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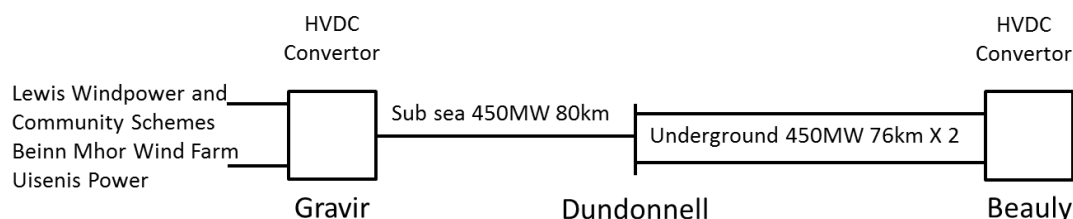
Dear Industry Colleagues,

Treatment of Anticipatory Investment in Determining the Local TNUoS tariff for the Western Isles Link

The Transmission Network Use of System (TNUoS) methodology, as laid out in Section 14 of the Connection and Use of System Code (the CUSC), recovers the costs of transmission investment. CUSC modification proposal CMP213, approved in July 2014, developed a methodology for the treatment of subsea cable transmission links to islands in the TNUoS charging methodology.

The Western Isles Link is one such proposed subsea cable transmission link from Beaulieu to the Gravir on the Isle of Lewis. This 450MW connection will connect future renewable generation development on the Western Isles. It is proposed that it will be comprised of a 76km HVDC underground cable laid from Beaulieu to Dundonnell on the mainland, and an 80km HVDC sub-sea cable from Dundonnell to Gravir. The treatment of this equipment, and also the associated HVDC converter stations, is laid out in Approved CUSC modification proposal CMP213, and will be applied to such a Western Isles link as constructed.

It is currently proposed that an additional second 450MW rated HVDC cable section be laid between Beaulieu to Dundonnell. Installation of the second 450MW underground cable at the same time as the first represents significant efficiencies in terms of cost and environmental impact. As it is understood that it is currently not intended that the second cable will provide any extra redundancy or other benefit to the development, this represents a purely anticipatory investment. The treatment of anticipatory investment the calculation of expansion factors is not made clear in Section 14 of the CUSC. We are seeking further views to inform our proposed treatment of this anticipatory investment. Below we present two options for this treatment, and we welcome views on other potential options.



Option 1 (as proposed by Baringa Partners) – 50% of costs between Beaully and Dundonnell included in local circuit tariff

At the September Transmission Charging Methodology Forum (TCMF) meeting Baringa Partners presented a paper commissioned by Uisenis Power¹. This paper described a proposed treatment of anticipatory investment relating to the Western Isles link in the TNUoS charging methodology. Broadly this assumes that 50% of the total costs of the HVDC cable between Beaully and Dundonnell are included in the local circuit tariff for the first Western Isles link². This proposed methodology is described in the Baringa Partners paper on our TCMF webpage³. The assumptions used by the authors resulted in an indicative local circuit tariff for the Western Isles HVDC link of around £91.

Option 2 – Costs of single circuit solution between Beaully and Dundonnell included in local circuit tariff

A potential alternative solution was used in the development of indicative island tariffs for approved CUSC modification proposal CMP213. Broadly this option assumes that the full costs of a single circuit solution are included in the local circuit tariff for the first Western Isles link and that this tariff would change if and when a second link was developed. Using the same assumptions as Baringa Partners results in an indicative local circuit tariff for the first Western Isles HVDC link of around £108.

Following discussion at TCMF we are also interested in your views as to how to progress this treatment in the TNUoS charging methodology. Our initial thoughts, reflecting the work carried out in the CMP213 workgroup, were that the detailed treatment of such costs should not be placed in Section 14 of the CUSC, rather that transparent treatment outside the CUSC would be consistent with similar treatment of other technologies. However views expressed at TCMF suggested that some stakeholders might prefer to see a codified methodology for the treatment of anticipatory investment in the calculation of local circuit tariffs.

We are therefore interested in your thoughts, and invite responses to the following questions.

Question 1: What are your thoughts on the options presented for treatment of proposed anticipatory investment with respect to the Western Isles link?

¹ TCMF presentation 17/09/14: <http://www2.nationalgrid.com/WorkArea/DownloadAsset.aspx?id=35617>

² This is achieved through using the total cost of both cables and considering the overall MW capacity of these two cables (i.e. 900MW).

³ Treatment of strategic capacity in determining local TNUoS for Western Isles link: <http://www2.nationalgrid.com/WorkArea/DownloadAsset.aspx?id=36041>

Question 2: Do you believe that such treatment of anticipatory investment should be more explicit within Section 14 of the CUSC?

Question 3: Do you have any other thoughts or comments relating to the treatment of anticipatory investment either in the calculation of the local circuit tariff for the Western Isles link or more broadly in the TNUoS charging methodology?

Responses should be sent to David Corby (David.Corby@nationalgrid.com 01926 654912) by Friday 30th January 2015. Following this we will communicate our intended next steps. Please let us know if you would like to discuss further.

Yours faithfully,

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