GB ECM-13: Residual charging for generation

TCMF

26 March, 2009

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GB ECM-13: Residual charging for generation
Agenda

- TCMF - January 2009
  - Recap of pre-consultation
  - Summary of industry responses
  - Next steps
- Consultation published on 3rd March, 2009
  - Responses requested by 31st March, 2009
- Summary of consultation
  - Options
  - Analysis
  - National Grid – initial view
  - Industry views?

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TNUoS principles

- TNUoS charges reflect the cost of installing, operating an maintaining the transmission system
- Economic and efficient signals are provided to Users when services are priced to reflect the incremental costs of supplying them
  - Charges should reflect the impact that Users at different locations have on TO costs if they were to increase (or decrease) their use of the respective systems

Locational element

- TNUoS charges are determined to recover allowed revenue
  - Determined by the Authority at the time of the Transmission PCR

Residual element

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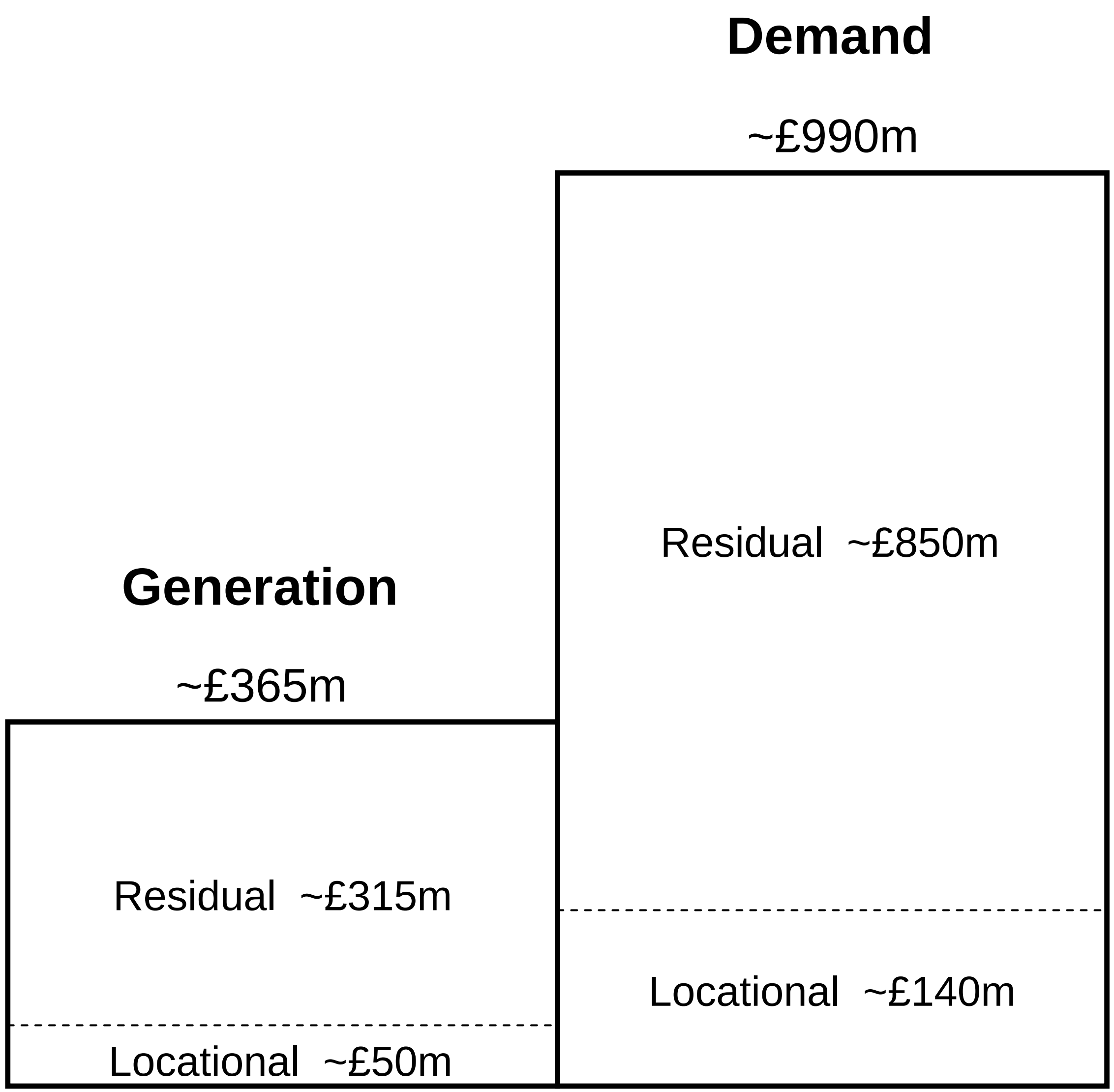
TNUoS 2008/9 revenues



