

Relationship between Tariffs and Revenue

+ review and modelling of RUK 'solutions'



An illustration using 2011/12 T&T model

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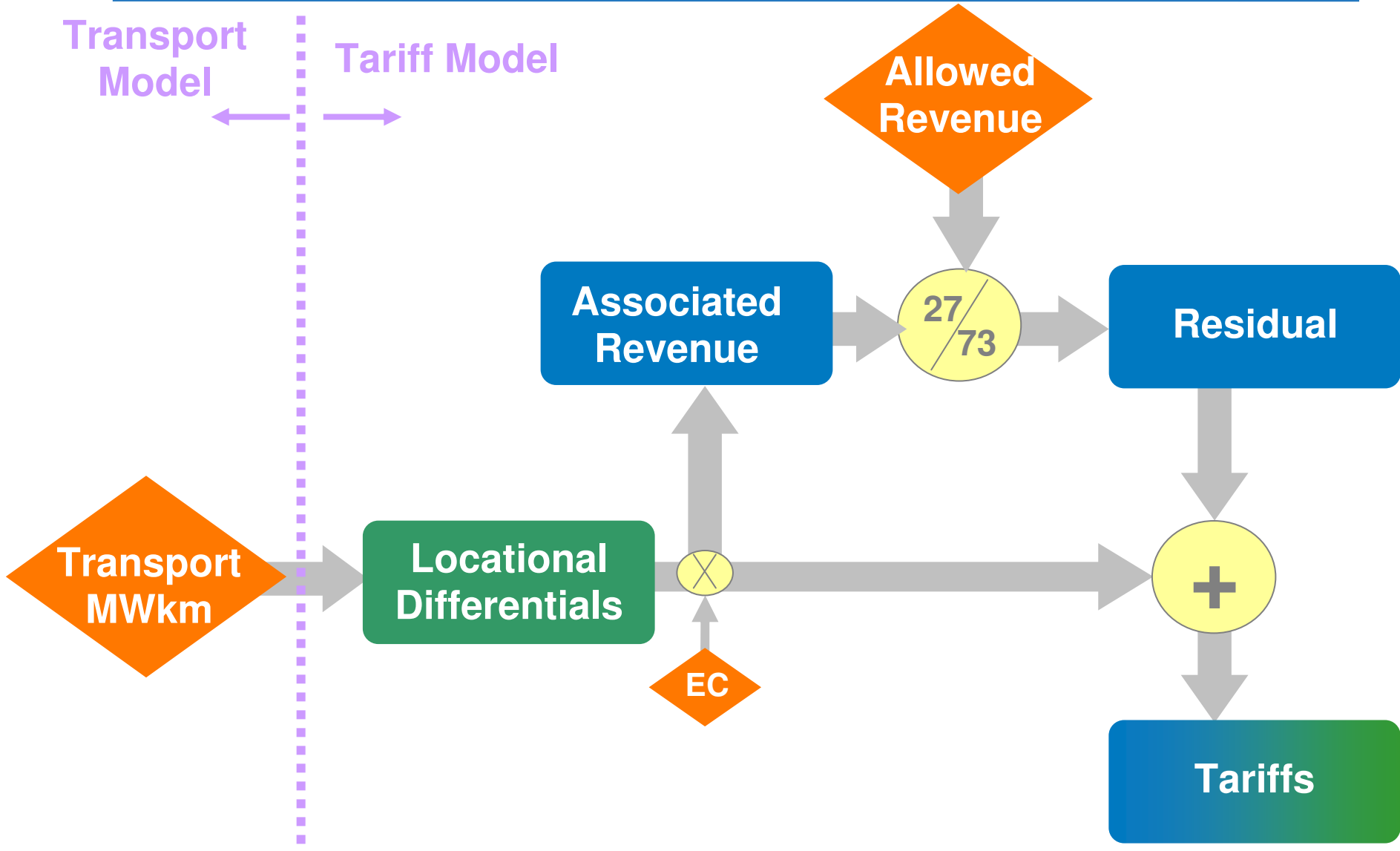
Overview

- Relationship between tariffs and revenue
- Relevance for Themes 5 & 6
- Examples of impact on tariffs and revenue for change in G:D split

