

CISG 13 March 2009

CAPs161 to 163

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Overview

Original - Zonal, WGAs – nodal – charging only looking at nodal

CAP161, SO Release

- ◆ Within year SO releases access within a predefined process providing recipient meets increase in forecast operational costs, includes buyback as an option.
- ◆ CLDTEC, 5 WA and 2DA

CAP 162, Overrun

- ◆ Parties can exceed TEC up to Local Capacity Nomination and pay the overrun charge
- ◆ A number of options for the Overrun charge, MWh based – simple, cost recovery and marginal

CAP 163, Sharing

- ◆ Apply for an exchange rate between two nodes for a maximum volume and set duration, donor's excess TEC automatically credited to recipient
- ◆ Option for reinforcements to improve node to node exchange rates

CAP164, Connect and Manage

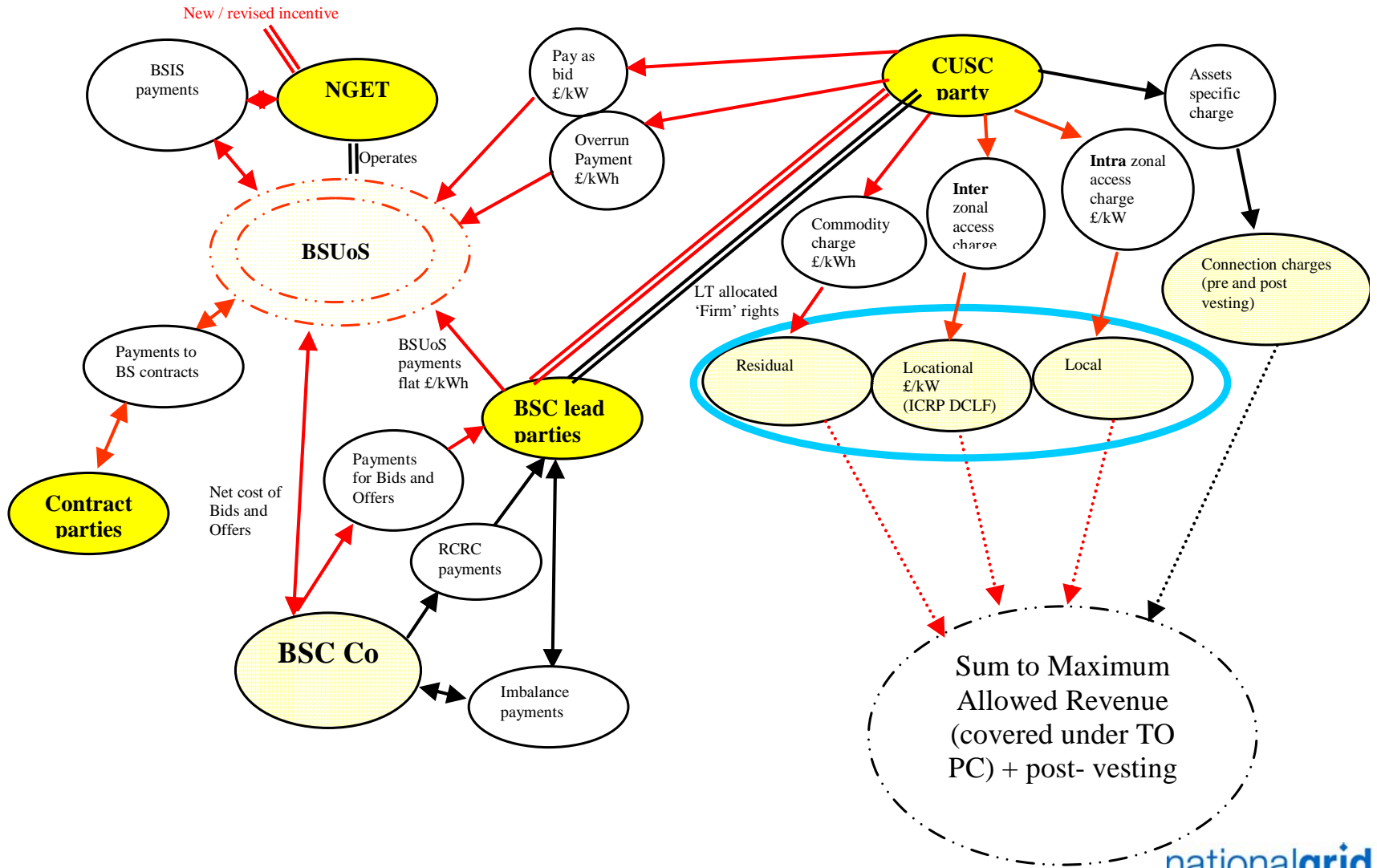
- ◆ Vanilla – connect in 4 years and socialise increase in operational costs
- ◆ Neapolitan – fixed date for connection, exante operational cost until wider works complete

