

# TAR WG2

## Short Term Pricing

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London, Monday 15<sup>th</sup> December 2008

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# Short Run Marginal Costs

- ◆ **Objectives of the SRMC access tariff**
  - ◆ To give a firm year-ahead (at least) price reflective of the cost releasing short term access
    - Reflects the costs of constraints caused by the release of such capacity
  - ◆ To incentivise short term access users to use the system at times where the likelihood of constraint is lower

# Short Run Marginal Costs

- ◆ **Form of tariff**
- ◆ **(A) Flat Rate across the Year**
- ◆ **(B) Profiled according to likelihood of Constraint being active**
- ◆ **Volume applicable**
- ◆ **(A) Only MWh generated above baseline capacity**
- ◆ **(B) Every MWh generated by ST Access Users**

# Short Run Marginal Costs

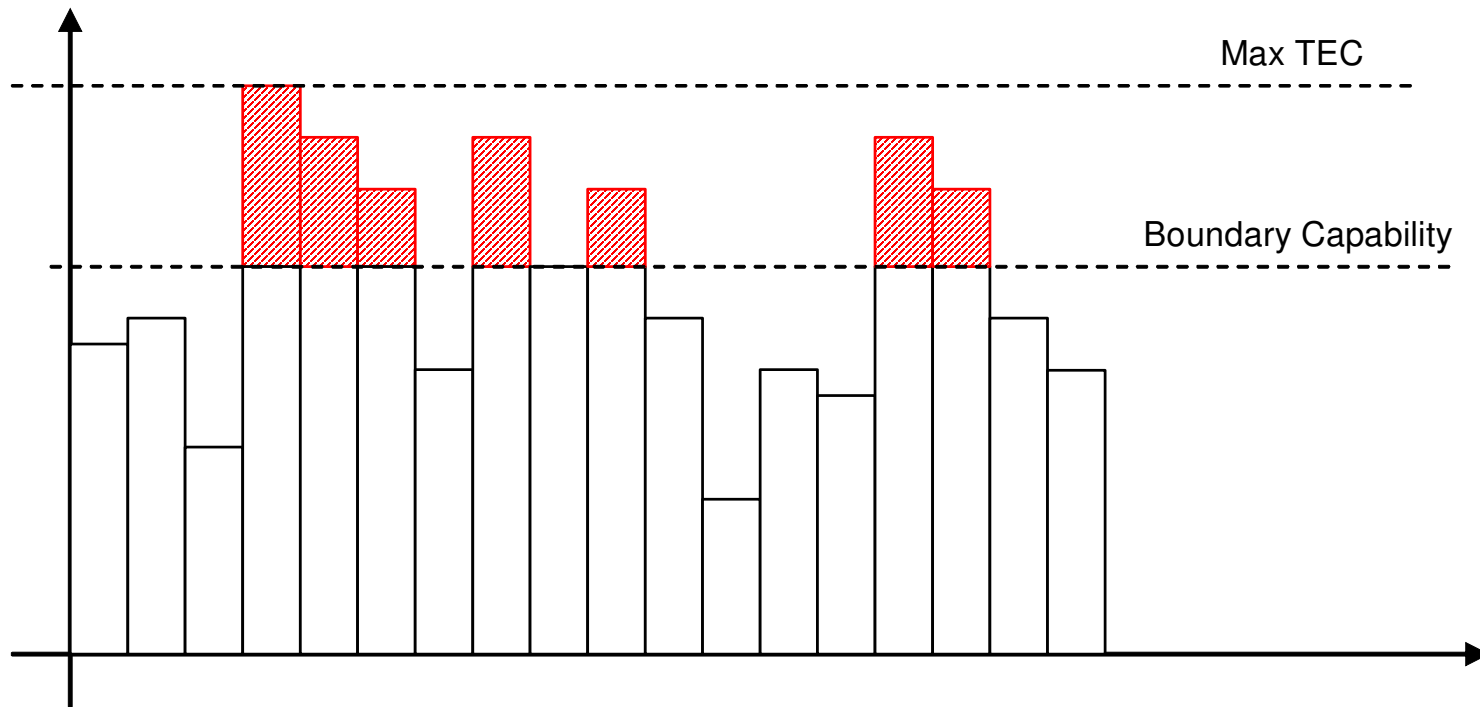
- ◆ **How to calculate tariffs – Option A (“simple”)**
- ◆ **At its simplest = ([1]Cost of replacement Generation)-  
([2]Cost of reducing generation in constrained zone)**
  - ◆ [1] – Historic Bid Price analysis in constrained zone
  - ◆ [1] – [Compulsory] Buyback prices in zone
  - ◆ [2] – Simple inspection of Offer Prices outside of constrained zone
- ◆ **Profile by Season, Time of Day etc?**

# Short Run Marginal Costs

- ◆ **How to calculate tariffs – Option B (“probabilistic model”)**
- ◆ **Again = ([1]Cost of replacement Generation)-([2]Cost of reducing generation in constrained zone)**
  - ◆ [1] – Probabilistic Bid Price/Buyback forecast in constrained zone
  - ◆ [2] – Probabilistic forecast of Offer Prices outside of constrained zone
- ◆ **Probabilistic cost of constraints in each zone – convert to £/MWh figure**
  - ◆ Divide by total expected generation from ST access users (tariff whenever generate)
  - ◆ Divide by total expected constrained volume (tariff only when constraint is “active”)

