

Transmission Charging Methodologies Forum



Thursday 17th July 2014

Introduction & Welcome



William Kirk-Wilson

Agenda

- 11:00 Introduction – William Kirk-Wilson
- 11:10 Safety Moment and Fire Procedure
- 11:15 Code modifications update – David Corby
- 11:25 Review of TNUoS Forecasting timeline and content – Stuart Boyle
- 11:55 Exporting GSPs – Andy Wainwright
- 12:20 Understanding your needs – Andy Wainwright
- 12:30 Lunch
- 13:15 Charges associated with delay to connection – Charon Balrey
- 13:30 Flexible TEC – Nick Pittarello
- 14:00 Statement of Works – David Corby
- 14:20 Biddable Indexation – Wayne Mullins
- 14:40 Future Topics – David Corby
- 14:50 AOB
- 15:00 Close

Safety moment



David Corby

Safety Moment - Holidays

- Safety over the summer holidays covers a huge variety of subjects
 - UK or abroad?
 - Family or adult?
- We have probably all had experiences of one kind or other, and we can share our experiences to help each other avoid pitfalls



- **What are your experiences?**



Ongoing modification proposals



David Corby

Ongoing modifications proposals 1 of 4

- **CMP201: Removal of BSUoS charges from Generation**
 - Ofgem believe the mod better meets CUSC objectives, but not their wider statutory duties. Ofgem minded to position: reject

- **CMP213: Project Transmit TNUoS Developments**
 - Ofgem approved on 11th July 2014.
 - Specifically WACM2.
 - Implementation in April 2016
 - We are currently taking preparatory steps to ensure that system changes can be in place by the implementation date.

Ongoing modifications proposals 2 of 4

■ **CMP222: User Commitment for Non-Generation Users**

- Sent to Ofgem in June. Anticipate Ofgem impact assessment
- Ofgem have indicated that a decision may take up to 6 months
- Decision required before 1st December 2014 to meet the 1st April 2015 securities period

■ **CMP223: Arrangements for Relevant Distributed Generators Under the Enduring Generation User Commitment**

- Options consider the risk being backed-off through the DNO or NG licence, or via a direct contract between the Distributed Generator and NG
- Sent to Ofgem in July
- Timescale minimum of six months; a decision is needed by the end of September to implement in time for the April 2015 securities period
- There may be a requirement for a consequential developments in other industry frameworks

Ongoing modifications proposals 3 of 4

- **CMP224: Cap on the total TNUoS target revenue to be recovered from generation users**
 - On July 14th Ofgem opened a consultation on their 'minded-to' implement position
 - Responses are due by 13th August.

- **CMP227 - Reduce the G:D split of TNUoS charges, for example to 15:85**
 - The Workgroup decided to consult the industry on a number of alternatives
 - The Workgroup consultation is planned for August
 - Implementation / transition to be discussed by the workgroup

Ongoing modifications proposals 4 of 4

- **CMP228 – Definition of Qualified Bank**
 - The modification was implemented under self-governance process on 7th July.

- **CMP231 – EMR Preparatory Costs (Fast Track)**
- **CMP232 – Demand Side Balancing Reserve and Supplemental Balancing Reserve Cost recovery Restriction (Fast Track)**
 - These modifications are consequential to licence changes.
 - The CUSC Panel approved them both as fast track mods on 27th June
 - Objections to be received by 21st July
 - Charges to be levied via BSUoS

TNUoS Tariff Forecasts



Stuart Boyle
17 July 2014

What I'm going to talk about

- Improvements to revenue information
- The revenue timetable
- July forecast

Revenue Information

- Existing revenue information provides a breakdown by Transmission Owner
- Some, but not all, assumptions are set out in the supporting text
- Customers have requested more detail so that they can model their own assumptions
- ChUG TO/SOs have agreed a new Revenue Forecast template

15/16 Revenue Forecast £m Nominal	Jan 2014 Initial View	April 2014 Update	Difference
National Grid	1,855.6	1,851.6	-4.1
Scottish Power	332.5	331.8	-0.7
Scottish Hydro Electricity	215.7	215.2	-0.5
Offshore	276.4	276.4	0.0
Network Innovation Competition	16.7	16.6	0.0
Maximum Revenue	2,696.9	2,691.6	-5.3
Pre-vesting connections	47.0	47.0	0.0
TNUoS	2,650.0	2,644.7	-5.3
Maximum Revenue	2,696.9	2,691.6	-5.3

Additional Onshore TO information

- Breakdown of the revenue forecast into:
 - Base allowances
 - Adjustments to base allowance (MOD, TIRG)
 - Inflation (Forecast by NG)
 - Base rates (Forecast by NG)
 - Pass through (Licence fee, rates, inter-TSO, disconnections, terminations, NIC)
 - Incentives (SF6, Stakeholder, Reliability, Connections)
 - Under/over recovery
 - Non-TNUoS income

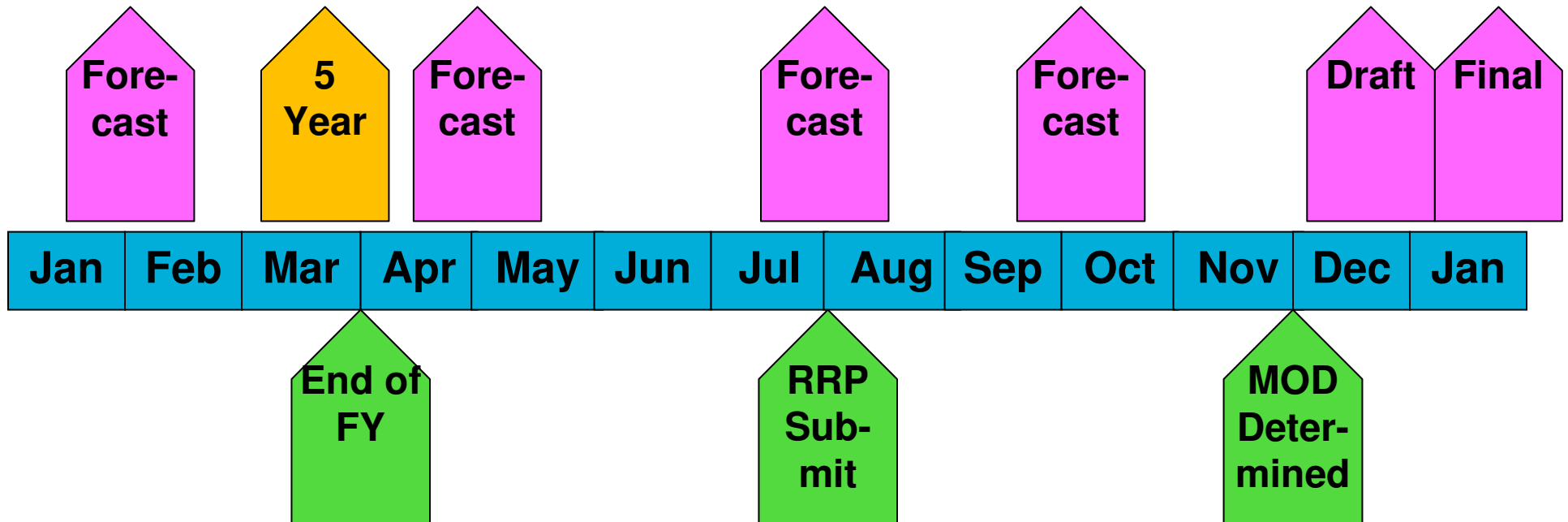
Additional offshore TO information

- Existing OFTOs revenue broken down by network
- Future OFTO revenue grouped by year of transfer
 - Transfer value and transfer date are commercially sensitive until transfer takes place

Only a forecast...

