

# Enduring Arrangements for User Commitment



26<sup>th</sup> January 2011

# Existing Regime

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- Large, volatile and non-transparent
    - Generation uncertainty
  - Generation over-securitisation
  - Pre- and post-commissioning equitability
  - Temporary solutions:
- |  |   |
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| <ul style="list-style-type: none"><li>■ <b>Interim Final Sums</b><ul style="list-style-type: none"><li>■ Specific</li><li>■ Investment-based, 100% share</li><li>■ Local works only</li><li>■ Reconcilable</li></ul></li></ul> | <ul style="list-style-type: none"><li>■ <b>IGUCM</b><ul style="list-style-type: none"><li>■ Generic</li><li>■ TNUoS-based, 50% share</li><li>■ Local and Wider</li><li>■ Non-reconcilable</li></ul></li></ul> |
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# Enduring Regime

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- What are the goals of an enduring regime?
  - Avoid over-securitisation
  - Reflect wider changes to connection process
  - Equitable treatment of pre- and post-commissioning users
    - Not necessarily the same
  - Stable and transparent costs
  - Support efficient & timely transmission investment

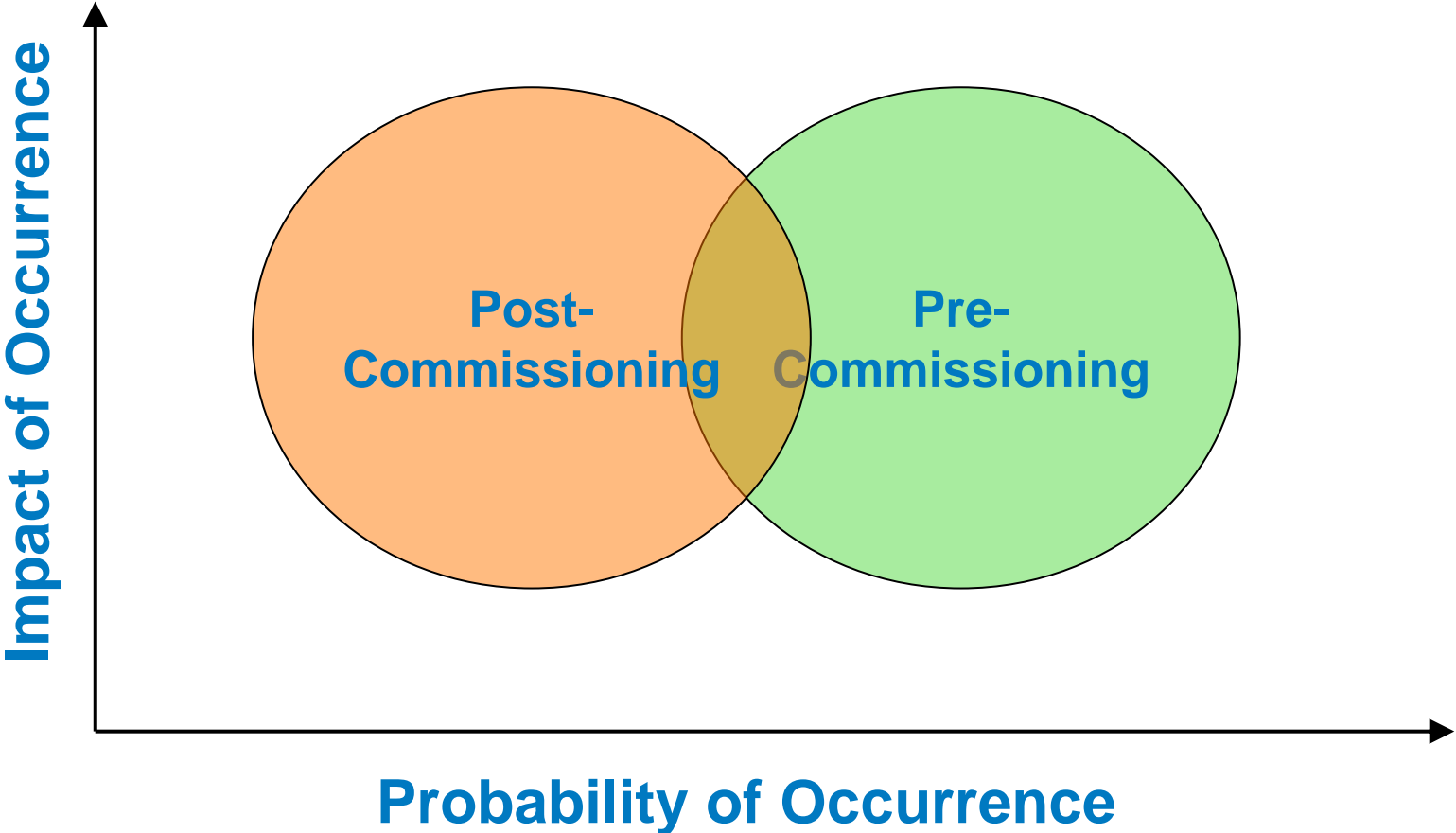
# Balance of Consumer Exposure?

