

Residual charging for generation

TCMF

27 August 2008

nationalgrid

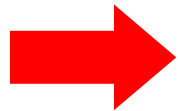
Agenda

- ◆ Overview of TNUoS principles
- ◆ Case for change
- ◆ Options
 - ◆ 1 – Commoditisation (MWh)
 - ◆ 2 – Local Capacity Nomination (MW)
 - ◆ 3 – Daily Peak Generation (MWh)
- ◆ Next steps

Background

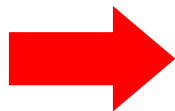
TNUoS principles (1)

- ◆ TNUoS charges reflect the cost of installing, operating and maintaining the transmission system
- ◆ Economic and efficient signals are provided to Users when services are priced to reflect incremental costs of supplying them
 - ◆ Charges should reflect impact Users at different locations have on TO costs if they were to increase (or decrease) their use of the respective systems



Locational element

- ◆ TNUoS charges set to recover Allowed Revenue
 - ◆ set by the Authority at the time of the TO Price Control



Residual element

Background

TNUoS principles (2)

- ◆ Locational element
 - ◆ Calculate **Unadjusted Zonal Tariffs**
 - ◆ Calculate **Re-referenced Zonal Tariffs**
 - ◆ To achieve 27:73 generation/demand split
- ◆ Residual element
 - ◆ Calculate **Final Zonal Tariffs**
 - ◆ Residual element added to ensure total allowed revenue is recovered
 - ◆ Separate demand and generation residuals added (£/kW) to preserve the 27:73 G:D split)

Background

2008/9 revenues

Tariff	Generation	Demand	Total
Locational	~£50m	~£130m	~£180m
Residual	~£320m	~£860m	~£1180m

- ◆ Generation residual tariff ~£4.11/kW
- ◆ Demand residual tariff ~£15.40/kW

Residual charging for generation

Case for change

- ◆ Set to recover allowed revenue
- ◆ By definition, everything not covered by the locational tariff
 - ◆ Substation costs
 - ◆ Lumpy investment
 - ◆ Legacy investment
- ◆ CUSC amendments proposed to facilitate short-term access to the transmission system
 - ◆ CAP161 (So release of short-term rights)
 - ◆ CAP162 (Entry overrun)
 - ◆ CAP163 (Entry capacity sharing)
 - ◆ CAP164 (Connect and manage)
- ◆ All Users should pay

