



## Charging Issues Standing Group Short-term access pricing

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# Agenda

## Summary of position reached at last CISG meeting

- ◆ Need to explore approach to charging for connect & manage alternative

## Ofgem's view

## Way forward?

## Draft strawman

- ◆ Description
- ◆ Further work

# Summary of position reached at last CISG meeting

## Connect & manage alternative

**Users that connect ahead of the completion of wider reinforcements should see charge based on costs caused**

**Marginal constraint cost very high – unlikely to facilitate early connection**

**Investigate appropriate charging structure:**

- ◆ Generators that connect early
  - Marginal cost differential adjusted to recover percentage (27, 50 or 100) of constraint cost
  - “Reasonable” (based on fuel price differential?) marginal cost
  - Marginal cost capped by TNUoS multiple
- ◆ Generators located behind non-compliant transmission boundaries
  - Locational BSUoS
    - As proposed
    - Based on proportion of cost caused on exporting / importing side of the boundary
- ◆ All Generators
- ◆ All Users

# Ofgem's view

## Connect & manage alternative

- ◆ Any difference in charge between new and existing users would only be acceptable if clearly defined with user commitment
- ◆ Any price based on NG constraint forecast (rather than contractually firm data submitted by generators) would need to be reconciled ex post

## “Fourth model” may offer advantages over connect & manage alternative

- ◆ Same charge for existing and new generators
- ◆ Generators are able to fix charges (quid pro quo for provision of contractually firm data)
  - Number of years
  - Load duration
  - Bid price collar

# Way forward?

## How can we address these issues?

- ◆ Users get access when local works are complete
- ◆ All Users exposed to TNUoS and some form of ex post locational BSUoS

## Issues

- ◆ Difficult for network owners to plan reinforcements without commitment from generators for future years
  - Locational BSUoS charge may increase over time
- ◆ No option for Users that can provide commitment and contractually firm information about intended use of the transmission system to do so and get ex ante price

## Solution?

- ◆ Implement parallel process to provide users with an optional hedge against locational BSUoS in return for firm ex ante information provision

# Draft strawman

## Description

### Open access

- ◆ All users get access when local works are completed
- ◆ Users pay TNUoS and some form of ex post locational BSUoS
- ◆ Users can reduce TEC with limited (5 days) notice

### Optional BSUoS hedge

- ◆ NG will host annual iterative process in which Users can provide:
  - Commitment to pay charges for a number of years;
  - Information about intended use of the transmission system:
    - Load duration;
    - Bid price collar;
- ◆ In response, NG will offer:
  - Firm date from which User will no longer be exposed to locational BSUoS;
  - Fixed ex ante price or cap for locational BSUoS.

# Draft strawman

## Further work

### What is the appropriate form of ex post locational BSUoS?

- ◆ Average or marginal
  - If marginal, based on full bid/offer spread or “reasonable” assumption?

### What is the appropriate form of TNUoS?

- ◆ Need to ensure that ex ante information about intended use is correctly reflected in long-run prices

### Should all Users be exposed to TNUoS?

- ◆ [Marginal long-run + average short-run] or marginal short-run?
  - If investment in transmission will mean that high constraints costs are temporary, exposure to marginal long-run plus average short-run appears appropriate
  - If constraints persist, appropriate short-run incentives are critical, and exposure to marginal short-run may be more appropriate