

GB ECM-13: residual charging for generation

TCMF

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GB ECM-13: residual charging for generation

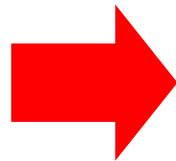
Agenda

- Recap of GB ECM-13 pre-consultation
- Summary of industry responses
- Next steps

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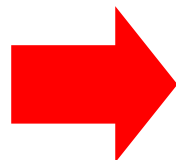
TNUoS principles

- TNUoS charges reflect the cost of installing, operating and 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

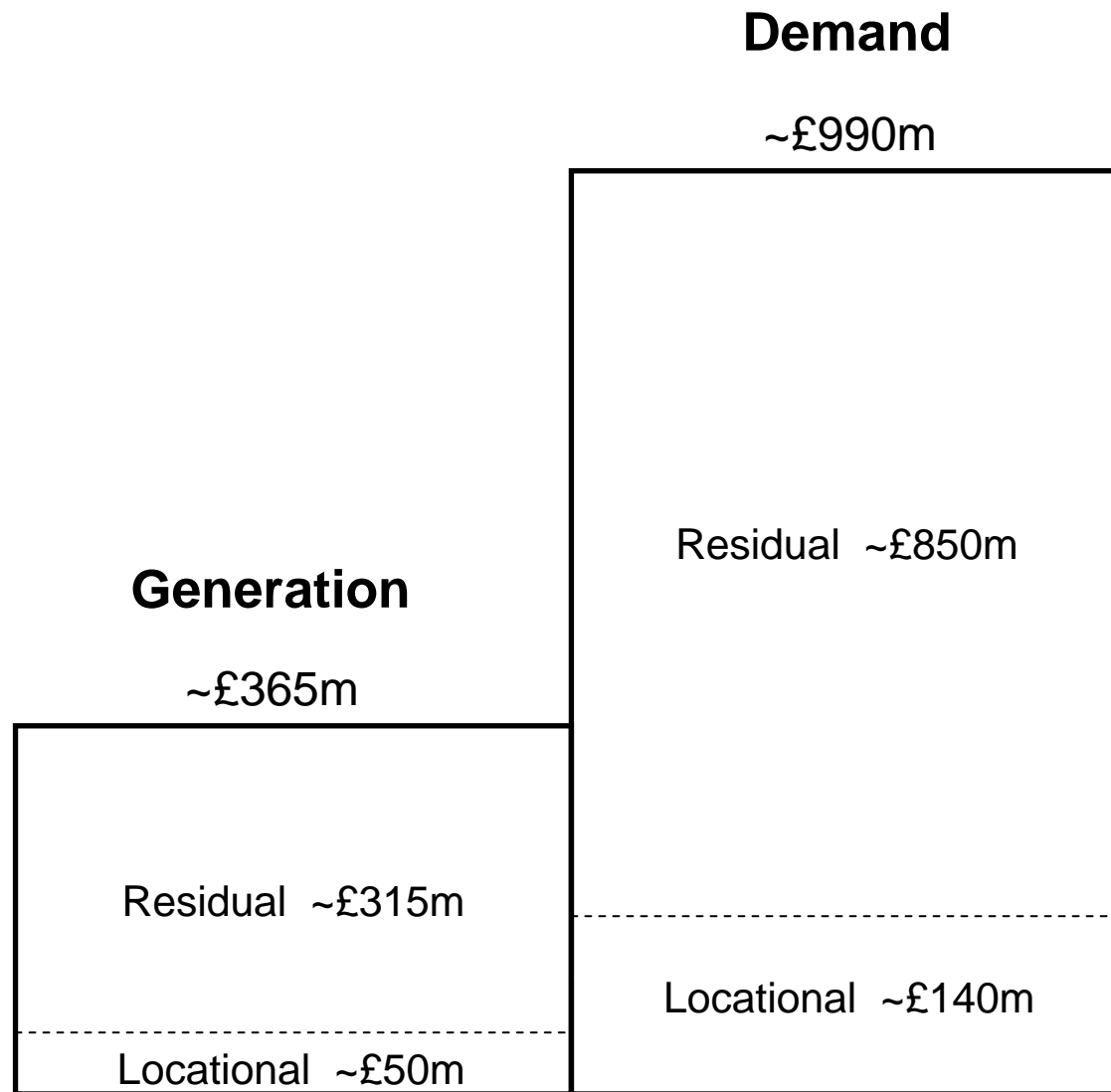
- TNUoS charges are determined to recover allowed revenue
 - Determined by the Authority at the time of the Transmission PCR