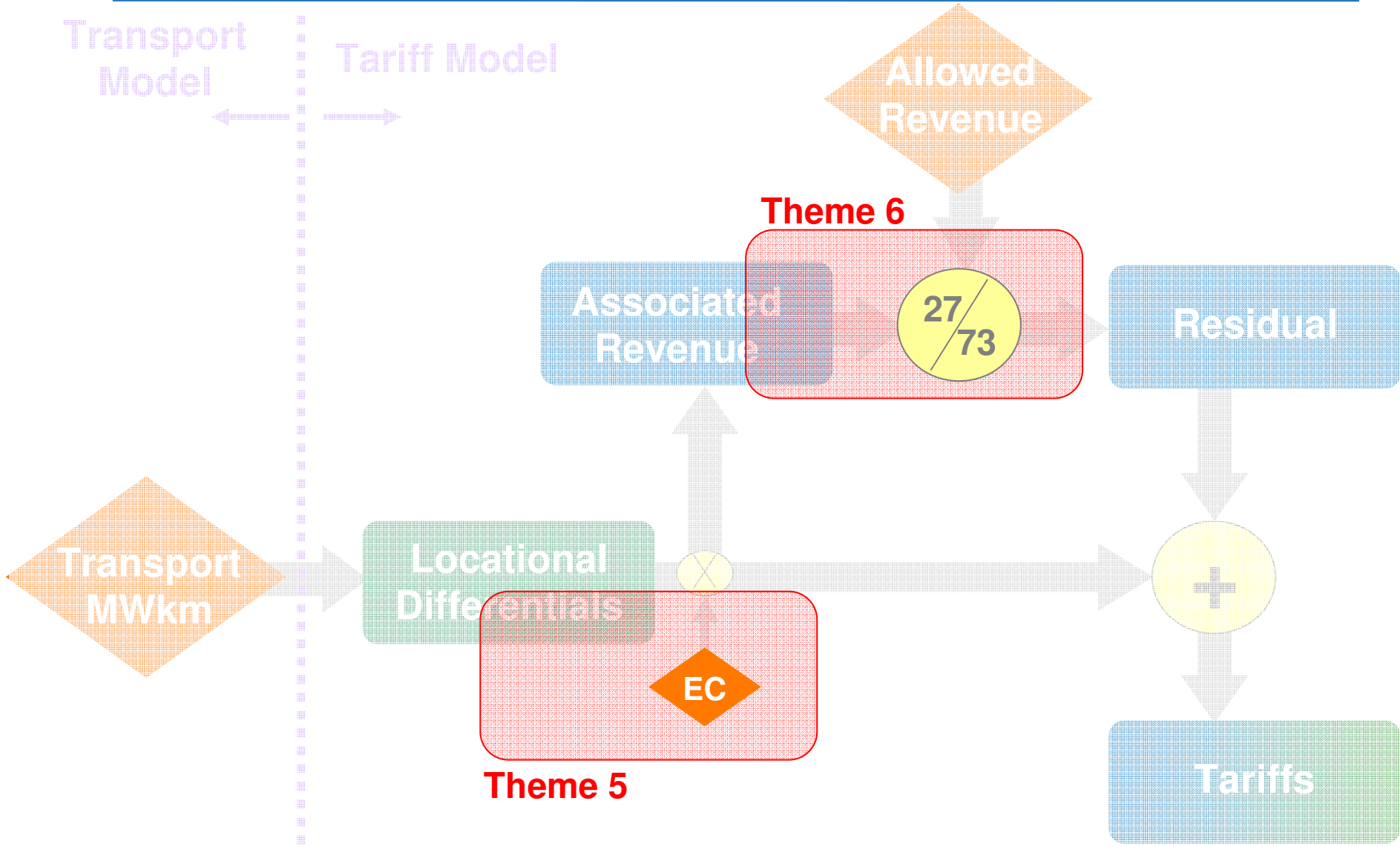
- Review of RUK modelling assumptions
- Impact of input assumptions on modelling output

- NGET modelling of RUK ICRP based 'solutions' (i.e. 1, 2 and 3)

