <http://www2.nationalgrid.com/UK/Industry-information/System-charges/Electricity-transmission/Approval-conditions/Condition-5/>. This contains more detail and a breakdown of the revenue assumptions in the appendix.

## 8 Exporting GSPs Update – David Corby

29. DC gave a short presentation to update the attendees on the ongoing work to develop charging arrangements for exporting GSPs. The presentation focussed on the current bilateral engagement, particularly with the DNOs, and the plan to release an open letter early in 2015.
30. The TCMF attendees welcome the open letter and will be interested in the responses.

## 9 BSUoS Stability – Nick Pittarello

31. NP initiated a discussion on BSUoS Stability, being the highest item on the TCMF priority list as voted for by TCMF attendees. This focussed on determining the root of the problem (predictability, volatility, exposure or certainty) in the eyes of the attendees.
32. NP asked for views on the potential drivers. One attendee noted that factors driving instability can be internal or external. Some things, such as the regulatory regime itself cannot be changed, even though it produces some of the instability.
33. One attendee noted the difficulties faced by parties in managing their exposure to volatility with information provision, etc.
34. Some attendees supported NP's suggestions surrounding accuracy of forecasts. One attendee suggested that the year ahead is the important forecast. NP asked how this is being used? The attendees responded that this forecast forms basis of market expectation for consumer pricing. Therefore more accurate forecasts could reduce risk margins. NP asked what could be considered an acceptable level of forecast error? What is unacceptable error?
35. One attendee noted issues with forecast timescales. Further to this the TCMF attendees noted that forecasts can be quite inaccurate, with the error often varying from £2/MWh to £10/MWh day ahead. The TCMF attendees supported forecasting as an issue.



36. NP asked if volatility is an issue, noting that it can be difficult to separate from predictability, though predictability is about forecasting, whereas volatility is about the inputs to the calculation.
37. TCMF attendees did not signal that “financial exposure” was the root cause of the issue and there was no further discussion on this driver. When discussing certainty, one attendee asked if this was just a cash flow risk for National Grid? The attendee added that there could be risk in managing the process and that NG might be in a better position to manage that risk.
38. NP asked for a show of hands to determine which drivers the attendees perceived as most relevant to “BSUoS Stability”. The attendees cast votes as two for forecasting accuracy, two votes for volatility, one vote for financial exposure and five votes for certainty. One attendee caveated their vote for certainty noting that it need also be predictable. One attendee correctly noted that some of these drivers are interlinked. If you have volatility you also have financial exposure.
39. The TCMF attendees discussed long term stability. One attendee noted that surely it is key that on an ex-ante basis you know what BSUoS will be. It could change drastically, but if a party knows what it will be then volatility can surely be managed? Another attendee responded noting that this would depend on the time period. It would be no good if a party is only certain of tomorrow’s BSUoS. That could not be managed. Other attendees noted that this issue is different for the various parties. Generators who want to know if they should run tomorrow would find day ahead accurate forecasting useful, but suppliers who have long term fixed price contract and need to cover their cost would only benefit from a longer term forecast.
40. The TCMF attendees discussed the possibility of National Grid rolling over impacts as a Kt adjustment. NP noted there could be many ways to address this but asked if the TCMF attendees could specifically consider if certainty was the main issue? One attendee noted that the current methodology is purely cost reflective. It would be a move away from this to flatten volatility. The TCMF attendees noted that Kt of one year could offer significant improvement, but also noted this does give cash flow issues.
41. NP resolved to continue to discuss the matter bilaterally internally and externally and return to the next TCMF with possible options to address predictability and certainty.

## 10 Future Topics Prioritisation – Dave Corby

42. DC accepted an action to focus on the future topics and revise the priority list by vote at the next meeting on 14/01/15.

## 11 AOB

43. PB brought the TCMF’s attention to CMP213, its’ pending implementation in April 2016 and the Judicial Review ongoing on at this time. Will the JR have any impact on the implementation? National Grid responded that a party has applied for the JR and a number of parties are interested ‘officially’. The process for the full JR has yet to be agreed but NG is an official interested party. In terms of setting charges currently National Grid have been directed to implement by Ofgem, and the current planning is based on the understanding of that direction. PB noted that he has been asked if the JR could provide injunction to delay, but that he has no knowledge. Ofgem



responded said this is something being thought about, but could not say more at this time.

44. PH noted that this TCMF meeting started at 11:00. PH asked for a straw poll to indicate TCMF attendees; preference for start time. Eight attendees voted for 10:00, while ten voted for 11:00
45. DC highlighted that a new policy for allocating parking passes has been implemented at National Grid House in line with PB's observations at the previous meeting. PB responded that he has observed the new parking procedure and agrees it is working.

## 12 Next meeting

**Next meeting:** Wednesday 14th January

**Time** : 11:00 – 15:00

**Venue** : National Grid House Warwick