Residual element

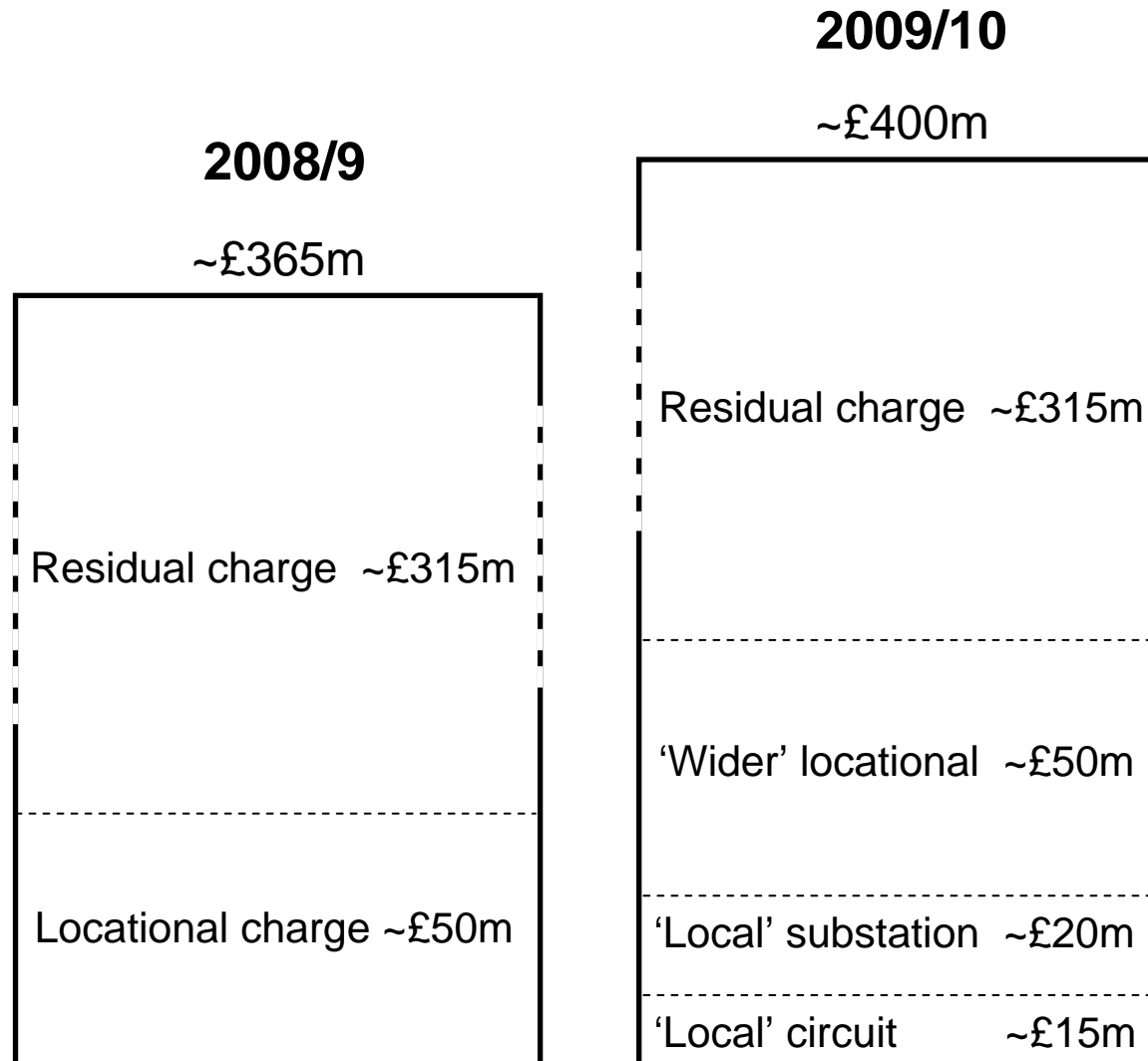
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TNUoS 2008/9 revenues