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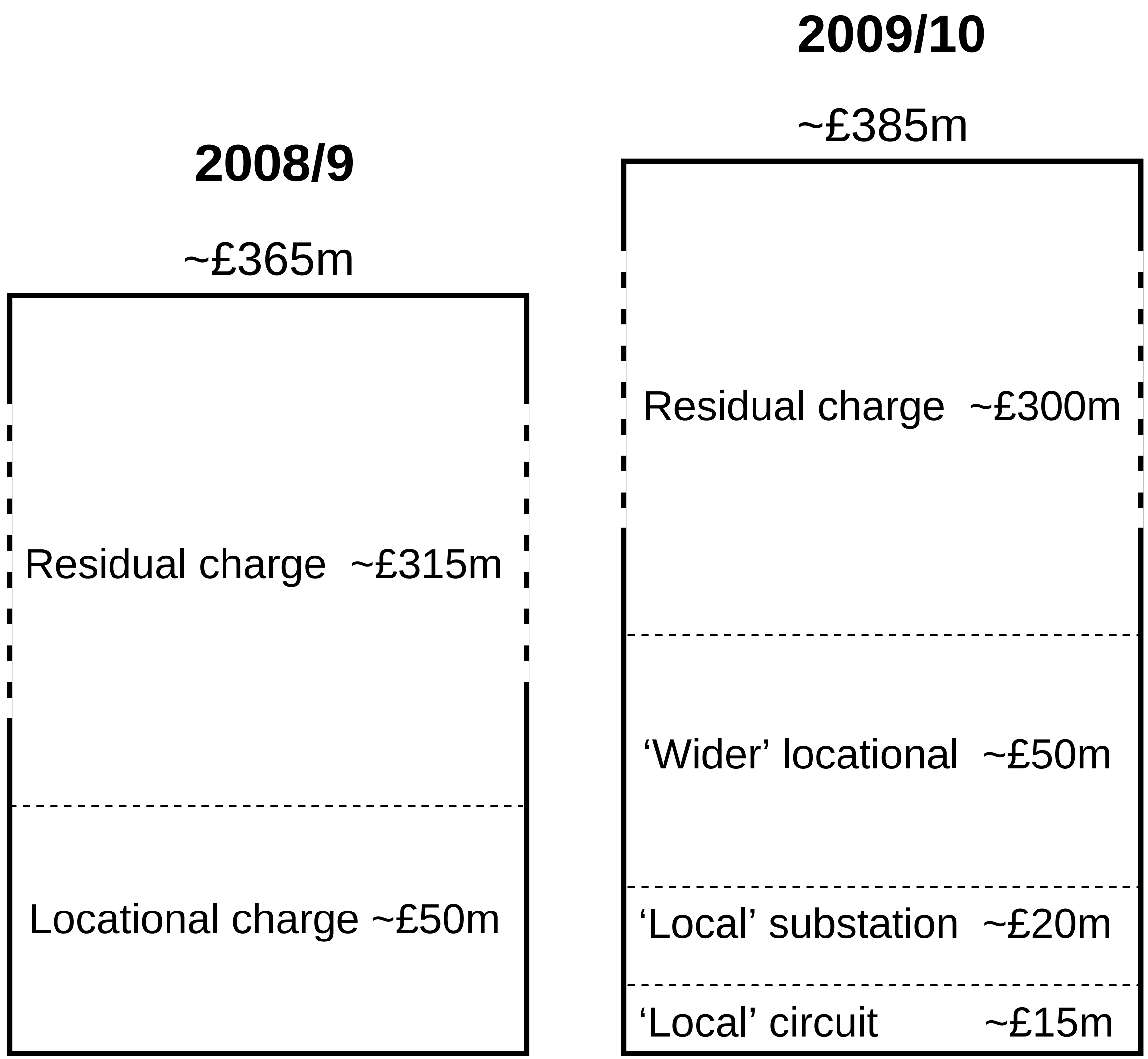
TNUoS 2009/10 generation revenues