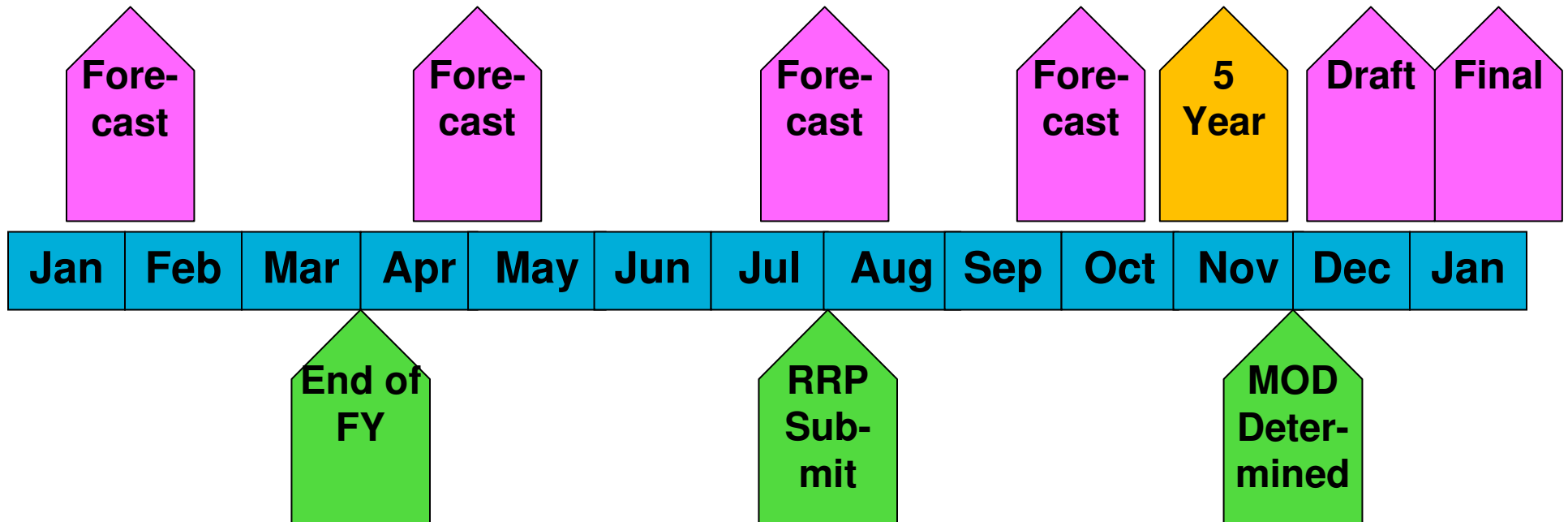
- Many factors are outside of the networks' direct control
 - Inflation
 - Base Rates
 - OFTO transfers
 - Pass through items
 - Customer connections/disconnections
 - Weather
- Some parts of the revenue forecasts are commercially confidential or price sensitive. A budget figure will be provided but may be neutral or based on earlier years rather than internal business plans.

Revenue Timetable - Current



- Jan & Apr updates based on previous year's information
- Oct (possibly Jul) contain MOD forecasts based on RRP
- Draft & Final contain the MOD determinations
- 5 year forecast based on previous year

Revenue Timetable - Proposed



- Jan & Apr updates based on previous year's information
- Oct (possibly Jul) contain MOD forecasts based on RRP
- Draft & Final contain the MOD determinations
- 5 year forecast moved to late autumn to include most recent business plan information

July Update – Modelling Assumptions

- Revenue
 - Latest forecast from NG, SPT & SHE-T
 - Latest information on OFTO transfers
 - 50% Network Innovation Competition, Transmission only
- Circuits
 - No change from April update
- Generation
 - 1 Jul Contracted TEC updated with latest intelligence
 - EMR related modification applications are being processed and will not be included
- Demand
 - Transport model unchanged (2013 DNO data)
 - Tariff model updated with latest NG forecast

July Update - Methodology

- Ofgem announcement on 11 July that CMP213 (Transmit) will be implemented in 2016/17 therefore 2015/16 will use existing methodology.
- €2.5/MWh limit on generation is currently forecast to be breached in 2015/16.
 - Base case will use existing 27/73 split for generation/demand.
 - Scenario will use CMP224 methodology.

TNUoS Forecast Webinars

- We held our first webinar on TNUoS tariffs on 5 March 2014
- Positive feedback was received and improvements have been taken on board
- Publication of the five year forecast coincided with the May TCMF
- Next webinar will be Aug/Sep 2014 with opportunity to raise any questions

Options for TNUoS charging arrangements for exporting GSPs



Andy Wainwright

Introduction

Informal review of transmission charging arrangements for embedded generation

Focus group comments

Consultation responses



What is the impact of exporting GSPs on transmission investment requirements?



How could we reflect in charges?

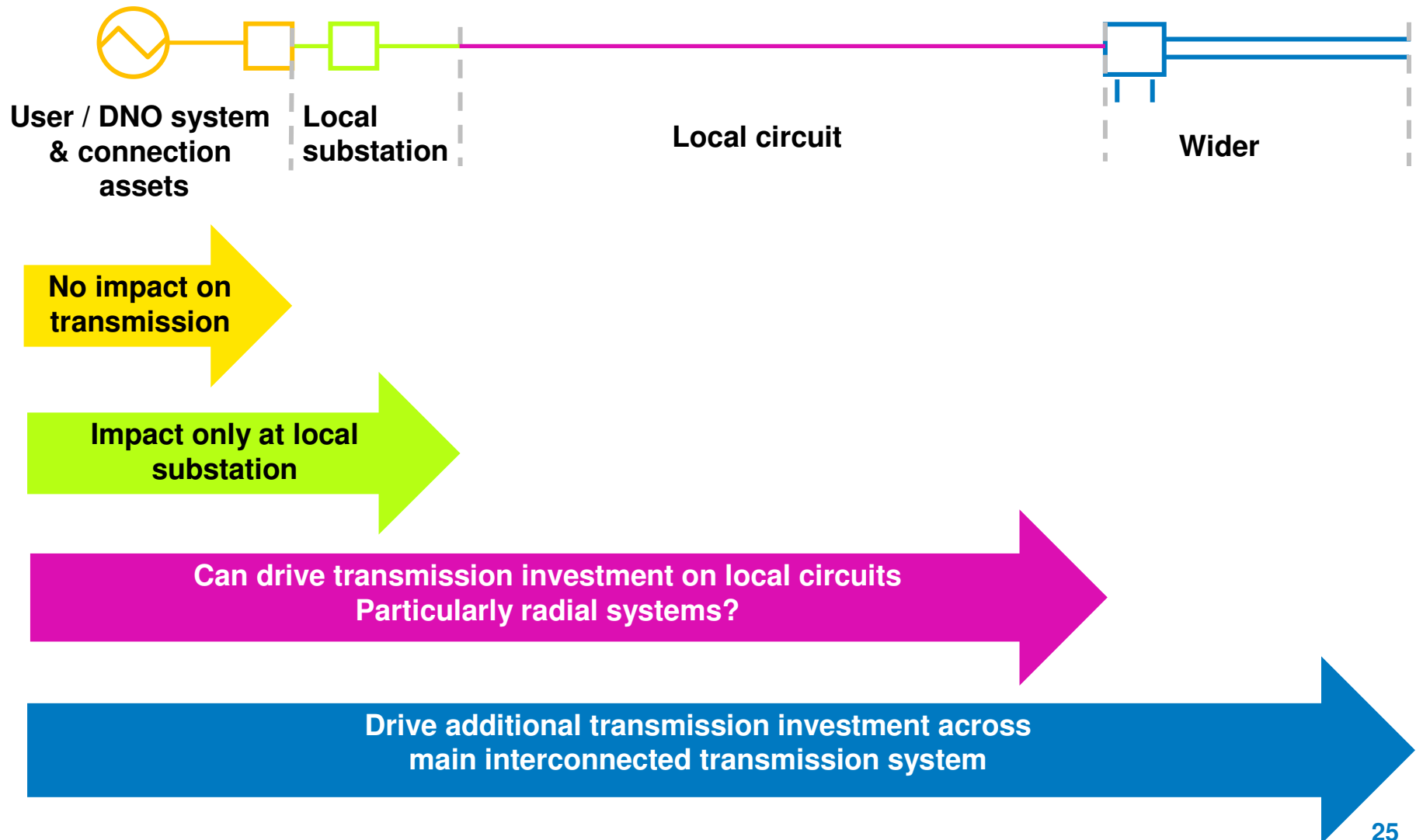


How to define an exporting GSP?



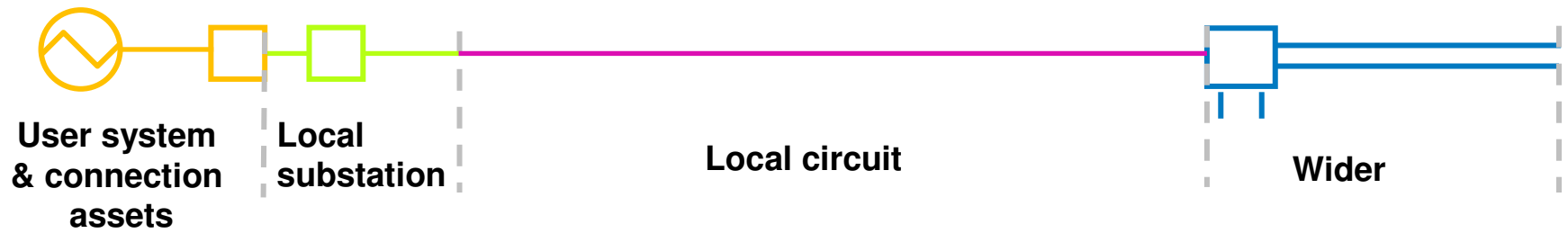
Who can react to charge?

What impact do exporting GSPs have?