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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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Pre-consultation

- Published in October 2008
- Presented three potential solutions
 - 'Commoditisation' (MWh)
 - Local Capacity Nomination (MW)
 - Daily Peak Generation (MWh)
- Deadline for responses 4th December 2008
 - 10 responses received

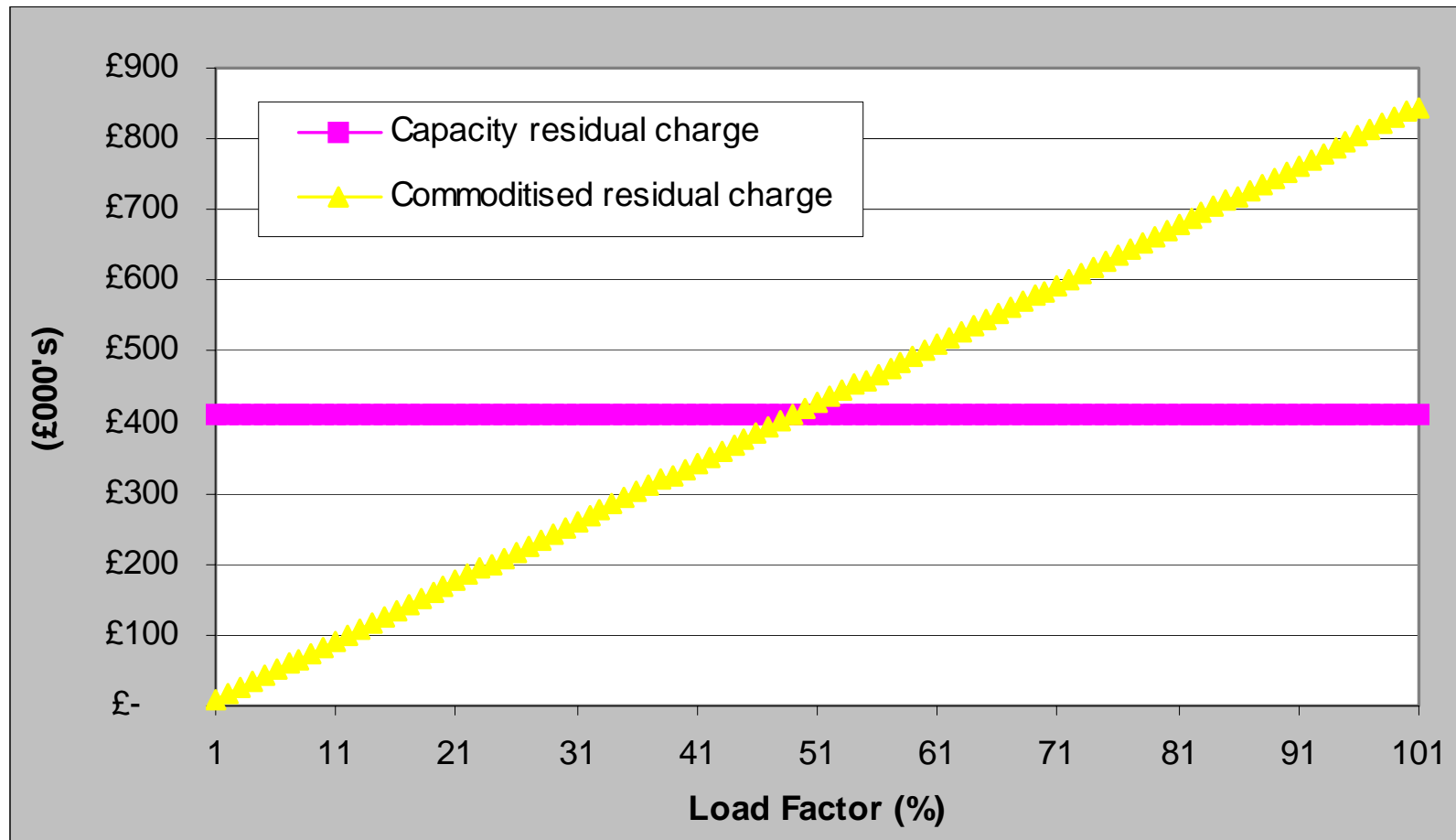
Option 1

Commoditisation

- Assumptions:
 - Annual revenue recovery of ~£1.35bn
 - Locational revenue recovery of ~£180m
 - Residual revenue recovery requirement of ~£1180m
 - Maintain 27/73 split
 - ~£320m to be recovered from generation
 - Assumed charging base of 330TWh
- Commoditised Residual G tariff of ~£0.965/MWh

