

Minutes

Meeting name	Forward Looking Charges Task Force – Meeting 2
Time	10.15 – 16.00
Date of meeting	21 December 2017
Location	ENA Offices, Horseferry Road, London

Attendees

Name	Initials	Organisation
Jon Parker	(JP)	Chair-Ofgem
Dominic Green	(DG)	Ofgem
Sarrah Marvi	(SM)	Ofgem
Andy Pace	(AP)	Citizens Advice
Jeremy Nicholson	(JN)	Energy Intensive Users Group
Mary Gillie	(MG)	Energy Local
Tim Collins	(TC)	Centrica
Daniel Hickman	(DH)	Npower (supplier)
Joe Dunn	(JD)	Scottish Power Energy Management
John Tindal	(JT)	SSE plc
Tom Steward	(TS)	Good Energy
Michael Harding	(MH)	BUUK (IDNO)
Chris Barker	(CB)	Electricity North West Limited
Andrew Enzor	(AE)	Northern Powergrid
Nigel Bessant	(NB)	Scottish and Southern Electricity Networks
Chris Ong	(CO)	UK Power Networks
Jonathan Graham	(JG)	Association for Decentralised Energy
Tom Edwards (by phone)	(TE)	Cornwall Insight
Laurence Barrett	(LB)	E.ON
Nick Sillito	(NS)	Flexible Generation Group
Nicola Percival	(NP)	Innogy Renewables UK Ltd
Rob Marshall	(RM)	National Grid
Rick Parfett	(RP)	ADE
John Spurgeon	(JS)	ENA Task Force Secretariat
Apologies		
Louise Schmitz		National Grid
Caroline Bragg		ADE

1 Welcome and introductions – Ensuring successful task force outcomes

1.1 JP welcomed the Forward Looking Charges Task Force members to the meeting and provided a brief update and reminder to the group of the task force objectives and associated timelines for the delivery of outputs. In this respect he particularly emphasised the need for all members to contribute to the work programme with outputs produced outside of meeting enabling the group to focus on setting tasks and reviewing outputs. JP informed the group that Ofgem would provide support throughout the process and ensure clear direction for the work of the group. There was a brief discussion around the principles of the different task forces and how they need to align. The hope is that this will be achieved through sharing of reports and Ofgem coordination.

1.2 JP provided a summary overview of the discussions and outcomes of the Access Task Force Working Group meeting held on 18 December (see published minutes for details).

2 What should a forward looking charge recover?

2.1 JP suggested that a fundamental question to answer is what should a forward looking charge recover? JP presented some initial views on the principles that should be used to determine which costs should be within scope of a ‘forward looking charge’. The group discussed the definition of ‘future costs’ and noted that any signal should affect behaviour otherwise it was questionable whether it would be worthwhile, though it was noted that there is also a fairness argument that those that costs should be borne by those that cause them. The group also noted that there is balance between short and long-term signals and that wherever users should be able to anticipate signals, with signals cost reflective and allowing users to choose behaviour.

3 Discussion on Network topology and cost drivers

3.1 NB presented slides on network topology and network cost drivers. NB also highlighted key aspects of the make-up of current system users, generation and demand, across each of the DNO networks and how this is a major factor in the design and operation of the networks.

3.2 NB described the different drivers of network constraints and the different approaches that DNOs currently apply to minimise and manage constraints. The task force discussed future changes in the energy system that could drive more network constraints.

3.3 NB set out some initial thinking on network costs drivers and highlighted a number of current major cost drivers. NB highlighted how these drivers might change in the future in response to changes in the characteristics of network users (such as increasing levels of EVs and distributed generation). NB identified the options available for managing these changes (for example storage, more network monitoring and more automation).

3.4 Of particular interest to the group was a ‘cost categories and influences’ slide’ that NB talked through and which attempted to identify the different categories of cost across the distribution network and the extent to which different costs are influenced by customer behaviours.

3.5 The Group had a wide ranging discussion on these various aspects of the DNO networks, the various costs drivers highlighted and the extent to which these could be affected by users’ behaviours. The group asked whether there were differences across distribution and transmission and whether there are similarities. The group also discussed the question of future uncertainty, forecasting future change and the risk and treatment of redundant/stranded assets

Action agreed under this item:

FTF04 NB/LB/NS/RM to develop thinking on the scope of Forward-Looking Charges and related question on what a forward-looking charge should recover, the principles for determining which costs should be recovered.

4 Customer considerations

4.1 AP talked through slides on household only customer considerations and the principles that should be considered when developing options for forward looking charges. This considered the take up of electric vehicles (EVs) and the potential impacts on network capacity and operation. AP raised potential questions around the allocation of charges between EV and non-EV households. In particular, how such charges might be structured (e.g. a combination of capacity & ToU) and the impacts including on vulnerable customers. AP set out some options for how charges could be structured in this context.

4.2 AP stated that one option may be to separate vulnerable customers and charge them using a specific tariff, though others in the group felt that support for vulnerable consumers should focus at the overall bill level.

5 Options development – Introduction

5.1 JP introduced this ‘options development’ section of the meeting by explaining that for each of the forward looking charges option areas i.e. structure of charges, locational and temporal signals and whole system charging, that the group should be aiming to produce a draft of the section of the initial options report document for the different option areas. The sections should explain how the options could work for each of the areas; how they would apply to different types of system user and should also identify links to others areas.

