ITC, Inter-TSO Compensation mechanism

TCMF

27th August 2008

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Agenda

- Overview of ITC scheme
- Impact on GB methodology
- Next steps

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Background (1)

- Regulation 1228/2003 allows for binding guidelines dealing with a number of issues
  - Tariff Harmonisation
  - Congestion management
  - ITC scheme
- ERGEG / ETSO and Commission have discussed mandatory scheme for several years
  - No conclusion
- All European TSO party to a voluntary 2 year scheme
  - Supported by Commission
    - Avoids explicit border fees
  - Requires regulatory support

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The scheme

- Two areas to solve
  - Infrastructure, based on network studies
    - Ex-ante, fixed for two years
    - Loop flows, interaction with congestion rents
    - Network assets - regulatory value
  - Losses
    - With and Without Transits (WWT) – ex post, calculated monthly
    - Losses – forecast market price / regulatory value

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Infrastructure principles

- Improved ETSO scheme
  - MWkm impact
  - More accurate contributions
  - Removing payment for causing loop flows
- Sensitivity factors, SF, for each combination
  - How does a flow from A to B affect C?
  - 72 snapshots
- Compensation based on ‘reference exchanges’ * SF
  - What flows from A to B?
  - REs are a minimal flow solution
- Infrastructure
  - Interaction with congestion management incentives
  - Sunk costs, ex-ante
  - **No negative payments**
- Contribution – fixed, based on flows

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Losses principles

- Based on ‘with & without transits’, WWT
- Compensation
  - Calculate losses with transit
  - Calculate losses without transit
  - Multiply difference by a reference price
  - Calculated in isolation
  - Based on a minimum of 72 snapshots
- Contribution
  - Based on metered imports and exports
  - Socialised – centrally calculated
- GB ‘benefits’

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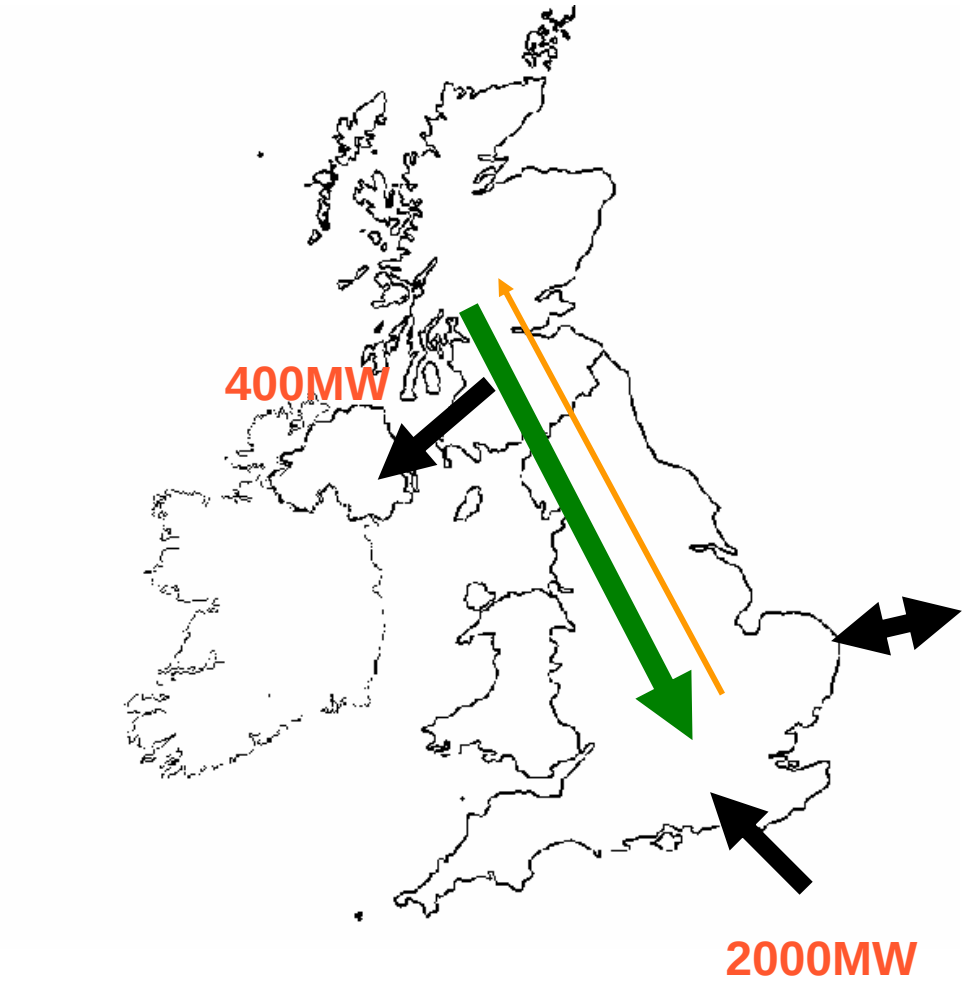
Flows



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What does all this mean ?

- GB pays €9.357m, small ex-post exposure
- Infrastructure
  - GB pays for using other systems
    - Proportional to net export / import
  - No benefit paid (through ITC)
- Losses
  - GB affects losses on other systems
    - Net cost
  - GB benefits from reverse flows
- 90% of net charge for impact on other systems

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Review charging methodology

- Required to take account of regulation in our tariffs
- Required to review under licence
- Under ITC scheme
  - ITC provides compensation for transits (-ve)
    - Losses only for GB
  - ITC imposes a cost for use of other systems
- Need to review GB charges

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Methodology issues

- Number of options
  - Danger of discrimination & double counting
- ITC compensation only covers transits
  - physical not transaction / rights
- Generation / load split
  - In Europe weighted strongly towards load
  - In GB 27% of TNUoS paid by generation
- Locational signals
  - GB fairly unique with locational network costs
  - Seek to preserve locational signal

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Options

- Combination of changes to locational and residual elements previously dicussed
- For each of the above, apply to
  - All imports and exports or transits only?
- Legal requirements
  - No explicit border fee, but not ‘no charge’
  - Charge would be for assets on other systems
- Relevant objectives – C5
  - Competition / Cost Reflective / Developments
- Consistency across Europe / ITC / GB
- TNUoS and /or BSUoS?

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Initial conclusion

- Need to be consistent
  - If the charging methodology includes a benefit it should also include a charge
  - Benefit is small compared to charge
- Cannot disaggregate users into transiting / import & export parties
  - Cannot target benefit or charge
- Interconnector should still be subject to standard charges
  - Need to charge parties cause net imports and exports
  - No explicit benefit (volume adjustment), standard charge does not model external assets

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Next steps

- Seek industry views through a pre consultation
- Any proposal would not impact on published tariffs
- Materiality
  - Approximately £7m

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Questions ?

- Initial thoughts……..

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