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- Generators cause investment risk, how much should be secured by consumers?
- IGUCM assumes risk sharing 50% for consumers
- Generators to demonstrate commitment rather than fully indemnify

# Balance of Generator Exposure?

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# What Affects Risk?

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## ■ Pre-Commissioning:

- Financing
- Stage of construction
- Granularity
- Profitability
- Subsidies
- Consents

## ■ Post-Commissioning:

- Profitability
- Regulation (Wind, LCPD, etc.)
- Subsidies
- Operational Security

# Options for Securing Risk ?

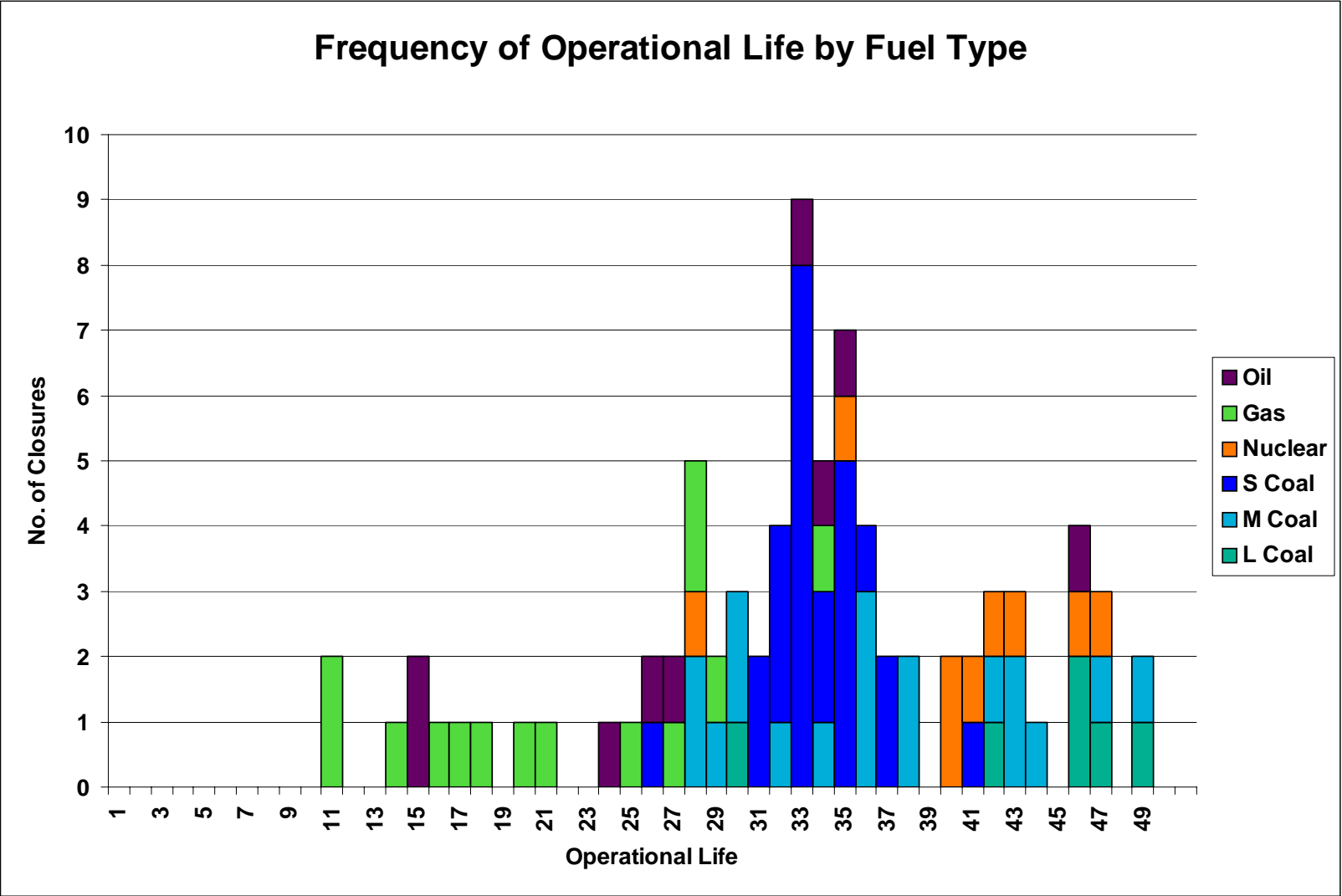
	<b>Benefits</b>	<b>Issues</b>
<b>A Multiple of ... (IGUCM)</b>	Generic Transparent	Difficult to determine for post-commissioning users Less cost-reflective
<b>Local Tx Investment (Final Sums)</b>	More cost-reflective Informs TO investment	Unpredictable Opaque Local works can be hard to define (islands) Support for wider investment ?
<b>Flat £/MW Charge</b>	Generic Transparent	Less cost-reflective Poor balance of risk Limited information for investment
<b>Access Products</b>	Cost-reflective Transparent Links rights to commitments Informs TO investment	Broad and complex Interaction with other developments Fundamental change