# Short Run Marginal Costs

- ◆ When to charge
- ◆ **Option A – When constraint is active**

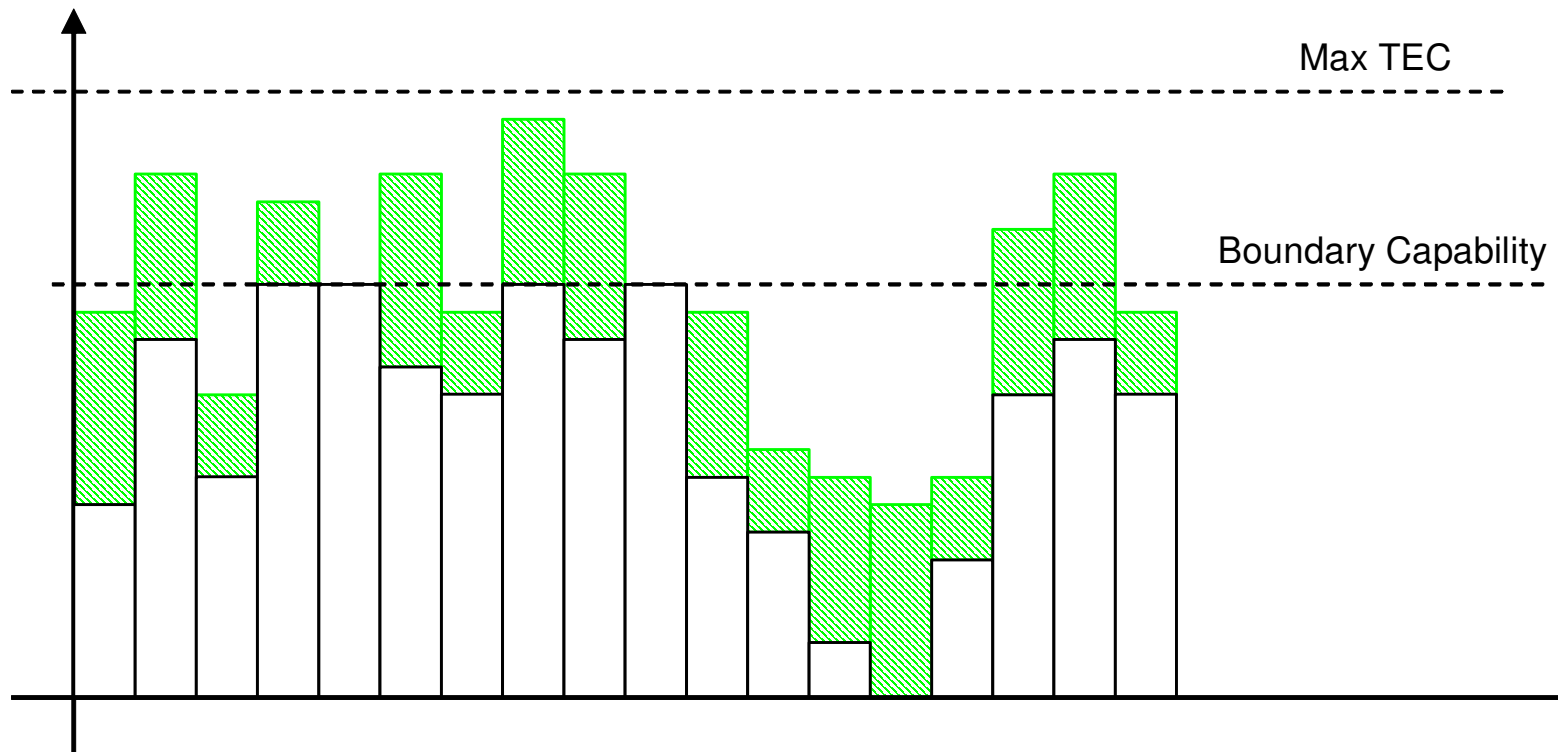


# Short Run Marginal Costs

- ◆ **Option A – When constraint is active**
  - ◆ Actual costs of constraining generation above baseline pro-rated across all ST access Users who are generating in that half-hour
  - ◆ Another Way?
- ◆ **Other Issues with approach**
  - ◆ Identifying when constraint is active
    - P217 flag?
    - Post-event?
  - ◆ Either option would not demonstrate an ex-ante incentive to not generate when the constraint is likely to be (is) active
  - ◆ Do however target charges to when it is
  - ◆ Little certainty for Users of actual costs of generating in a half hour

# Short Run Marginal Costs

- ◆ When to charge
- ◆ **Option B – To all ST Access Users when they generate**



# Short Run Marginal Costs

- ◆ **Option B – To all ST Users when they generate**
  - ◆ Tariffs generally lower than under Option A
  - ◆ Would need to define probabilistically by time of day, by season etc
  - ◆ Another Way?
- ◆ **Other Issues with approach**
  - ◆ Would demonstrate an ex-ante incentive to not generate when the constraint is likely to be active
  - ◆ Will charge ST Access Users whenever they generate even in half hours when actual constraint costs may be zero
  - ◆ Does give users certainty of costs of generation in each half hour