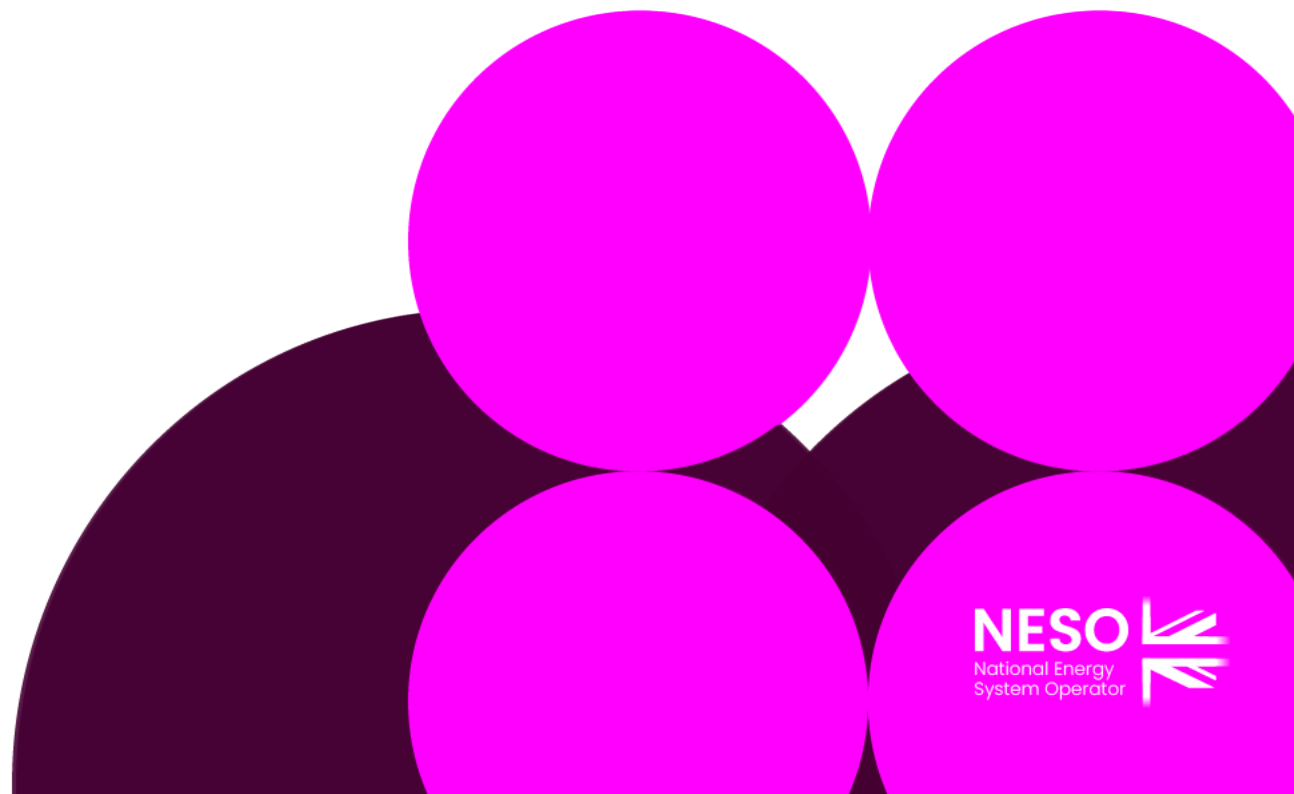


NESO Actions

Martin Cahill – NESO



NESO Actions

- From the Second Send back letter, Ofgem outlined the below NESO actions:
- Explain how the IAE process currently works and reference how this follows CUSC
- Identify “equivalent process” for onshore
- Explain how this equivalent process works,

What is in the licence?

- The relevant licence condition is E12–J3 from OFTO licence, which describes allowed pass-through items, as well as further details of what constitutes an IAE.

Amended Standard Condition E12–J3: Restriction of Transmission Revenue: Allowed Pass-through Items

1. The purpose of this condition is to provide for revenue adjustments to reflect certain costs that can be passed through to consumers as part of Allowed Transmission Owner Revenue (OFTO_t).
2. For the purposes of paragraph 4 of amended standard condition E12–J2 (Restriction of Transmission Revenue: Revenue from Transmission Owner Services) the pass-through revenue adjustment term (PT_t) is derived from the following formula

$$PT_t = LF_t + RB_t + CEL_t + DC_t + IAT_t + TPD_t + TCA_t + MCA_t + CEA_t - RFG_t$$

(8)

What is in the CUSC?

- CUSC 14.15.80 Offshore circuit expansion factors details the allowed revenue for OFTOs for each circuit, and these are recalculated at the start of each price control.
- Due to these only being recalculated at the start of a price control, an IAE would initially be recovered through the TDR, but then adjusted at the start of the price control.

Offshore Circuit Expansion Factors

14.15.80 Offshore expansion factors (£/MWkm) are derived from information provided by Offshore Transmission Owners for each offshore circuit. Offshore expansion factors are Offshore Transmission Owner and circuit specific. Each Offshore Transmission Owner will periodically provide, via the STC, information to derive an annual circuit revenue requirement. The offshore circuit revenue shall include revenues associated with the Offshore Transmission Owner's reactive compensation equipment, harmonic filtering equipment, asset spares and HVDC converter stations.

The local circuit tariff is updated with a new local expansion factor via 14.15.121

What is in the CUSC?

