

# ITC, Inter TSO Compensation mechanism

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CISG

26 April 06

# Agenda

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- ◆ Why we need to join
- ◆ Overview of proposed scheme
- ◆ Review of GB charging methodology
- ◆ Way forward
- ◆ Discussion

# Why we need to join

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- ◆ National Grid is required to comply with the Regulations
- ◆ Regulation 1228/2003 allows for binding guidelines dealing with a number of issues
  - ◆ Tariff Harmonisation
  - ◆ Congestion management
  - ◆ ITC scheme
- ◆ ERGEG are currently consulting on guidelines for an ITC scheme
- ◆ National Grid is required to join ITC when guidelines become active
- ◆ Proposed implementation date 1 January 2007

# The proposed scheme

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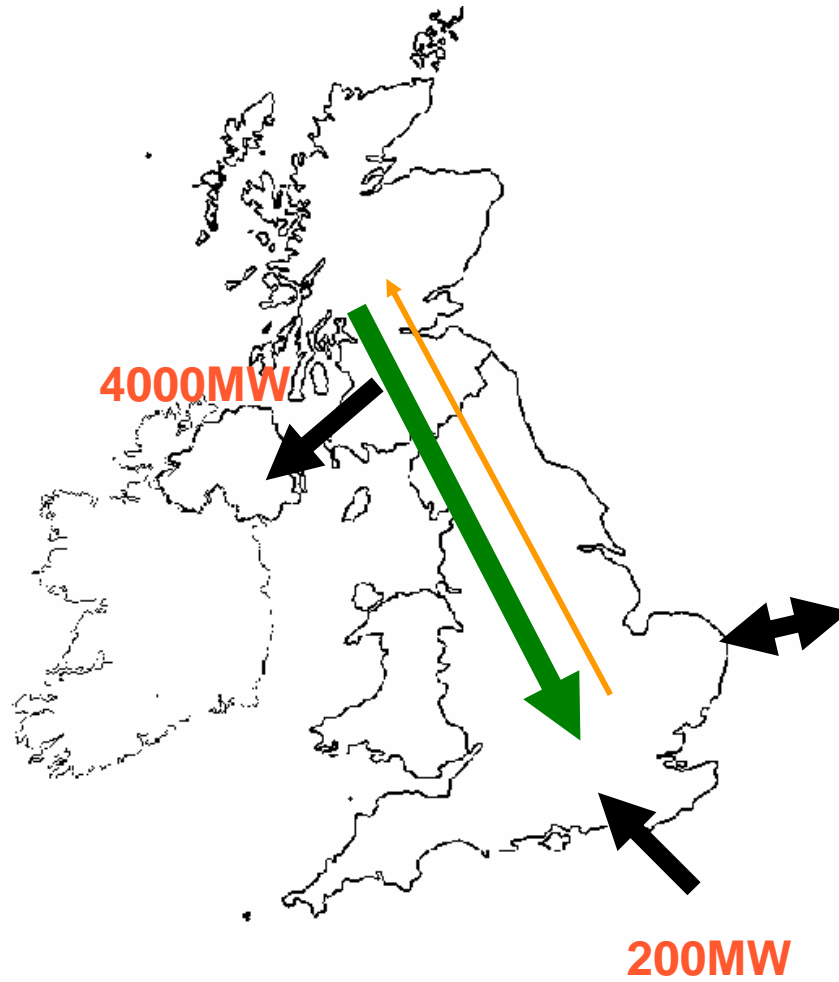
- ◆ Three elements
  - ◆ Costs
    - ◆ Existing costs v's LRAIC
    - ◆ Proposed 80:20 split
  - ◆ Infrastructure
    - ◆ IMICA
  - ◆ Losses
    - ◆ WWT
- ◆ Public consultation by ERGEC
  - ◆ Responses by 22<sup>nd</sup> May 2006
  - ◆ [www.ergeg.org](http://www.ergeg.org)

# Infrastructure principles

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- ◆ Improved ETSO scheme
  - ◆ MWkm impact
  - ◆ More accurate contributions
  - ◆ Removing payment for causing loop flows
- ◆ Sensitivity factors for each combination
  - ◆ What is A responsible for on B
- ◆ Compensation based on 'reference exchanges'
  - ◆ How much of the flow on B is due to A
- ◆ SF ex ante (Y-2), minimum of 72 snapshots
- ◆ RE ex post, based on hourly exchanges
- ◆ GB 'benefits' from transits
  - ◆ Net contributor

# Flows



# Losses principles

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- ◆ Based on ‘with & without transits’
- ◆ 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’

# Review charging methodology

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- ◆ Required to take account of regulation in our tariffs
- ◆ Consistency with ITC principles
- ◆ Currently –
  - ◆ Interconnector Owners charged on same basis as generators and suppliers
- ◆ Under ITC scheme
  - ◆ ITC provides compensation for transits (-ve)
  - ◆ Need to review GB charges for transit
- ◆ Not all imports and exports lead to transits
  - ◆ 80% of import for national use

# Methodology issues

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- ◆ Number of options
  - ◆ Danger of discrimination & double accounting
- ◆ ITC only covers transits (physical not transaction)
- ◆ 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

# Options

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- ◆ Retain locational and residual elements
- ◆ Remove locational and residual elements
- ◆ Remove only the residual element
- ◆ Remove only the locational element
- ◆ For each of the above, apply to
  - ◆ All imports and exports
  - ◆ Transits only
- ◆ Must meet
  - ◆ the legal requirements
  - ◆ Relevant objectives
- ◆ TNUoS and /or BSUoS

# Next steps

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- ◆ Seek industry views CISG & update TCMF
- ◆ Consultation during Summer
- ◆ Implement methodology changes
- ◆ January 07 or April 07
- ◆ How to manage January to March...
- ◆ Materiality –
  - ◆ Initial estimate £5m to £10m annually
  - ◆ Dependent on flows and losses reference price

# Questions ?

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- ◆ Initial thoughts.....