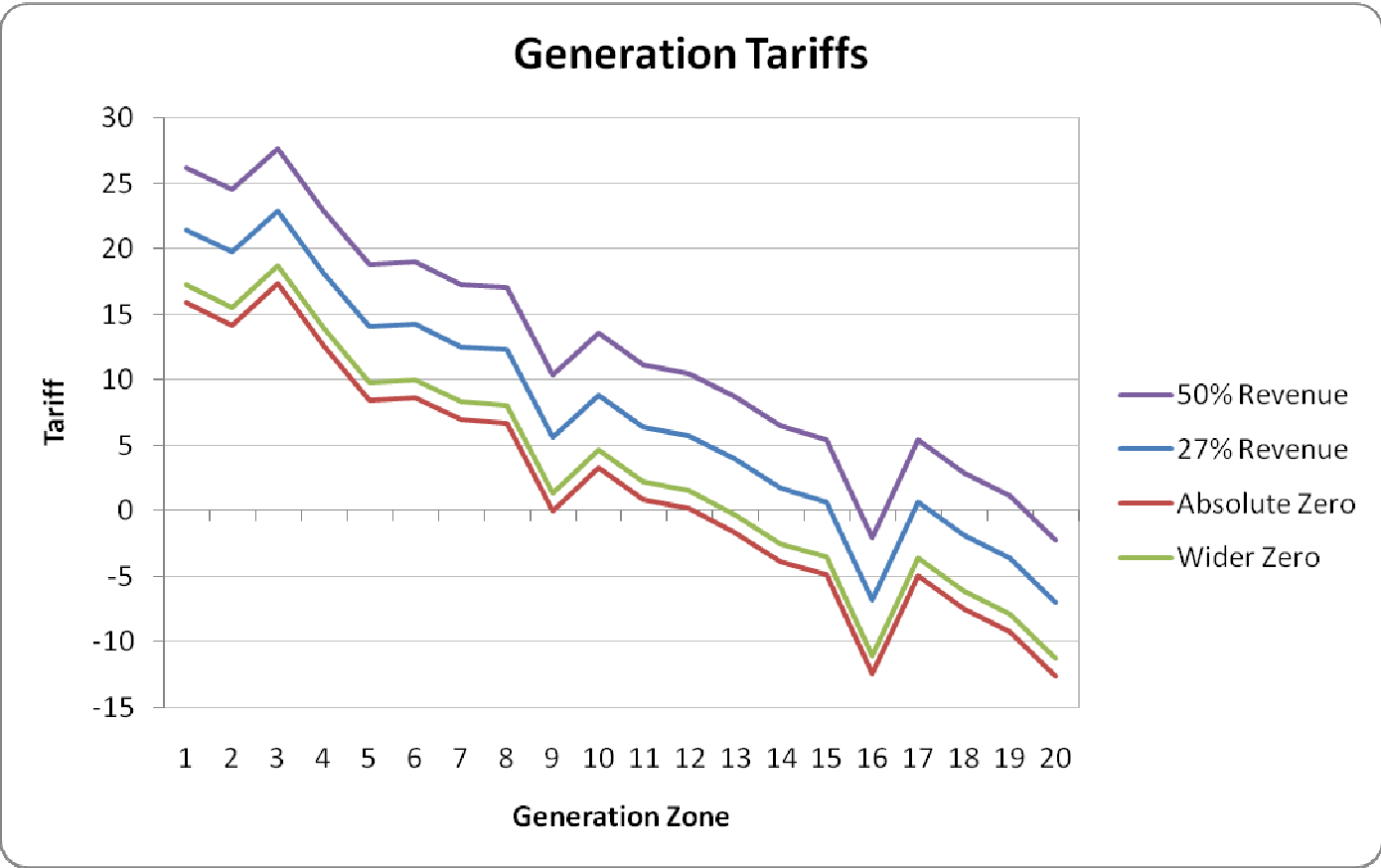
Relationship Between Tariffs and Revenue