## Areas of Investigation

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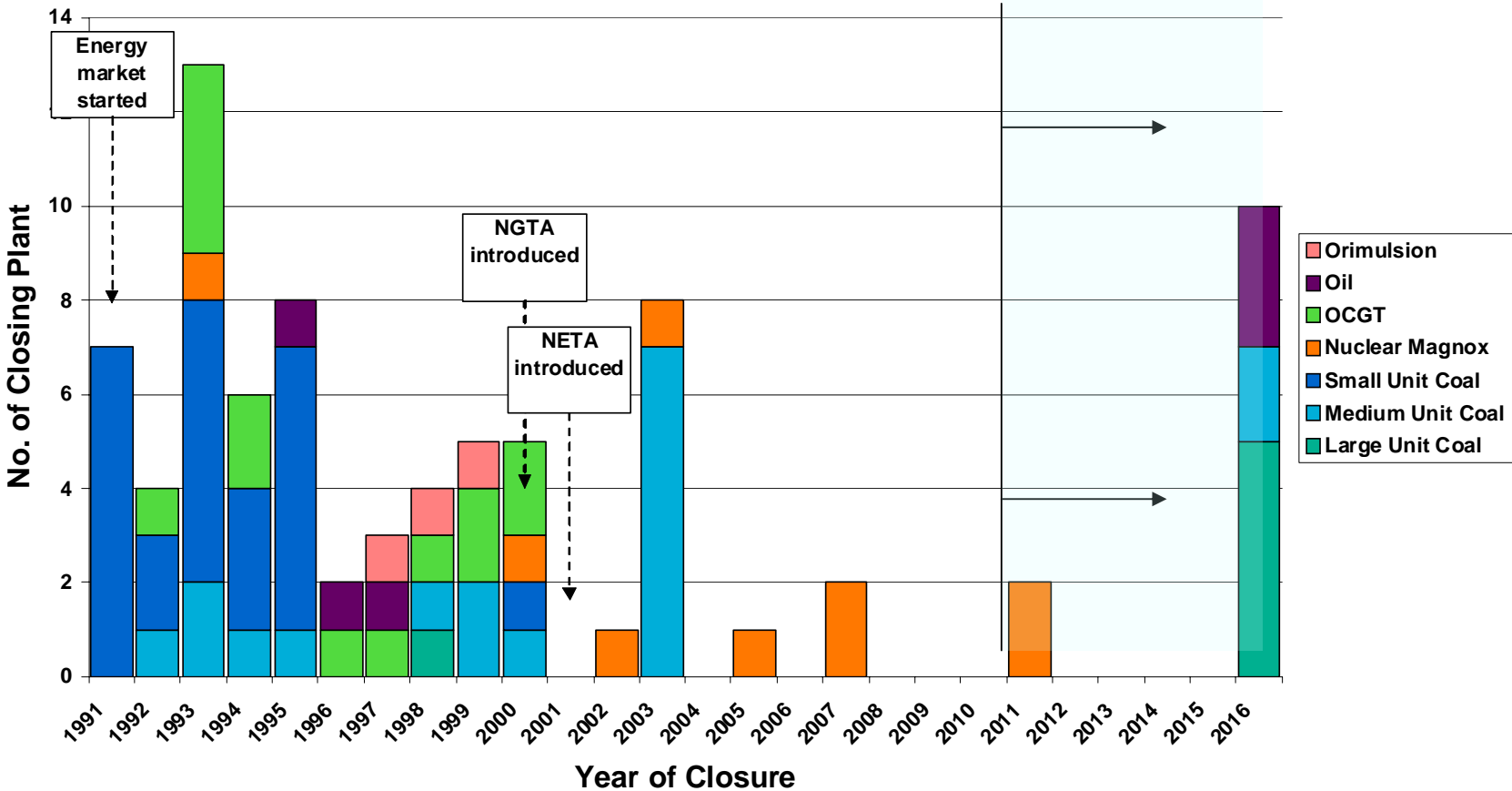
- Level of securitisation from generators
- Pre- / Post-commissioning risk drivers
- Effects of generator type/location on risk
- Balance of cost-reflectivity and simplicity/transparency
- Assess validity of historical data in forecasting
  
