

Ofgem TransmiT

Offshore and Onshore Charges

Theme 6

Generation / Demand share of local charges

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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 onshore, 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 offshore 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.