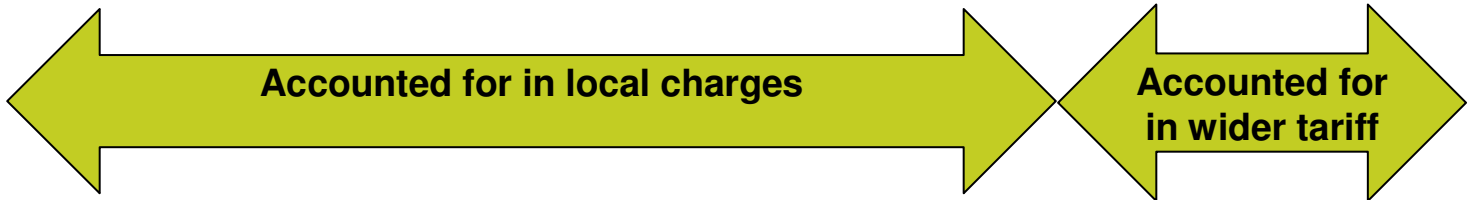


How is this currently reflected in TNUoS charges?

nationalgrid



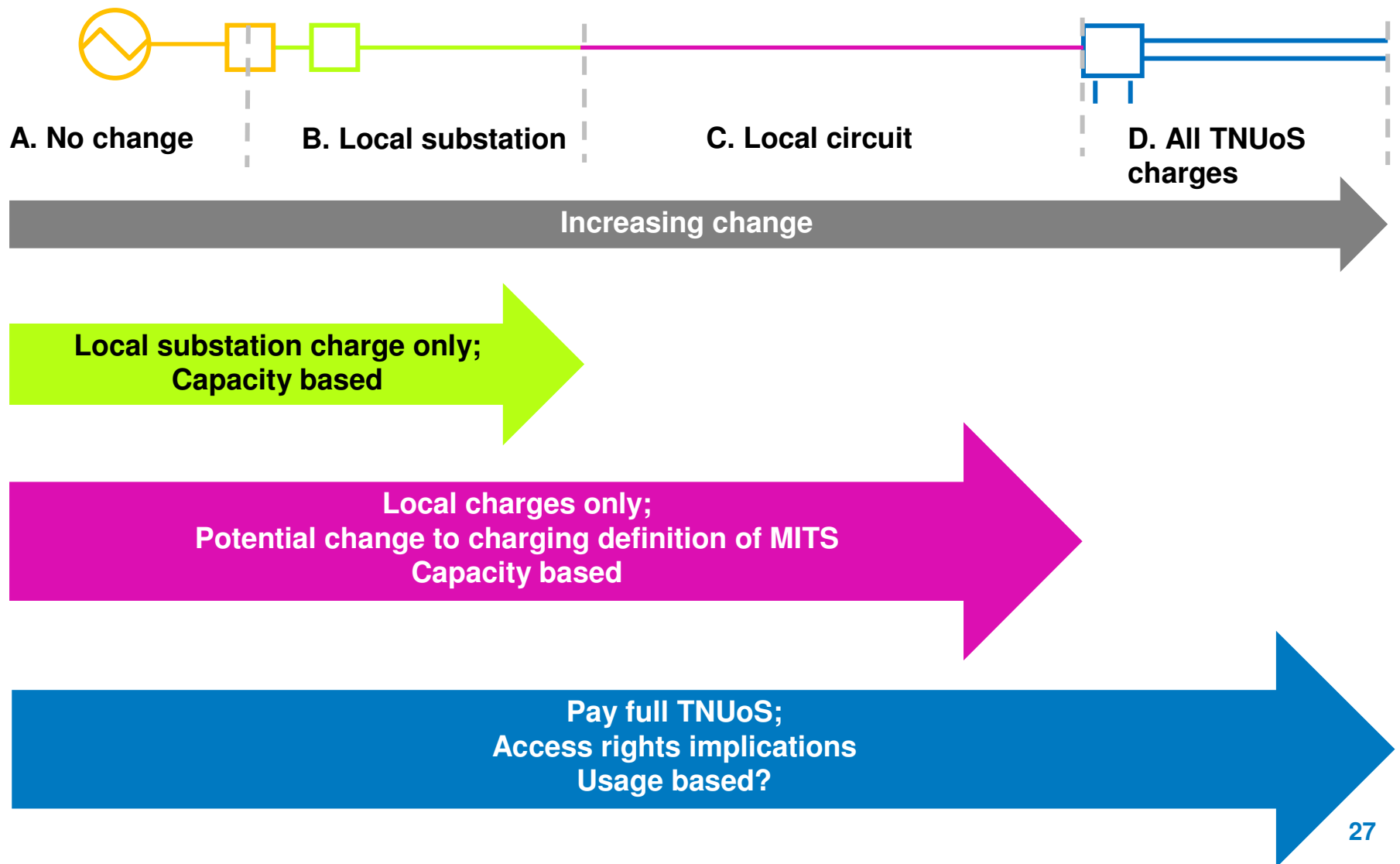
Generation Users
Paid by generators



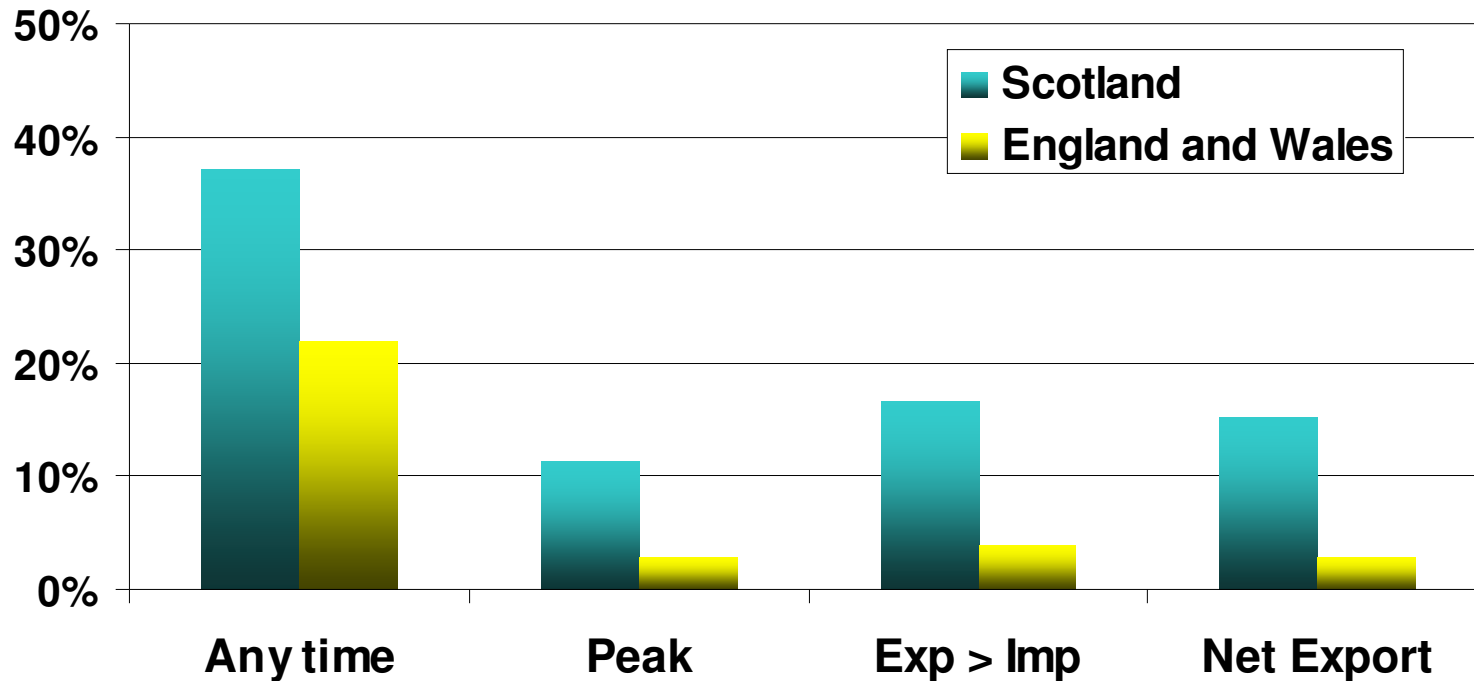
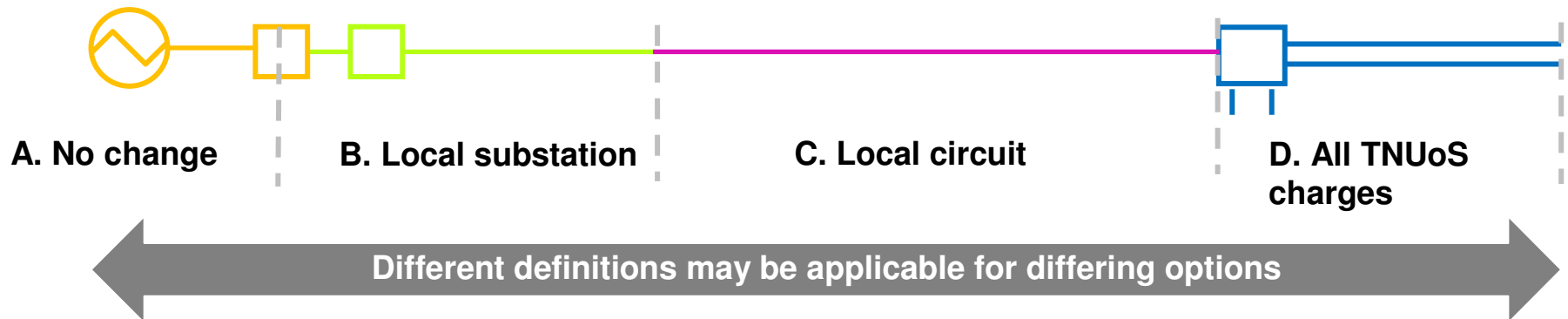
Demand Users
Paid by suppliers



Q1: How could we reflect in TNUoS charges?



