

Transmission Access Review National Grid View

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Agenda

- ◆ Introduction
- ◆ Transmission access reform
 - ◆ Models
 - ◆ Working Group progress
- ◆ Short-term measures
 - ◆ Interim form of connect & manage
 - ◆ GB queue management
- ◆ Interactive Issues
- ◆ 2020 measures
 - ◆ Incentives

Introduction

- ◆ European Union has recently agreed that by 2020 one-fifth of all Europe's energy should come from renewable sources
- ◆ In line with this, European Commission has proposed a target of 15% for UK
- ◆ UK Government has stated its firm commitment to meeting its fair share of the European target
- ◆ Achieving this could require renewable generators to provide between 30 and 40% of our electricity supplies
- ◆ A significant proportion of our existing generation will also need to be replaced over the same period
- ◆ Unprecedented challenge for electricity networks

How do we get there?

Two issues to solve...

1. Build more transmission capacity faster

2. Allocate available transmission capacity more sensibly

The proposals...

1. “Strategic Investment” in transmission

2a. Interim connect & manage

2b. Transmission Access Reform

A different approach

2b. Transmission Access Reform

- ◆ National Grid has proposed a suite of framework changes that could be used to implement 3 access straw men
- ◆ Why?
 - ◆ Consideration of all options more likely to result in the right answer
- ◆ National Grid has organised these proposals into 3 working groups which consider access (CUSC) and charging together
- ◆ Why?
 - ◆ Concerns expressed by industry – difficult to discuss CUSC and charging issues in isolation

What's wrong?

2b. Transmission Access Reform

- ◆ New generation can't get timely access to the transmission system
 - ◆ GB queue stretching out beyond 2015
 - ◆ Closure uncertainty
- ◆ May not be appropriate with increased volume of renewable generation
 - ◆ Characteristics of wind mean that sharing of capacity (between wind and conventional) much more important

What are the models?

2b. Transmission Access Reform

- ◆ Connect & manage
 - ◆ Firm connection date provided by SO in exchange for firm financial commitment
 - ◆ Operational costs caused when reinforcements cannot be completed are socialised
- ◆ Evolutionary change
 - ◆ Flexible, cost-reflective short-term access regime
 - ◆ Finite, tradable long-term access rights
- ◆ Capacity auctions
 - ◆ As evolutionary change, but long-term access rights are allocated by auction

- ◆ All models get new generation connected more quickly
- ◆ Different consequences for on-going regime

The Working Groups

2b. Transmission Access Reform

| | CUSC | Charging Methodology | Other |
|-------------------------|---|---|-------------------------------------|
| WG1: Short-term | <p>CAP161: SO release of short-term rights</p> <p>CAP163: Entry capacity sharing</p> <p>CAP162: Entry overrun</p> <p>CAP164: Connect and manage</p> | <p>Ex post cost reflective charge</p> | |
| WG2: Long term | <p>CAP165: Finite long-term entry rights</p> <p>CAP166: Entry capacity auctions</p> | <p>Fixed price tariffs</p> <p>Auction resultant changes</p> | <p>Capacity release methodology</p> |
| WG3: Supporting changes | <p>Local only applications</p> | <p>Zoning criteria</p> <p>Local asset charging</p> <p>TNUoS residual charge</p> | <p>Zonal definition methodology</p> |

- ◆ The good news.....
 - ◆ Significant commitment from industry participants
 - ◆ High level of engagement and expertise is moving thinking forward
- ◆ But.....
 - ◆ Progressing 6 fundamental CUSC amendments and charging modifications in parallel is a huge task
 - ◆ More time is required to further develop and robustly assess the proposals
- ◆ The working group timescales have been extended by 2 months
 - ◆ This can be accommodated without jeopardising April 2010 implementation date

Timeline

2b. Transmission Access Reform

2008

Mar Apr May Jun Jul Aug Sep Oct Nov Dec

2009

Jan Feb

◆ 18 March; High-level industry seminar

◆ 10 April; Workshop on draft mods

◆ 25 April; Raise CUSC mods

◆ 29 April

Transmission Charging Methodologies Forum (TCMF)

