

Background to Development of Dynamic + Postage Stamp Methodology

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Outline

- Background
- Objectives
- Research

BACKGROUND

Why All Island locational GTUoS?

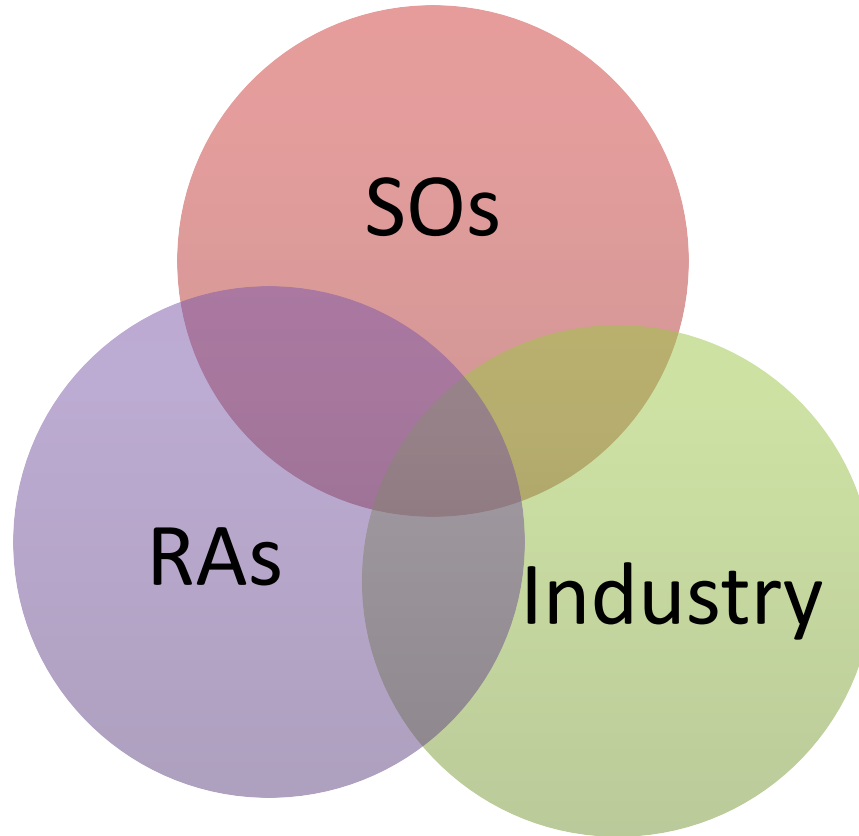
- 2005 SEM High Level Design – All Island Locational TUoS charge required
- This was to complement the other market based entry/exit signals
 - Connection Pricing – (Entry Signal)
 - Loss Factors – (Entry Signal)
 - Firm Access Quantities (FAQs) –(Entry Signal)
 - Use of System (Entry & Exit Signal)
- Each Signal exists for a different purpose but collectively seek to provide effective Entry/Exit Signal
- 2007 SEM saw the removal of congestion charges and access to All Island Market and a move away from deep connection charging in NI

Timeline

- January 09 - RA's requested new review
- March 09 - Workshop
- April 09 – Questionnaire & Invite for Industry papers
- May 09 - Methodology Options Paper
- Nov 09 – Preferred Options Paper
- Nov 09 Workshop
- February 10 – TSO Provide updated Recommendations to SEMC
- SEMC Decision December 2010
- Final consultation and Indicative Tariffs April 2011.

OBJECTIVES

Primary Objectives



Primary Objectives

1

- Efficiency

2

- Transparency

3

- Predictability

4

- Stability

5

- Cost-reflectiveness

Additional Considerations

Licence Requirements

- The SOs have statutory obligations to run safe, secure and efficient networks. The principle of efficiency is therefore a critical element in any design.

Consistency between planning and pricing

- Pricing should reflect the network planning philosophy where appropriate. A disconnect between the two could lead to inefficient outcomes

Value of the network

- Any tariff regime attempts to value the network. This can be challenging but should be consistent with regulatory principles.

Research & Determination of Preferred Option

- Research was carried out looking at network pricing international best practice
- Options paper published outlining each approach and their rating against the primary objectives and their industry agreed weightings
- Peer reviewed by leading International Academic in field of Network pricing
- Preferred Options Paper published – including indicative tariffs

Aim

- The main aim of the Dynamic plus Postage Stamp methodology is to differentiate the impact that participants have on the transmission system through providing a forward looking locational signal.
 - Those participants that drive investment pay higher tariffs.
 - Tariffs charged to generators should reflect, to some degree, the cost that they will impose upon the system in the future.
 - The tariff design also includes a postage stamp element that seeks to recover, on a pro-rata and socialised basis, the sunk network costs.
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Questions

Any Questions?