5.2 JP said that under the remaining agenda items the group would look at each of the three option areas in more depth and seek to answer a number of key questions on whether there are further options that have yet to be identified, how options relate to network users needs and what are uncertainties or questions that need to be answered around how the different options would work.

6 Structure of charges – options for change

6.1 AE gave an overview of the current structure for Distribution Use of System (DUoS) charges. He pointed out that two different methodologies are currently used across the different distribution voltage levels. AE explained how average demand tariffs are calculated across different customer groups within a specific DNO area. AE also noted that generators are awarded credits for offsetting network reinforcement at higher network voltage levels.

6.2 RM gave an overview of the current tariff structure for Transmission Network Use of System charges (TNUoS) and explained how charges are applied to different customer types. RM set out a number of potential options for fundamental change to tariffs that included the wider use of capacity charging including time of day capacity charging and charges based on gross demand. RM questioned whether charging structures across transmission and distribution should be aligned or should reflect the different costs that users impose on the transmission and distribution networks. The group discussed the options for the structure of charges and agreed next steps.

Action agreed under this item:

FTF05 DNOs/NP/MG/TS/RM to produce straw man showing how charges (distribution and transmission) could be structured and their characteristics. Building on the straw man carry out high level analysis that considers to what extent the different tariff structures vary by location.

7 Locational and temporal signals – options for change

7.1 MH presented slides on the topic of locational charges with the intention of stimulating discussion. MH set out how 'locational costs' could be defined based on the assumption that network costs will differ by location. He also explained that there were different options for how locational costs could be recovered and raised the question of whether 'common costs' (e.g. IT systems) should be allocated to consumers on the basis of location.

7.2 MH described the various factors that drive locational costs. MH also noted that locational costs can be temporal with the characteristics of a location changing over time. MH described how this could be reflected in changes to charges. MH highlighted a number of points that potentially support the rationale for location pricing.

7.3 MH described the structures of current approach for connections and use of system charging (at both transmission and distribution) and highlighted the locational elements within each. He also flagged some potential weaknesses in locational pricing and a number of questions around any future design. The group discussed the issues around locational charging, including whether the information to provide locational signals is accessible and agreed next steps.

Action agreed under this item:

FTF06 DNOs/MG/NP/RM/JA/JT to work up options for better locational charging identifying pro and cons of the different approaches.

8 Whole system charges – options for change

8.1 JP opened this session on whole system costs (WSC) and explained what is meant by WSC in the context of this project. JP highlighted some examples of where WSC are taken into account, for example distribution connected users pay TNUoS and BSUoS charges. He also highlighted potential gaps, for example, costs that distribution connected generation may impose on the transmission network.

8.2 JP set out two broad options for applying WSC charges and discussed the options for charging distribution connected generation for transmission costs. JP also noted the relationship with potential access products. JP posed a number of questions to the group on the feasibility and design of different options, and asked the TF to consider whether there are other options that should be considered. The group discussed the issues around WSC including whether there are currently any gaps and if so the extent of those gaps.

Action agreed under this item:

FTF07 RM/TC to flesh out the gaps in charging for whole system costs and, if they exist, to develop the options for addressing them. [Not to consider behind the meter].

9 Any Other Business

8.1 The next meeting of the task force was notified.

Time / Date	Location
10.00 – 16.00 Wednesday 25 January 2018	ENA Offices, Dean Bradley House, SW1P 2AF

CFF Forward Looking Charges Task Force Meeting held on 21 December 2018 Actions List

Action	Option Area/Topic	Lead / Supporting	Status
	Scope/Types of Cost recovered by FLC		
FTF04	<p>Action: Develop thinking on the scope of Forward-Looking Charges. The key question to answer is “What should a forward-looking charge recover?”</p> <p>Questions to answer Do the principles for determining which costs should be recovered via forward-looking charges need to be refined at all?</p> <p>Using the principles identified, can you identify whether the categories of costs identified by the DNOs should be recovered via forward looking charges? For those cost categories that you are unsure about, what further analysis should be undertaken?</p>	DNOs (Nigel Bessant co-ordinating) Laurence Barrett Nick Sillito SO to feed-in	
	Tariff Structure		
FTF05	<p>Produce straw man showing how tariffs could be structured and their characteristics.</p> <p>Building on the straw man high level analysis that considers to what extent the different tariff structure vary by location.</p>	DNOs (Nigel Bessant co-ordinating) Nicola Percival – to cover Transmission options. Mary Gillie, Tom Steward supporting. SO to feed-in	
	Locational Charging		
FTF06	To work up options for better locational charging identifying pro and cons of the different approaches.	DNOs Mike Harding to co-ordinate. Support – Ofgem, Mary Gillie, Nicola Percival, Rob Marshall, James Anderson & John Tindal	
	Whole System Costs		
FTF07	To flesh out the issue of whole system costs and, if they exist, identify where there are or might be gaps in capturing whole systems costs in tariffs. [Not to consider behind the meter].	Rob Marshall / Tim Collins Support - DNOs	



Forward Looking
Charges Task Force