Cap and Collar mechanism – Tariff methodology

Year	Zone 1	Collar	Cap	Tariff Cap	Tariff Collar
1		0	0		
2		0	0		
3		0.25	-0.25		
4		0.25	-0.25		
5		0.75	-0.75		
6		0.75	-0.75	0.75	-0.75
7		1.25	-1.25	1.25	-1.25
8		1.25	-1.25	1.25	-1.25
9		2.50	-2.50	2.50	-2.50
10	56	2.50	-2.50	58.50	53.50

2025/6	2026/7	2027/8	2028/9
			56.75 55.25
		57.25 54.75	
	57.25 54.75		
58.50 53.50			

	2025/6	Adjusted
1		
2		
3		
4		
5		
6		
7		
8		
9	58	
10	59	

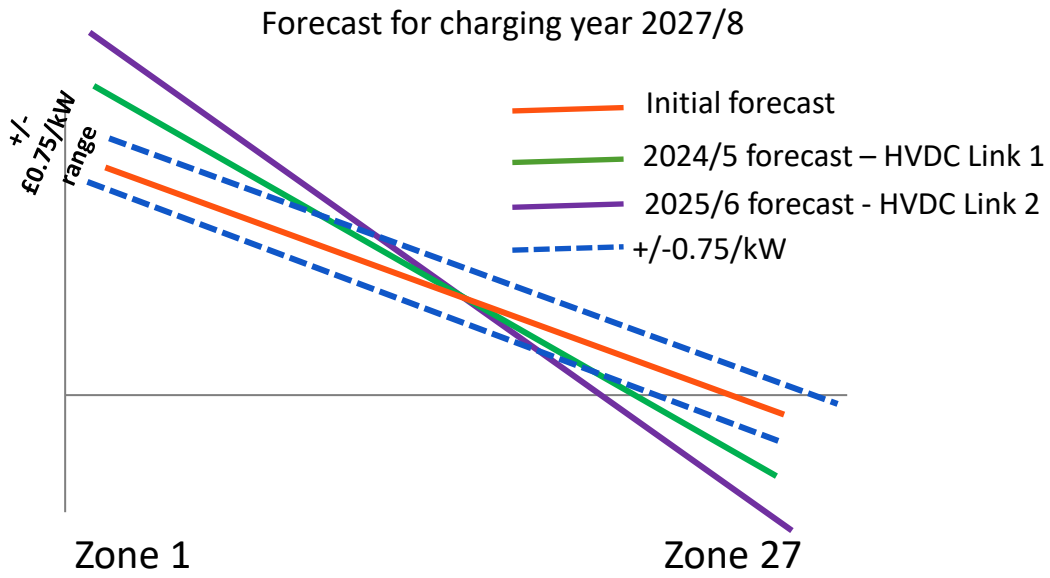
	2026/7	Adjusted
2		
3		
4		
5		
6		
7		
8		
9	55	
10		
11	65	

	2026/7	Adjusted
3		
4		
5		
6		
7		
9		
9	51	54.75
10		
11		
12	55	

	2026/7	Adjusted
4		
5		
6		
7		
8		
9	65	56.75
10		
11		
12		
13	63	

- ESO Forecasts Zone 1 for forecast year 10 at a value of £56/kW – this is the main value in which all subsequent forecasts will be pegged to
- In the next forecast year the ESO forecasts Zone 1 (which now becomes Year 9) at £58/kW (it is in the range of £53.50/kW to £58.50/kW) so this forecast remains
- In the next subsequent forecast the ESO forecasts Zone 1 (which now becomes Year 8) at £55/kW (it is between the range of £54.75/kW and £57.25/kW) so this forecast remains
- In the next subsequent forecast the ESO forecasts Zone 1 (which now becomes Year 7) at £51/kW (is it not between the range of £54.75/kW and £57.25/kW) and therefore the ESO forecast is substituted with the floor of the range; £54.75/kW)
- In the next subsequent forecast the ESO forecasts Zone 1 (which now becomes Year 6) at £65/kW (is it not between the range of £55.25/kW and £56.75/kW) and therefore the ESO forecast is substituted with the cap of the range; £56.75/kW)

Real life example - 2027/8 charging year



Updates to forecast	HVDC Link 1 2027/8 Adjustment to Generation tariff	HVDC Link 2 2027/8 Adjustment to Generation tariff	2027/8 Demand adjustment for any positive and negative tariffs over £1/kW	2027/8 Demand adjustment for any positive and negative tariffs over £1/kW
2024/5	Cannot collect £143m from generators, so cap is reduced by 1.39/kW		£31m	+1.0%
2025/6		Cannot collect £82m from generators, so cap is reduced by 0.79/kW	£82m	2.7%

Modelling a new the new Eastern HVDC link makes the curve steeper. The model tries to recover more revenue from generators than is permissible under EC838/2010. Therefore the generator residual value is reduced to ensure no breach occurs.

A number of generators face either an increase or decrease in contribution but it is capped. The excess revenue is then adjusted to the demand residual tariff in the year the breach occurred.