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CAPs161 to 164

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Overview

Original - Zonal, WGAAs - nodal

CAP161, SO Release

- ◆ Within year SO releases access within a predefined process providing recipient meets increase in forecast operational costs, includes buyback as an option.
- ◆ CLDTEC, 5 WA and 2DA

CAP 162, Overrun

- ◆ Parties can exceed TEC up to Local Capacity Nomination and pay the overrun charge
- ◆ A number of options for the Overrun charge, MWh based – simple, cost recovery and marginal

CAP 163, Sharing

- ◆ Apply for an exchange rate between two nodes for a maximum volume and set duration, donor's excess TEC automatically credited to recipient

CAP164, Connect and Manage

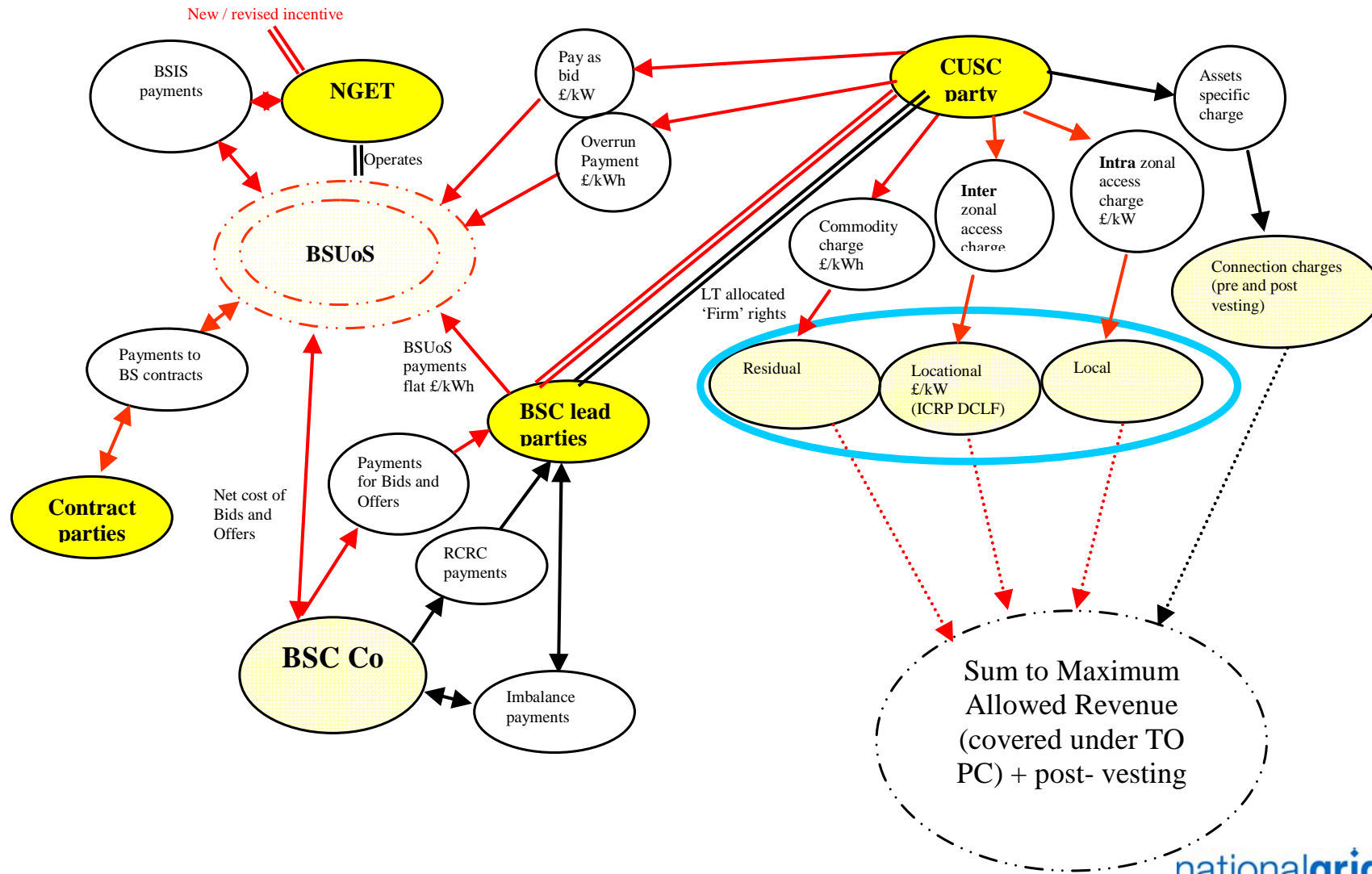
- ◆ Vanilla – connect in 4 years and socialise increase in operational costs
- ◆ Neapolitan – fixed date for connection, exante operational cost until wider works complete

Assumptions

Basic across 161 to 163

- ◆ Local charging based on local connection
- ◆ All users contribute to the residual
- ◆ Local Capacity Nomination limits total access (sum of TEC, SO Release, Sharing and overrun etc.)
- ◆ Incentive arrangements to be developed
- ◆ GB SQSS being reviewed
- ◆ Implementation in April 2010 / decision in summer 2009
- ◆ TEC finite rights / User commitment covered through 165/6
- ◆ Nodally defined access...
- ◆ Adequate security arrangements in place
- ◆ Revenue flows essentially as shown on next slide