- In between price controls, the yearly amount is collected via TDR:
- Offshore local circuit tariffs cannot be updated
- This means there is an increase in TNUoS Revenue Recovery Target, with TDR increasing to ensure that the TOs recover their total allowed revenues

CUSC v1.41b

The Residual Tariff

The total revenue to be recovered through TNUoS charges is determined each year with reference to the Transmission Licensees' Price Control formulas less the costs expected to be recovered through Pre-Vesting connection charges. Hence in any given year t , a target revenue figure for TNUoS charges (TRR $_t$) is set after adjusting for any under or over recovery for and including, the small generators discount is as follows:

$$TRR_t = R_t - PVC_t - SG_{t-1}$$

Where

- TRR $_t$ = TNUoS Revenue Recovery target for year t
 R_t = Forecast Revenue allowed under **The Company's** Price Control for year t (this term includes a number of adjustments, including for over/under recovery from the previous year). For further information, refer to Special Condition D2 of **The Company's** Transmission Licence.
 PVC_t = Forecast Revenue from Pre-Vesting connection charges for year t
 SG_{t-1} = The proportion of the under/over recovery included within R_t which relates to the operation of statement C13 of **The Company** Transmission Licence. Should the operation of statement C13 result in an under recovery in year $t - 1$, the SG figure will be positive and vice versa for an over recovery.

14.15.137 As a result of the factors above, in order to ensure adequate recovery of total Transmission Owner revenue, a set of non-locational **Transmission Demand Residual Tariffs** are calculated, which include infrastructure substation asset costs. These tariffs are billed alongside the initial transport tariffs for demand only so that the total revenue recovery is achieved. The total amount of revenue to be recovered through **Transmission Demand Residual Tariffs** is defined as the **Transmission Demand Residual**.

$$TDR = TRR - ITRR_{DPS} - ITRR_{DYS} - ITRR_{EE} - ITRR_{GPS} - ITRR_{GYRNS} - ITRR_{GYRS} - LCRR_{GG} - AdjRevenue$$

Where

- TDR = **Transmission Demand Residual**
 AdjRevenue = Adjustment Revenue as per paragraph 14.14.5

Process followed

- The allowed revenue is updated by TOs to NESO and because revenue has increased (the difference between allowed revenues and locational charges increase), TDR must increase.
- Before the next price control, TOs will provide any information such as IAEs alongside multiple other parameters to NESO which will be used to recalculate local circuit charges.
- Any fluctuations in the OFTOs revenue that occurred within the previous price control are incorporated into the calculations for the new tariff. This means that the appropriate quantity is recouped from the offshore generator.
- Any additional collection in turn reduces the demand residual tariff and balances out where they had previously paid extra (or vice versa).

Equivalent Onshore Process

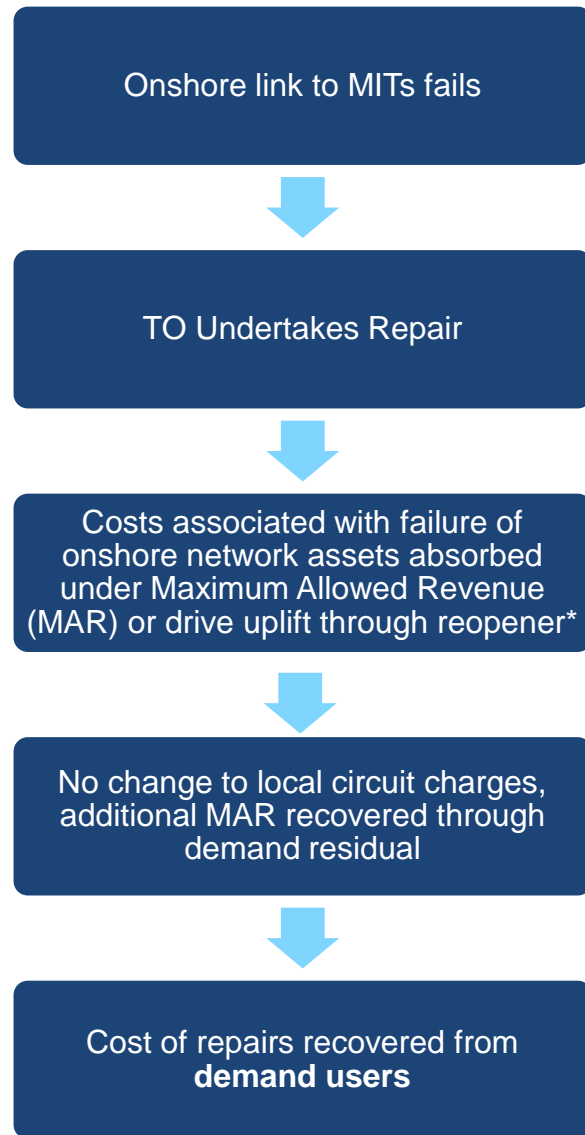
- The closest equivalent process for onshore would be a Cost and Output Adjusting Event and although does not work in the same way as an IAE it could lead to an increase in revenue through adjustment to the baseline through force majeure.
- As onshore local circuit charges do not target specific costs in the same way as offshore local circuit charges, there would be no update to onshore local circuit charges at the following price control following a Cost and Output Adjusting Event.
- Instead, any increase in allowed revenue would be collected via TDR, with no later adjustment.



Comparing Onshore and Offshore Charges

Tom Steward,
RWE Offshore

Onshore



* E.g. SHET Subsea Cable Re-opener



Offshore

