

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



Workgroup Meeting 2 – 14th November 2013

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Agenda

| Item | Lead |
|---------------------------|------|
| Introduction | PH |
| Safety Moment | WM |
| Actions from last meeting | All |
| Further discussion | WM |
| Next Steps | PH |

Safety Moment – Winter Safety



- **Adverse weather conditions & reduced daylight increase the risk of lost time injuries occurring**
- **Further Information:**
 - THINK! Cyclist (<http://think.direct.gov.uk/cycling.html>).
 - The Royal Society for the Prevention of Accidents - Winter Safety website (<http://www.rosipa.com/wintersafety/>)

Actions from previous meeting

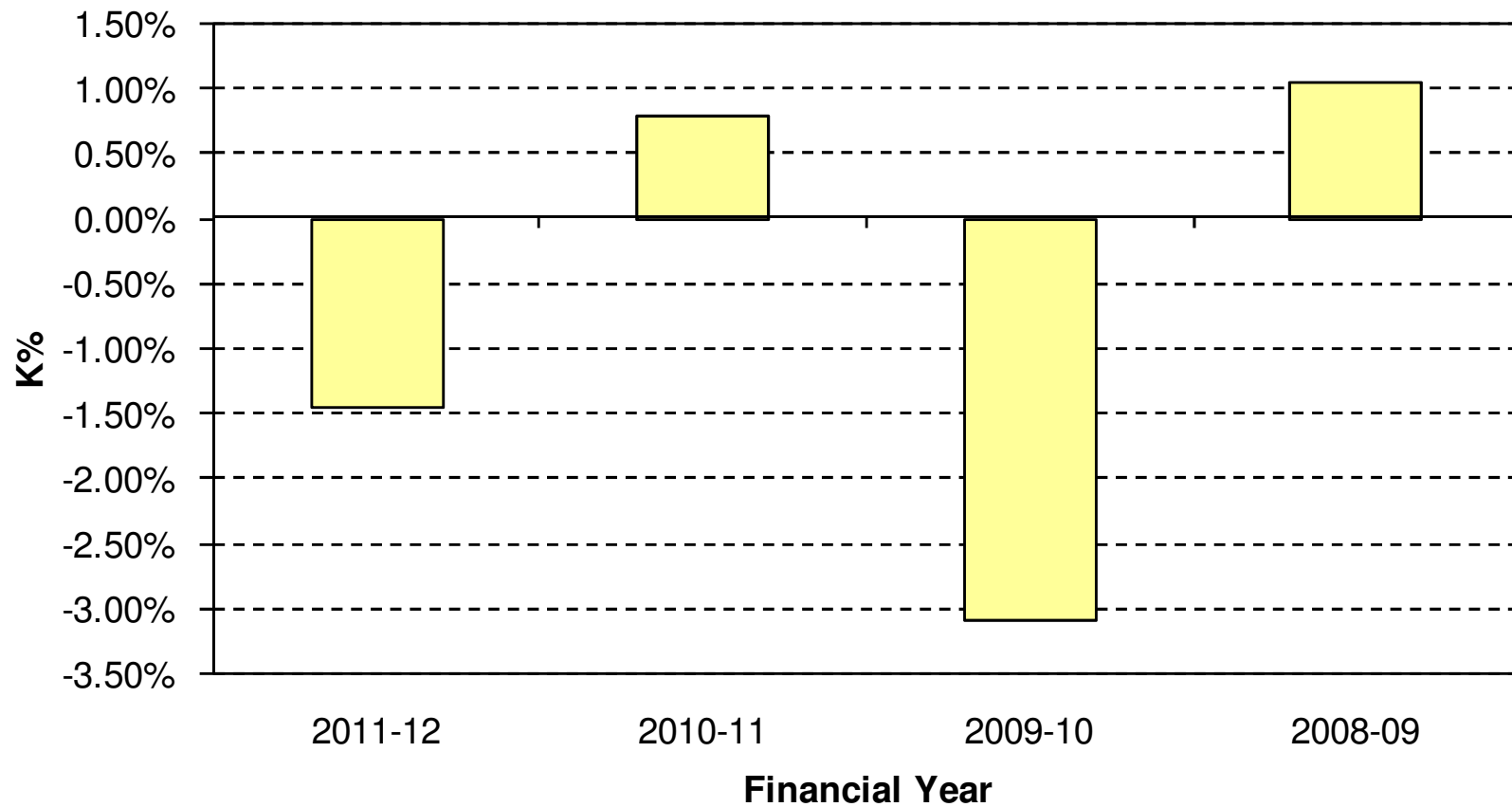
| S.No. | Action | Owner | Deadline | Progress |
|-------|--|-------|--|----------------------------------|
| 1 | E-mail forecasts of £/€ Exchange rate to Tushar | All | By next meeting | Email received from Cem Suleyman |
| 2 | Review data used for demand forecasts to ensure it is based on GB generation export from power stations | WM | Next meeting | To be discussed today |
| 3 | Investigate the outturn on historic years for G/D Split | WM | Next Meeting | To be discussed today |
| 4 | Add local and embedded to the list of variables in meeting 1 slides | WM | End of October | Completed |
| 5 | Provide a breakdown of local charges into local circuit and local substation charges | WM | To be circulated prior to next meeting | Circulated |
| 6 | Create a table of the different views on local charges with arguments in favour for each of the options being considered | WM | To be circulated prior to next meeting | Circulated |
| 7 | Impact analysis for financial year 2015/16 | WM | Next meeting | To be discussed today |
| 8 | Discuss with legal team about getting a legal opinion on interpretation of the EC Regulation 838/2010 | PH | Next meeting | To be discussed today |