Revenue Flows



Common changes

Agree LCN

- ◆ If different from existing TEC and requires works full mod app fee
- ◆ If different from existing TEC, but no works requires new fee to be developed – possibly based on LDTEC

SO Release

Charging issues:

Auctions 5 week ahead & 2 day ahead – pay as bid

- ◆ 2DA settlement in BSUoS timescales (29 days after)
- ◆ 5WA 2 weekly invoicing, 14 day payment terms

CLDTEC – offered price reflects forecast operational cost

- ◆ Total cost is calculated for duration of access and charged as an average monthly charge

Process in the CUSC

SO Release methodology describes the principles

Responses

Strong interaction with SO Incentives

Need to allow for reasonable approximations

Concerned that Users are not liable for TNUoS

TNUoS is not appropriate for access that does not lead to investment

All generators should face local charge

Predictability of prices affects the bankability

Short term products are secondary, so keep simple

National Grid thoughts and next steps

Incentives will play a key role in managing SO appetite for risk

Buyback is important and will influence bid acceptance

SO Release methodology

- ◆ Anticipate publishing a pre consultation, based on that in the amendment report prior to Authority decision, followed by consultation following decision to implement.
- ◆ Kept under review

Overrun

Charge

- ◆ Settlement in BSUoS timescales (29 days after)]
- ◆ Granularity – period specific

Process in the CUSC

Simple

- ◆ MWh charge based on historic cost of constraints (cost / volume), applied only to periods when constraint is active, indexed

Cost Recovery

- ◆ MWh charge calculated ex post based on degut of costs and actual overrun volume

Marginal

- ◆ The tariff that reflects the locational marginal price of access calculated in real time

National Grid thoughts and next steps

Marginal

- ◆ consistent with long term regime, but appreciate industry concerns
- ◆ system to deliver a real time marginal tariff will not be available by April 2010
- ◆ will continue to develop

Cost recovery

- ◆ Understand industry concerns about predictability
- ◆ Least impact of other BSUoS parties

Simple

- ◆ Comfortable with scalar principle, concerns about potential for gaming
- ◆ Will investigate indexation further (e.g. BSUoS, BSUoS-RCRC, APX)
- ◆ RCRC not reliable in short term timescales
- ◆ Should include all costs (BM, I/T, trades etc), could be negative
- ◆ Subject to identifying a suitable index, develop methodology based on simple approach

Consult on methodology changes in spring 2009

Sharing

Ex ante agreement including exchange rate

- ◆ Based on a MW value, from A to B, for a fixed

Interaction with Overrun calculation

One party liable for Locational TNUoS associated with TEC (or any other firm access product)

Both parties pay local

Party running pays residual

Excess MW from donor automatically transferred to recipient

Overrun liability can be nominated to one party

Responses

General support for no explicit Sharing fee, other than local charge and residual charge

Need to allow for reasonable approximations

Concerned that Users are not liable for TNUoS

TNUoS is not appropriate for access that does not lead to investment

All generators should face local charge

Short term products are secondary, so keep simple

National Grid thoughts and next steps

Agree that impact of sharing is managed through exchange rate not a fee

Update Statement of Charges with fees for LCN increase above TEC (or state it will be charged at an existing rate). This is not a methodology change as it is already part of the methodology to have cost reflective fees

Investment for increases in Point to Point exchange rates are bilateral not infrastructure i.e. outside GB SQSS requirement

Connect and Manage

The Original envisages:

- ◆ additional operational costs will be borne by all BSUoS parties
- ◆ C&M parties pay TNUoS

The WGAA envisages (developed after the charging consultation)

- ◆ C&M parties get date for local connection and a fixed date for TEC (which may be later)
- ◆ For the period of local connection until full TEC granted C&M parties can use system but will be subject to an operational charge
- ◆ The operational charge is capped ex ante in the offer (may reduce after assessment window if parties drop out)
- ◆ C&M party will pay residual and local charge

Responses

Methodology must be transparent

**Split for support for the Original concept or a more socialised version
(subsequently developed by the Working Group as WGAA)**

Mixed support for passing C&M TNUoS revenue through to BSUoS

**Cost reflective charges should relate to either long run or short run costs, and
the structure of the charge should reflect how they are incurred**

Suggested uniform commodity charge for wider access

National Grid thoughts and next steps (1)

National Grid does not support the socialisation of operational costs in the original proposal, this has not been objectively justified and is inconsistent with transmission licence objectives

WGAA

- ◆ The process of forecasting the increase in operational costs is not risk free.
- ◆ Investigating processes for forecast the operational costs, may need to be indexed to energy price (which also impact on participant revenue should be largely neutral)
- ◆ Residual and local revenue would be taken account of in the tariff model

Initial thoughts are that C&M parties should not be in the TNUoS model until the associated wider reinforcements are completed

Consult on methodology changes in spring 2009

National Grid thoughts and next steps (2)

Ensuring appropriate industry involvement

- ◆ CUSC Working Groups are being disbanded
- ◆ How do we ensure that charging work is developed with industry input?
- ◆ Options
 - CUSC WGs continue
 - CISG
 - More regular meetings
 - Other?
- ◆ Views?