

ITC, Inter-TSO Compensation mechanism

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Agenda

Overview of ITC mechanism

Impact and interaction with GB methodology

Next steps

Background

Regulation 1228/2003 allows for binding guidelines dealing with a number of issues

- ◆ Congestion Management; Tariff Harmonisation & ITC

ERGEG / ETSO and Commission have discussed mandatory ITC guidelines for several years

All European TSOs entered a voluntary 2 year scheme

- ◆ Supported by Commission and Regulators

Benefits to GB

- ◆ Overall cost to GB less if party to the mechanism
- ◆ Competition

The 2008/09 mechanism

Infrastructure, based on network studies

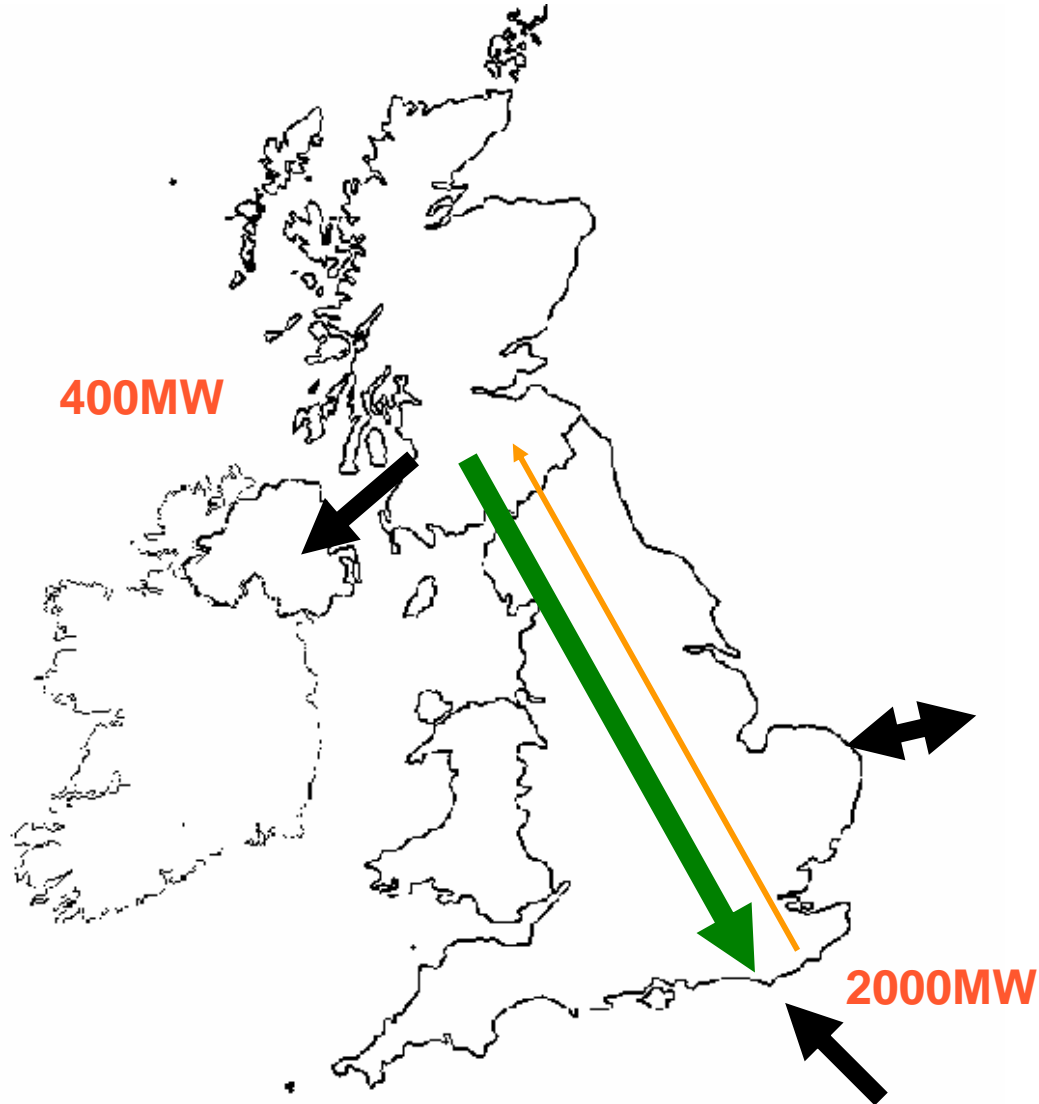
- ◆ Ex-ante, fixed for two years
- ◆ MWkm based compensation
- ◆ Network assets - regulatory value
- ◆ No negative payment

Losses

- ◆ With and Without Transits (WWT) – ex post, calculated monthly
- ◆ Losses – forecast market price / regulatory value

ITC compensates for transits not imports and exports

Flows



What does all this mean ?

GB pays €9.357m, small ex-post exposure

Infrastructure

- ◆ GB pays for using other systems
- ◆ No benefit paid through ITC

Losses

- ◆ GB causes losses on other systems
- ◆ GB pay benefits from reverse flows

90% of net charge for impact on other systems

- ◆ Driven by net import or export

Review charging methodology

Required to take account of regulation in our tariffs

Required to review under licence

The ITC mechanism

- ◆ imposes a cost for use of other systems
- ◆ provides compensation for transits (-ve)

Methodology issues

Discrimination & double counting

ITC compensation only covers transits

- ◆ physical not transaction based

Generation / Demand split

- ◆ Europe weighted strongly towards demand

Locational signals

- ◆ Seek to preserve locational signal
- ◆ Disjoint at border

Issues (2)

Legal requirements

- ◆ No explicit border fee

Relevant objectives – C5

- ◆ Competition / Cost Reflective / Developments

Consistency across Europe / ITC / GB

TNUoS and /or BSUoS?

Materiality

- ◆ Approximately £7m

Initial thoughts

Need to be consistent

- ◆ If the charging methodology includes a benefit it should also include a charge
- ◆ Benefit is small compared to charge

Cannot disaggregate users into transiting / import & export parties

- ◆ Unable to target benefit or charge

Interconnector should still be subject to standard charges

- ◆ Need to charge parties that cause net imports and exports
- ◆ No explicit benefit standard charge does not model external assets

Next steps

Seek industry views through a pre consultation

- ◆ GBECM12 closes 12th November
- ◆ Bring conclusions back to TCMF

Any proposal would not impact on published tariffs

- ◆ Ofgem have separately consulted on revenue requirements

Ongoing work to develop a mandatory mechanism for 2010 onwards

- ◆ Views expressed on principles would be used to inform future debate in ETSO