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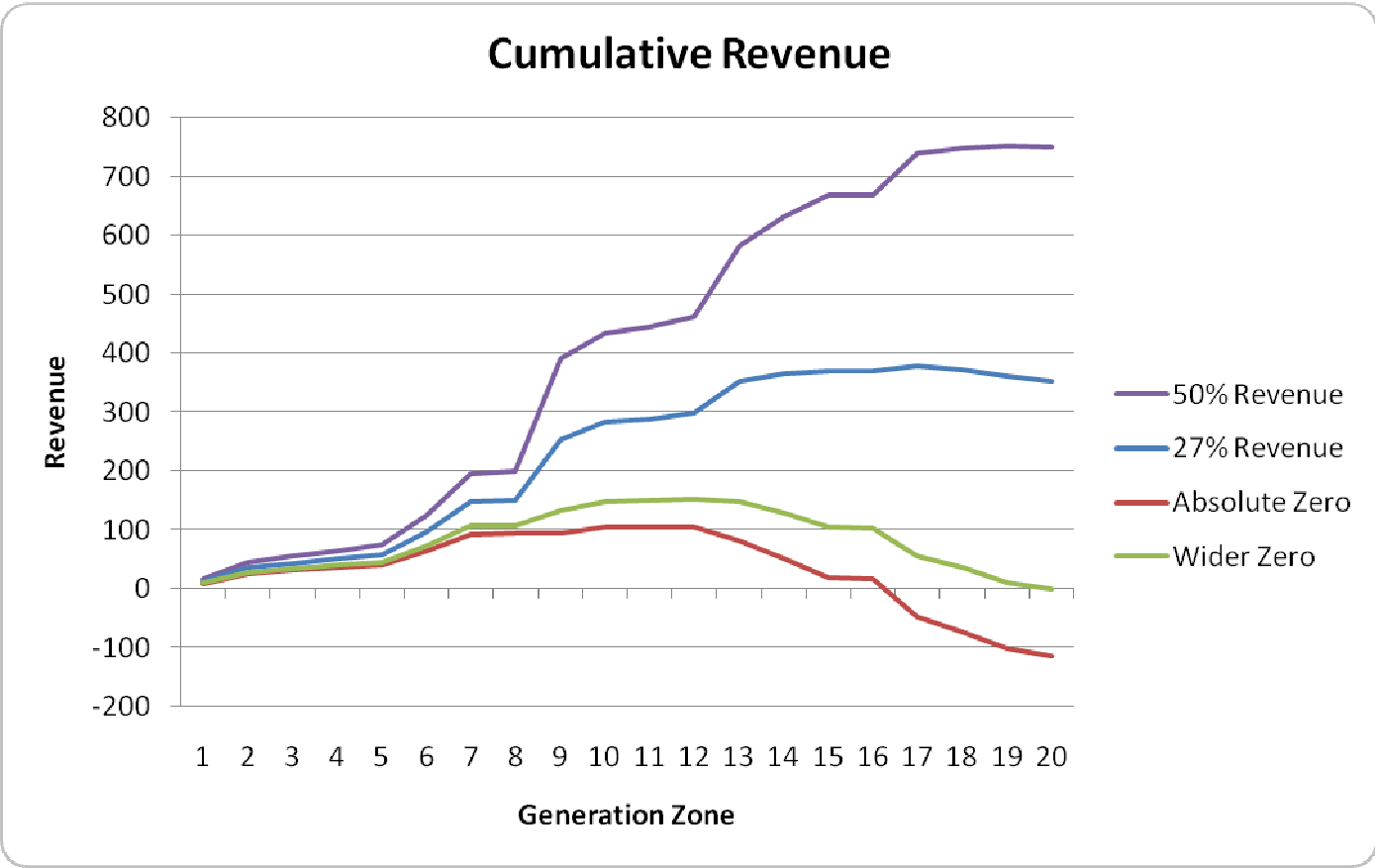