Q2: How could we define an exporting GSP?



Q3: Who can react to the signal?

Suppliers?

Currently charged ON GSP area basis

DNOs?

Change to commercial relationships
More ability to react

Next Steps

We're interested in your views



Discussions with
associations



Bilateral
Discussions



Anything
Else?

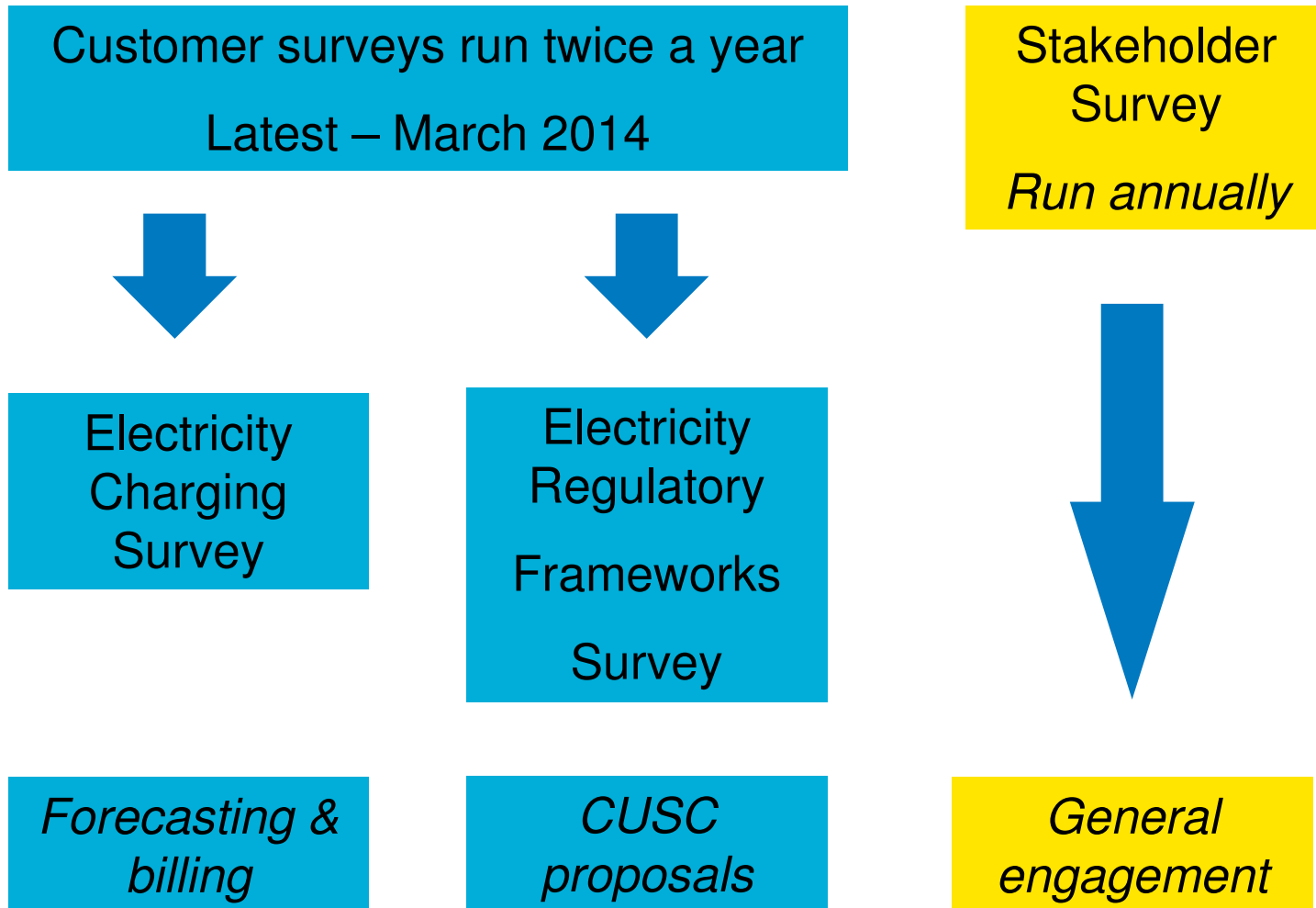
Update next TCMF in September
Potential CUSC modification proposal – Autumn 2014

Understanding your needs



Andy Wainwright

Background



What you said

Tariff information
accessible

Good response to TNUoS
queries

Awareness of who we are

Frequency of forecasts

Website not easy to navigate

Good code administration

Step changes in forecasts

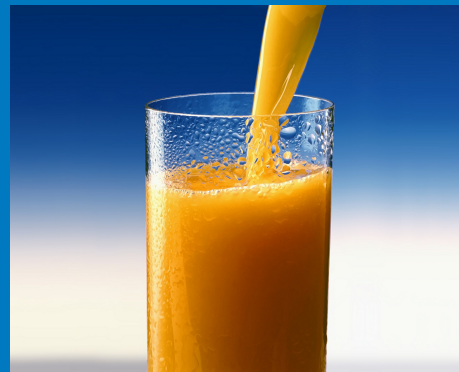
Could be better help
understanding how
charges work

What we're doing



NB: next survey: September 2014

Lunch



Charges associated with delay to connection



Charon Balrey

Open letter

- Published 23 June 2014
 - <http://www2.nationalgrid.com/WorkArea/DownloadAsset.aspx?id=34056>
- Responses to charon.balrey@nationalgrid.com by 31 July 2014
- Update in September 2014 on progress

Feedback on proposed actions

Guidance document to be published detailing how charges for delay are calculated and applied

- Is this a helpful development and is anything further you believe we should do to improve customers' understanding of these charges?

Statement within each 'original' connection offer making reference to additional charges if the connection date is subsequently delayed

- Do you think these proposals are sufficient to raise awareness of the existence of charges for delay, or would explicit references elsewhere be more helpful?

Allocation of charges

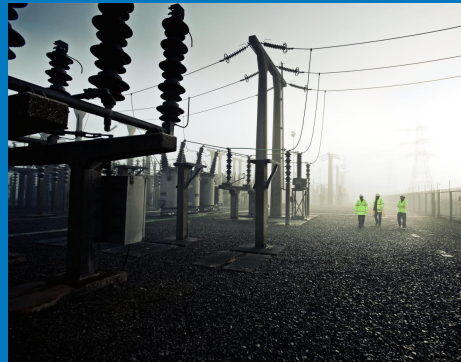
Capital costs

- CUSC Section 14.4 (Other Charges) ability to apply additional charges to a customer in respect of its connection (CEC before TEC)

Incremental costs

- Any spend over and above what would otherwise have been incurred in meeting the original connection date as a one-off charge
 - e.g. demobilisation, remobilisation, re-consenting, maintenance, additional project management and rework & redesign.

