

Electricity Transmission Charges

This brief provides an overview of network charging arrangements for electricity transmission. On average these costs equate to around 6% per annum of an average domestic consumer's bill. These are separate charges to those network charges that recover the cost of distribution companies such as Scottish Hydro-Electric Power Distribution.

Transmission charges for consumers are calculated based on two key elements.

1. Allowed Revenue

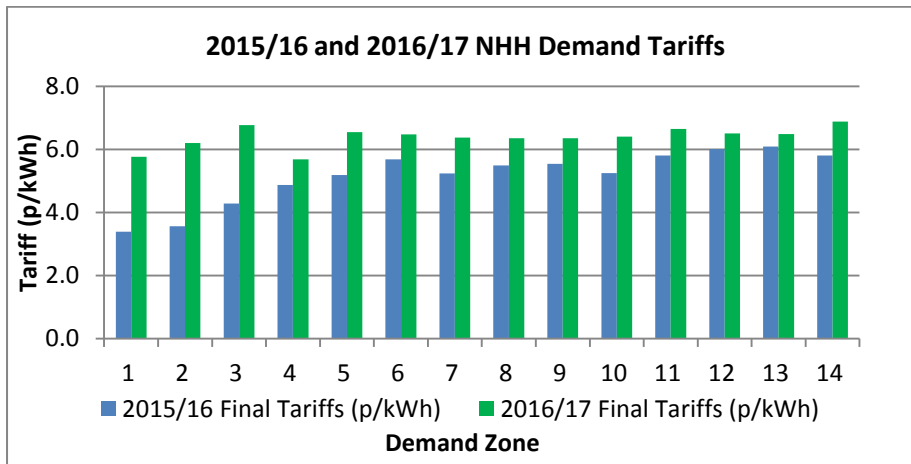
The overall revenue for all transmission companies is calculated in an annual iteration process by Ofgem. This ensures that the correct revenue is collected in a given year based on the price control of the individual companies involved. In 2016/17 the revenues for each group of transmission companies was as follows.

2016/17 Allowed Revenue	£m
National Grid	£1,785.50
Scottish Power Transmission	£294.60
Scottish Hydro Transmission	£322.80
Offshore Operators	£260.80

National Grid in its role as System Operator is responsible for collecting the revenues for each of the transmission companies. Variances in the revenue collected compared to the revenue allowed is recouped in future years.

2. Charging Methodology

The allowed revenues are split between generation and demand based upon a cap of €2.50/MWh for generators in accordance with European legislation (ECR 838/2010). A locational methodology is applied to reflect the regional investment needed in transmission for both generation and demand. As a result demand charges for Scottish consumers are amongst the lowest in GB reflecting the large amount of generation in the region. The reverse is due for generation charges. This locational signal does not recover the entire allowed revenues with the remainder being recovered via a residual charge which smears the remaining revenue equally across all GB demand. Different methodologies are used for both non-hourly metered (NHH) customers (such as domestic consumers) and half-hourly metered customers who are charged in accordance with their usage at the three highest demand periods over the winter period (the Triad).



In previous years there has been a larger differential between transmission costs for demand customers within Zones 1 and 2 (North and Southern Scotland) and rest of the UK, however, this has flattened in 2016/17 due to changes within the network such as the closure of Longannet Power Station. To put this into context Scottish NHH customers who account for 10% of annual demand between the hours of 4-7pm, are expected to pay ~£150m of the total revenue outlined above. This compares to a national recovery from NHH customers of ~£1,650m. From 2017/18 this is forecast to reverse somewhat due to new infrastructure build creating similar regional differentials as seen for 2015/16. For Scottish HH consumers, revenues received are ~£0m due to a combination of lower than average GB charges and payments made to Distribution connected generation, which nets off any revenue recovered. HH revenues from the rest of GB equate to £600m

National Grid