
Transmission Access

Further Thoughts on Strawman A – Generation

Rights – Outline

1. To generate electricity up to agreed (contractual) level at a specific node at any time during the year.
2. Connection Agreement must be in place between generator and NGC (or DNO) for generator to acquire rights.
3. Acquired by allocation to existing generators.
4. For new generators, acquired by either:
 - (a) additional allocation by NGC, following application process; or
 - (b) by purchase from an existing generator:
 - at the same node; or
 - at a different node, which must be facilitated by NGC (see below under Trading).
5. Generation output in excess of rights held will be subject to contractual / overrun penalties.
6. For firm rights, compensation will be paid by NGC:
 - (a) through Connection Agreement with generators (or CUSC?) for withdrawal of rights due to disconnection; and
 - (b) through constraint contracts or purchase in Balancing Mechanism for withdrawal of rights due to constraints.
7. The treatment of non-firm rights is described in a separate section later.

Rights – Issues

8. Can an existing or new generator reserve rights?
 - (a) Existing generator can do so only if he continues to pay TNUoS charges.
 - (b) New generator may do so within reasonable time horizon of transmission planning if he:-
 - has a Connection Agreement; and
 - pays TNUoS charges from the time when rights go live.

Trading of Rights

9. A new generator to be granted rights must either:
 - (i) apply to NGC for connection and use of system; or
 - (ii) acquire rights from an existing generator for use of system and apply for connection to NGC.
10. NGC will provide at the time on request to the generator an offer for use of system rights based on the new rights being additional to the extant system. This offer will take the current form (see Paragraph 13 below).
11. Use of system rights can be freely traded at the same node, subject to notification period to be defined in CUSC. They can also be traded via NGC at different nodes. NGC will establish at the time of the proposed trade the amount of rights at the node of purchase to be made available by the sale of the specified amount of rights being sold at the other node. The former may be greater or less than the latter and will be established via system studies. The assessment will be subject to regulatory appeal.
12. The new generator will therefore have a choice of buying additional rights off NGC or buying existing rights off an existing generator.
13. Paragraph 10 above states that the terms offered by NGC will be on the current basis, that is:
 - (i) an obligation to pay TNUoS charges when the generating plant becomes operational.
 - (ii) an obligation to financially guarantee required NGC infrastructure costs up to the date of completion.
 - (iii) the offer will be dependent on achieving necessary consents for required NGC infrastructure work.
14. On this basis the purchase of rights from an existing generator (rather than NGC) will avoid potential delay (due to consent risks) and the need to guarantee potentially high cost works.
15. There can be a number of alternatives or variations to replace the current basis of allocating new rights as set out above. Three examples are as follows.
 - (a) The new generator pays the whole costs of the required infrastructure works (over an appropriate time period) but does not pay TNUoS charges. Given the necessary approximation in the ICRP model this could be cheaper or more expensive than TNUoS charges. It would also suffer from all the drawbacks and uncertainties of deep

connections offers. It would also mean users in similar locations paying different charges.

- (b) The new generator initially pays the annuitised costs of the required infrastructure work, with a rate of return higher (as agreed with the Regulator) than the regulated rate of return for TO baseline capacity. If and when the remaining asset value associated with the relevant infrastructure work enters the regulated asset base and becomes remunerated from the TNUoS charges, then the generator ceases to pay the specific annuitised costs and begins to pay TNUoS charges.
- (c) When the requirements for new rights exceed the existing transmission capacity, an auction will be held to ascertain the market values for potential incremental transmission rights. New applicants would bid the amounts and prices of rights they wish to buy. Existing generators who wish to sell their rights would be invited to offer amounts and prices. Should the prices emerging from such auctions justify it, NGC will carry out appropriate infrastructure works and release the new capacity. Generators who purchase rights from these auctions will pay the marginal clearance prices. This approach is substantially more complicated than the above two approaches and would also make users in similar locations pay different charges.

Length and Tenure of Rights

- 16. The basic approach is that rights once acquired are evergreen, as long as charges are paid rights will be retained. However, if a generator decides to reduce his capacity requirement and not to pay TNUoS charges for a part or all of his generating capacity and does not sell these rights to another generator (who in turn pays the charges) the rights will lapse.
- 17. They then may be made available to a subsequent generator who wishes to develop a generating plant. Alternatively, they may be made available to the original generator if he wishes to re-commission his plant. However, it is possible that such capability may no longer exist because they have been taken up by another user by the time the original generator has decided to re-commission his plant. In this case, the generator wishing to re-commission his plant would have to apply for additional new rights from NGC or purchase rights off another generator.

Length and Tenure – Issues

- 18. It has been suggested that an alternative approach would be that a generator, either at the time of initial allocation for an existing generator or at an initial application for a new generator, should have to sign up for a particular period of time, from one year up to the lifetime of the plant. Under this approach a generator would be committed to paying charges for the lifetime of the contract. Equally, at the end of the contract period, the incumbent generator

would have to compete with other potential users (via or an auction?) for rights for any subsequent years. What are the issues associated with this?

19. It has also been suggested that these contracts might be for fixed prices i.e. charges would not vary through time according to changes in system conditions or the impact of NGC's price control. The latter gives rise to fundamental issues, namely if there is a discontinuity between the prices charged under the contract and the tariff who pays or receives the difference. Further consideration required.

Non Firm Rights

20. It is envisaged that generators with a Connection Agreement may have non-firm access rights whereby they can be denied access to the system without compensation. Whether this will provide a basis for construction or acquisition of power stations and indeed the payment of connection charges is not the issue at present but may depend on the outcome of the issue above.
21. A maximum capacity limit will be specified for a non-firm right, against which the same contractual / overrun penalty will apply as for firm rights. Non-firm rights will only be made available when firm rights of the same capacity cannot be accommodated by the transmission system. The non-firm rights will only be valid for finite periods of time, followed by an application for renewal for a subsequent finite period of time or conversion to firm rights (either created by NGC after completion of required infrastructure work or purchased from another generator).
22. Clearly, payment for access when access is available is appropriate but on what terms? Our initial thinking is that it should start from the same charging basis as for firm rights, i.e. based on the maximum capacity, but with appropriate recognition of the lack of firmness, maybe in the form of a discount.

Basis of Charges

23. It is implicit in the above that the basis of charging for rights remains similar to that in existence currently i.e. locational charges based on capacity requirements. However, there are a few areas that need to be given further consideration, subject to reviews in the Transmission Charging Methodologies Forum. For example, it is probably appropriate to move to nodal as against zonal charging and although this may not be essential. Another issue is that if rights do not carry obligations yet TNUoS charges are based on maximum capacities, should TNUoS charges be negative? Developments in other areas such as potential locational allocation of losses and locational constraint contracts will need to be taken into account when considering the overall locational signals provided to generators.