

## Benefits of Financially Firm Capacity Booking

### ***Introduction***

In response to one of the actions placed on National Grid at the 2<sup>nd</sup> ARODG meeting, this note sets out some of the benefits of a financially firm capacity booking regime.

### ***What do we mean by financially firm booking of capacity?***

The financially firm booking of capacity means that generators will be liable for TNUoS charges for the capacity that has been reserved. Within a “User Commitment Model”, that could mean booking capacity for between 2 and 40 years ahead. For example, if the minimum user commitment was deemed to be 5 years, then generators would be required to declare annual TEC over that 5 year period to be sure of receiving firm transmission access. This firm TEC would be used for the charging liability, and would be binding in the sense that regardless of whether a power station chooses to operate up to the declared TEC level, it would still be liable for the TNUoS generation charges for the resulting 5 years.

### ***Why would the information need to be financially firm?***

It is possible that x-years of TEC can be “firm” without it necessarily being financially firm, for example, by creating a new clause in the Generation Licence or making provision of this information mandatory in the Grid Code.

However, the value of “firm” information is significantly increased when supported by a financial commitment. Business plans change, and it would be possible for a generator to argue that it had provided the best information it had at the time. Generator business plans need to take account of the future impact on transmission infrastructure to ensure an overall and efficient outcome.

The best party to understand when a power station is likely to close is the owner of the power station itself. There are of course significant regulatory risks, which even the generators may find difficult to call (e.g. LCPD directives and ETS), that may mean that committing to an x-year TEC is uncertain. However, even given these uncertainties, Generators have a clearer understanding of their business than the transmission companies in calling when a power station is to close.

### ***Benefits to End Consumers***

#### Better Planning Information

- Understanding how much and when capacity is required to accommodate new parties will lead to more efficient and planning and operation.
  - 100% CAPEX saving if a line build is avoided
  - Ability to plan future work earlier
  - Opportunity to optimise system access

- National Grid can better prioritise which assets need to be replaced, or even not replace some assets at all if generation is expected to close

#### Higher Purchasing Power

- Potential for bulk discount on purchase of materials
- Ability to secure appropriate manpower
- Option to enter into long term contracts with construction firms leading to cost savings

#### Equity of Rights

- New and existing users have the same rights to access the network, improving competition

#### Information

- Binding transmission capacity requirements are a signal to the market providing additional information on forward capacity margins
- Advance information on the location and timing of capacity potentially made available when a power station closes

#### Costs

- Transmission infrastructure cost savings returned to the consumer
- Ofgem has a clear market signal for new and existing capacity to inform the Transmission Price Control Review
- Improved security of supply through firmer and more transparent information

### ***Positive and Negative Charging Zones***

An obvious question with regard to financially firm long term booking of capacity is what to do in negative charging zones? The issue is that “User Commitment” appears far less in negative charging zones since National Grid would be effectively committing to pay generation, rather than receiving securities. National Grid would be making investment decisions (not to build) on the basis that generation capacity would be available as forecast in negative charging zones, and if the generation fails to appear, this could jeopardise assumptions made for system peak planning conditions.

There are a number of possible options to address this, although currently they all involve a requirement on generation to provide some degree of financial security. The level of this security ranges from an equal and opposite liability (National Grid's TNUoS payment if the power station did commission) in the event generation does not commission to some other financial penalty less than the equal and opposite liability. The security would be refundable when the power station demonstrates its generation capability, unlike security provided in positive charging zones which may need to be maintained for an ongoing five year period.