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Case for change

- TNUoS residual tariffs determined to recover allowed revenue
- By definition, everything not covered by the locational tariff
    - Substation costs
    - ‘Lumpy’ investment
    - Legacy investment
    - Operational costs
- CUSC amendments proposed to facilitate short-term access to the system
    - CAP161 (SO release of short-term rights)
    - CAP162 (Entry overrun)
    - CAP163 (Entry capacity sharing)
    - CAP164 (Connect and manage)
- All users should pay

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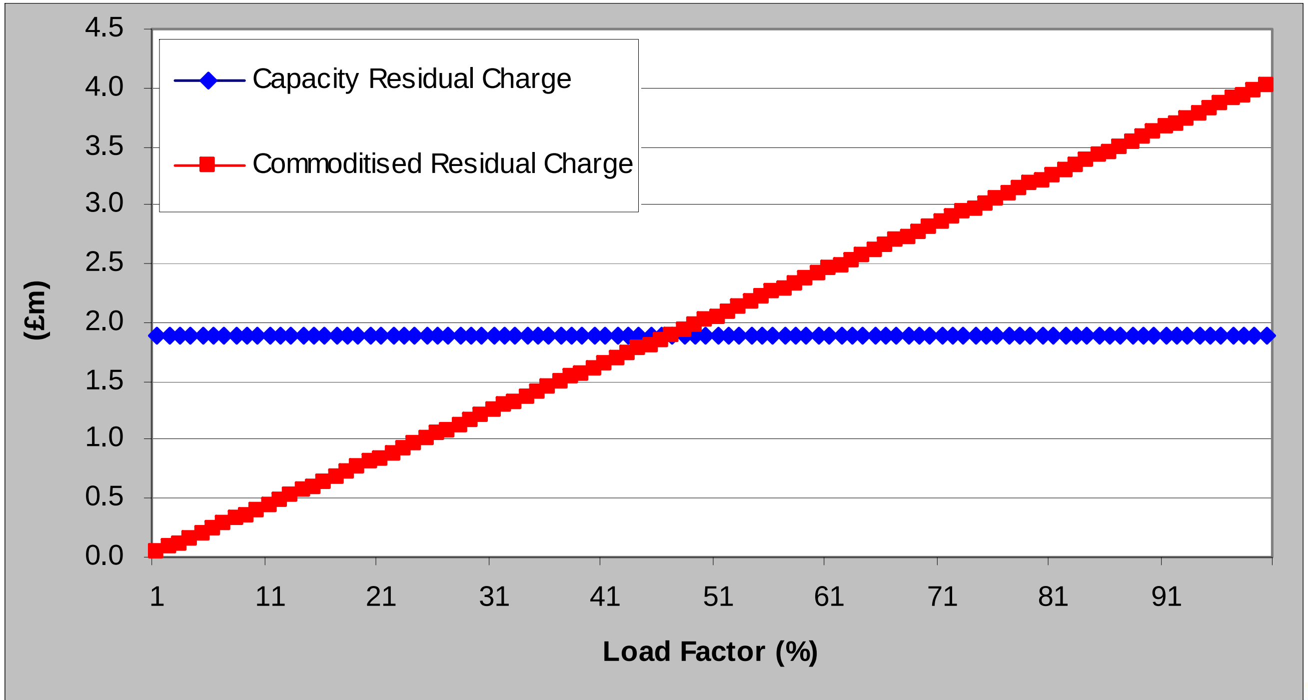
Consultation

- Published on 3rd March, 2009
- Presents three potential solutions
  - ‘Commoditisation’ (£/MWh)
  - Local Capacity Nomination (£/MW)
  - Daily Peak Generation (£/MWh)
- Further analysis
  - What <u>exactly</u> does the residual tariff recover?
  - Winners and Losers
- Invites responses by 31st March, 2009