Option 1

Commoditisation - example



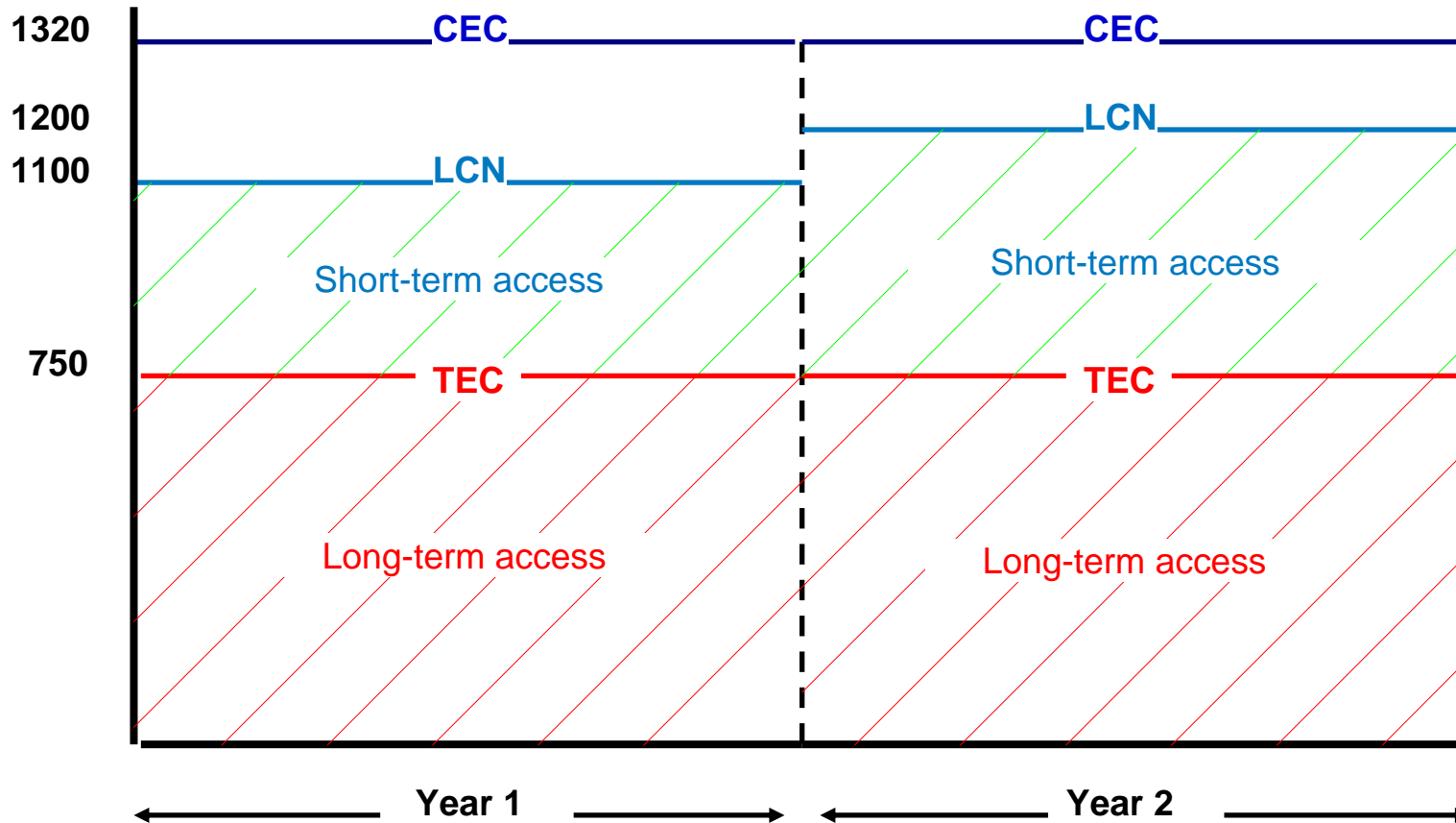
Option 2

Local Capacity Nomination

- 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

Option 2

Local Capacity Nomination - example



Option 3

Daily Peak Generation

- Works in the same way as NHH demand tariffs
 - Levied between 1600-1900 (i.e. settlement periods 33-38) throughout the charging year
 - £/MWh

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Responses to pre-consultation (1)

Liability for short-term Users

- Eight respondents believed that it is appropriate that all generators with any form of access product should contribute to the recovery of residual revenue
- No respondents considered that it was inappropriate

TNUoS revenue split

- Two respondents believed existing 27/73 split to remain appropriate
- Two respondents did not believe that GB ECM-13 was appropriate forum
- Respondents noted that it would not be sensible to move away from the European average
- Consideration should be given to $G=0$ if commoditisation implemented

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Responses to pre-consultation (2)

Commoditisation

- **Four respondents supported**

- A further respondent supported, on basis of fully commoditised generation tariff
- Utilisation over charging year best reflects generators' use of system
- Likely to be an increase in sharing of transmission capacity
- Increasingly untrue that investment is made on basis of generators peak export
- Approach would correct the anomaly between the SQSS and TNUoS
- Simple and transparent

- **Five respondents did not support**

- Significant change to methodology without sufficient rationale, secondary to TAR
- Inefficient for fixed costs to be charged on a marginal basis
- Perverse incentives not to generate at times of peak demand
- Rewards plant that use their connection inefficiently