◆ 22 August; TCMF

CUSC Working Groups

CUSC consultation period

◆ 18 Dec; CUSC panel vote

Amendment reports to Ofgem

Charging Working Groups

Charging consultations

Charging conclusions reports to Ofgem

Short-term measures

2a. Interim connect & manage

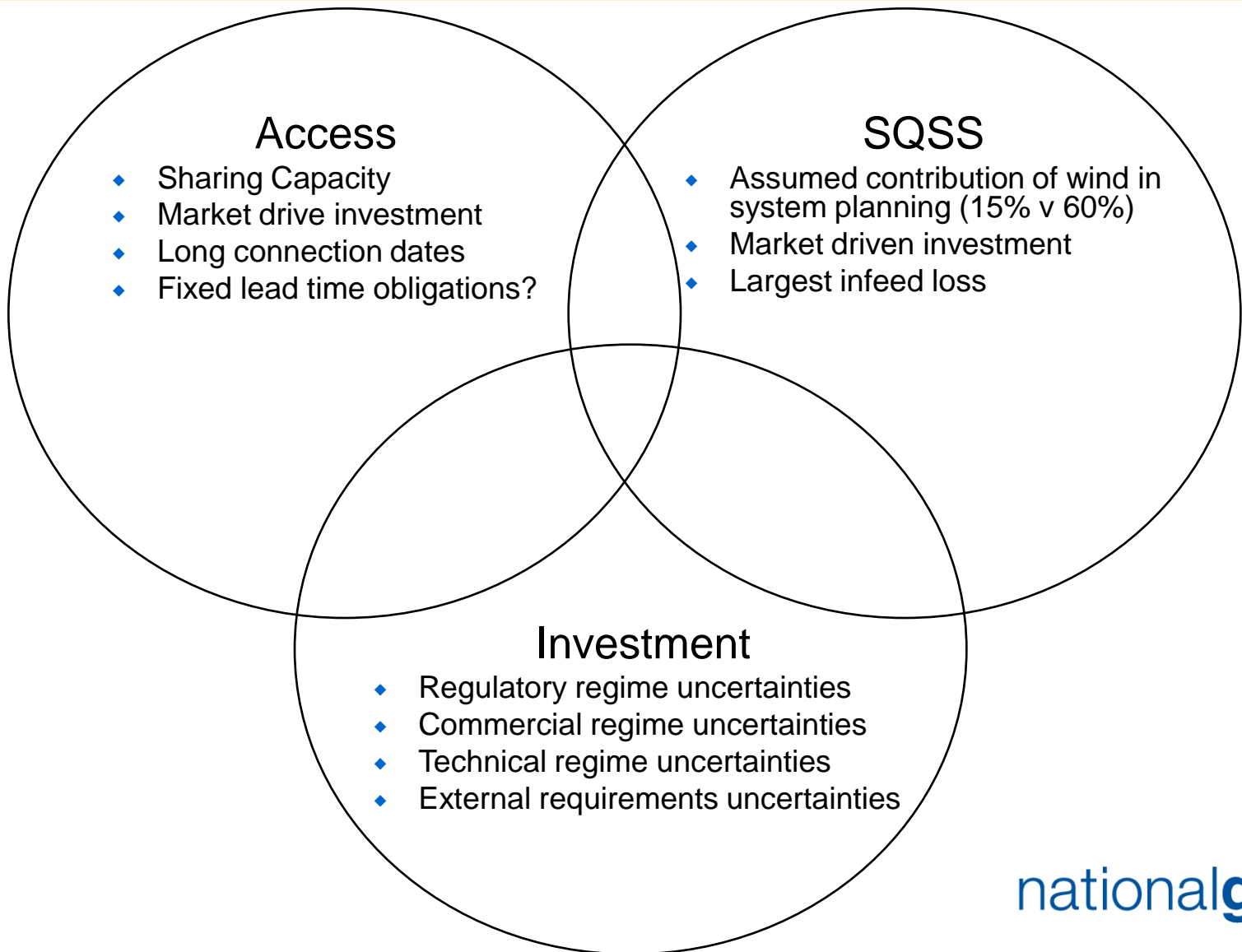
- ◆ The enduring access working groups will consider whether the following can be implemented by April 2009:
 - ◆ SO release of short-term access rights (CAP161)
 - ◆ Entry capacity sharing (CAP163)
- ◆ In addition, National Grid is working with Ofgem to define a process in which SQSS derogations can be used to provide access ahead of the completion of all reinforcements
 - ◆ National Grid to publish open letter by September

Short-term measures

GB queue management

- ◆ CAP150: TEC reduction
 - ◆ This allows NG to reduce user capacity bookings in circumstances in which it is clear that the user is not in a position to utilise them
- ◆ Queue methodology
 - ◆ This uses the quarterly reporting process to allow “gaps” in the queue to be reallocated to those best able to utilise them

Interactive Issues



What is the deal?

