

# TASG: Proposals for Extra TEC

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# Agenda

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1. What is ETEC 'Extra TEC'?
2. What is the basic ETEC Price?
3. What do ETEC holders actually pay?

# Guiding Principles

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- ◆ Release extra TEC, in advance of system reinforcement
- ◆ Price this ETEC, on the basis of the Constraint costs it could cause
  - ◆ TEC, the long-term product, should be priced at LRMC
  - ◆ ETEC, a short-term product, should be priced at SRMC

# What is the Product?

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- ◆ The product is as TEC, the right to export MWh onto the power system
  - ◆ For a defined and limited period, namely 2yr 1yr 3m or 1m
  - ◆ ETEC is not evergreen, and confers no rights beyond its period

# Who is eligible?

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- ◆ To be eligible to apply for ETEC, you must:
  - ◆ Be a BMU or a BEGA
  - ◆ Have a certificate of Notification
  - ◆ Have Connection assets in place
  - ◆ The infrastructure reinforcement, necessary for granting of TEC, must have planning consent (section 37)

# Application Process – Yearly ETEC

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- ◆ In November, NGET release info on:
  - ◆ MW bands of ETEC on offer, by Zone and Boundary
  - ◆ ETEC price that will be charged for Y+1 / Y+2
- ◆ Users apply in January for Y+1 or for Y+2 or both
  - ◆ User applies for a MW level, up to a tendered price
- ◆ Allocation of ETEC is now automatic:
  - ◆ If MW applied for  $<$  MW band, then User pays the ETEC price
  - ◆ If MW applied for  $>$  MW band, then we allocate up to MW band in price order, and User pays their tendered price

# Application Process – within-year ETEC

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## Every Three Months:

- ◆ At W-6, NGET release info on:
  - ◆ MW bands of ETEC on offer, by Zone
  - ◆ ETEC price that will be charged for M+1 / M+2 / M+3
- ◆ At W-2, Users apply for M+1 / +2 / +3 (any comb.n)
  - ◆ User applies for a MW level, up to a tendered price
- ◆ Allocation of ETEC is now automatic:
  - ◆ If MW applied for < MW band, then User pays the ETEC price
  - ◆ If MW applied for > MW band, then we allocate up to MW band in price order, and User pays their tendered price

# Periodicity of Product

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- ◆ ETEC can be for three periods:
  - ◆ 'base-load' = 168hrs per week
  - ◆ 'peak' 0700-1900 Mon-Fri = 60hrs per week
  - ◆ 'off-peak' 1900-0700 Mon-Fri +Sat+Sun = 108hrs /week
- ◆ Our ETEC price should be lower off-peak
  - ◆ When MW applied for exceed band, we will give precedence to base-load applicants

# Impact on System Operation

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NONE:

- ◆ Parties with ETEC enter contracts, submit PNs, just as parties with TEC
- ◆ SO respects the PNs; and can accept BOAs
- ◆ SO resolves any transmission constraints arising, via all the tools available as now
- ◆ Elexon settles on metered output as now
- ◆ Post-event, NGET checks that FPN+BOA / metered output has not exceeded ETEC, as for TEC

## 2. Derivation of ETEC Prices

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- ◆ NGET assess likely constraints across Y+1 / Y+2
  - ◆ Which parts of the system would be affected by extra TEC generation
  - ◆ Simple zones (~15 to cover GB system) set annually
  - ◆ Impact in £k per extra MW of ETEC generation, given:
    - ◆ Current Generator Outage programme
    - ◆ View on Generator Running
    - ◆ Constraint Group Demands
    - ◆ Known transmission boundary capability
    - ◆ Current transmission outage programme
    - ◆ ETEC already allocated
    - ◆ Risk allowances

## 2. Illustrative Tariff of ETEC Prices 2007/8

£k per MW per quarter	Zone A South Scotland	Zone B Mid Scotland	Zone C North Scotland	Zone D Buchan
MW Band	200MW	200MW	200MW	200MW
April-June	16	25	31	39
July-Sept	14	20	26	44
Summer	30	45	57	81
Oct-Dec	16	19	23	23
Jan-Mar	18	18	21	21
Winter	34	37	44	44
Annual	64	82	101	125

### 3. What ETEC Users actually pay (1)

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\*\* the following only applies in the case where Users are paying the 'tariff' ETEC price \*\* *[Tender price case yet to be considered]*

- ◆ The ETEC price, as illustrated in §2, is the full likely cost of Constraints
- ◆ There are two classes of ETEC:
  - ◆ Conventional generation can run at 100% load factor, and so pays 100% of ETEC Price
  - ◆ Wind: will only run at 40% load factor, and randomly at high and low constraint times; so Wind ETEC only pays 40% × ETEC Price. NO discount if load factor < 40%

### 3. What ETEC Users actually pay (2)

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- ◆ The ETEC price, as illustrated in §2, is the full likely cost of Constraints
- ◆ We propose that ETEC only pays  $\gamma \times$  ETEC price
- ◆ ‘Cross-subsidy factor’  $\gamma$  reflects that it is not necessarily correct that ETEC pays 100% of extra Constraint costs arising (ie  $\gamma = 1.0$ ):
  - ◆ The system is never designed to be constraint-free; since Constraint costs in Scotland look to be  $\sim 4$  times the long-run efficient design, one can argue for  $\gamma = 0.75$
  - ◆ If you want to heavily cross-subsidise new Entry,  $\gamma = 0.0$

### 3. What ETEC Users actually pay (3)

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- ◆ If one applies 40% for Windy ETEC, and a fairly low  $\gamma$ , then the actual price paid for ETEC could fall quite low
- ◆ We also impose that actual price for ETEC  $\geq$  TNUoS, on a monthly basis
  - ◆ This is to preserve the integrity of the long-term TEC product
  - ◆ The principle is that TNUoS sets the minimum charge that all transmission users should contribute

# What happens to the ETEC cash?

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- ◆ The cash raised by ETEC is fed back into BSUoS as a negative term
  - ◆ I.e. the cash explicitly offsets the extra constraint costs which the ETEC is presumed to have caused
  - ◆ Of course, the relationship will not be one-for-one. Particularly if  $\gamma < 1.0$
  - ◆ Assuming that NGET have a BSIS incentive, we gain if the outturn cost of Constraints, minus the ETEC payments, is lower than the equivalent amounts included in our Target
- ◆ If  $\gamma < 1.0$ , NGET gain less from this BSIS incentive. Accordingly, we propose an additional ETEC charge of  $(1-\gamma) \times 0.2$  £/kW/month, paid directly to NGET

# Conclusions

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- ◆ ETEC offers a shorter-term access than TEC
- ◆ It is priced on the basis of the Constraint costs caused
- ◆ Arguments over the degree of cross-subsidy are arguments over the value of  $\gamma$