

Incremental Cost of Capacity Workshop

TCMF 26 May 2005

Background

- Condition 2:
 - **Identify, review and assess further the technical basis for a range of alternative methods of estimating and reflecting in locational charges the incremental costs of capacity (inc. the method adopted in the approved methodology)**
 - **Consult with interested parties to identify the range of alternative methods to form part of this technical assessment**
 - If the review identifies potential improvements then NGC should bring forward modifications for implementation no later than April 2007
 - Report on progress to be published in April 2006
 - In the event that NGC concludes that there are no further improvements, NGC shall publish a report setting out the conclusions of the review

Overview

- NGC held workshop on 4 May with 16 Industry Participants
- NGC described the current methodology
- Industry led approach to identify alternative methods for assessing the incremental cost of capacity
 - Identify areas to consider for development
 - Identify pros & cons of options
- NGC to publish Workshop Conclusion Report

Workshop discussion

- Ideas discussed included
 - Forward looking vs Historic costs / forecasting
 - Transparency
 - Cost reflectivity of expansion constant
 - Thermal ratings
 - Spare capacity
 - Disaggregation of calculation and application into circuit specific, zonal or nodal basis for EC, EF & SF
 - Commoditisation
 - Variable locational signals for generation & demand

Conclusions

- Wide range of issues discussed
- Two issues 'commoditisation' & 'variable locational signals' could be better addressed under other charging condition workstreams
- Areas for further development identified
- One key issue was transparency
- Transparency of a methodology evolves over time
- Varying levels of understanding of the current methodology
- Need understanding of existing charging principles before considering further developments

Next Steps

- A second workshop will be held to facilitate the understanding of existing charging principles – planned for June/July
- Workshop will run through each step of the methodology and explain the principles behind each element and identify where further clarification is required
- Information requests from first workshop will be addressed
- A third workshop will be held to review and develop further the alternative options identified from the first workshop

Condition 1

Negative Demand Charges

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Negative Demand Charges Questionnaire

- Questionnaire includes summary of previously discussed options
- Options include both with and without negative demand charges
- Supporting information illustrating potential effect on tariffs

- Responses to be returned by 5pm Thursday 23 June to:
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