

CMP224 – Cap on the total TNUoS target revenue to be recovered from generation users



Workgroup Meeting 3 – 6th December 2013

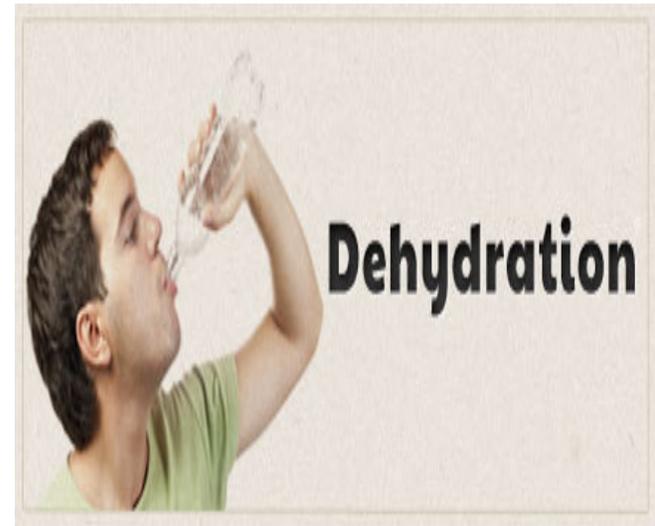
Tushar Singh

Agenda

Item	Lead
Introduction & Meeting Objectives	PH
Safety Moment	TS
Actions from last meeting	All
Review draft consultation	TS
Next Steps	PH

Safety Moment – Winter Dehydration Facts

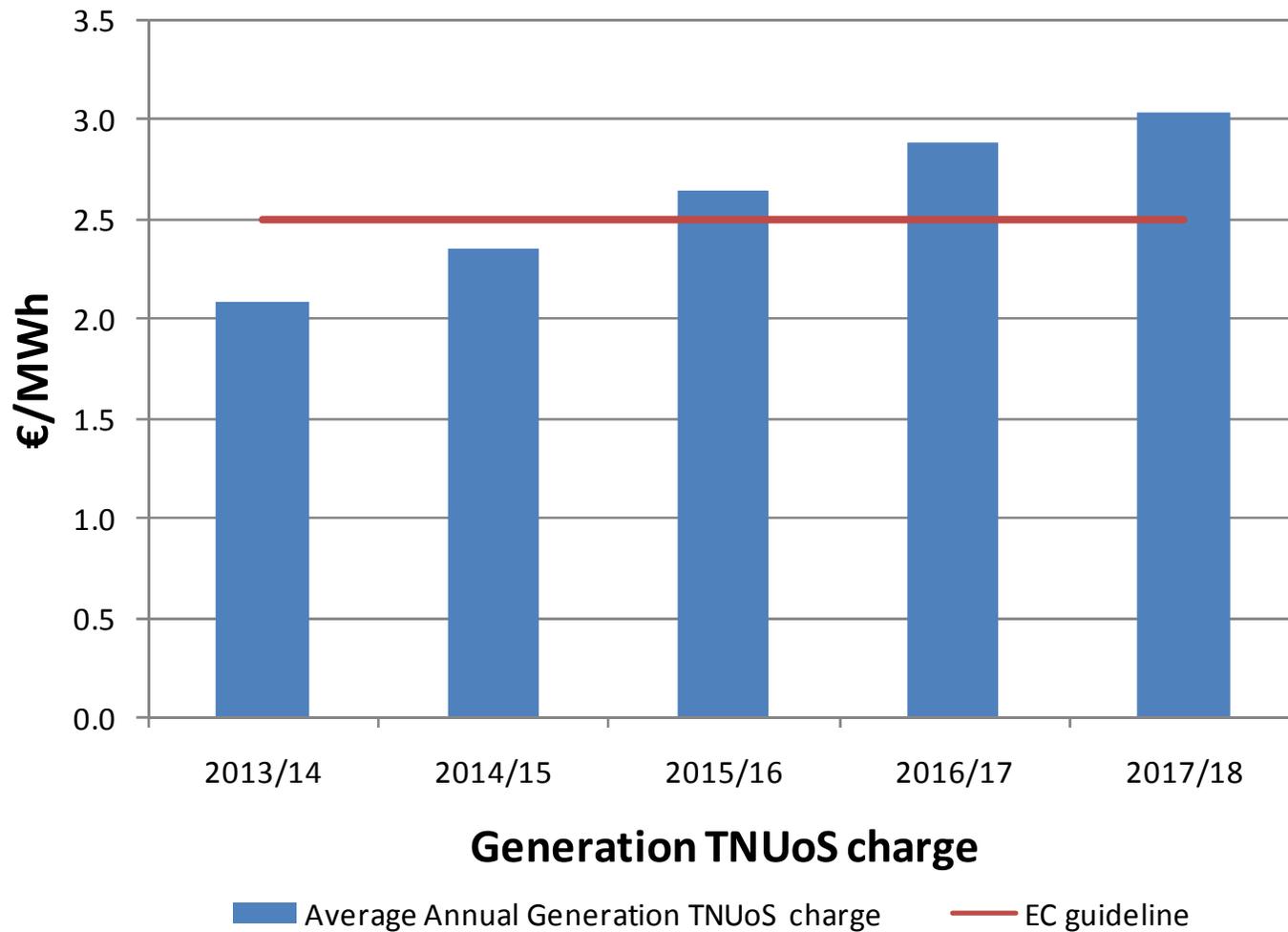
- Very Easy to get dehydrated in Winter
- Outdoor activities – loss of fluids comparable to summer months
 - cold dry air, wind chill, inadequate fluid intake, sweating and shivering
- Prevention
 - Cold weather suppresses thirst so remember to drink water
 - Too much beverage intake can act as diuretic flushing out water from the body
 - Alcohol increases chances of hypothermia
 - Monitor the quantity and colour of your urine
 - Don't wait till you get thirsty