Flexible Access – Progress Update



Nick Pittarello

Aims of Flexible Access

- Enable capacity exchange between generators in short timescales

- Benefit
 - More efficient use of capacity
 - Lower fixed costs for marginal thermal plant with low load factors
 - Helps security of supply

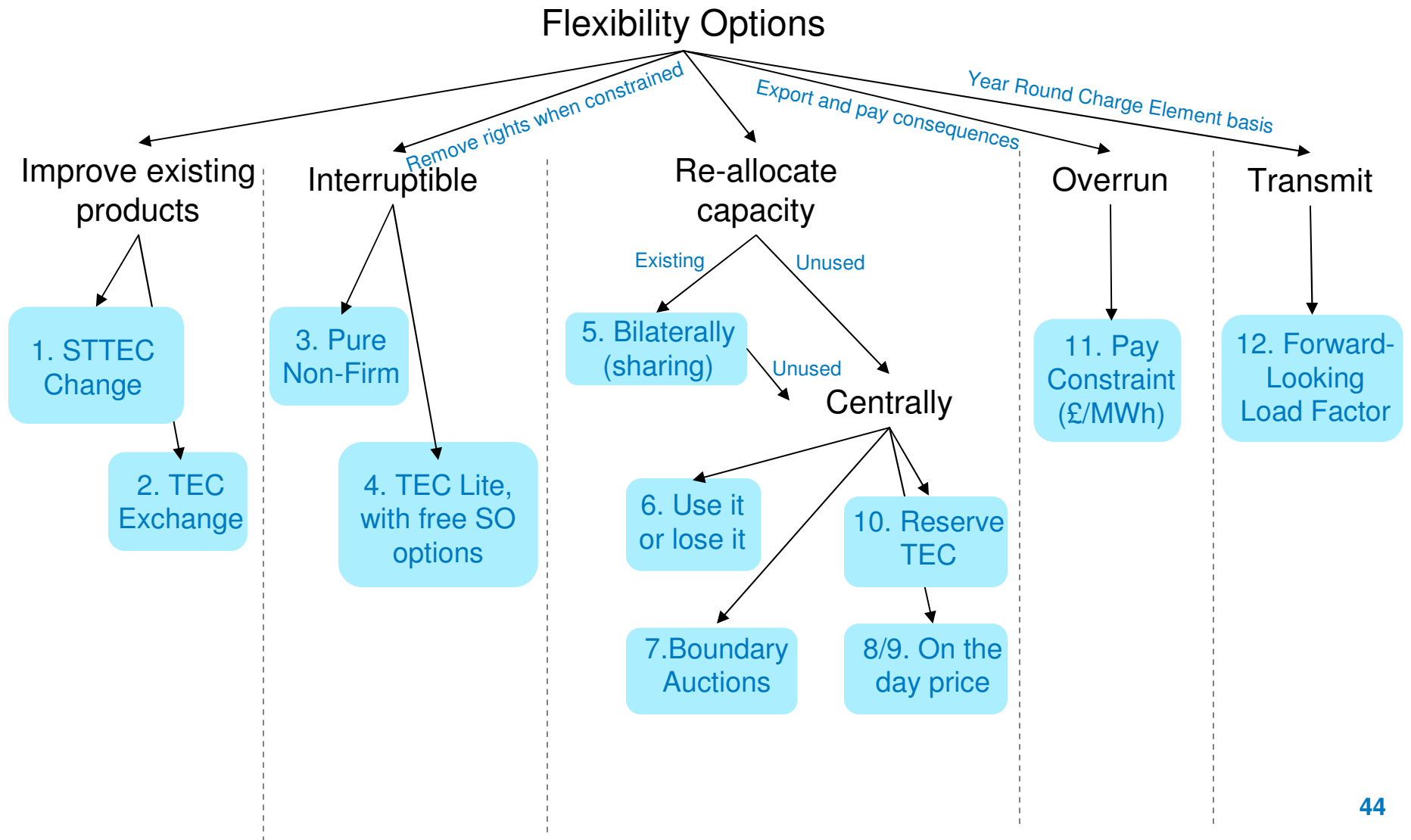
Stakeholder Objectives

- April TCMF identified the following preferences:
 - Affordable
 - Range of products differentiated by price
 - Balance between price and obligation
 - Predictable
 - Transparent
 - Not distort competition
 - Timing – mixed views

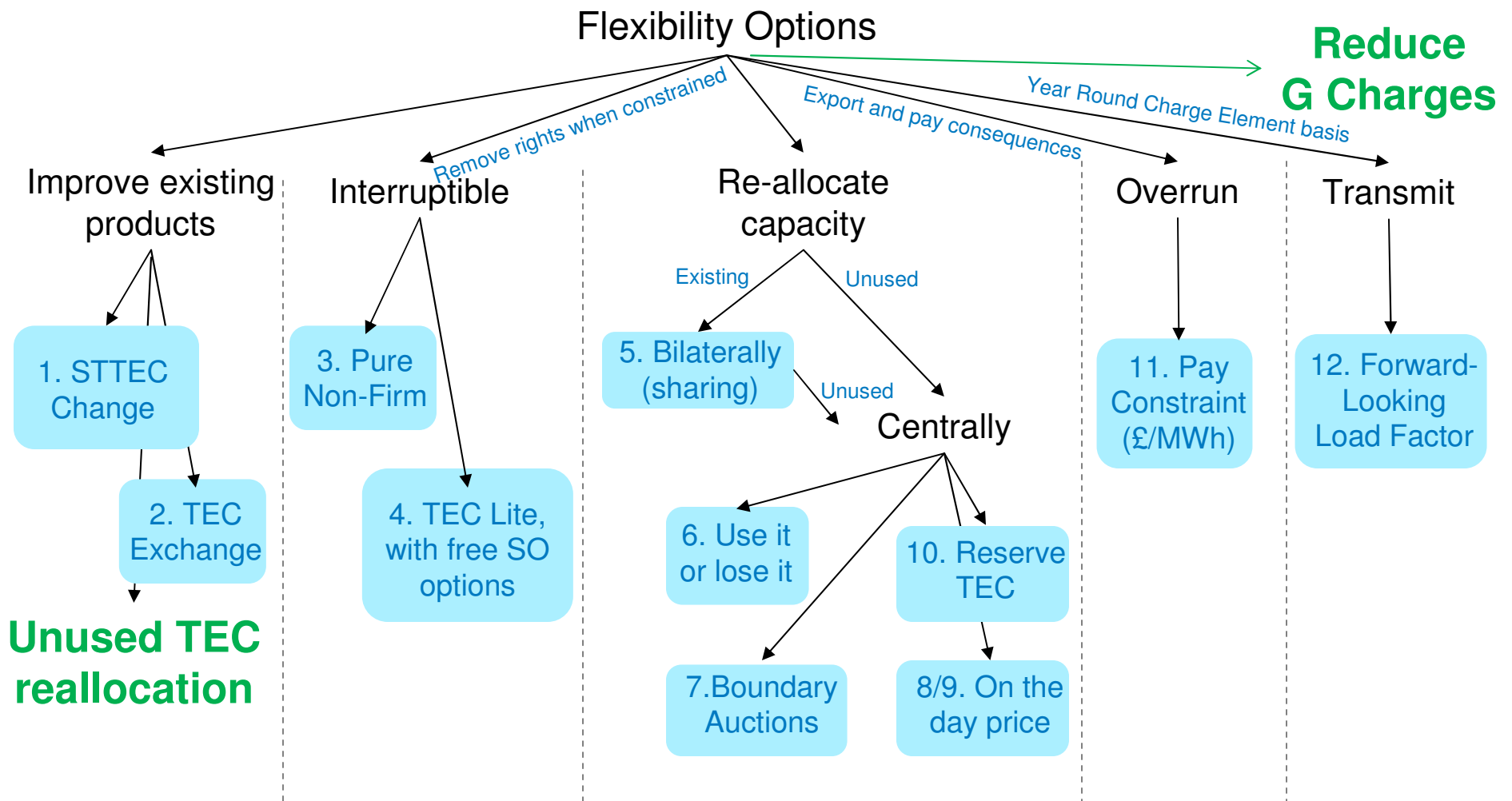
National Grid Objectives

- Protect primacy of annual product (TEC)
 - Need for investment signals
- Solution should be consistent with SQSS and CMP213
- Consistent with European direction of travel
 - No regrets/ unwind round the corner
- Deliverable within reasonable timescales
 - Proportionate and deliverable
 - Broad consensus

