

2007/8 TNUoS Generation Zoning

TCMF

24 October 2006

nationalgrid

Agenda

- ◆ Generation zoning criteria
- ◆ Consultation
- ◆ Industry responses
- ◆ Next Steps

Zoning criteria

- ◆ Relevant nodes whose marginal costs are all within +/-£1.00/kW across the zone
- ◆ Relevant nodes considered to be those with generation connected to them
- ◆ All nodes within a zone should be geographically and electrically proximate

- ◆ Established zones inspected
 - ◆ Least number of zones
 - ◆ Minimal change to existing zones
- ◆ Zones applied to a reasonable range of sensitivities to ensure they are robust
- ◆ Zones typically not reviewed more frequently than once every price control period to provide stability
- ◆ Only reviewed in 'exceptional circumstances' to maintain cost reflective locational signals

Consultation (1)

- ◆ Published on 14 September
- ◆ Consulted on the application of the existing zoning criteria, **not** the methodology itself
- ◆ Invited views on how TNUoS generation charging zones should be determined for price control period beginning 2007/8, considering the information available and National Grid's relevant licence objectives
 - ◆ Facilitating competition
 - ◆ Stability
 - ◆ Predictability
 - ◆ Transparency
 - ◆ Cost reflectivity
 - ◆ Taking into account developments in the transmission business

Consultation (2)

- ◆ Specifically invited views on whether primary criteria for determining zones should be:
 - ◆ Least number of zones
 - ◆ Least change from previous year
 - ◆ Forward-looking
 - ◆ Using 'Condition 5' information
 - ◆ Weighting?
- ◆ Discussed at CISG on 27 September
- ◆ Deadline for responses 13 October
- ◆ 9 responses received

Industry Responses

- ◆ Now is an appropriate time to review the existing zoning criteria
- ◆ Most respondents recognised that an appropriate balance between cost reflectivity and stability of tariffs needs to be struck
- ◆ Varied response in terms of where this balance lies, although the desire for stability and predictability was predominant

Least number of zones?

- ◆ 3 respondents' believed that the primary criteria for zoning should be to have the least number of zones possible
 - ◆ provides greater stability in tariffs
 - ◆ One respondent recommended 6-8 zones as appropriate
- ◆ 2 respondents' did not believe that the minimum number of zones should be the primary criteria
 - ◆ No clear benefit
 - ◆ Less cost reflective
 - ◆ Current number is about right, but should only be increased for new offshore projects

Least change on previous year?

- ◆ 3 respondents' believed that TNUoS generation zones should be determined on a least change basis from the previous year
 - ◆ Not necessary to ensure that all criteria are met for the entirety of a price control period
 - ◆ Changes to boundaries should only occur at the beginning of each price control period
 - ◆ Annual reviews would undermine stability
- ◆ 3 respondents' believed that TNUoS generation zones should not be determined on the basis of least change from the previous year
 - ◆ Undermines cost reflectivity
 - ◆ Should be revised annually to allow for changes to the generation and demand backgrounds, and the transmission system

Forward-looking?

- ◆ Two respondents supported a forward-looking approach to determining TNUoS generation charging zones
 - ◆ One respondent supported a higher weighting in earlier years
 - ◆ One respondent believed the 30 zones to be robust and did not consider weighting as necessary
- ◆ Seven respondents did not believe that a forward-looking approach should be used in determining TNUoS generation charging zones
 - ◆ 2007/8 data should be used
 - ◆ Concerns over the reliability of generation commissioning dates
 - ◆ Weightings would bring an unhealthy arbitrariness and subjectivity
 - ◆ Would not necessarily provide greater stability changes may still be required in 'exceptional circumstances'
 - ◆ Would require a change to the charging methodology

Other comments

- ◆ Three respondents expressed uncertainty as to what would qualify as an 'exceptional circumstance'
- ◆ Should be clearly defined to provide certainty as to when rezoning would be required
- ◆ Five respondents expressed that the zoning criteria of +/- £1.00/kW should be reviewed
 - ◆ Nominal value which hasn't changed for some time
 - ◆ Annual inflation should be considered in line with inflation of the expansion constant
 - ◆ One respondent believed should be widened to +/-£2.50/kW to create 6-8 generation zones only

National Grid response

- ◆ There is clearly an important balance to be struck between determining generation charging zones which result in TNUoS tariffs that reflect the costs incurred, yet provide stability
- ◆ The current zoning criteria strike an appropriate balance
- ◆ May be appropriate to make some limited changes

Next steps

- ◆ 2007/8 TNUoS generation zones to be determined:
 - ◆ Using 2007/8 data
 - ◆ On a basis which provides minimal change to the existing 2006/7 generation zones where possible
 - ◆ Using +/-£1.00/kW criteria
- ◆ Further industry consultation in 2007 to consider:
 - ◆ Annual inflation of +/-£1.00/kW zoning criteria, in line with expansion constant calculation to provide greater stability
 - ◆ Definition of 'exceptional circumstances' in the Statement of the Use of System Charging Methodology to provide further transparency

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