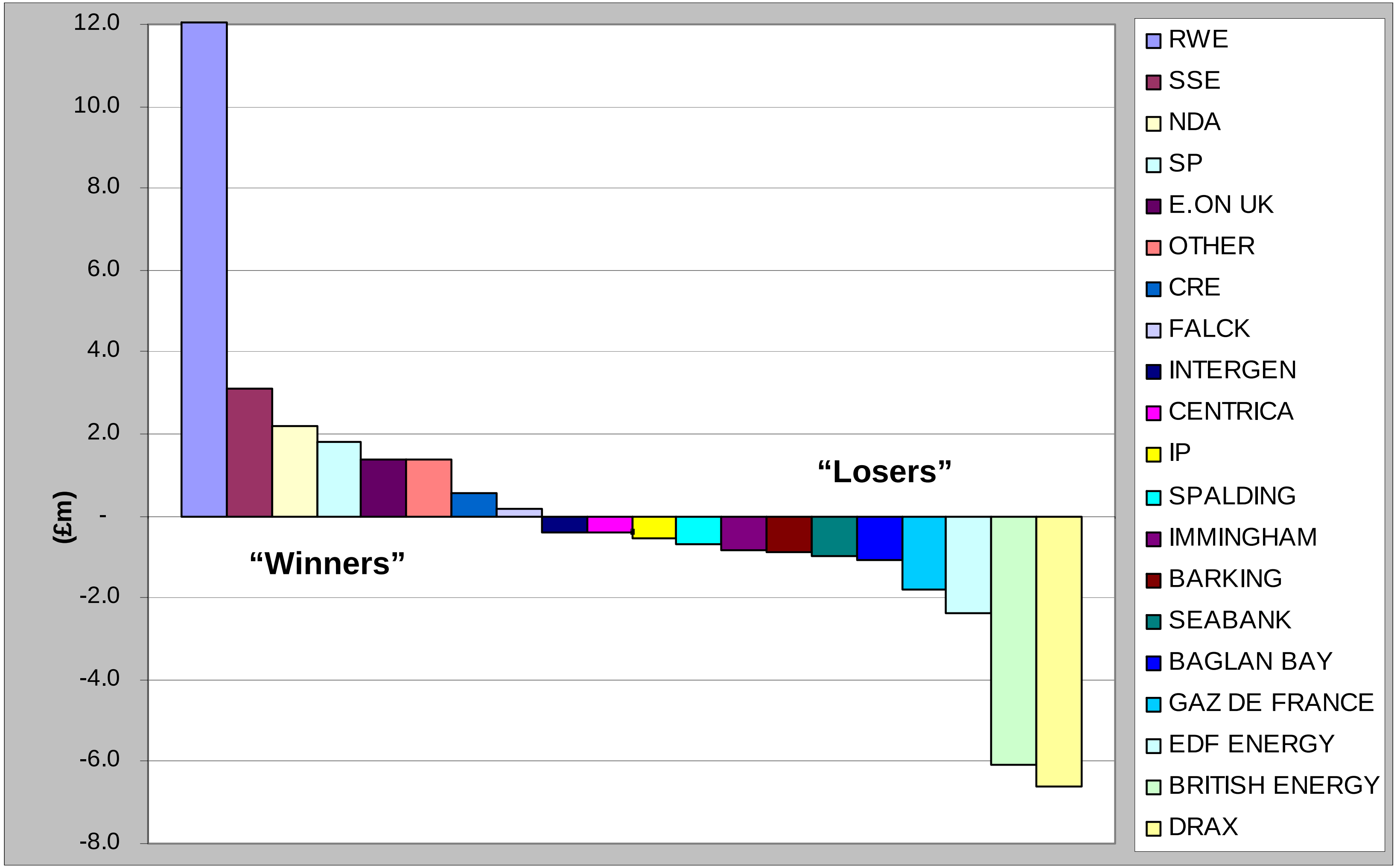
Option 1
Commoditisation (£/MWh)

- Assumptions:
  - 2009/10 revenue recovery of ~£300m from generation
  - Assumed charging base of 327TWh
- Commoditised residual generation tariff of ~£0.918/MWh



Option 1

Commoditisation – “Winners & Losers”