1. “Strategic Investment” in transmission

- ◆ We don't wait for financial commitment from users
- ◆ Invest ahead of need (align construction programmes)
- ◆ Outside the current regulatory deal
- ◆ Incentive arrangements reward successful anticipatory investment

Incentives

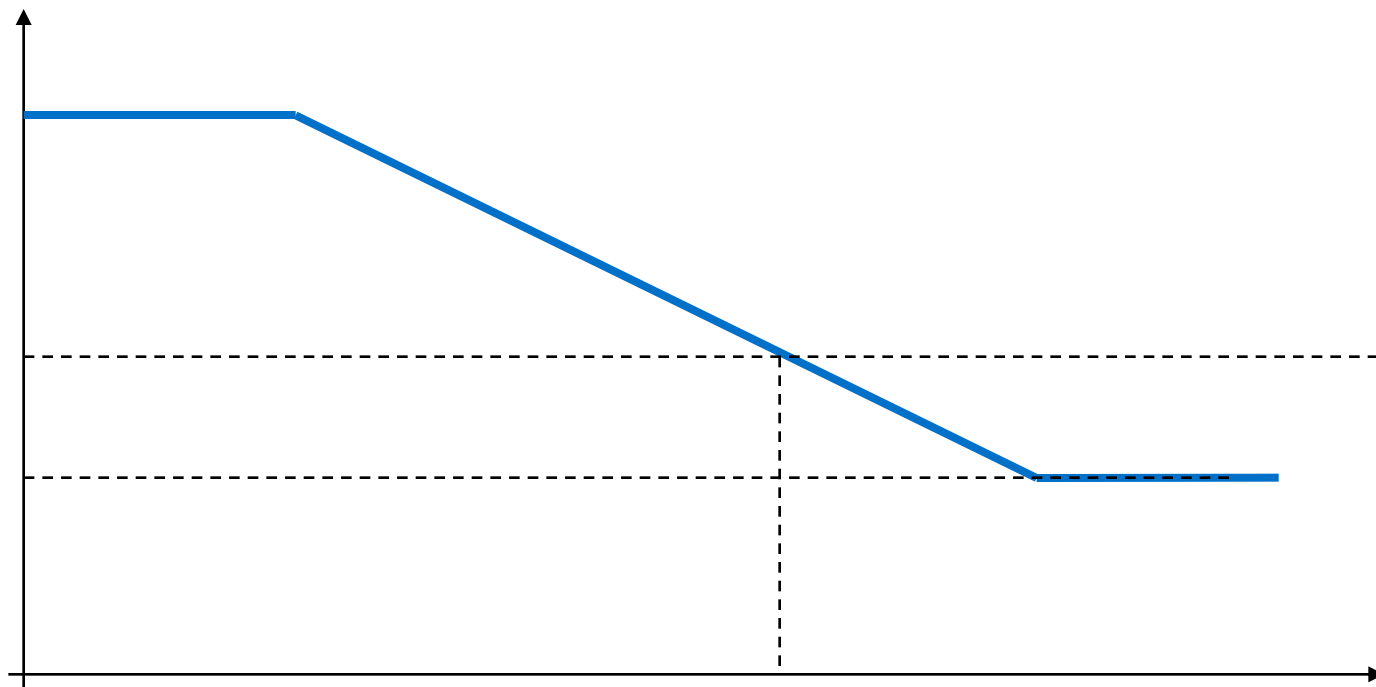
1. "Strategic Investment" in transmission

Return

Enhanced

Normal

Floor



Successful connections
- faster than default

Unsuccessful connections
- Slower than default, under utilised

Return linked to success of investment

nationalgrid