

Condition 4: Long term fixed price products

CISG

31 January 2006

Charging Condition 4

- ◆ Condition 4 requires National Grid to:

“invite views and consult on methods of enabling users to choose to contract for rights to use the transmission system with TNUoS charges fixed for more than one year”

- ◆ To bring forward proposals to modify the use of system charging methodology for implementation in April 2007

Process adopted

- ◆ National Grid has invited views and discussed potential options to introduce long-term fixed tariffs

Questionnaire published

May 2005

Initial conclusions discussed at TCMF

September 2005

- ◆ Two work strands emerged:
 - ◆ long-term fixed tariffs
 - ◆ stability and predictability

Long-term fixed tariffs (1)

- ◆ Views sought on issues and options to deliver long-term fixed tariffs
- ◆ No great appetite for long-term fixed tariffs in isolation to considering access issues
- ◆ Little common view on design fundamentals
 - ◆ who has risk – National Grid, industry, third-party
 - ◆ which risks could be hedged against
 - ◆ locational component / entire tariff
 - ◆ how long tariffs could be fixed

Long-term fixed tariffs (2)

- ◆ Interaction between tariffs and access rights / regime
- ◆ Transmission price control review considering merits of “user commitment” access models
 - ◆ commitments to future capacity made by existing and/or new users
 - ◆ longer-term (unconstrained) access rights
 - ◆ financial commitment to pay fixed / variable tariffs for period
- ◆ Difficult to move forward until Ofgem responds to industry views on user commitment models
- ◆ However interest in enhanced stability and predictability

Stability

Limit the scope for changing charges / methodology


- ◆ Limit methodology changes

- ◆ n changes per year
- ◆ more than p months apart

} *how to keep methodology under constant review?*

- ◆ Limit change to locational differentials

- ◆ unlimited for legal / regulatory drivers
- ◆ +/- x £/kW for methodology change
- ◆ +/- y £/kW for parameters change

 Licence Obligations

} *less cost-reflective and/or detrimental to competition?*

- *phasing of changes (up/down)?*
- *use of residual to socialise?*

- ◆ Limit changes to parameters

- ◆ expansion constant
- ◆ security factor
- ◆ charging zones



} *set for price control period*

} *“Condition 5” report*

Predictability

Charges change in an expected manner

- ◆ Timing and notice of changes
 - ◆ circa October for 1 April effective date
 - ◆ notice period (typically at least 2 months)
- ◆ Improve transparency (National Grid → User)
 - ◆ informal consultations for bigger changes (e.g. G/D split)
 - ◆ “Condition 5” report – early indication of tariff paths and zoning
 - ◆ methodology workshop – improved understanding of proposal
 - ◆ transport model information in SYS – allows user to run scenarios
- ◆ Improve data provision (User → National Grid)
 - ◆ demand growth... reasonable
 - ◆ generation increase... good
 - ◆ generation decrease... limited

} user commitment models?

Conclusions

Fixed long-term tariffs

- ◆ Little appetite & need to consider associated access rights
- ◆ Consider in context of user commitment models and TPCR

Stability

- ◆ May frustrate ability to comply with transmission licence
- ◆ Is there a need to adjust methodology to provide stability?

Predictability

- ◆ Enhance predictability via improved “two-way” transparency
- ◆ Improved transport model information in SYS?
- ◆ Longer-term user information could improve predictability?