Options to deliver short term flexibility

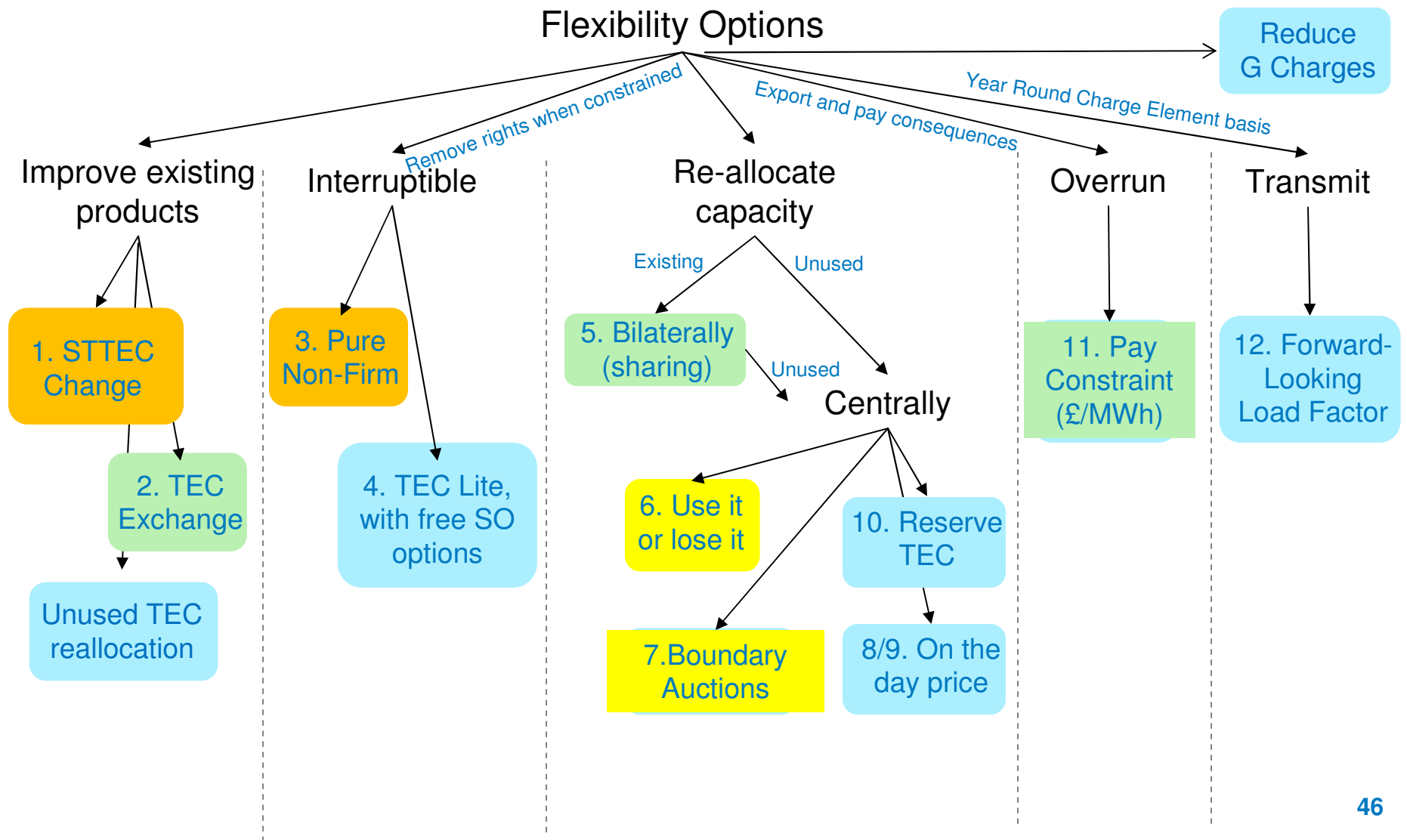


Additional Options



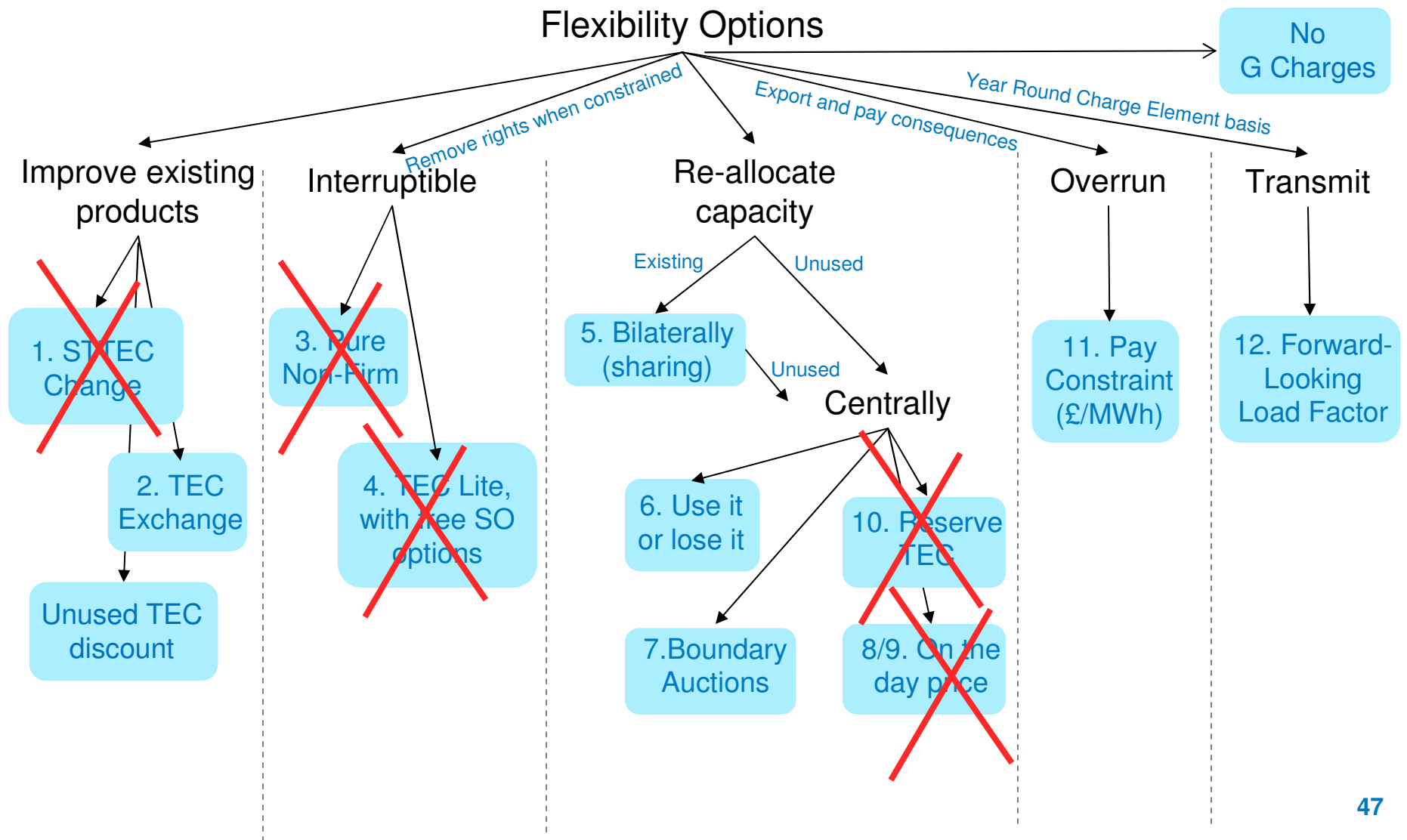
➔ Is this the complete suite of options?

Possible option bundles?



