

GB Transmission Charging: Final Methodologies consultation

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Developmental GB TCMF - 10 September 2004

Structure

- Current position
- Summary of proposed final methodologies
- Rationale for final methodologies
- Next steps
- Q&A Session 1
- TNUoS Tariff calculation
- Q&A Session 2

Current position

- GB Final Methodologies consultation published on 20 Aug 04
- Consultation contained response to issues raised during the Initial Methodologies consultation and the proposed final GB charging methodologies
- Views were invited from the industry
- Final Methodologies consultation period ends at close of business on 17 September 2004
- Final Methodologies conclusion report to Ofgem by the end of September 2004

GB Connection Charging: Final Methodology

- Shallow “Plugs” connection boundary
- Gross Asset Values based on actual costs for new assets and Modern Equivalent Asset valuation for pre-vesting connections
- GAV revaluation using RPI for pre-vesting with choices for post vesting - RPI forming standard terms
- Site Specific Maintenance based on flat percentage of GAV
- Transmission Cost Factor fixed for price control period based on average published operating cost allowances
- Same payment options available as in E&W

GB Transmission Network Use of System Charging: Final Methodology (1)

- Use of ICRP methodology with a DC load flow (DCLF) transport model
- Use of Seven Year Statement (SYS) data as basis for DCLF model with interim measure for 2005/6 using “Interim SYS”
- Interconnectors will be modelled based on historic performance rather than the strict treatment as generation
- Two options for expansion constants:
 - Preferred - Multi-voltage expansion constants, with 132kV overhead line value incorporates 20% 400kV to reflect anticipated future development.
 - Alternative - Single expansion constant based on 400kV overhead line
- Adjustment to overhead allocation for cable expansion constants

GB Transmission Network Use of System Charging: Final Methodology (2)

- All licensable generation capable of exporting more than 100MW to the total system and all directly connected generation will be liable for TNUoS
- Use of existing E&W zoning criteria including +/- £1/kW for generation zones
- Use of GB security factor fixed for price control period calculated using “least squares fit”
- Change generation and demand split to 10/90 to avoid negative demand charges for multi-voltage expansion constant scenario

GB Balancing Services Use of System Charging: Final Methodology

- Based on existing England and Wales arrangements
- Dependent on design of GB SO incentive scheme

E&W Charging as the Basis for GB Transmission Charging

- Ofgem/DTI concluded in Aug 2003 that the existing England and Wales methodologies should be used as the basis for consultation on the GB methodology
- National Grid believes that the use of the existing E&W charging principles as the basis for the GB methodology including Investment Cost Related Pricing would:
 - Achieve the relevant licence objectives
 - Facilitate the licence obligation to determine a methodology to be approved by the Authority as soon as practicable

Multi-voltage Expansion Constants: Preferred Methodology

- In the absence of guidance from the Authority we believe it is necessary to identify a single methodology which better achieves the relevant licence objectives and obligations
- National Grid believes that the multi-voltage expansion constant better meets the relevant licence objectives
- It is more cost reflective
- Not persuaded that the methodology would hinder competition:
 - Temporal stability is comparable with single expansion constant scenario
 - Charges pre and post BETTA are broadly comparable when all connection and interconnector charges are taken into account
 - Reduced exposure of Scottish generation to interconnector upgrade costs
 - Methodology has not been seen as a barrier to competition in E&W

Expansion Constant

- Detailed independent report received on the GB pricing proposals including a proposal for a reduction to the proposed 400kV OHL expansion constant
- Continuing to consider the contents of the report however we have responded to the main points relevant to the development of the GB charging methodology in the Final Methodologies consultation.
- We do not believe there is any substantial evidence to support a reduced expansion constant
- Additional correspondence received regarding the calculation of the expansion constant for 275kV which we are assessing

Single Expansion Constants: Alternative Methodology

- Acknowledge strong support on the grounds of facilitating competition
- Presenting two fully consulted options to the Authority is consistent with the obligation to determine an approved methodology as soon as practicable
- Recommend the approval of the alternative methodology if the preferred methodology is not approved

Preferred Methodology - G/D Split

- National Grid still believes negative demand charges should be avoided and this has been supported by the vast majority of respondents to the consultation
- We continue to believe that the appropriate action to avoid negative demand charges is the adjustment of the G/D split which ensures the cost reflective tariff differentials are retained
- Accept views expressed that a suitable buffer should be established above £0/kW to reduce the likelihood of regular changes to the G/D split
- After assessing future years we believe a revised split of 10/90 is appropriate
- We note that this is compatible with anticipated European legislation

Expansion Constant - Cable Factor

- Existing expansion constant calculation includes an allocation of overheads based on the cost of the overhead line or cable
- Results in a much larger value of overheads apportioned to cables than overhead lines
- More cost reflective to align overhead costs between OHLs and cables
- Consistent with how overheads were allocated between the connection charges for cable and overhead line generation only spurs

Other Issues

- Small Generators interim measure - new licence condition C13
 - Reduction in generation tariff for eligible generators
 - Flat unit amount increase in demand tariffs to recover revenue
 - Mechanism to be revenue neutral over the period of the operation of the licence condition
- Hydro Benefit - Awaiting draft order
- Renewables - Awaiting draft order

Next steps - Indicative Timetable

- 17 September 04 – Closing date for the Final Methodologies Consultation
- End September 04 – Final proposals Conclusion report & draft statements of charging Methodology sent to the Authority
- October 04 – Ofgem Impact Assessment on Proposals
- November 04 - Authority decision
- End December 04 – Indicative Connection charges
- January 05 – Indicative tariffs
- 31 January 05 - Final Tariffs/Connection charges published

Questions and Answers (1)

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