

Embedded Benefit

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Embedded Benefit

Introduction

- ◆ Current transmission charging methodologies create a significant incentive for generators to connect to the distribution network
- ◆ DG are treated as net demand, and do not pay TNUoS generation charges
- ◆ Current embedded benefit amounts to the sum of the residual generation and demand tariffs ~£18.00/kW
- ◆ Cost reflective charge for DG could be TNUoS tariff levied on transmission connected generation minus a discount reflecting the avoided local investment (demand related plus generation related investment)

Embedded Benefit

Avoided transmission costs (demand)

- ◆ Saving from embedded generation is the annual average investment / annual average increase in demand over the same period
- ◆ 2000 - 2006
 - ◆ Avoided demand related investment:
£5.75/kW
- ◆ 2006 – 2012 (SYS figures)
 - ◆ Avoided demand related investment:
£5.05/kW

Embedded Benefit

Avoided transmission costs (generation)

- ◆ Avoided costs of connecting new generation

	Local (£/kW)
South & South West	15
Thames Estuary	15
London	60
South Wales	15
East of England & Home Counties	10
West Midlands	5
East Midlands	5
North West & North Wales	30
Yorkshire & Lincolnshire	15
North East	15

- ◆ England & Wales average of £18.50/kW
- ◆ Annuitised to approximately **£1.50/kW**

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Summary

- ◆ 2000 - 2006
 - ◆ Demand: £5.75/kW
 - ◆ Generation: £1.50/kW
 - ◆ Total avoided investment: **£7.25/kW**
- ◆ 2007 - 2012
 - ◆ Demand: £5.05/kW
 - ◆ Generation: £1.50/kW
 - ◆ Total avoided investment : **£6.55/kW**
- ◆ The calculated embedded benefit is therefore between £6.55/kW and £7.25/kW, compared to the current sum of residuals figure of £18.00/kW

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Way Forward

- ◆ Ofgems SLC C13 consultation recently concluded
- ◆ Current arrangements regarding “small generators discount” effectively cease at end of 2008/9 charging year
- ◆ National Grid currently considering options for an enduring solution to the problem, both net and gross models
- ◆ Anticipate that a discussion paper will be published for industry comment end February/March