*** Based on 2007/8 charging and metered data**

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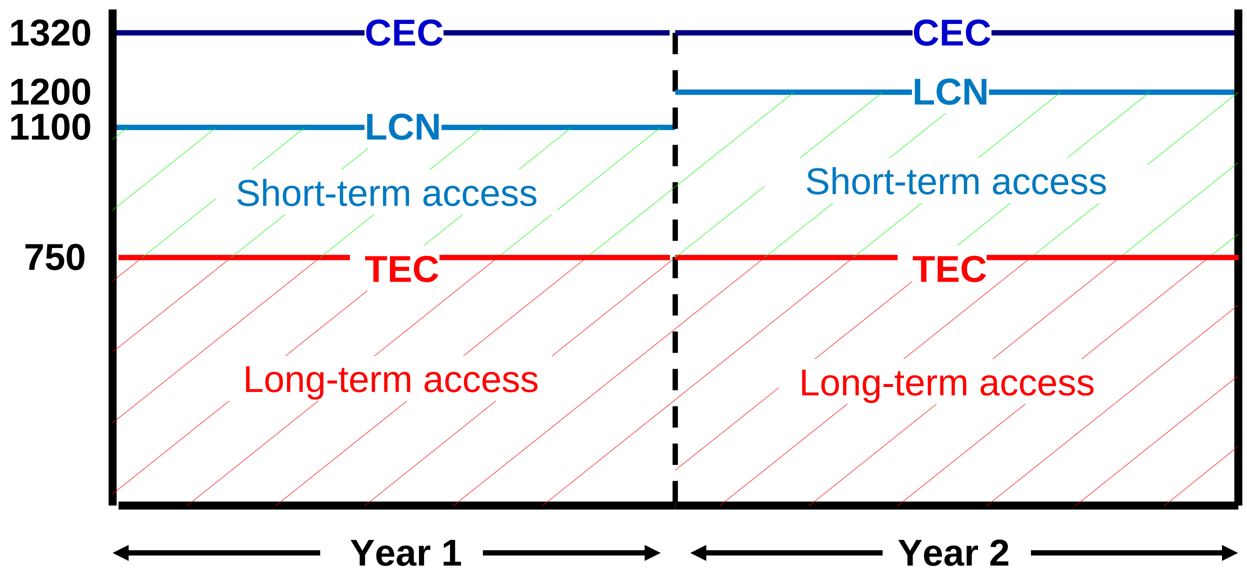
Option 2
Local Capacity Nomination (£/MW)

- The term used by a generator to notify the GBSO of its desired maximum local capacity holding in a charging year
  - Application process required for both increase and decrease
- Represents the aggregated sum of the access derived from a combination of all long and short-term access products
- Will not exceed CEC