- Big winners and losers
- Complex, unstable and unpredictable

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Responses to pre-consultation (3)

Local Capacity Nomination

- **Five respondents supported**
 - Transmission system is designed on a capacity basis as specified in SQSS
 - No significant difference in infrastructure built for generators of different load factors
 - Holders of LCN incentivised not to block new entrants by holding onto an access right they do not use
 - Represents minimal change and is least controversial
 - Most stable and easiest to forecast
- **Five respondents did not support**
 - Local capacity does not reflect actual wider usage of non-locational assets
 - Concern that concept of local capacity has not been fully developed by TAR
 - Short-term products may be uneconomic to Users

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Responses to pre-consultation (4)

Daily Peak Generation

- **No respondents specifically stated support**
 - Approach brings many benefits of commoditisation, whilst maintaining link with recovering costs on a peak basis
 - Encourages most efficient use of the transmission system (i.e. off-peak)
 - Directs charges to those that create congestion at peak times
 - 1600-1900 does not cover summer peak demand
 - Alternative periods should be considered (preference of 0700-1900)
 - All the disadvantages of a commoditised approach
 - Most difficult to predict

Calculation monthly charge

- Six respondents expressed support for any form of charge based on utilisation to be based on actual metered data

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Next steps

- **Further analysis required**
 - What exactly does the residual tariff recover
 - Winners and Losers
 - Potential volatility of commoditised tariffs
- **Publish consultation mid-February**
 - Commoditisation
 - Local Capacity Nomination
 - Daily Peak Generation