NTSCMF / Sub Group - the use of Fixed Payable Price or Floating Payable price for Incremental

Some key terms in relation to incremental:

Term	Detail
Fixed Payable Price	As per TAR NC definitions "'*fixed payable price'* means a price calculated in accordance with Article 24(b) where the reserve price is not subject to any adjustments." This does not directly correlate to the pay as bid price that currently exists for entry capacity. The charge under the fixed payable price is subject to new items such as a risk premium and index.
Risk Premium	Reflecting the benefits of certainty regarding the level of transmission tariff, where such premium shall be no less than zero.
Index	The ratio between the chosen index at the time of use and the same index at the time the product was auctioned.
Floating Payable Price	As per TAR NC definitions "'*floating payable price'* means a price calculated in accordance with Article 24(a) where the reserve price is subject to adjustments such as revenue reconciliation, adjustment of the allowed revenue or adjustment of the forecasted contracted capacity."

Background

Article 25 of the EU Tariff Network Code (TAR NC) stipulates that Fixed cannot be offered for existing capacity. If offered, Fixed can only be offered for incremental capacity and article 25 allows both Fixed and Floating to be offered for incremental. The calculation of Fixed (Article 24) includes the use of a Risk Premium, something that is not currently part of the charging framework for incremental. Article 17(2) states that:

"*Where and to the extent that the transmission system operator functions under a price cap regime or applies a fixed payable price approach set out in Article 24(b), no revenue reconciliation shall occur and all risks related to under- or over-recovery shall be covered exclusively by the risk premium. In such case Articles 18, 19(1) to (4) and 20 shall not apply."*

The stipulation that the risk premium (something not present in current GB methodology) covers risks related to under or over recovery where the fixed payable approach is used, means that it could open up the price control of RIIO-T1 to include this mechanism into the revenue reconciliation processes.

Summary of Discussion(s)

- The definition of Fixed Payable Price with the inclusion of the risk premium is not something in place as part of the current GB methodology;
- The risk premium would be an uncertain and unpredictable element for payable prices. The potential for this to open up the price control would potentially impact the Licence and the revenue calculation and recovery.
- Whilst it will be possible to apply different treatment to IP's/Non-IP's as articles 24 and 25 are IP specific, this is an issue where it will be necessary to consider the potential separate treatment of IP's and Non-IP's. Therefore any conclusion may need to be revisited.

Conclusion

The suggestion is that the nature of the TAR NC in relation to the use of Fixed Payable Price and Floating Payable price is that the Floating Payable Price is more suitable than the Fixed Payable Price.

There are links to this approach for the CAM / TAR NC changes taking place during 2017 on the pricing approach for Incremental capacity.

Version Control

V0.1	First draft based on sub-group on 19.12.16
V1.0	Minor update and agreed at sub-group on 18.01.2017