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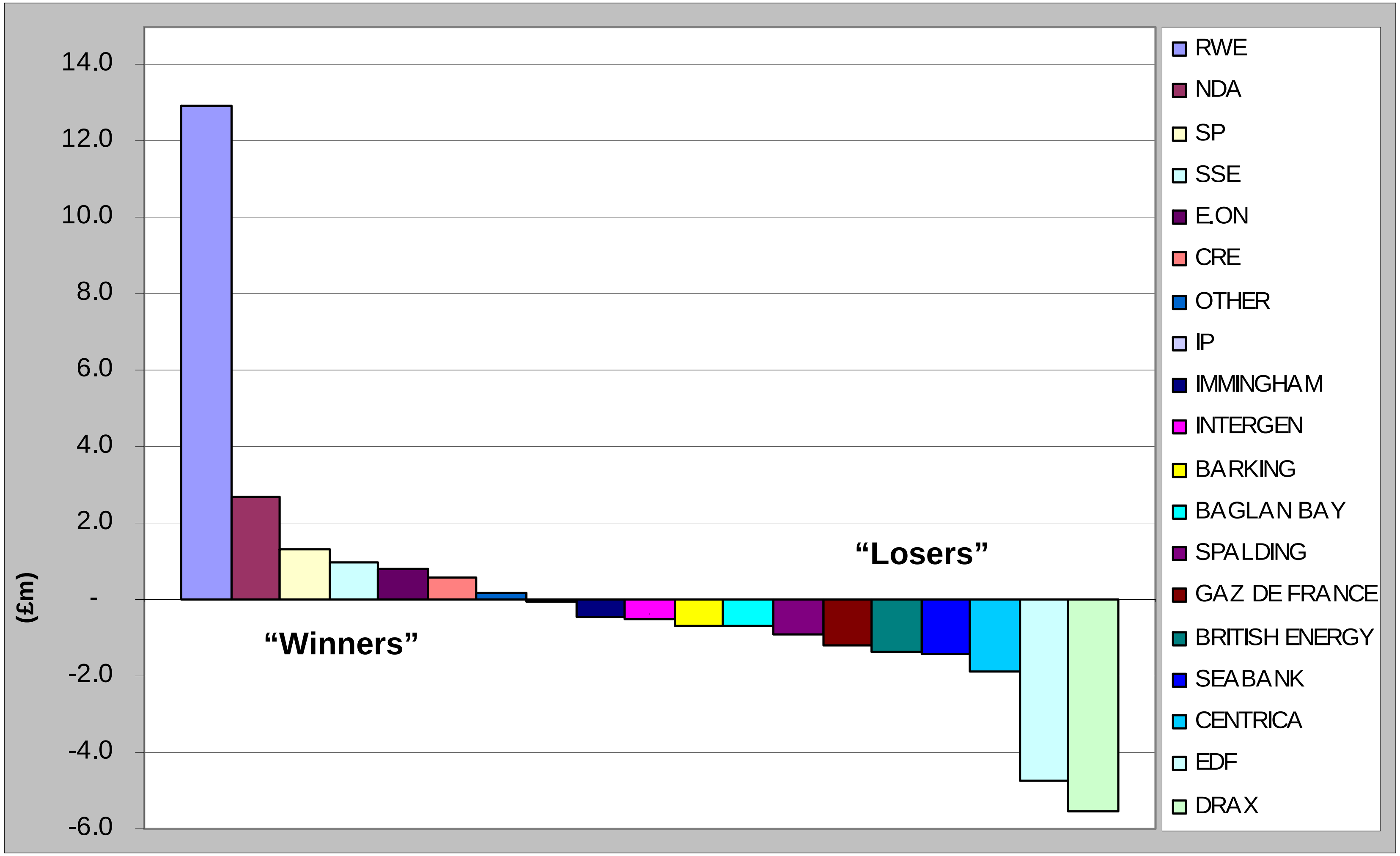
Option 3
Daily Peak Generation (£/MWh)

- Works in the same way as NHH demand tariffs
  - Levied between 1600-1900 (i.e. settlement periods 33-38) throughout the charging year
  - £/MWh
- Assumptions
  - 2009/10 revenue recovery of ~£300m from generation
  - Assumed charging base of 47TWh
- Daily Peak G Tariff of £6.412/MWh

Option 3
Daily Peak Generation – “Winners & Losers”