- Transmission investment profiles, milestones
  
- Industry engagement required for development

# Initial Analysis

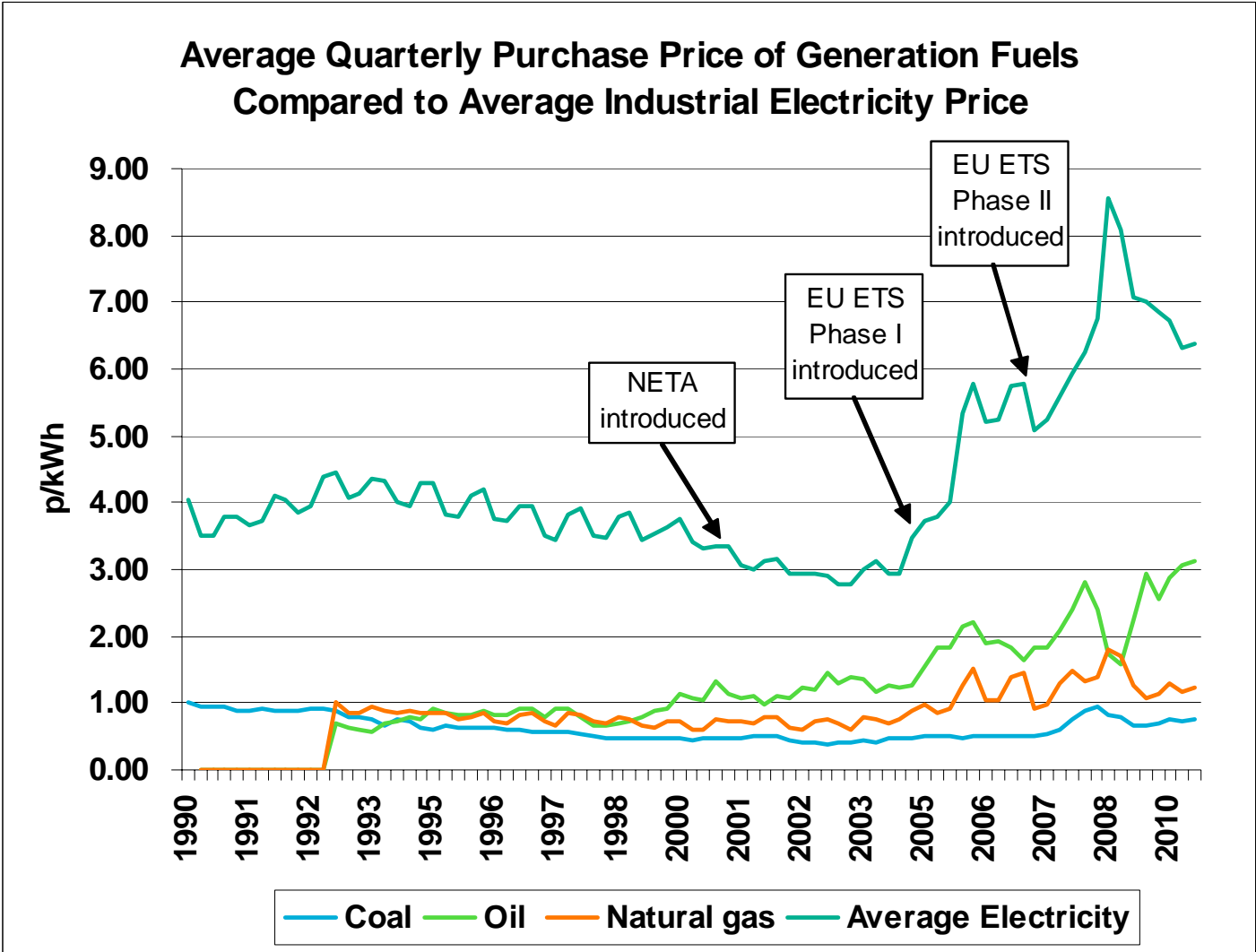


# Initial Analysis

## Historical Generation - Closures by Fuel Type

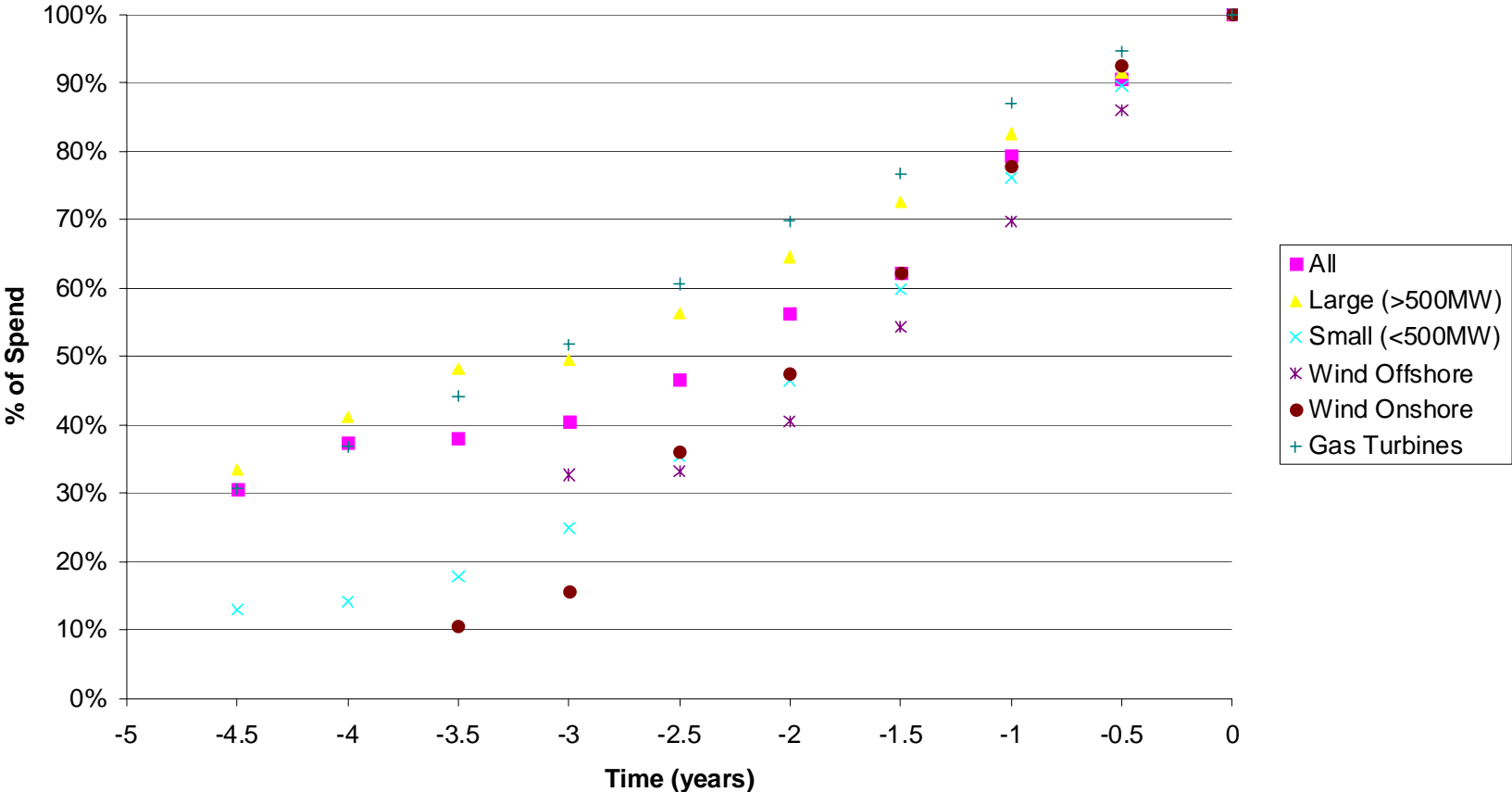


# Initial Analysis



# Initial Analysis

## Spend Profile Associated with Pre-Commissioning Generation



# Development

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- Industry engagement necessary
- CUSC is transparent platform for UC
- CUSC process is more efficient than SCR + CUSC process
- Needs to cover both pre and post
- Interaction with RIIO customer engagement
  - Particularly for wider
- Target implementation date 1<sup>st</sup> April 2012

# Potential Timeline

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	<b>Proposal</b>
<b>Pre-change Process</b>	<b>January 2011 – February 2011</b>
<b>Change Raised</b>	<b>February 2011</b>
<b>Working Group Development &amp; Consultation</b>	<b>March 2011 – September 2011</b>
<b>Final Report to Ofgem (w/ Impact Assessment)</b>	<b>October 2011</b>
<b>Implementation (no system change)</b>	<b>January 2012 – March 2012</b>

# Questions?