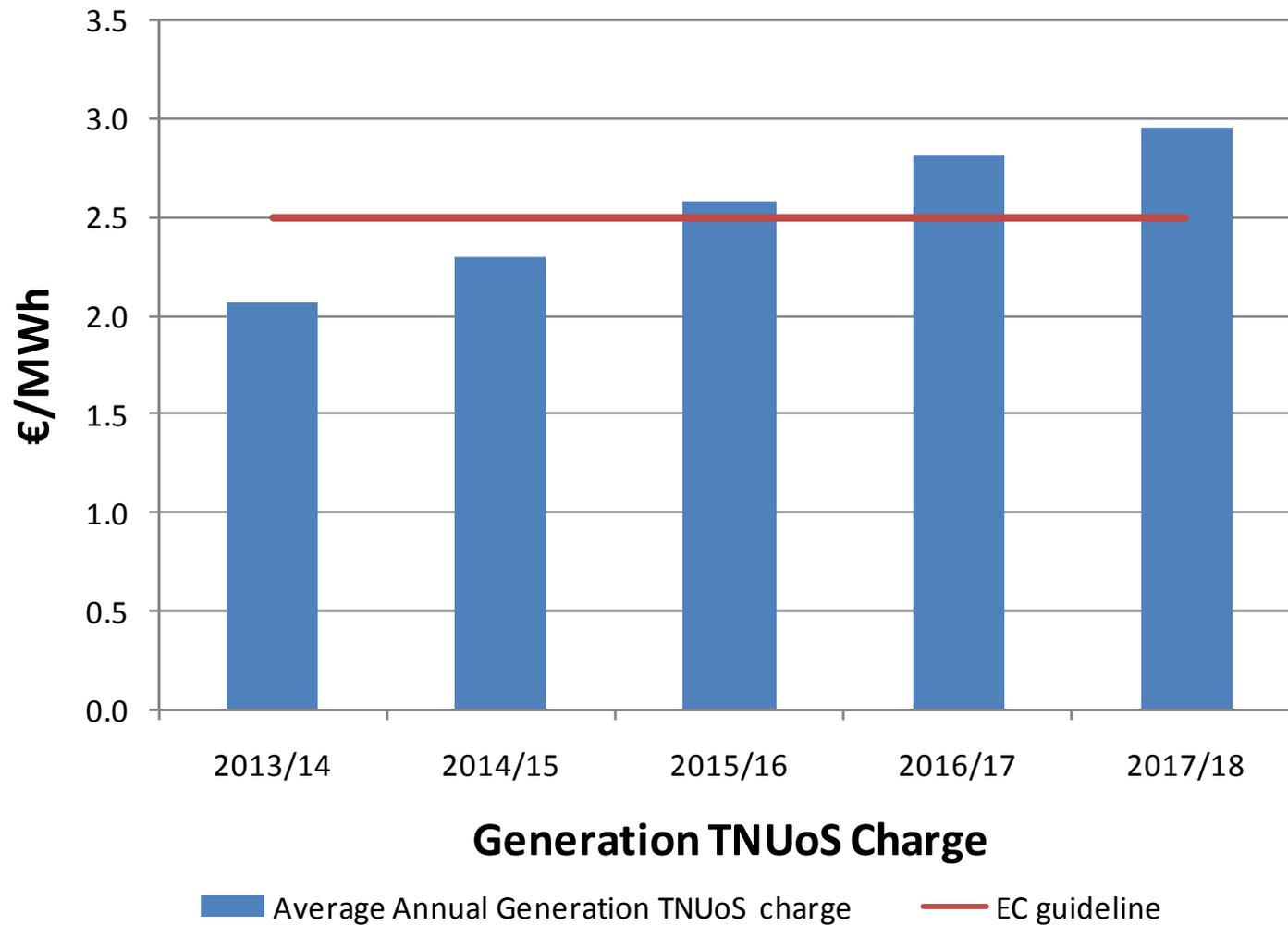
Actions from previous meeting

S.No.	Action	Owner	Deadline	Progress
1	Update presentation slide based on the forecast of £/€ exchange rates with the information provided by Cem. Provide a new graph to include within the consultation.	TS	Next meeting	Included in draft consultation & to be discussed today
2	Redo analysis for the Original proposal for the 3b option (limited specific – spurs for the sole use of generation)).	TS	Next meeting	To be discussed today.
3	Consider what assets are included in option 3b (other than OFTO assets).	TS	Next Meeting	To be discussed today.
4	Consider : i) the Calendar year / Financial year compliance issue, ii) setting on forecast / actual compliance issue (i.e. if forecast is wrong).	All	Next Meeting	
5	Confirm whether it is over or under recovery error that effects performance against the regulation and draw up an example to circulate to the Workgroup.	TS	Next Meeting	To be discussed today.
6	Provide outline of the methodology for a dynamic margin, including a strawman of it's operation.	TS	Next Meeting	To be discussed today
7	Circulate draft Workgroup consultation.	TS	To be circulated prior to next meeting	Circulated

