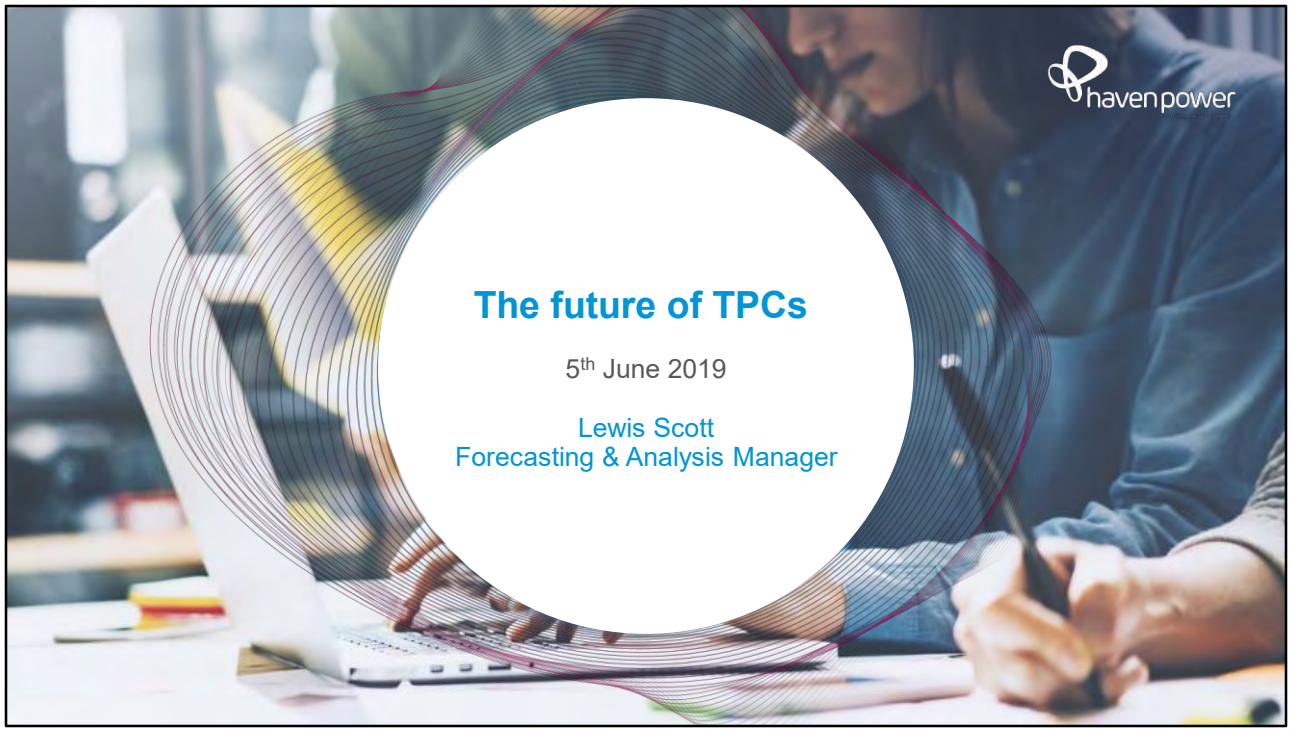
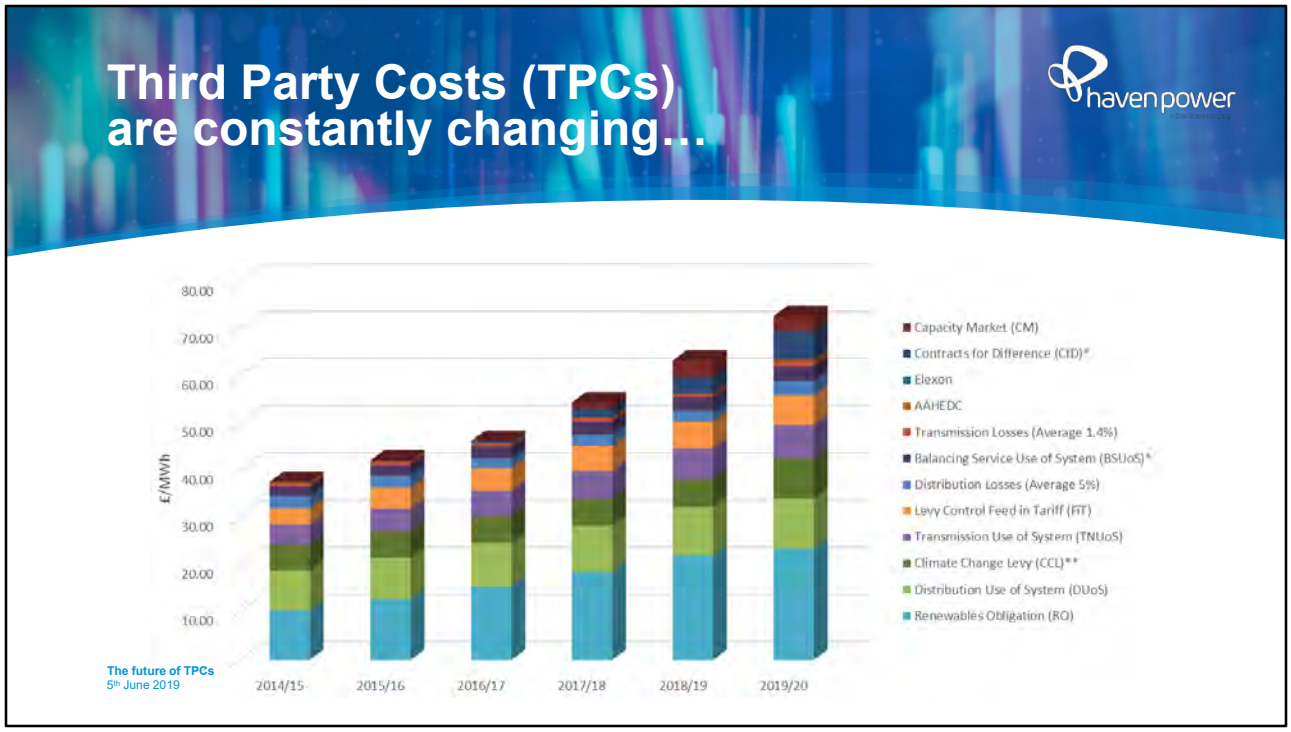


