Initial thoughts on charging for overrun

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WG1

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Overrun Introduction

- Why?
  - The delay in waiting for wider reinforcement
  - Intermittency – need to exchange in the short term
  - Low load factors, more natural sharing
  - Choice
- What is it?
  - Export above firm access level
- What other charging changes required?
- Settlement process?
  - Credit requirements?
- How do we charge for it?
  - Simple / approximate v's complex / accurate
  - Cost recovery or marginal pricing – is it a signal?
  - IS requirements
  - Information timescales- who much did it cost me?

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Assumptions

- Exercise of locational market power is an Ofgem issue
- Overrun works alongside a range of products
  - Sharing & bi-lateral transfer
    - Point to Point trading (Cap68)
    - Within zone sharing 1:1
  - SO non-obligated release
  - A long-term zonal product
- Common zones for all products

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Other charging changes

- Need some form of local asset charge
- Commoditisation of the residual (MWh)
  - Basic revenue recovery, covers all costs
  - All users should contribute to ‘sunk costs’
  - Charge proportional to load factor
- Settlement similar to BSUoS
  - Close interaction with constraint cost and system cost
  - ‘Error’ balanced in BSUoS?

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Definition of overrun volume / tariff level

- Volume
  - Measured at PS gate
  - Settlement by Company by Zone
  - Implicit sharing within zone on a company level
- Future proofing – door left open for nodal
- Devil is in the detail…
- Interaction with BSUoS / BSIS
  - Remove costs from BSUoS or charge separately
  - Incentivisation interaction with BSIS
    - Feeds through to BSUoS
- Interaction with long-term
  - Revenues / signals consistent and correct

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Overrun tariff

Option 1 – Manual Calculation

- Manual degut of constraint costs for period concerned
- Presented at TASG 07
- Only methodology can be audited (similar to PGs)
  - Process rather than data
  - Can publish data
  - Subjectivity, time / risk dependant
- Calculate prices in a black box, publish tariffs [d+2]
- Includes cost of headroom / replacement
- Cost recovery, average pricing
  - Discourage investment?

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Option 1 – Manual Calculation

- Pros
  - Reasonably cost reflective
  - Process largely exists
- Cons
  - Subjective
  - Potentially open to dispute
    - Our actions on the day
    - Our post event assessment
  - Labour intensive
  - Not transparent
  - Post event publishing of prices
    - Could work on this:
      - IS solution / risk price escalates sharply
      - Accept grater inaccuracy

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Overrun tariff

Option 2 – Fully Automatic

- Develop software
- Use bids/offers taken in RT
  - Marginal (transparency)
  - Net pool / gross pool debate
  - Where is the hub / interaction with LT
- Price set per node or zone
- Initial prices published relatively near to RT
- External models tend to:
  - nodal for short term & zonal longer term ???
  - Combined with energy

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Option 2 – Fully Automatic

- Pros
  - Repeatable
  - Auditable
  - Objective (subject to constraints input)
  - Nodal ? (future proof)
- Cons
  - Objectivity subject to transparency of constraints and other inputs (line ratings etc.)
  - Complex
  - It's a software project (expensive, late, risky etc)
  - Governance process and ongoing developments
    - We won't get t right first time
    - Similar to BSC users will want to propose changes
  - Nodal zonal interaction

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Overrun tariff

Option 2a – 'Off the shelve' - Marginal price

- For each zone the tariff is:
  - the cost of the marginal bid
  - plus the replacement cost
    - marginal market buy price
- Simpler than cost recovery models
  - Avoids volume in price calculation – last /next price
- Leads to over recovery
  - Need to redistribute / balance revenue
  - Firm access holders have already been compensated
- Marginal pricing more efficient?
- What to do about negative zones?

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Option 3 – Approximation

- Use a fixed reference price, approximation e.g. TNUoS or BSUoS multiplier
- Excess / deficit passed through BSUoS
- Pros
  - Simple
  - Predictable
  - Better than licence breach
  - Provides certainly
- Cons
  - Not cost reflective (based on asset price)
  - Price determination, 5, 6 or 7 times?
  - Ongoing governance
  - Charging when there is no restriction
    - need a basic on/ off switch?
    - Other improvements move it to option 1

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