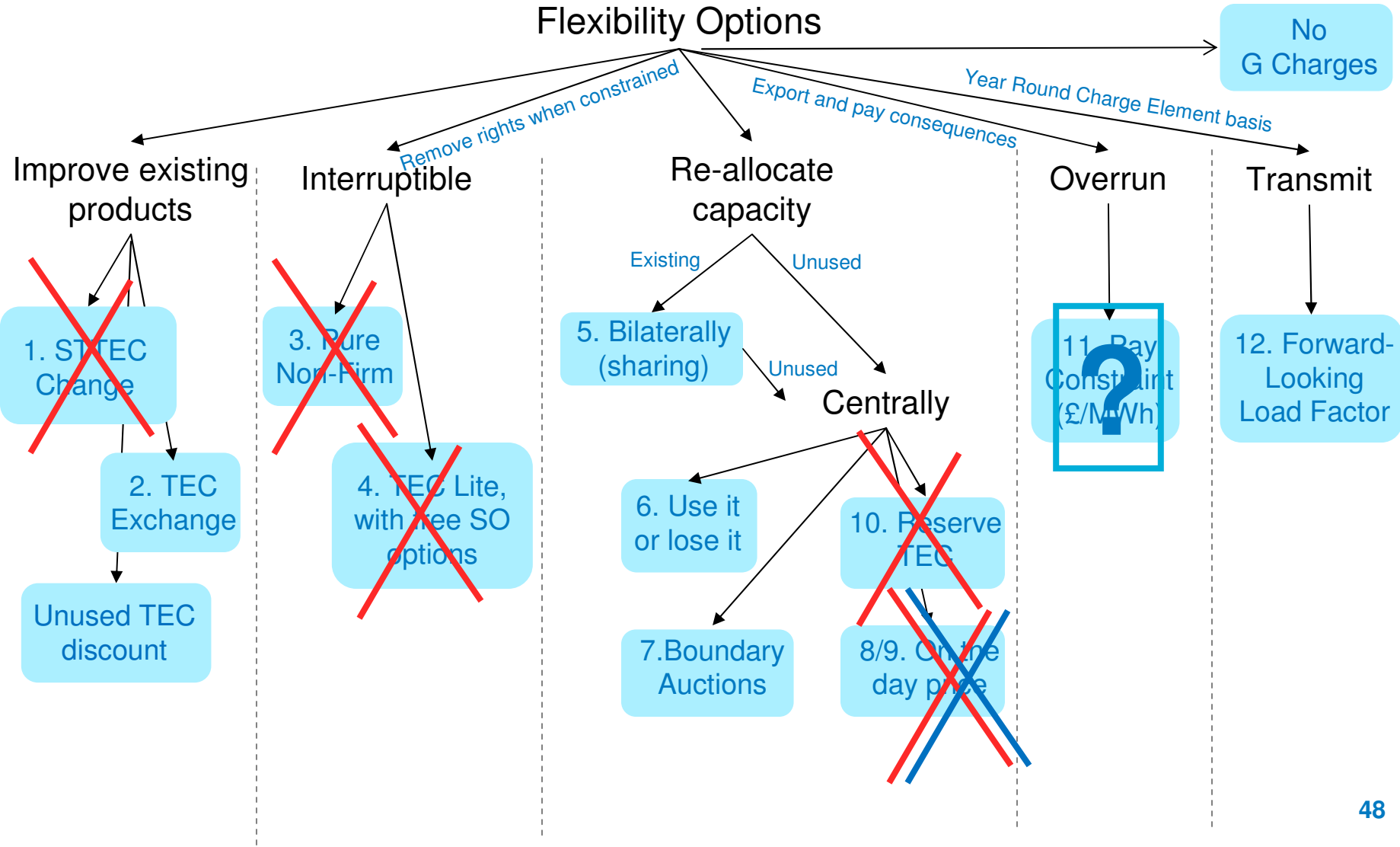
EMR Capacity Mechanism

– Effectively locks in existing TEC to 2018



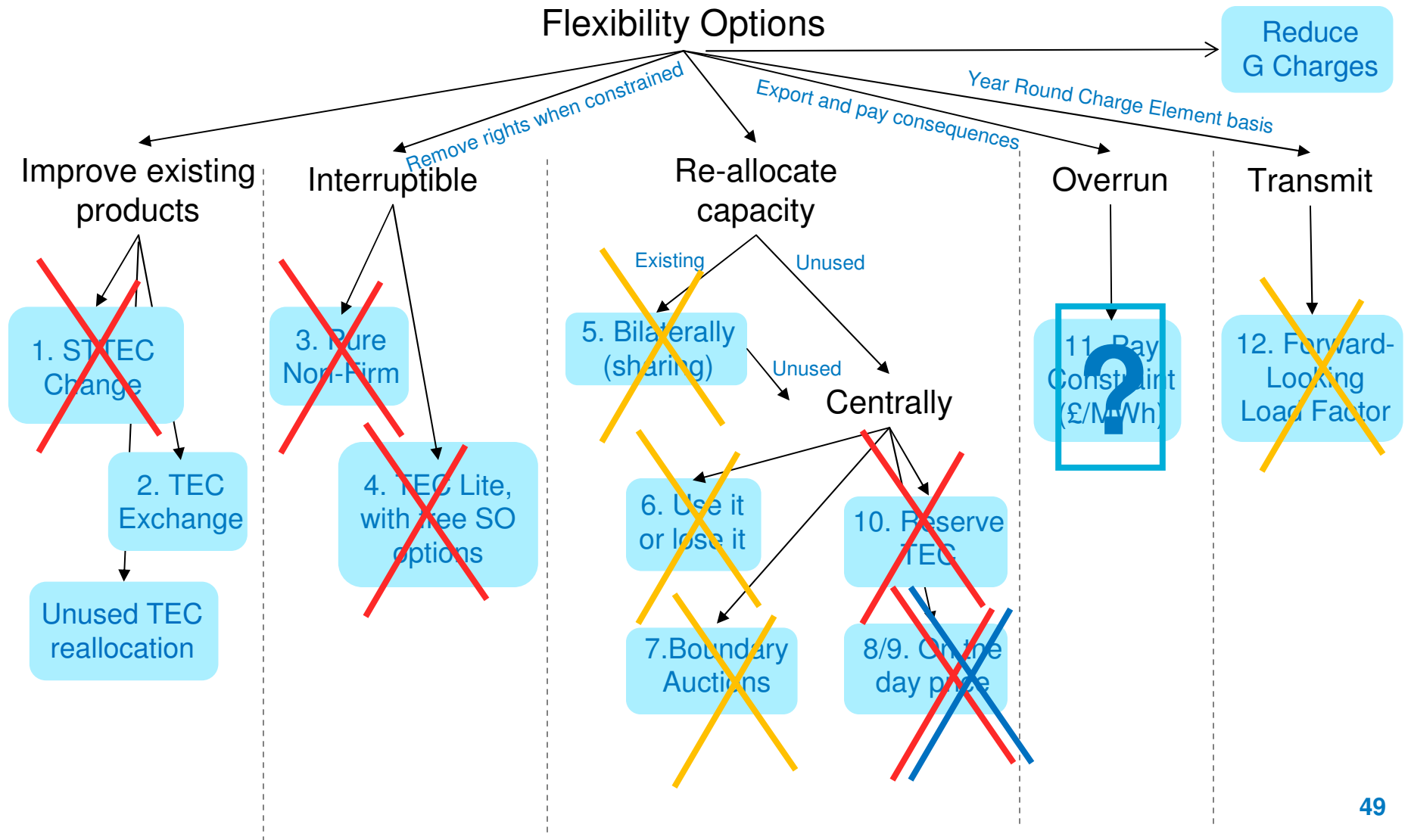
European Interactions

- Effectively locks in existing TEC to 2018



Operationally Challenging

- Technical issues



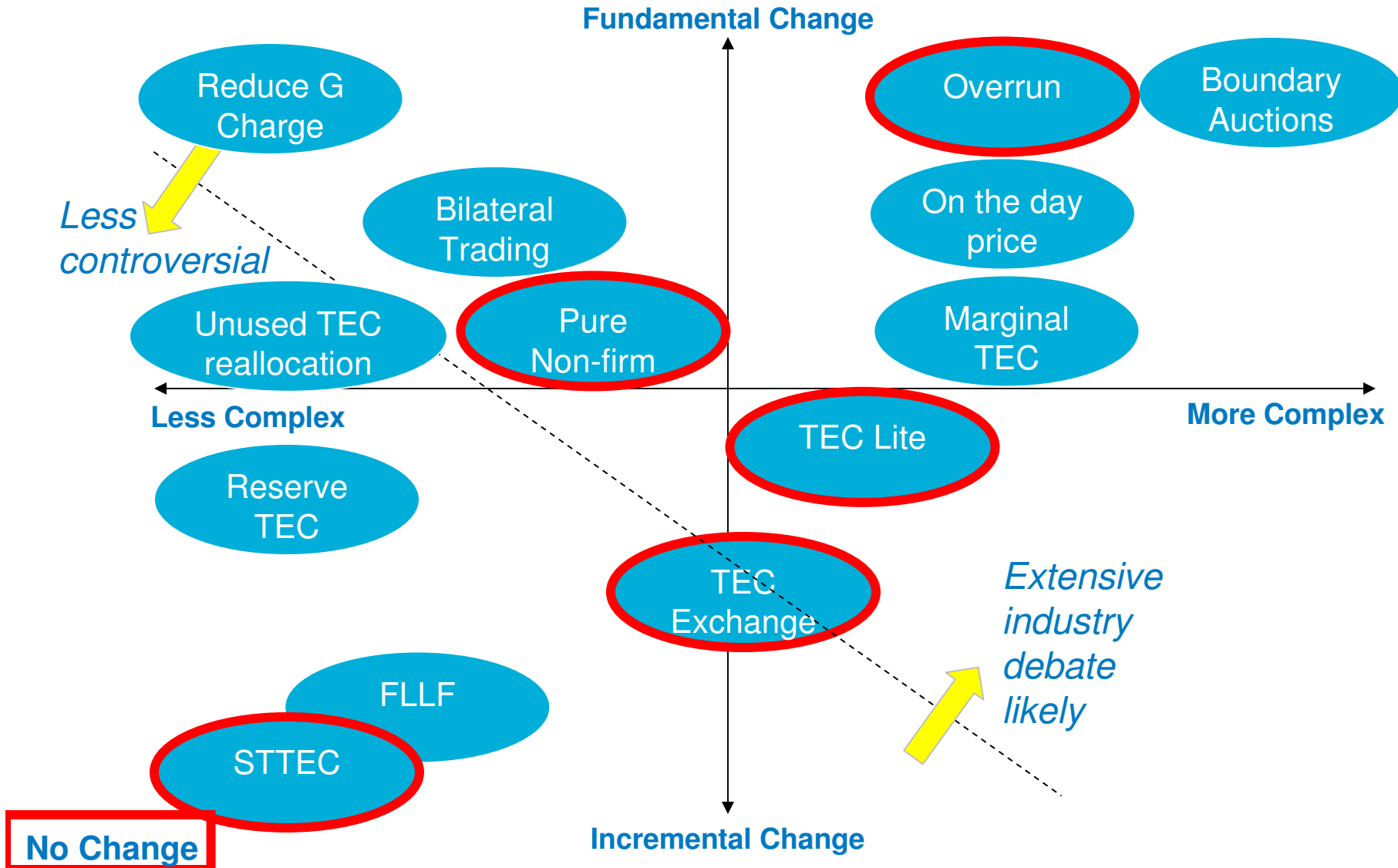
Feedback Summary (so far n=6)

- Concern over interaction with EMR Capacity Mechanism
 - The rules effectively lock-in TEC and make many of the options unlikely to be helpful
- Wide spectrum of views
 - Some saw this theme as really critical to their business
 - Others, that we need a period of stability to embed EMR.
- Most saw merit in exploring STTEC and TEC Exchange
- Minor interest in Non-firm, TEC Lite and Overrun

Option Landscape

Interest Expressed

Dropped UIOLI option



Next Steps

- Continue to canvas opinion bilaterally
- How should we take this forward?
 - Workshop?
 - Dive a bit deeper?
- Can we refine the options down?
- Reincarnate CAPs 161/162/163?
 - Previously parked because of Transmit
 - Broad industry support
- What could the timing of any CUSC mod be?

