

# Generic Revenue Driver Methodology

UNC Transmission Workgroup  
1<sup>st</sup> November 2012

# Introduction

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- **RIIO-T1 IPs state that Revenue Drivers should be in place in the Licence in a timely manner and we proposed using a Generic Revenue Driver Methodology (GRDM)**
  - Draft GRDM included in May 2012 SO External incentives submission.
  - Subsequent discussions relating to IPs have clarified that
    - Ofgem agrees in principle with the use of a GRDM, but that
    - a contingency should be included within the Licence if the methodology is not in place for the start of the RIIO-T1 period.
- **The GRDM should enable the process to be more efficient and less critical to the delivery timescales**
  - We believe Revenue Drivers should still be in the Licence for transparency
- **We have**
  - updated the Generic Revenue Driver Methodology in light of IPs and
  - issued a draft consultation so that it can be in place for the start of the RIIO-T1 period, i.e. 1 April 2013 (Subject to Final Proposals).

## Methodology Overview

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- **The principle steps of the Generic Revenue Driver methodology are as follows. For each Revenue Driver, National Grid will**
  1. use the relevant supply/demand scenario to identify investment projects to deliver 100% of incremental capacity
  2. cost up these projects using an agreed library of unit costs
  3. identify if a full or part contractual solution is the optimum solution
  4. use
    - 100% of the investment cost for any part of the incremental capacity met through network investment; and
    - 80% of the investment cost for that part of the investment solution for which a contract is the best option
  5. identify the change in residual capacity constraint risk, (post investment/contract solution), and propose any appropriate changes (+/-) to the constraint target.

## Revenue Driver Calculation Trigger

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- **The determination of a Revenue Driver, in accordance with this Generic Revenue Driver Methodology will be triggered by**
  - The signature of a Full Connection Offer in accordance with the UNC; and
  - A formal request from that user for the determination of a Revenue Driver at the relevant System Point
- **Where a Revenue Driver already exists for an entry or exit point, it will be recalculated if there are material changes to:**
  - The level of incremental capacity requested
  - The availability of unsold capacity at the relevant system point or in interacting zones/ASEPs
  - The forecast supply and demand scenario
  - The unit costs
  - The complexity of the build

## Consultation

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- **We would appreciate comments on the proposed methodology statement**
- **We would welcome views on**
  1. The proposed contingency arrangements if the GRDM is not in place for 1 April 2013
    - This could include insertion of only those Revenue Drivers that Industry parties have indicated would be needed in the first year of the RIIO-T1 period (i.e. for the July 2013 exit application window and March 2014 QSEC auction or any ad-hoc exit application or new entry point auction).
  2. Whether there are any confidentiality issues associated with the process of including only certain Revenue Drivers within the Licence and also
  3. Whether Revenue Drivers should only be applicable for a limited time period such that they would be removed from the Licence when they have 'timed out'

***Consultation Closing Date 29<sup>th</sup> November 2012***