Slow Progression using OBR forecast exchange rates

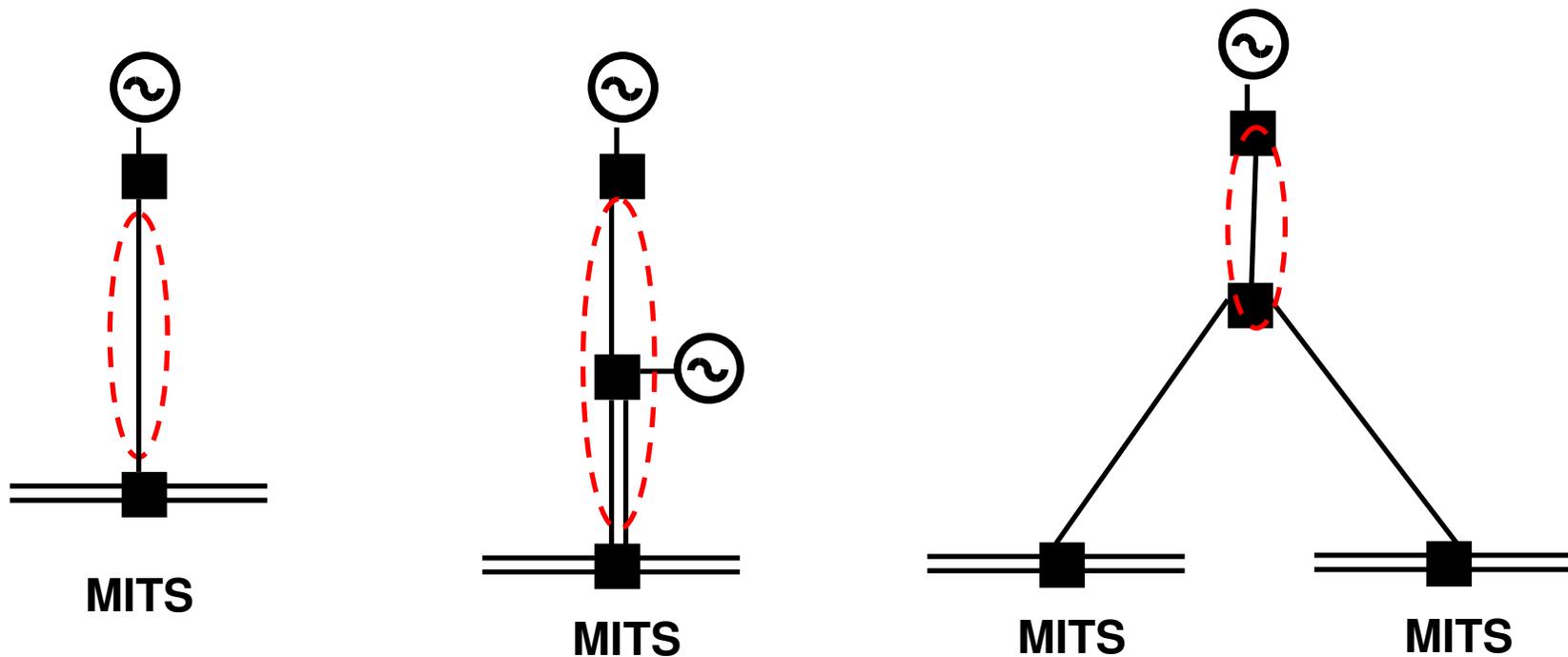


Gone Green using OBR forecast exchange rates