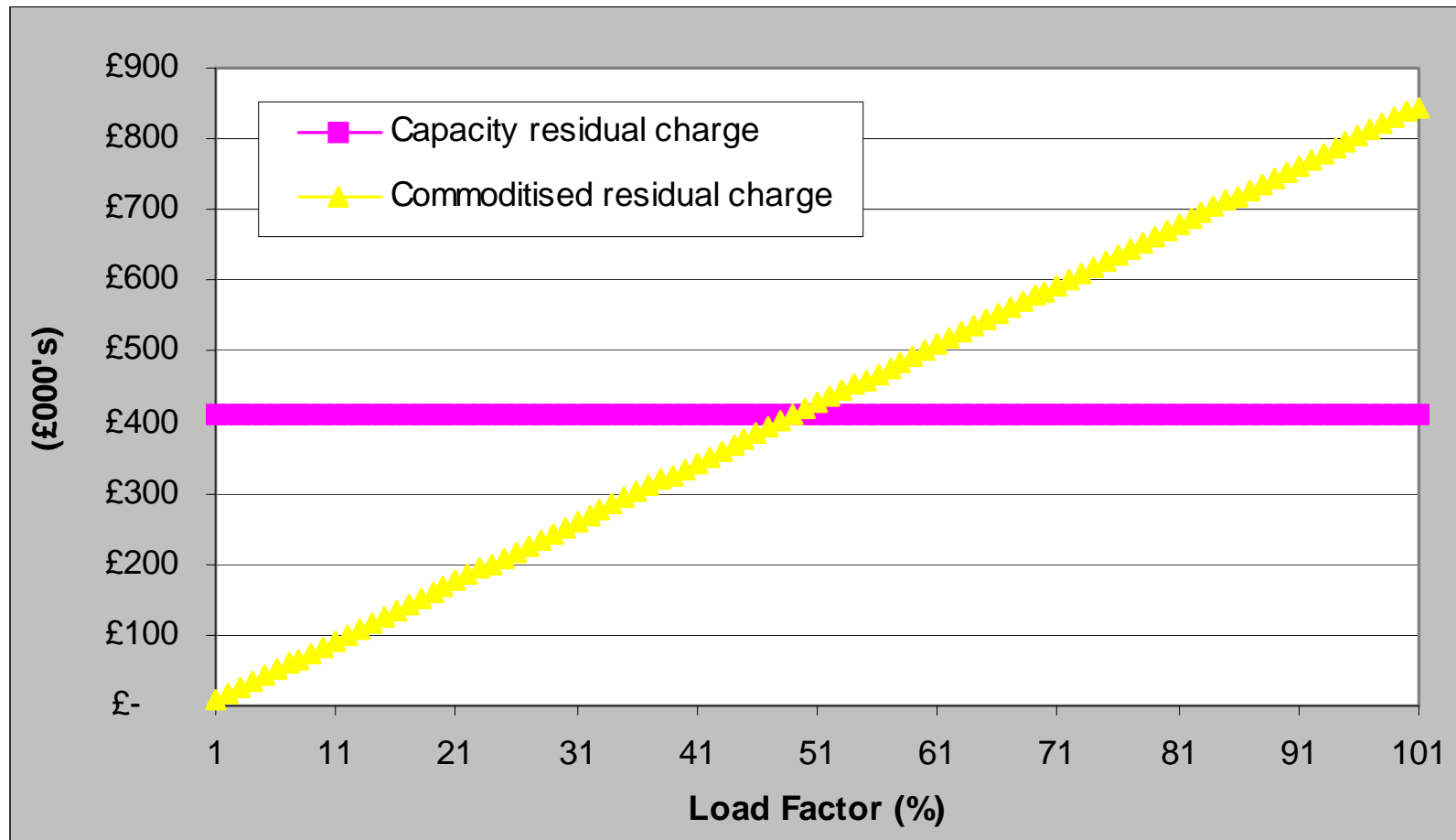
Option 1

Commoditisation

- ◆ Assumptions:
 - ◆ Annual revenue recovery of ~£1.35bn
 - ◆ Locational revenue of ~£180m
 - ◆ Residual revenue recovery requirement of ~£1180m
 - ◆ Maintain 27/73 split
 - ◆ ~£320m to be recovered from generation
 - ◆ Assumed charging base of 330TWh
- ◆ Commoditised Residual G tariff £0.000965/kWh; or
- ◆ £0.965/MWh