*** Based on 2007/8 charging and metered data**

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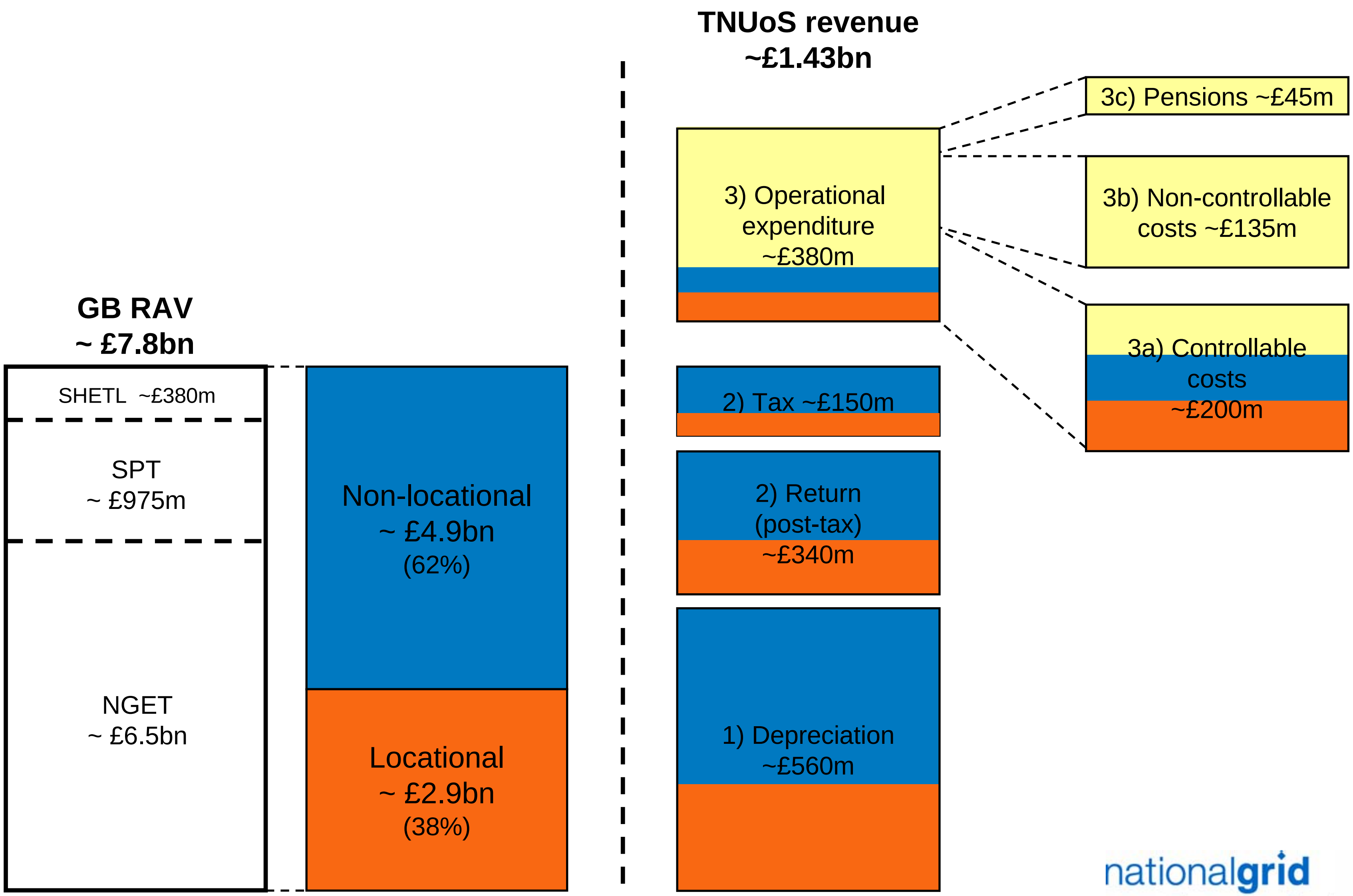
Further analysis
2009/10 transmission assets & revenues