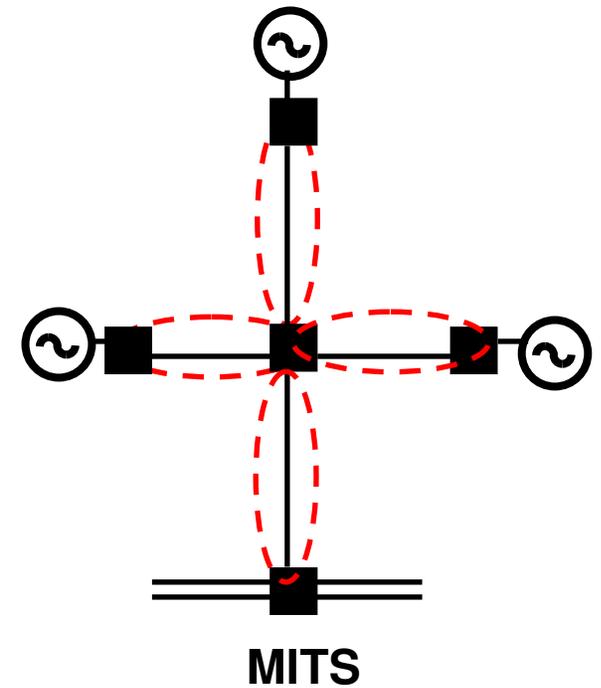
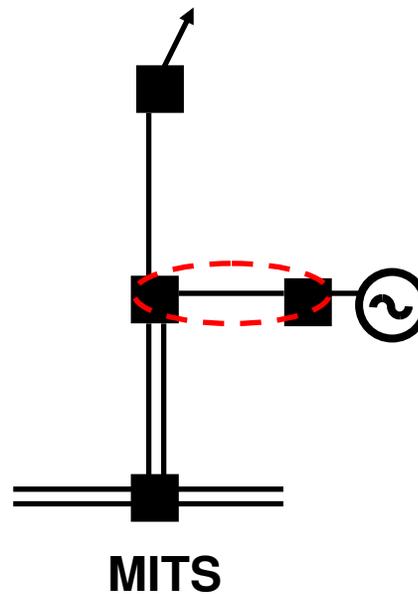
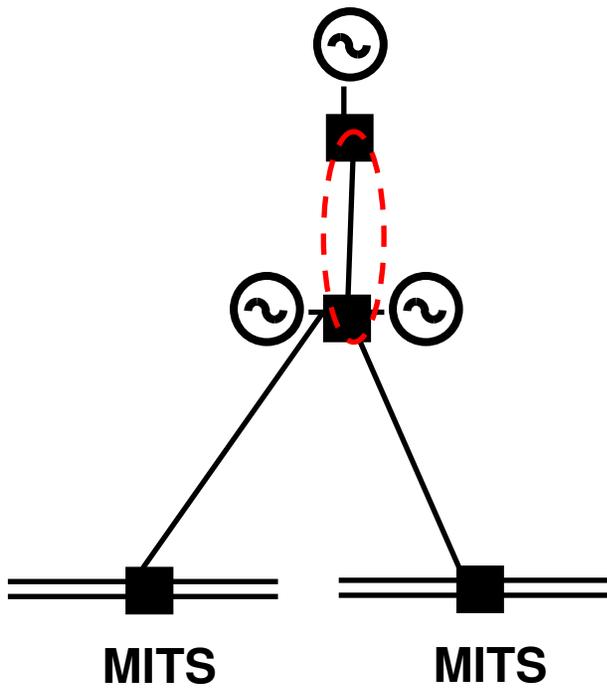