Good afternoon all, my names Lewis I head up the forecasting and analysis team at Haven Power.

This afternoon I'm going to discuss the future of Third Party Costs (or TPCs). For those of you who aren't familiar with TPCs, these are costs levied onto suppliers by third parties for managing and maintaining the system and incentivise 'new' build low carbon generation. These costs are then passed onto consumers by Suppliers.



So before we begin to focus on the future, lets review the TPC journey. As you can see over the last 5 years the total TPC cost have increased at an enormous rate.

So what has been driving this….

1) The government introduced the 'Renewable Obligation' in 2002, to incentivise large scale new build low carbon generation. The RO places an obligation on supplies to source an ever increasing proportion of their electricity from renewable sources. This percentage was initially set at 3%, but has since increased to 48.4% for 19/20 which translates into £23.61/MWh for consumers. Making this the single largest non commodity charge.

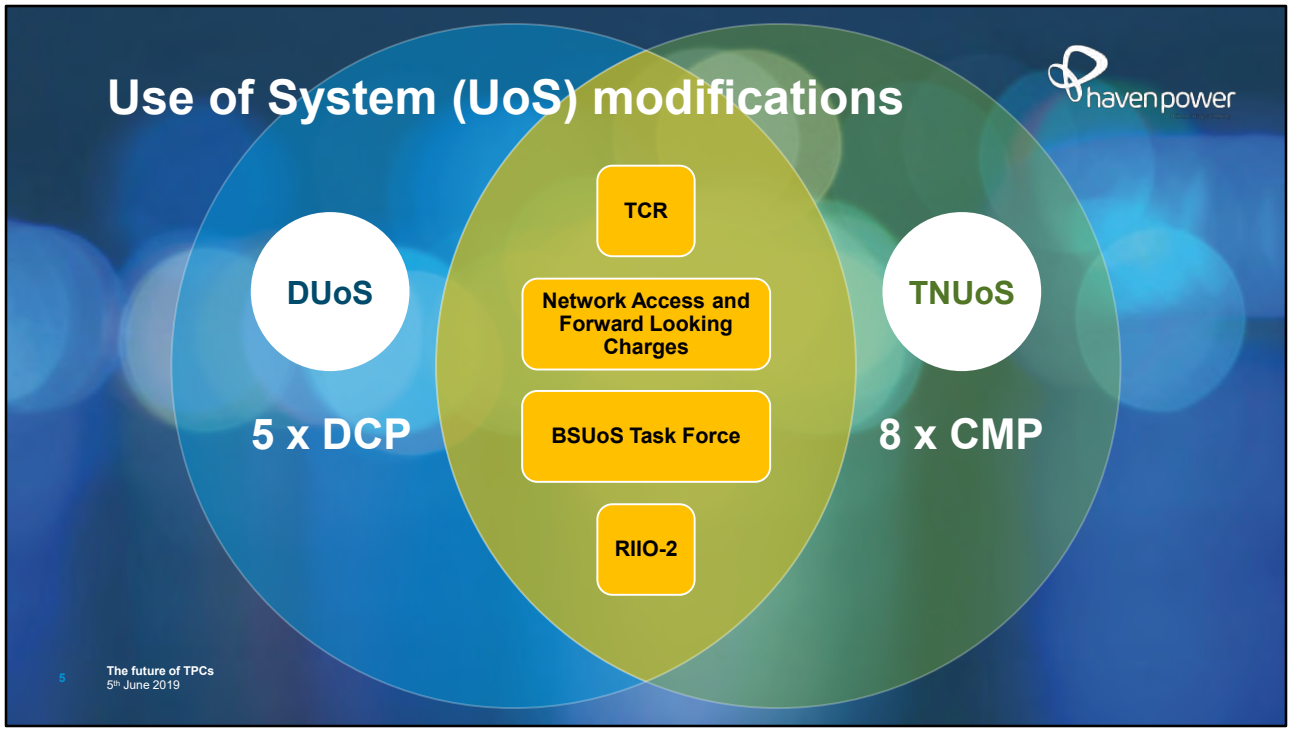
2) Use of system charges – explain them these costs have continued to rise YOY by x/MWh