Generation Tariffs



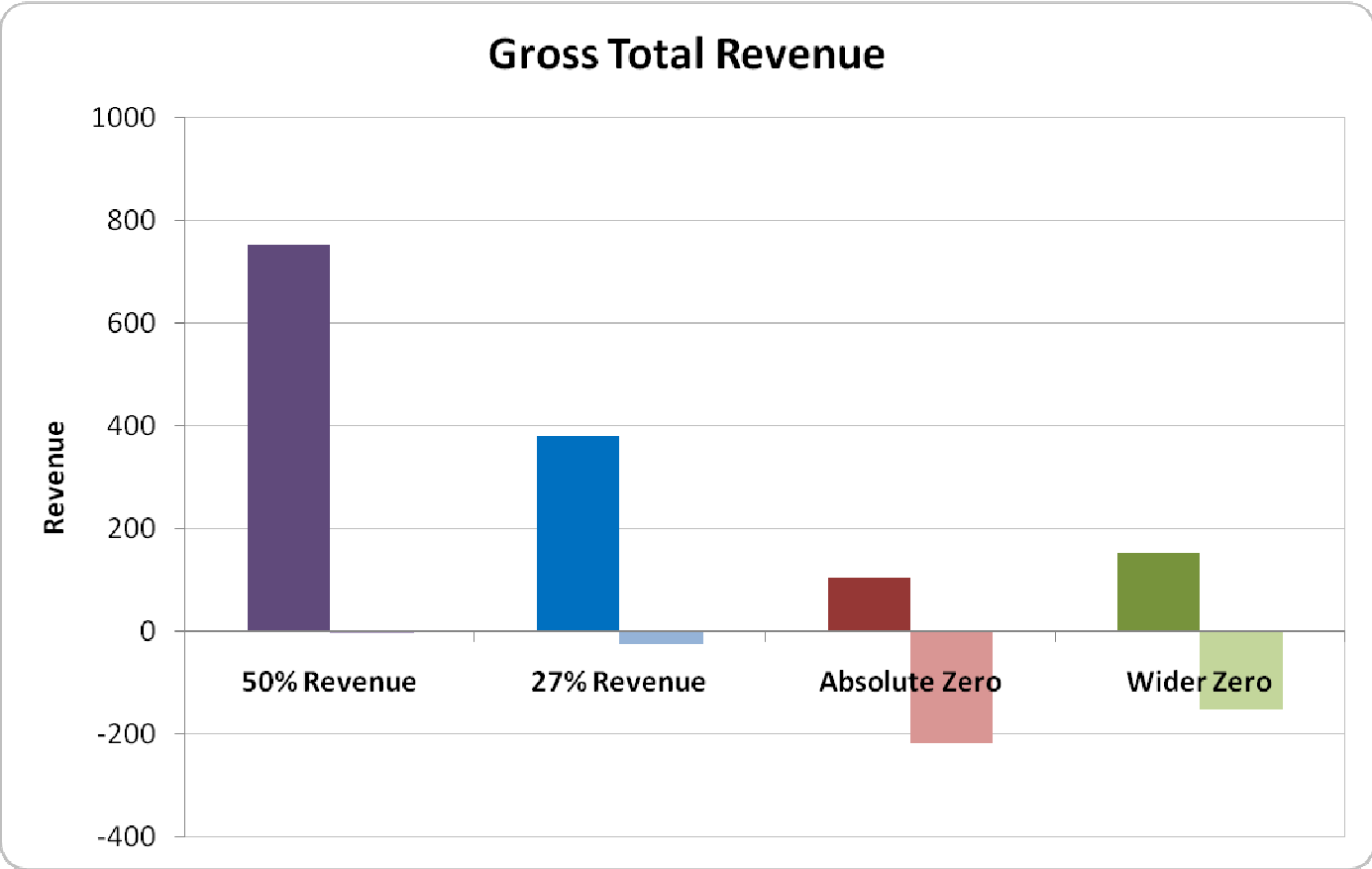
- Wider tariffs for varying amounts of revenue collection
- Flat residual adjusts tariffs up and down uniformly
- Locational differentials remain identical

Generation Revenue



- Cumulative north to south revenue collection through wider locational tariff

Generation Revenue



- Total gross revenue collection through wider tariffs
- Absolute zero includes local circuit and substation revenue