Applicable Spur Examples

- The subset of local circuits solely used for the purpose of connecting generation to the MITS, that do not parallel the MITS.

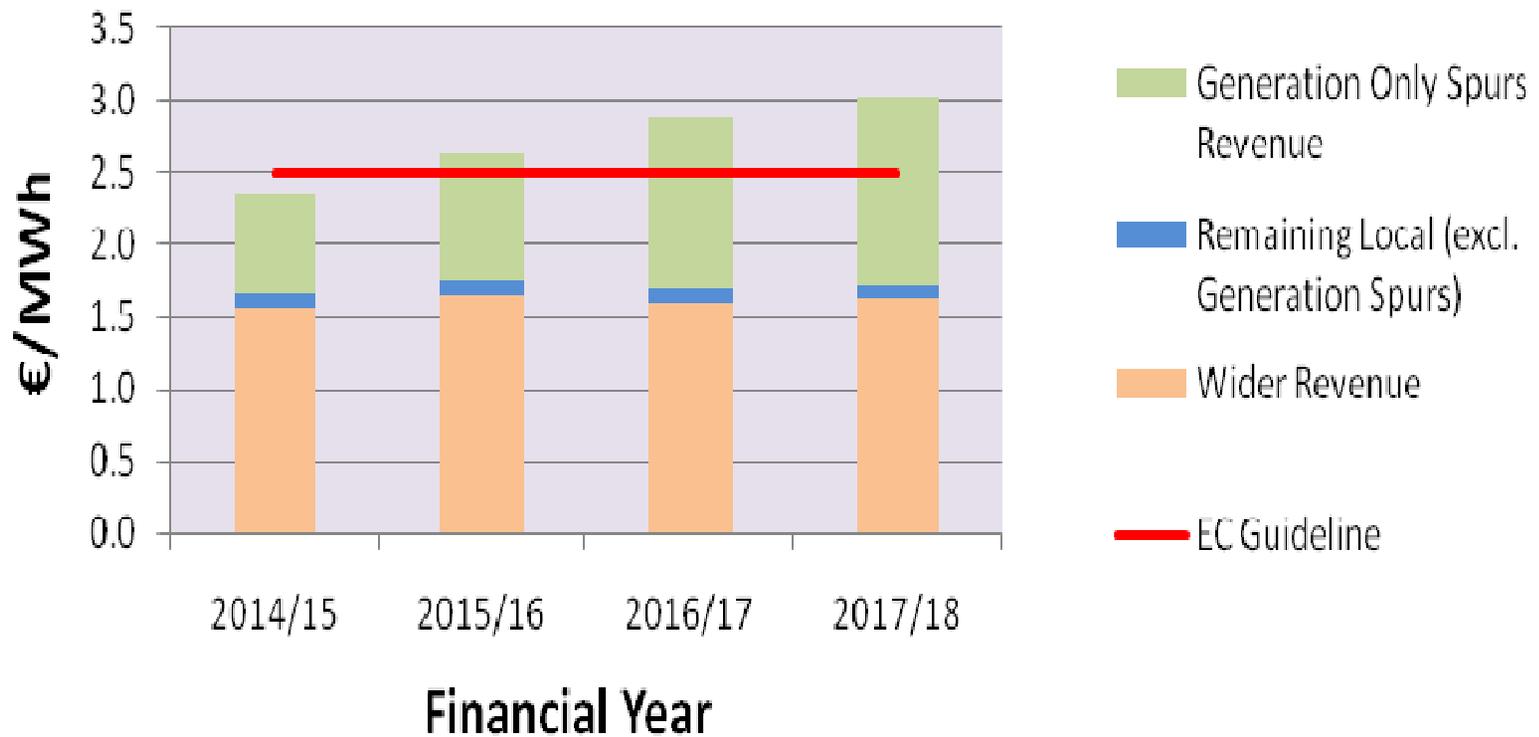


Applicable Spur Examples (2)



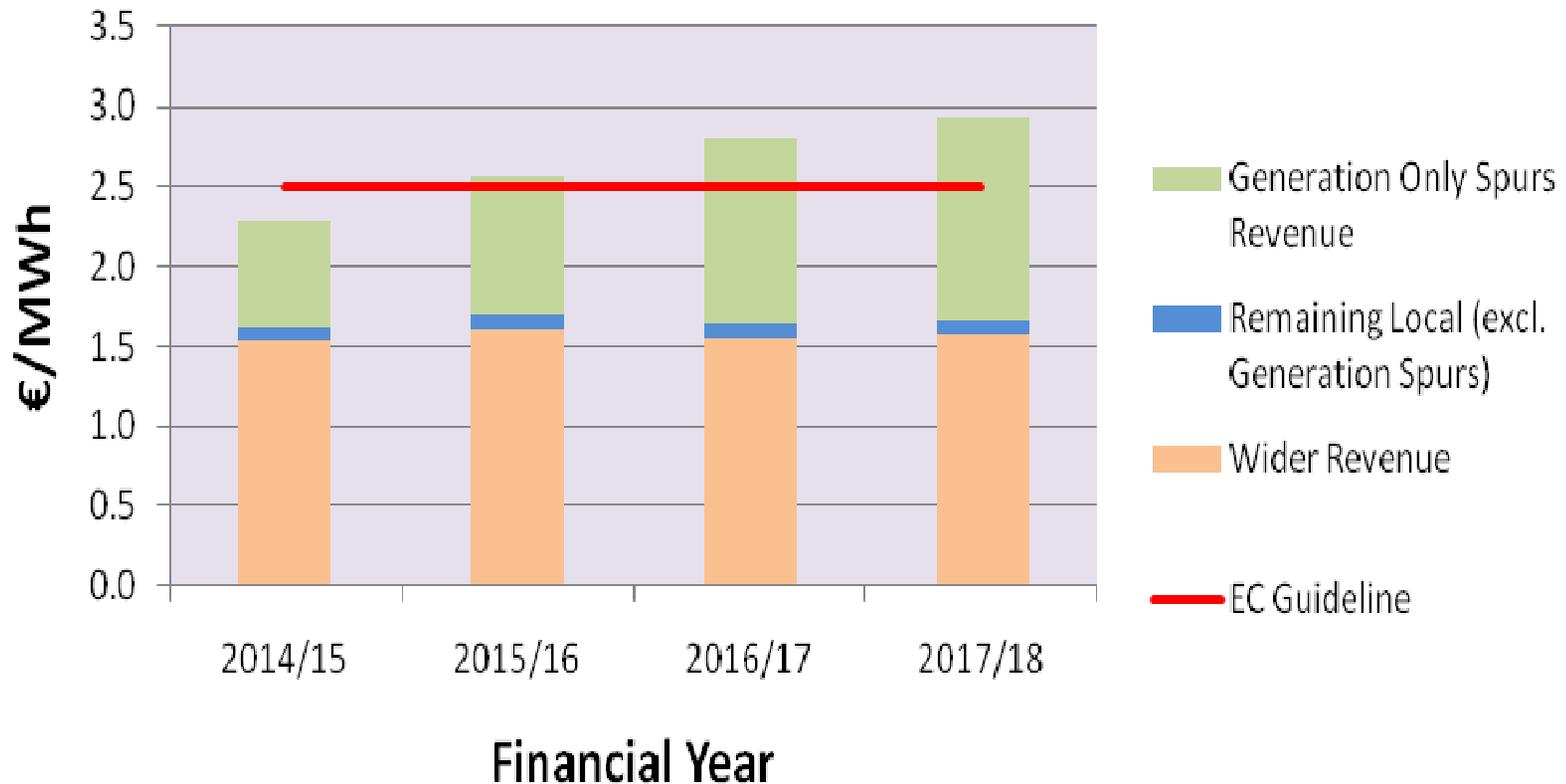
Affect of removing generation only spurs - nationalgrid spurs - Slow Progression

