

# Background to Development of Dynamic + Postage Stamp Methodology

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# Outline

- Background
- Objectives
- Research

# BACKGROUND

# Why All Island locational GTUoS?

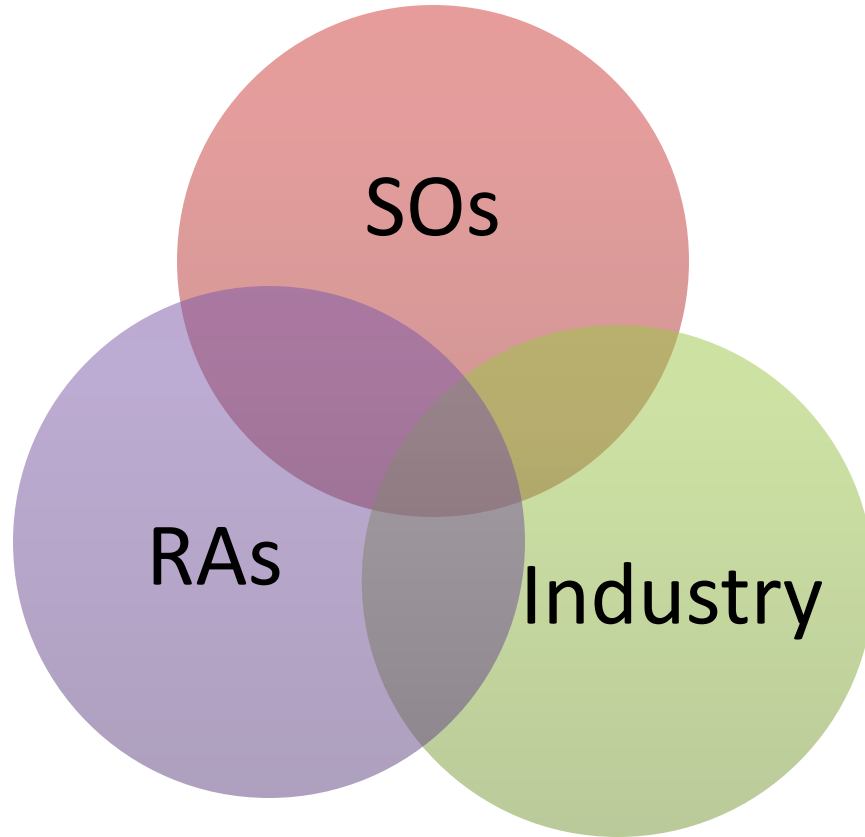
- 2005 SEM High Level Design – All Island Locational TUoS charge required
- This was to complement the other market based entry/exit signals
  - Connection Pricing – (Entry Signal)
  - Loss Factors – (Entry Signal)
  - Firm Access Quantities (FAQs) –(Entry Signal)
  - Use of System (Entry & Exit Signal)
- Each Signal exists for a different purpose but collectively seek to provide effective Entry/Exit Signal
- 2007 SEM saw the removal of congestion charges and access to All Island Market and a move away from deep connection charging in NI

# Timeline

- January 09 - RA's requested new review
  - March 09 - Workshop
  - April 09 – Questionnaire & Invite for Industry papers
  - May 09 - Methodology Options Paper
  - Nov 09 – Preferred Options Paper
  - Nov 09 Workshop
  - February 10 – TSO Provide updated Recommendations to SEMC
  - SEMC Decision December 2010
  - Final consultation and Indicative Tariffs April 2011.
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# OBJECTIVES

# Primary Objectives





# Primary Objectives

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- Efficiency

2

- Transparency

3

- Predictability

4

- Stability

5

- Cost-reflectiveness

# Additional Considerations

## Licence Requirements

- The SOs have statutory obligations to run safe, secure and efficient networks. The principle of efficiency is therefore a critical element in any design.

## Consistency between planning and pricing

- Pricing should reflect the network planning philosophy where appropriate. A disconnect between the two could lead to inefficient outcomes

## Value of the network

- Any tariff regime attempts to value the network. This can be challenging but should be consistent with regulatory principles.

# Research & Determination of Preferred Option

- Research was carried out looking at network pricing international best practice
- Options paper published outlining each approach and their rating against the primary objectives and their industry agreed weightings
- Peer reviewed by leading International Academic in field of Network pricing
- Preferred Options Paper published – including indicative tariffs



# Aim

- The main aim of the Dynamic plus Postage Stamp methodology is to differentiate the impact that participants have on the transmission system through providing a forward looking locational signal.
    - Those participants that drive investment pay higher tariffs.
  - Tariffs charged to generators should reflect, to some degree, the cost that they will impose upon the system in the future.
  - The tariff design also includes a postage stamp element that seeks to recover, on a pro-rata and socialised basis, the sunk network costs.
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# Questions

Any Questions?