Future Revenue - Assumptions

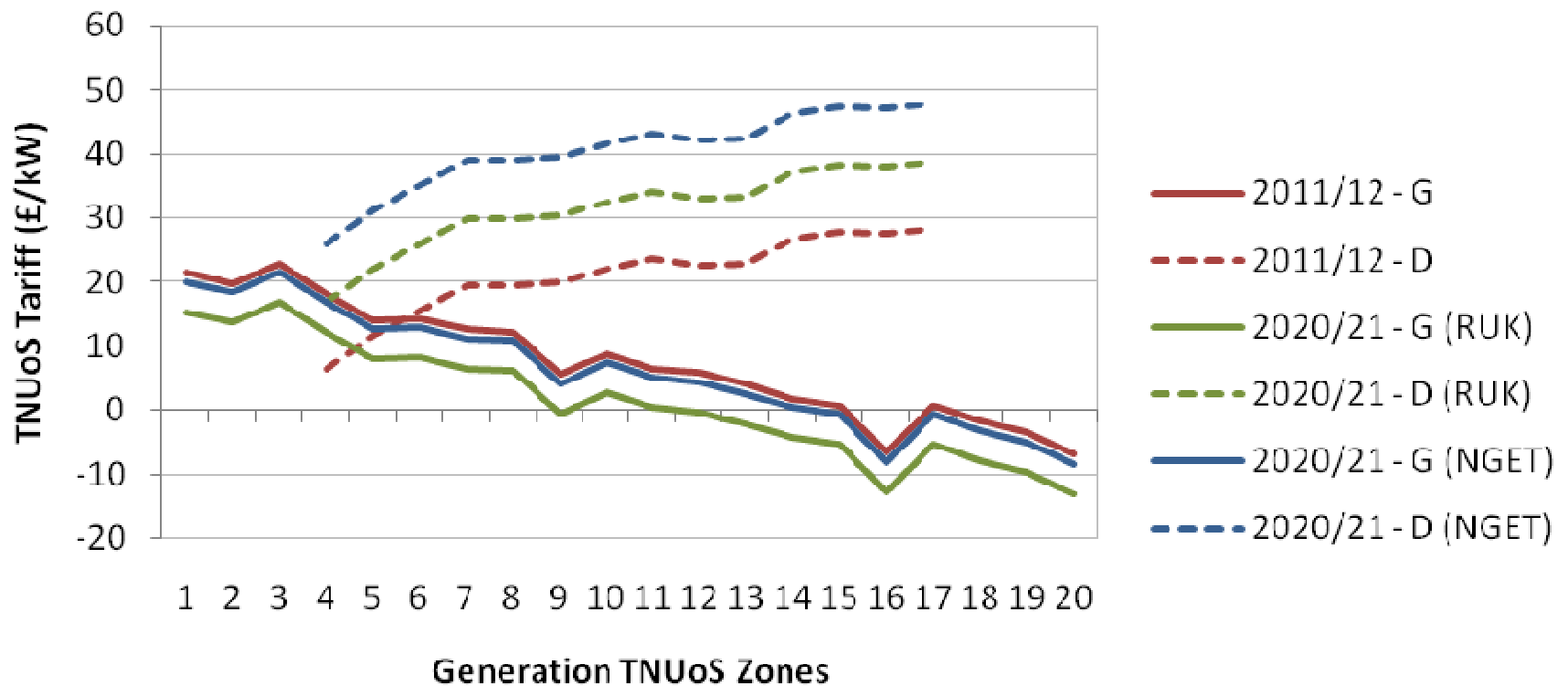
- 2011/12, RUK and NGET 2020/21 figures

	2011/12	2020/21 RUK	2020/21 NGET
Baseline MAR	£1724m	£1355m	£1724m
Baseline offshore revenue	£75m	£75m	£75m
Baseline onshore local	£39m	£39m	£39m
Onshore RIIO CAPEX	-	£7000m	£21000m
2020/21 additional onshore allowed revenue (including effect of depreciation)	-	£462m	£1000m
Additional offshore CAPEX	-	£7200m	£7200m
OFTO annuity	-	10%	8%
Additional offshore allowed revenue (not including effect of depreciation)	-	£720m	£576m
Offshore cost reflectivity	80 – 90%	100%	90%
Additional OFTO revenue in local charge	-	£720m	£581m
Total 2020/21 MAR	-	£2537m	£3300m

Future Revenue – Illustrative Impacts

- Graphical comparison of impact on wider locational tariffs
- Impact assumptions have a significant effect