Generation forecast clarification

- Demand forecast used as starting point
- Adjustments made to account for:
 - Transmission Losses (added)
 - Imports (subtracted)
 - Exports (added)

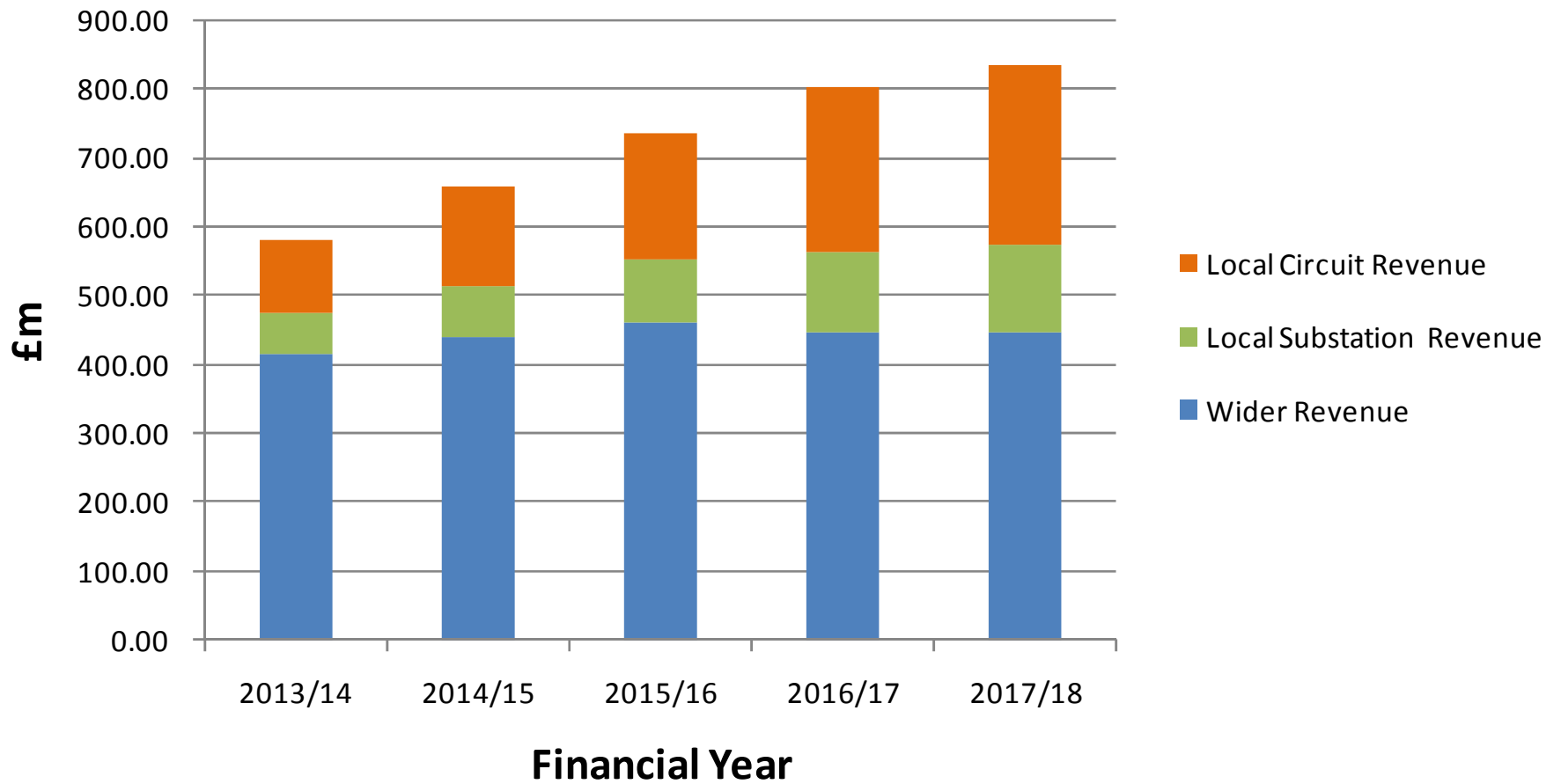
Outturn on historic years for G/D Split

Over (+ve) / Under (-ve) recovery of TO revenues



Breakdown of local charges into circuit and substation

Generation TNUoS Revenue Components



Impact Analysis for financial year 15/16

- 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 (24.7% recovery):
 - Assumed generation recovery of £674.8m
 - Average recovery of £8.54/kW
 - Generation residual reduced by £0.77/kW
 - Equates to €2.5/MWh
 - Demand residual increased by £1.08/kW (assuming 56GW of peak demand)

Excluding Local charges from average generation charge calculation

■ Arguments For:

- Local assets could be considered as assets that are “paid for by producers for physical assets required for connection to the system”;
- Delays the timescales for action assumed to be required to avoid exceeding the current limit of €2.5/MWh on annual average generation charges. No impact on demand charges as a result.
- Limits the affect of timings of OFTO appointments on performance against limit, due to targeting of revenue through local charges.
- Decreases Risk of Mid-year tariff changes to avoid breach of limit. Provides more certainty of charges.

Excluding Local charges from average generation charge calculation

- Arguments Against:
 - Interpretation may be challenged. Therefore some risk of infringement.
 - Possible interaction with the CUSC?
 - Is it in the remit of a workgroup to provide legal advice?
How much value and weight does that carry?

