

ITC, Inter TSO Compensation mechanism

TCMF

10th December 2007

Agenda

- ◆ Background
- ◆ Overview of ITC scheme
- ◆ Impact on GB methodology
- ◆ Way forward
- ◆ Discussion

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
- ◆ Most European TSO party to voluntary scheme
- ◆ ETSO position is all party need to be within the agreement
 - ◆ Need a mandatory scheme
- ◆ Scheme proposed based of full participation
 - ◆ If no agreement border fees to be reintroduced
 - ◆ Supported by Commission
 - ◆ Requires regulatory support

Background (2)

- ◆ Implementation date 1 January 2008
 - ◆ runs for two years
 - ◆ Based on IMICA / WWT
 - ◆ Adjustment fund
- ◆ Border fee increase
 - ◆ €1.4
 - ◆ Bi-directional
- ◆ GB contribution as perimeter country would increase from €2m to €18m
- ◆ GB contribution in scheme based on IMICA and WWT €12m
 - ◆ Reduced to €9.3 through adjustment fund
- ◆ 39 TSOs (27 countries) signed
 - ◆ All supported by regulators
- ◆ Agreement confirmed November 2007

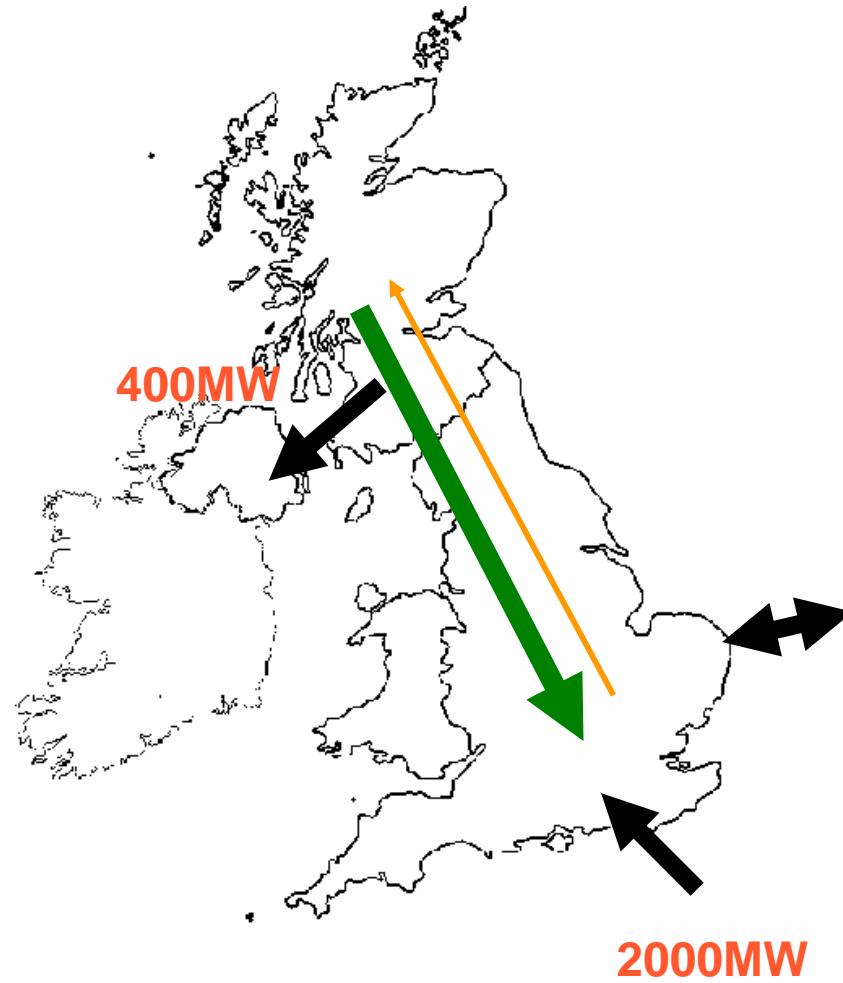
The proposed scheme

- ◆ Three elements
 - ◆ Costs
 - ◆ Network assets - regulatory value
 - ◆ Losses – forecast market price / regulatory value
 - ◆ Infrastructure costs
 - ◆ Based on IMICA studies
 - ◆ Ex-ante, fixed for two years
 - ◆ Loop flows, interaction with congestion rents
 - ◆ Losses
 - ◆ WWT - variable

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
 - ◆ REs based on minimal flow solution
 - ◆ What flow from A to B?
- ◆ Infrastructure
 - ◆ Interaction with congestion management incentives
 - ◆ Sunk costs, ex-ante
- ◆ Contribution – fixed, based on flows
- ◆ GB benefits

Flows



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’

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)
 - ◆ Need to review GB charges for transit
- ◆ Not all imports and exports lead to transits
 - ◆ 80% of import for national use

Methodology issues

- ◆ 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

- ◆ Combination of changes to locational and residual elements – discussed previously
- ◆ For each of the above, apply to
 - ◆ All imports and exports or Transits only?
- ◆ Legal requirements
 - ◆ No explicit border fee
- ◆ Relevant objectives – C5
 - ◆ Competition / Cost Reflective
- ◆ Consistency across Europe / ITC / GB
- ◆ TNUoS and /or BSUoS?

Initial proposal

- ◆ Interconnector should still be subject to charges
 - ◆ TNUoS and BSUoS
- ◆ Adjust the TNUoS charge for interconnector parties:
 - ◆ Establish a transit level
 - ◆ Subtract from chargeable TEC / chargeable demand
 - ◆ Sharing for more than 2 interconnectors ?
- ◆ CISG to discuss detailed proposals

Next steps

- ◆ Seek industry views CISG & update TCMF
- ◆ Discuss revenue consultation with Ofgem
- ◆ Take forward methodology changes
- ◆ January 08 or April 08
- ◆ Proposal would not impact on tariffs
 - ◆ Impacts on chargeable volumes
 - ◆ Kt
- ◆ Materiality
 - ◆ Region of £7m

Questions ?

- ◆ Initial thoughts.....