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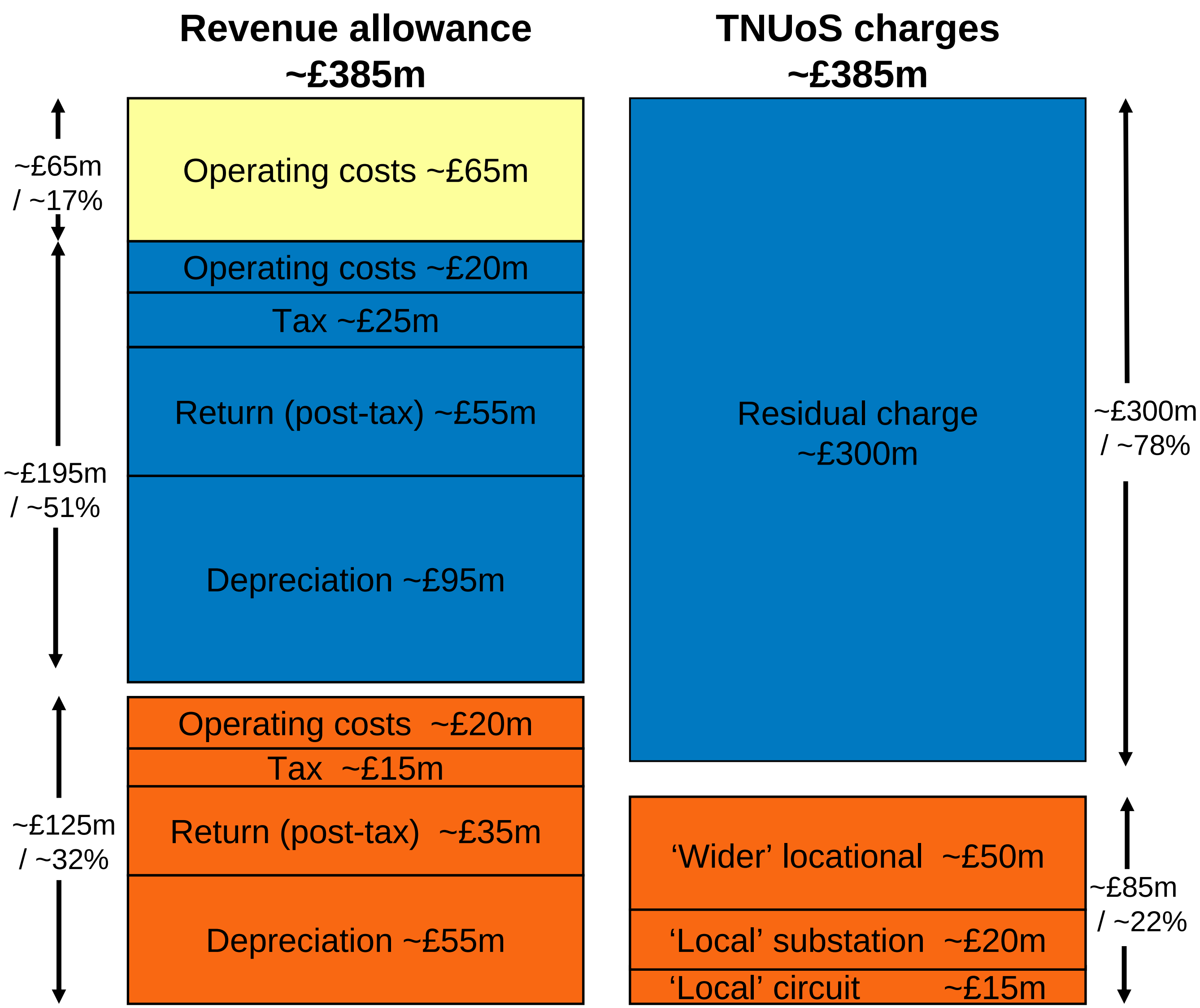
Further analysis
2009/10 generation revenues Vs charges



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National Grid – initial view

- Users of both long and short-term access products should be liable for the residual element of the TNUoS generation tariff
- Remains appropriate to levy the locational element of TNUoS tariffs on a capacity basis to provide efficient investment signals
- Residual tariff recovers the cost of investment in non-locational assets, historic and lumpy investment, operational costs **and** a proportion of costs associated with locational assets
- All three options presented in the consultation potentially better the relevant charging objectives than the current arrangements
  - Argument as to which best meets these objectives, is finely balanced

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National Grid – initial view: Commoditisation

Facilitating competition

- Offers transparency, predictability and stability ✓
- Potentially encourages marginal generators to extend their life ✓
- Creates significant winners and losers ✘

Cost reflectivity

- Reflects utilisation of transmission assets ✓
- Does not charge 'users' that do not use the system ✓
- Does not necessarily reflect the cost of asset investment ✘

Developments in the transmission business ✓

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National Grid – initial view: LCN

Facilitating competition

- Offers transparency, predictability and stability ✓
- Does not create significant winners or losers ✓
- Does not encourage marginal generators to extend their life ✘

Cost reflectivity

- More closely reflects the costs of asset investment ✓
- Potentially charges users than cannot obtain short-term access ✘

Developments in the transmission business ✓

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National Grid – initial view

Dependent on industry responses…….

- Minded to put forward both options in conclusions report
- State preferred option of LCN
  - Difficult to justify that either approach is more cost-reflective than the other, given the nature of some of the costs recovered
  - Meets the requirements of the TAR, although not perfect
  - Minimal change and does not create significant winners and losers

Industry views?

- Hybrid approach? Based on:
  - Cost / revenue allocation
  - Arbitrary split of 50/50?

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