Including Local charges in average nationalgrid generation charge calculation

- Arguments For:
 - Removes speculation about the interpretation of the regulation. Minimises risk of infringement.
 - Can possibly be viewed as a move towards harmonisation of Transmission Tariffs across Europe (however we cannot say with certainty that Europe is definitely moving towards a 0% G-component in Transmission tariffs).

Including Local charges in average nationalgrid generation charge calculation

- Arguments Against:
 - Demand tariffs will be impacted (though the impact is expected to be small).
 - Increased risk of a mid-year tariff change contributing to uncertainty.
 - Action to avoid breach of the €2.5/MWh limit assumed to be required earlier. Impact on demand charges as a result.

Legal Opinion

- Views sought from National Grid legal.
 - Not clear on the face of the Regulation where the distinction between connection and network charges should be drawn.
 - No detail/guidance published – only the few words in the Regulation (physical assets required for the connection or upgrade of the connection)
 - The different thresholds which charges on generation may not exceed may have already been set accounting for individual charging regimes.
 - Clearest interpretation seems to be to include what in the GB regime are set as “local TNUoS” charges.
 - Excluding local charges leaves scope for challenge to the charging regime.
 - Potential Implications can arise for enforcement.

Further discussions

- Inclusion/exclusion of local charges from average annual generation charge used to determine any cap
 - All/subset/none?
- Methodology for cap fixing
 - Forecast based
 - Statistical margin of error
- Any other