Assumptions

Basic across 161 to 163

- ◆ Local charging based on local connection
- ◆ All users contribute to the residual
- ◆ Local Capacity Nomination limits total access (sum of TEC, SO Release, Sharing and overrun etc.)
- ◆ Incentive arrangements to be developed
- ◆ GB SQSS being reviewed
- ◆ Implementation in April 2010 / decision in summer 2009
- ◆ TEC finite rights / User commitment covered through 165/6
- ◆ **Nodally defined access...**
- ◆ Adequate security arrangements in place
- ◆ Revenue flows essentially as shown on next slide

Revenue Flows



Common changes

Agree LCN

- ◆ If different from existing TEC, but no works requires new fee to be developed – possibly based on LDTEC application i.e. a fee for SO assessment
- ◆ If different from existing TEC and requires works - full mod app fee i.e. a fee for reinforcement works

SO Release

Charging issues:

Auctions 5 week ahead & 2 day ahead – pay as bid

- ◆ 2DA settlement in BSUoS timescales (29 days after)
- ◆ 5WA 2 weekly invoicing, 14 day payment terms

CLDTEC – offered price reflects forecast operational cost

- ◆ Total cost is calculated for duration of access and charged as an average monthly charge

Process in the CUSC

SO Release methodology describes the principles

- ◆ To be consulted on shortly

Responses

Strong interaction with SO Incentives

Need to allow for reasonable approximations

Concerned that Users are not liable for TNUoS

TNUoS is not appropriate for access that does not lead to investment

All generators should face local charge

Predictability of prices affects the bankability

Short term products are secondary, so keep simple

National Grid thoughts and next steps

Incentives will play a key role in managing SO appetite for risk

Buyback is important and will influence bid acceptance

Summary of charging changes

- ◆ Auctions pay as bid
- ◆ No application fee for auctions – committed
- ◆ CLDTEC charged at forecast operational cost – internal process to assess cost. Principle of neutrality for other parties. Forecast includes risk premium.
- ◆ CLDTEC application fee – not committed
- ◆ Revenues through BSUoS

Overrun

Charge

- ◆ Settlement in BSUoS timescales (29 days after)]
- ◆ Granularity – period specific

Process in the CUSC

Simple

- ◆ MWh charge based on historic cost of constraints (cost / volume), applied only to periods when constraint is active, indexed to a real time figure – all parties overrunning see the average cost of solving the constraint.

Cost Recovery

- ◆ MWh charge calculated ex post based on degut of costs and actual overrun volume – cost shared across all parties overrunning.

Marginal

- ◆ The tariff that reflects the locational marginal price of access calculated in real time.

National Grid thoughts and next steps

Marginal

- ◆ consistent with long term regime, but appreciate industry concerns
- ◆ system to deliver a real time marginal tariff will not be available by April 2010

Cost recovery

- ◆ Understand industry concerns about predictability and transparency
- ◆ Concerned that the incremental charge does not reflect the incremental cost to the operator
- ◆ Negative charge difficult
- ◆ Not robust in the longer term, undermines LT signals.

Simple

- ◆ Comfortable with scalar principle, concerns about potential for gaming, Simple
- ◆ Indexation to BSUoS-RCRC best (e.g. BSUoS, BSUoS-RCRC, APX)
- ◆ Should include all costs (BM, I/T, trades etc)
- ◆ Could be negative

Consultation published 13 March 2009

Sharing

Ex ante agreement including exchange rate

- ◆ Based on a MW value, from A to B, for a fixed period

One party liable for Locational TNUoS associated with TEC (or any other firm access product)

Both parties pay local

Party running pays residual

Excess MW from donor automatically transferred to recipient

Overrun liability can be nominated to one party

Treatment of enhancements

- ◆ One off
- ◆ TNUoS differential (commitment for investment)

Responses

General support for no explicit Sharing fee

Need to allow for reasonable approximations

Concerned that Users are not liable for TNUoS

TNUoS is not appropriate for access that does not lead to investment

Short term products are secondary, so keep simple

National Grid thoughts and next steps

Agree that impact of sharing is managed through exchange rate not a fee

Update Statement of Charges with fees.

Investment for increases in Point to Point exchange rates are one offs or TNUoS at nodal differential, minded to take forward 'one off'.