

ITC Scheme Impacts

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Background

- EU Regulation 1228/2003 came into force 1 July 2004
- Concerns conditions of access for cross-border exchanges in electricity
- Regulation made up from 15 Articles
- 3 Articles of interest with possible impact on NGC's charging methodology
 - ITC Mechanism (Article 3)
 - Charges for Access to Networks (Article 4)
 - Guidelines (Article 8)

Regulation

- Article 3(1) states that TSO's are entitled to receive compensation for costs incurred as a result of hosting cross border flows
- Article 3(2) & 8(2) mention a CBT regime which is likely to provide the method by which compensation payments will be made
- No part of Article 3 (ITC mechanism) will have effect until the guidelines in Article 8 are adopted – this is currently expected to be by 1 January 2006
- Once guidelines are approved charges for network access should take into account the payments & receipts of the ITC mechanism - Article 4(3)

NGC Conclusion

- Article 4 (Charges for access for networks) prohibits a “specific” charge being applied for declared transits
- Transits are defined as “the despatch of electricity from one member state to another where the nominated path for the transaction involves a country in which neither the despatch or the corresponding take-up of electricity takes place”
- NGC’s TNUoS & BSUoS charges are applied to all users for access and system reasons respectively and are therefore **not** specific to Interconnector Users and are **not** for declared transits
- NGC legal advice is that the current methodology is consistent with Article 4 – advice confirmed by Ofgem

Initial Thoughts

- GB would be first scheme members to operate locational charging regime
- Existing EU participants have presumed that all individual country CBT charges should be removed on joining the scheme to avoid ‘pancaking’
- Removal of the locational element from Interconnectors may introduce a distortion across the Interconnector and claims of discrimination
 - Locational element to remain in Interconnector charges
- Removal of the flat element of TNUoS from Interconnectors may eliminate inefficient pancaking
 - Non-locational element to be removed from Interconnector charges
- BSUoS Charge: No change

Additional Issues

- The locational signal in TNUoS Charges is given by the differential between charges
- Concern that the removal of the non-locational element on Interconnector charges could distort the signal and be discriminatory
- Non-locational element is not “purely” residual revenue recovery component, e.g. substation/reactive compensation

Example figures

- For the IFA the 2005/06 TNUoS charges are:

Generation charges £ 1.32/kW (Midlands & South East)

Demand Charges £ 15.99/kW (South East)

- The Flat (Non-locational) element of the charge is:

Generation £ 3.26 /kW

Demand £ 11.19 /kW

- The locational element of charge is:

Generation £ -1.94 /kW

Demand £ 4.80 /kW