Commoditisation

100MW generator example

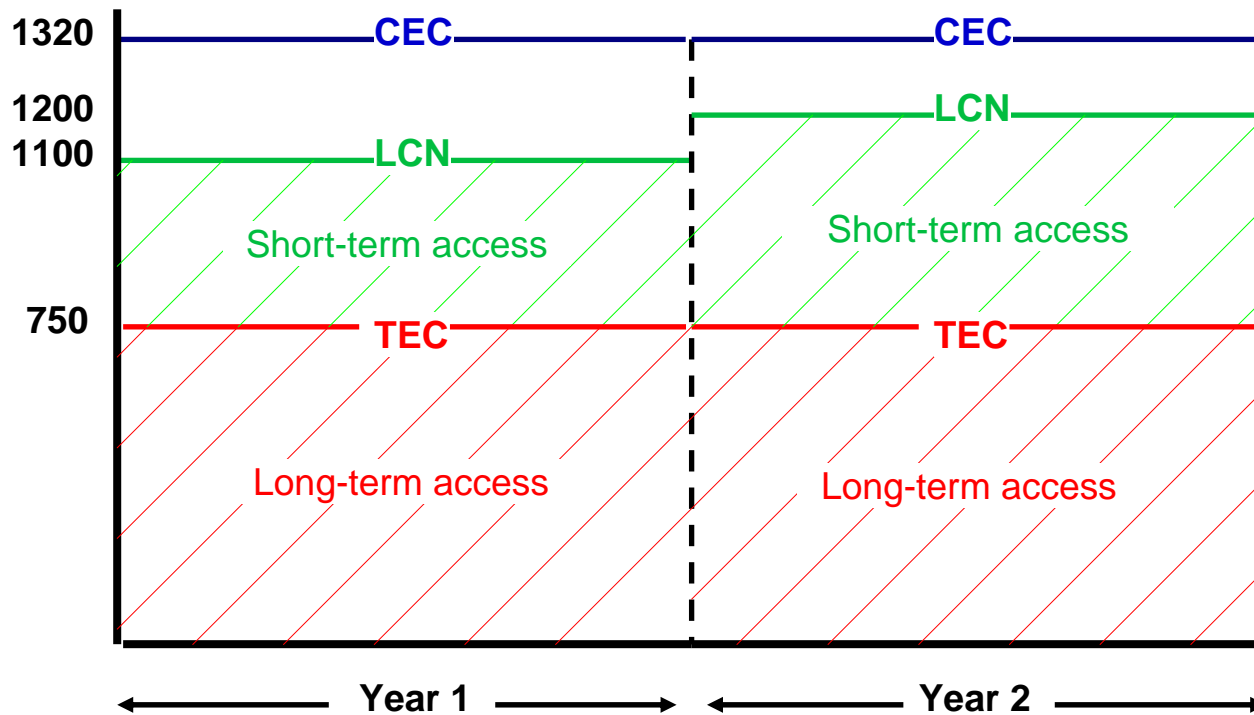


Option 2

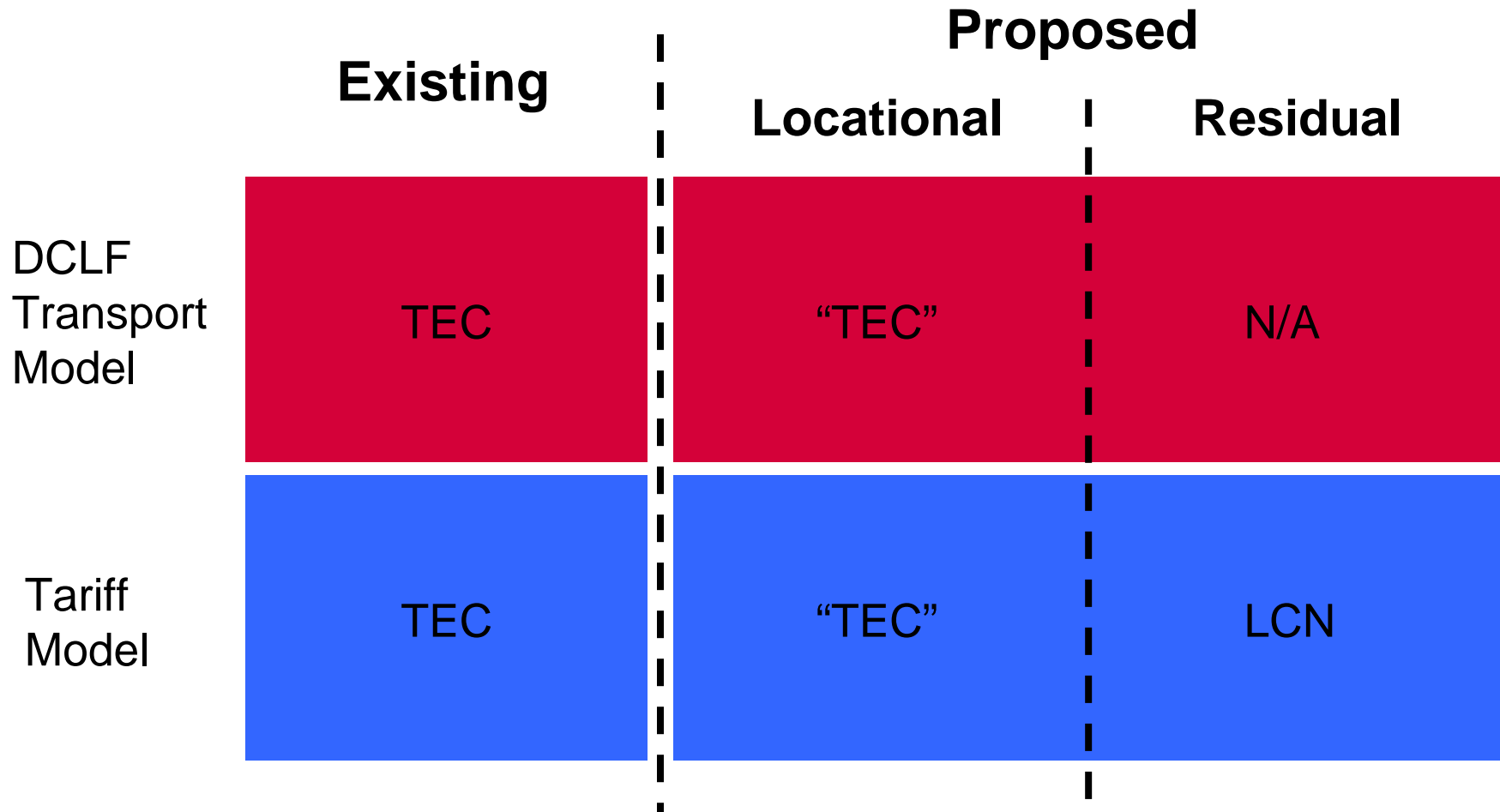
Local Capacity Nomination - Properties

- ◆ The term used by a generator to notify the GBSO of its desired maximum local capacity holding in a charging year
 - ◆ Application process required for both increase and decrease
- ◆ Represents the aggregated sum of the access derived from a combination of all long and short-term access products
- ◆ Will not exceed Connection Entry Capacity (CEC)
- ◆ Notified by [23 December] for the charging year beginning in the following April

Local Capacity Nomination Example



Local Capacity Nomination Transport & Tariff Model



Option 3

Daily Peak Generation

- ◆ Works in the same way as NHH demand tariffs
 - ◆ Levied between 1600-1900 (i.e. settlement periods 33-38) throughout the charging year
 - ◆ £/MWh

Residual charging for generation

Next Steps

- ◆ Pre-consultation document
 - ◆ September 2008
 - ◆ Invite industry views on each of the options
 - ◆ Will not consider role as a mechanism to balance revenues in the event of an over-recovery

Residual charging for generation

TCMF

27 August 2008

nationalgrid