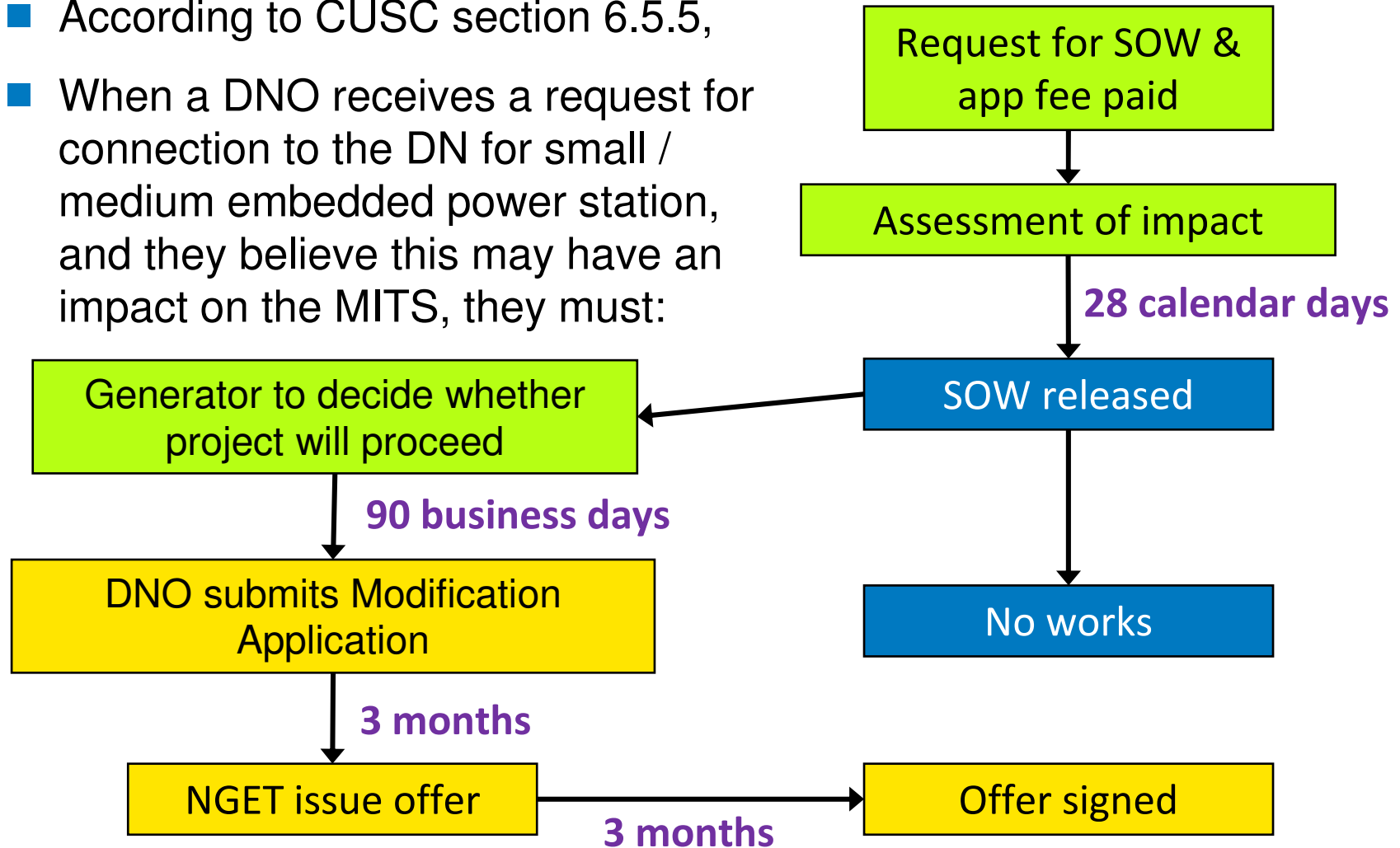
Statement of Works



David Corby

Statement of Works Current Process

- According to CUSC section 6.5.5,
- When a DNO receives a request for connection to the DN for small / medium embedded power station, and they believe this may have an impact on the MITS, they must:



Change History

- Ofgem led DG Forums;
- Working collaboratively SO, TO's, DNO's attended a number of working group meetings that determined:
 - Embedded Developers have difficulty understanding how their development impacts on the Transmission network
 - That the Statement of Works process:
 - Took too long & expensive
 - There was a lack of transparency in the process
 - Stage 1 caused a delay in most cases

Change Proposal

- Remove Stage 1 – Statement of Works process

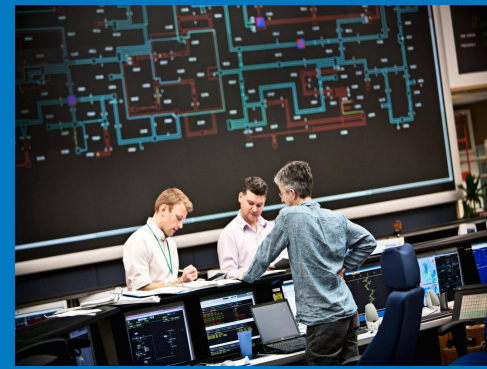
Where the DNO knows there is an impact on the
Transmission System

- Reduce timescales by around 4 months
 - Save Developer ~£2,000 per application
 - Provide earlier notice of Transmission reinforcements
-
- Letter of comfort issued by Ofgem May 2014
 - One year trial started

Next Steps

- Aspiration to raise a CUSC modification this autumn for implementation in 2015
 - Update at September TCMF
 - Subject to trial feedback. Nothing negative to date
 - How deep a modification is needed – could this be a Self Governance Modification?
 - Does anyone have views on this?

Biddable Indexation & TNUoS



Wayne Mullins
TCMF, July 2014

What is Biddable Indexation?

- Under Tender Rounds 1 & 2 (TR1 & TR2) OFTO allowed revenues are fully indexed by RPI on an annual basis.
- Ofgem have decided to introduce the option for revenues to be partially indexed to inflation going forward.
- Bidders will be able to specify the proportion of revenue they wish to have linked to RPI:
 - aims to enable bidders to more closely match their revenue profile to their cost profile; and
 - bidders will be able to avoid hedging costs if they use nominal debt, as well as retaining flexibility to attract different sources of finance.

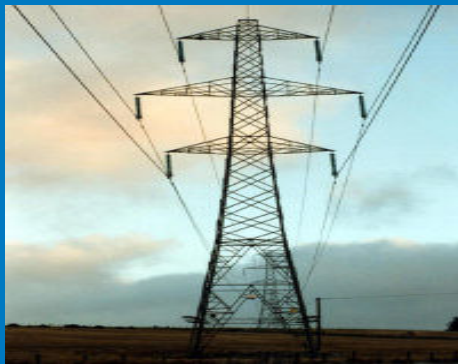
How does this effect TNUoS?

- Local TNUoS tariffs are based upon the proportion of OFTO revenue associated with each asset.
- Under the existing arrangements these inflated by RPI each year and reviewed at the start of each (onshore) price control period.
 - Assumes OFTO revenue is fully indexed by RPI.
- Partially delinking OFTO revenue from RPI, will result in associated local TNUoS tariffs increasing at a faster rate than the corresponding OFTO revenue.

Proposed Next Steps

- Raise a CUSC modification to address the issue:
 - Retain existing principle of linking Local Offshore TNUoS tariffs to OFTO revenue.
 - Modify indexation of Local Offshore TNUoS tariffs to link to indexation in OFTO licence instead of RPI.
 - Change reflects changes to OFTO Licence conditions.
 - Self-governance?

Potential Future Topics



David Corby

Revised Priority Potential Topic list

Topic	Ranking
BSUoS stability	1
Flexible TNUoS products	2
8 year Price control	3
TNUoS fixed tariffs	4
G/D split	5
Triad	6
Integrated offshore	7
User Commitment (Section 15) Flexibility Developments	8
Exporting GSPs / Gross charging	9
BSUoS Forecasting transparency	10
Methodology Housekeeping	11

Any Other Business



Next TCMF

September

17

Wednesday

November

12

Wednesday

Venue: National Grid House, Warwick

We value your feedback and comments

If you have any ***questions*** or would like to give us ***feedback*** or share ***ideas***, please email us at:

Cusc.team@nationalgrid.com

Also, from time to time, we may ask you to participate in surveys to help us to improve our forum – *please look out for these requests*

Close