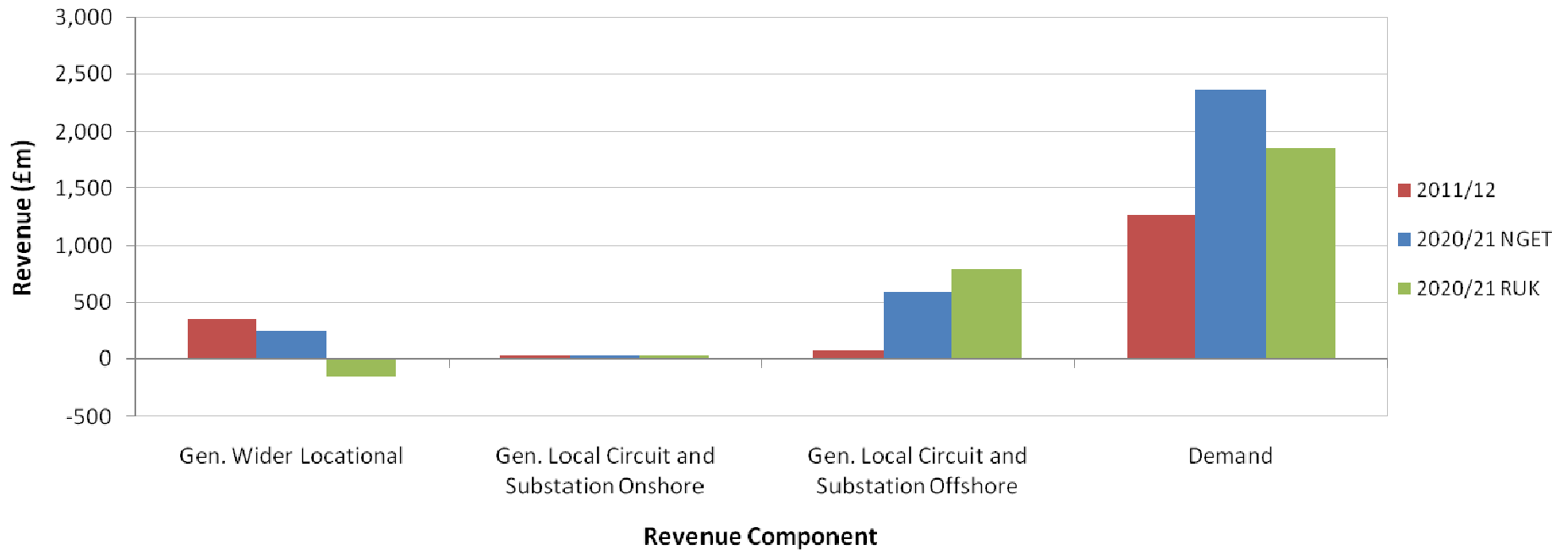
Generation and Demand Tariffs



Future Revenue – Illustrative Impacts

- Graphical comparison of impact on revenue
- Input assumptions have a significant effect

Revenue Components



RUK Scenarios

- 1) 100% on generators –
 - Offshore generator pays 100% of OFTO revenue
 - Generation and demand revenue proportions exclude offshore local revenue
- 2) 27% on generators –
 - Offshore generator pays for 27% of OFTO revenue
 - 73% of OFTO revenue collected through demand residual
- 3) 400kV basis –
 - Offshore generator pays for 10% of OFTO revenue
 - 90% of OFTO revenue collected through demand residual
- 4) No local
 - Postage stamp charges? (not considered further)

Modelling of RUK ‘Solutions’

‘Solution 1’ 2020/21	
MAR	3300
G Revenue	1366.23
D Revenue	1933.77
OFTO local	651
G Residual	7.506
D Residual	31.614

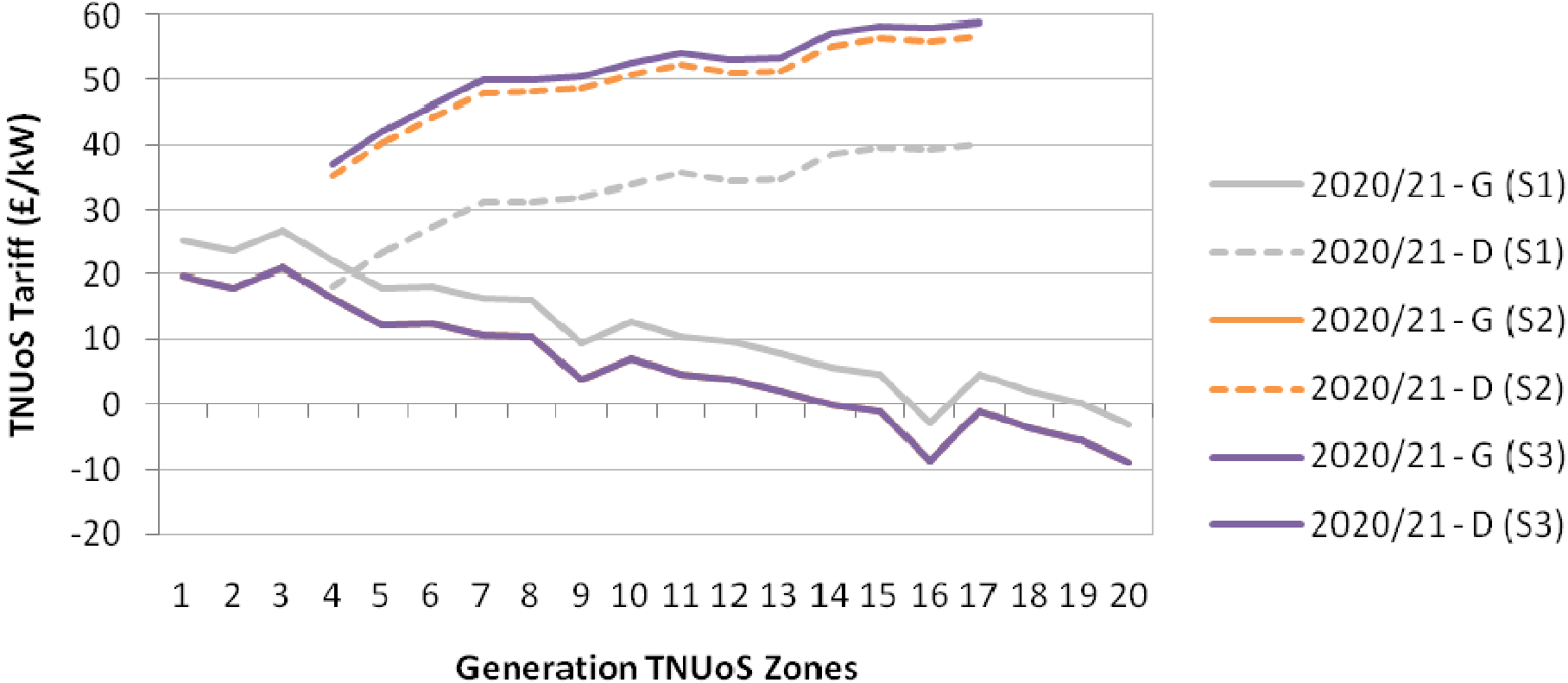
‘Solution 2’ 2020/21	
MAR	3300
G Revenue	891
D Revenue	2409
OFTO local	175.77
G Residual	1.791
D Residual	48.377

