



Ofgem TransmiT Offshore and Onshore Charges

Theme 6
Generation / Demand share of local charges

Guy Nicholson RenewableUK

For Ofgem TransmiT WG # 5 London 25 August 2011

Background

- RenewableUK has flagged our concern that under the current "TNUoS" charging regime there is a significant imbalance between offshore and onshore generation charging and the TransmiT should address this issue.
- It is a complex issue and the Ofgem TransmiT WG has made a helpful contribution to the debate and analysis.
- This short presentation is to synthesise that feedback and present a potential solution to the issue.





National Grid Analysis

- Following initial analysis by RenewableUK NGET produced a revised version of the numbers.
- This case is for an assumed 18GW offshore in 2020/1.
- These numbers have been accepted except that the "OFTO annuity" has been changed to 10% (estimated) allow for O&M costs.

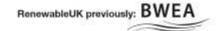
Future Revenue - Assumptions

THE POWER OF ACTION

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





Scenarios for 2020

- Under the current TNUoS model:
 - Average generation charges in 2020 would be £9.55/kW with 77GW and no offshore wind.
 - Assuming another 18GW of generation was added <u>onshore</u>, the average generator charge would fall to £7.74/kW as more generation is sharing the same assets.
 - However, if the 18GW of generation were connected <u>offshore</u> instead, the onshore generator charges would fall to £2.81/kW.
- This is clearly not cost-reflective for onshore generation, which is seeing a vast reduction in charges for no reduction in transmission system service, or assets to use.





The current TNUoS model

 Why does onshore generation benefit from offshore connection in the current TNUoS model?

Because:

- for every £1 of spend on offshore transmission, NGET collects ~£1.60 in charges from demand and offshore generation.
 - (this £1.60 comprises 73p from demand customers and ~90p from offshore generators)
- As NGET has a regulated income, over collection in one area must result in reduction in charges elsewhere.
- This reduction benefits onshore generation.





What can be done

- RenewableUK has proposed that the TNUoS model should be changed so that:
 - For every £1.00 spent of offshore transmission only £1.00 should be collected in revenue.
 - This would avoid the over collection and resultant perverse reduction in charges for onshore generation.

The results:

- Onshore generation would pay £7.74/kW the same as if the 18GW were connected onshore.
- Onshore generation benefits from lower tariffs due to offshore generation, but not in a perverse manner.