3) Plus the recent introduction of the CfD & CM schemes

As I'm sure you will agree TPCs are constantly changing…

I have a simple answer to this question…

I'm now going to delve a little deeper into this statement … starting with the weakening YOY increase!!!



Here we show the sheer amount that are currently being discussed. The complexity of dealing with this number of changes and changing the interactions between each modification is extremely challenging.

Today we're going to focus on SCR and Network Access and Forward Looking Charges.

What else?

Current	
Transmission generators	**Pay**
Demand	**Pay**
Embedded generators	**Payment**

Proposed

Demand pays

The possible removal of the Balancing Services Use of System (BSUoS) embedded benefit - among other things -

- Another revenue channel reduced or stopped for small scale generation, this would again reduce the charge for demand customer
- However, costs may be recovered only from demand customers (removing charge for transmission connected generation)
- This would increase the charges by ~1.8x…

BUT wholesale prices may fall as generators are no longer charged

Capacity market uncertainty

- o 15th Nov 18 state aid **annulled** for GB Capacity Market
- o Supplier Charges and Capacity Payments **suspended**
- o Feb 19 investigation started (results within days instead of weeks), still waiting
- o T-1 19/20 and T-4 2023 cancelled, response to consultation (T-1 later in summer, T-3 to replace T-4)
- o Dept for Business, Energy and Industrial Strategy (BEIS) is looking to secure European Commission's agreement that the currently suspended CM payments will be paid to capacity provided, and that suppliers will be asked to fund those payments.
- o 5th Feb 19 - Introduction of a CM Supplier Interim Charge, with Supplier instalments starting from Mar-19 (back-dated to Oct-18). To protect industry, and consumers, from a price shock in the event the CM standstill is lifted and suppliers are required to make back payments.
- o ESC putting in the provisions to allow suppliers to make vol cost payments
- o Polish capacity market in the news, supposedly has the same fallings as the UK scheme

Mutualisation triggered as suppliers default

8 The future of TPCs
5th June 2019

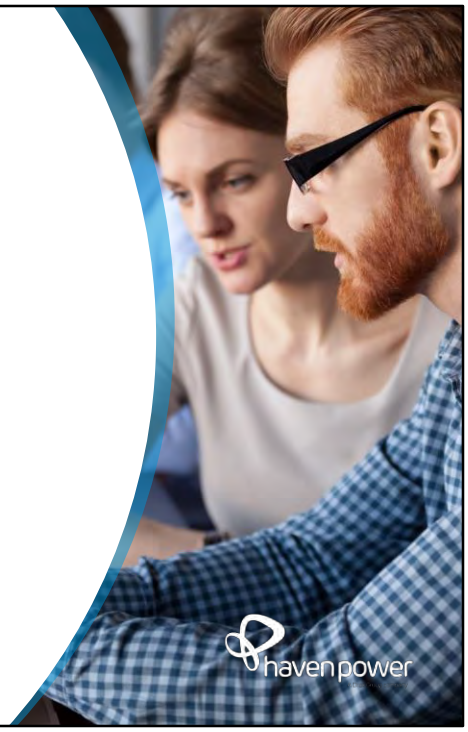
Mutualisation differs per TPC, all renewables & CM all have Mutualisation. However, CfD/CM no limit (as soon as 1 supplier defaults we pay) whereas RO £16.94m (the 18/19 trigger value) (E,W,Sc). As soon as its exceeded but we recover all. Therefore re-distributed via the recycle fund. Then its collected quarterly. Aug-19, Nov-19

If Mutualisation isn't triggered it comes out of the recycle fund for RO.

CfD set up helps mitigate the risk (billed daily, large credit cover etc), generally similar to CM (100% credit for a month, plus billed 1 month in advance)

Summary

- TPCs are set to continue increasing
- But not at historic year-on-year % levels
- Charging landscape expected to change



Thank you

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