‘Solution 3’ 2020/21	
MAR	3300
G Revenue	891
D Revenue	2409
OFTO local	65.1
G Residual	1.791
D Residual	50.328

- Impact on wider locational tariffs and revenues of RUK solutions modelled
- Modelling uses NGET onshore and offshore assumptions set out on slide 8 in 2011/12 transport model (i.e. only revenue variables changed)
- $MAR = 1724 + 1000 + 576 = \text{£}3300\text{m}$

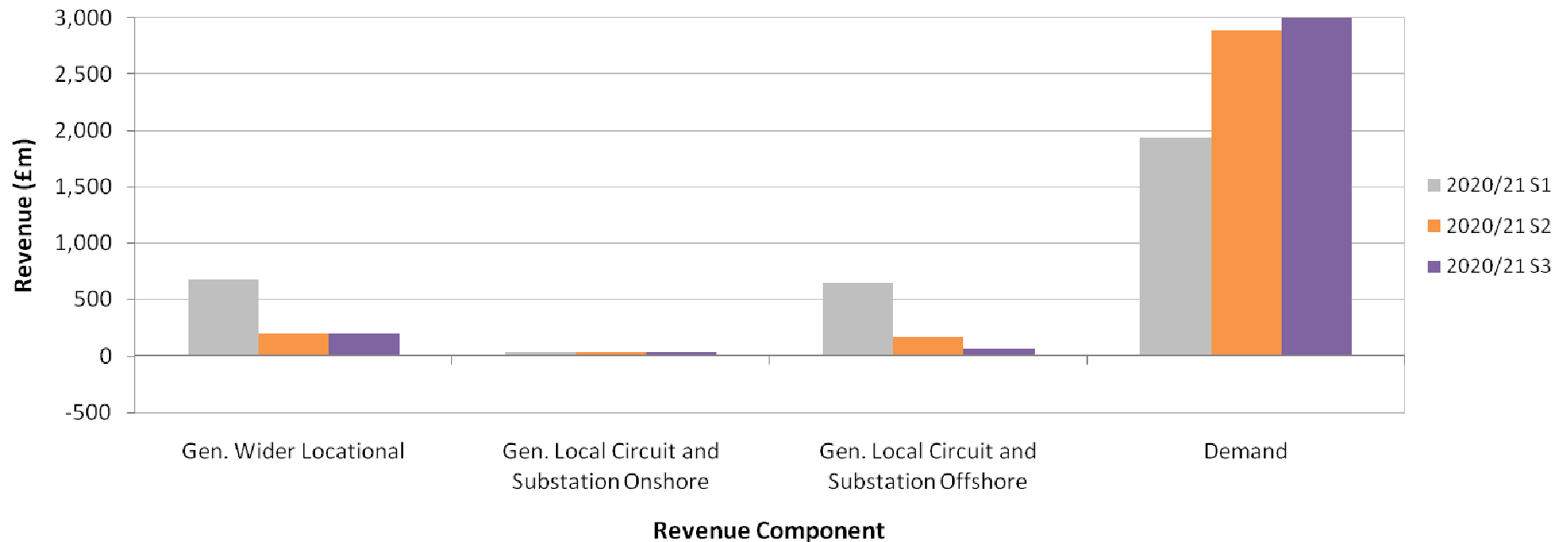
(Round down from RIIO BP submissions – includes depreciation)

RUK Scenarios – Impact on Tariffs



- Effect on generation tariffs same for S2 and S3

RUK Scenarios – Impact on Revenue



- Offshore generators pay progressively less revenue
- Demand users pay progressively more revenue