Average Annual Generation TNUoS Revenue Components



Affect of removing generation only spurs - nationalgrid spurs - Gone Green

Average Annual Generation TNUoS Revenue Components



Mechanism Application

- Used to assess potential forecast error
- Variability possible on each of the element of the average annual transmission charge calculation:
 - Recovery from generation (linked to over/under recovery)
 - Exchange Rates (market driven)
 - Generation Output (largely dependent upon demand)
- Inputs adjusted based maximum error observed in 5 years in each to calculate an inflated average annual transmission charge:

Inflated Recovery x Inflated Exchange Rate Forecast

Deflated Generation Output

Generation Output Forecast Error

- Based upon forecast error in annual energy consumption forecasts from SYS/ETYS/Future Energy Scenario publications.
- Changes made to basis of data published from 2012/13 following change in basis of forecasts
 - Move from Transmission System Demand to GB Demand

Year	Consumption forecast (y-1)	Reported Outturn	Forecast Error
2007/08	350.6	351.0	-0.1%
2008/09	348.2	337.6	3.1%
2009/10	325.9	325.4	0.1%
2010/11	323.7	314.7	2.9%
2011/12	314.4	312.5	0.6%
2012/13	312.7	Forecast basis changed	N/A

Exchange rates

- Annual reporting to Ofgem uses an annual average exchange rate.
- Sterling amounts are also included in the submission.
- Deviation analysis undertaken using average annual BoE €/£ exchange rates.
- Deviation of annual rates from 5 year average (€1.18) used to determine maximum deviation.

Year	Annual Average €/£ Exchange Rate	Deviation from 5 year average
2008/9	1.20	2.1%
2009/10	1.13	-4.3%
2010/11	1.18	-0.2%
2011/12	1.16	-1.7%
2012/13	1.23	4.1%

Over/Under Recovery

- Link between increases to generation charges within year and over recovery (e.g. OFTO appointment timing).
- Max deviation calculated based upon observed over/under recovery over past 5 years.

Financial Year	Over (+ve) / Under(-ve) Recovery (%)
2012-13	0.1%
2011-12	-1.5%
2010-11	0.8%
2009-10	-3.1%
2008-09	1.0%

Application of Mechanism

- Applying adjustments to each factor equates to an inflation of 11% in a given year:

Inflated Recovery x Inflated Exchange Rate Forecast

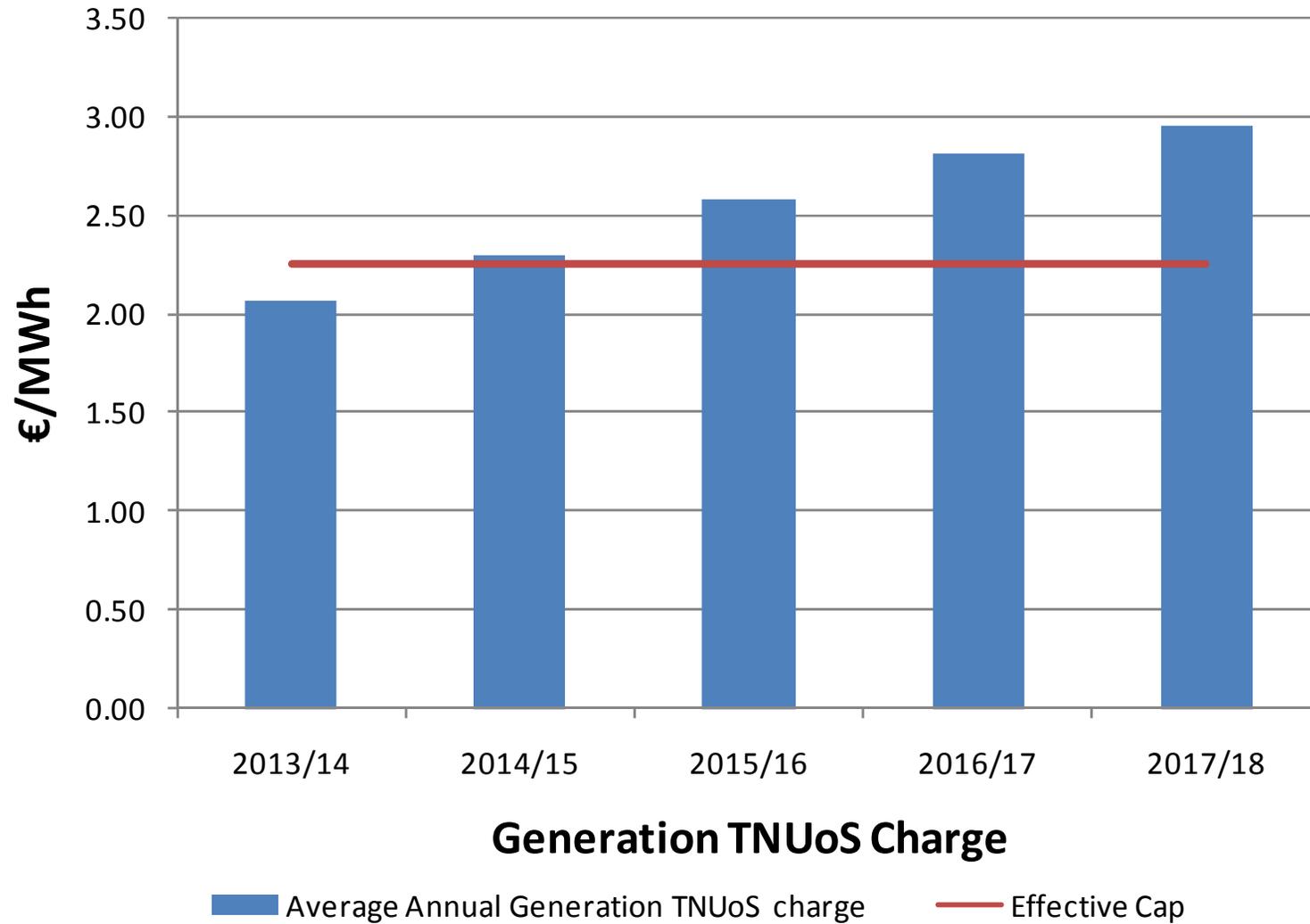
Deflated Generation Output

$$\Rightarrow \frac{(\text{Forecast Recovery} \times 1.031) \times (\text{Forecast Exchange Rate} \times 1.043)}{\text{Generation Output} \times 0.969}$$

$$\Rightarrow 1.11 \times \frac{\text{Forecast Recovery} \times \text{Forecast Exchange Rate}}{\text{Generation Output}}$$

- Equates to setting tariffs capping tariffs set under a best forecast to a limit of €2.25/MWh

Effect of mechanism



Impact for 2015/16

- Unadjusted (27% recovery):
 - Contracted generation background of 78.98GW
 - Assumed generation recovery of £735m
 - Average recovery of £9.31/kW
 - Equates to €2.7/MWh

- Adjusted (23.0% recovery):
 - Assumed generation recovery of £627m
 - Average recovery of £7.94/kW
 - Generation residual reduced by £1.37/kW
 - Demand residual increased by £1.93/kW (assuming 56GW of peak demand)

- Best forecast adjusted generation recovery of £675m (24.7% recovery).

Next Steps

- Implementation Timescales
- Legal Text