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NTS Entry Capacity
Reserve prices for 2011/12 Capacity

30 June 2011

Introduction

- NTS Entry and Exit Capacity prices are normally updated from 1st October, with 2 months prior notice
- The next relevant auction for entry capacity allocated from 1st October 2011 is the RMTTSEC auction held in September, hence, National Grid NTS is providing 2 months notice ahead of 1st September 2011
- This slide pack explains;
  - Changes in 2011/12 reserve prices compared with 2010/11 reserve prices, and
  - Changes in 2011/12 reserve prices compared with the previous 2011/12 reserve prices from the 2011 AMSEC auction

Reserve prices for MSEC capacity
(10/11$_{RM}$ → 11/12$_{RM}$)

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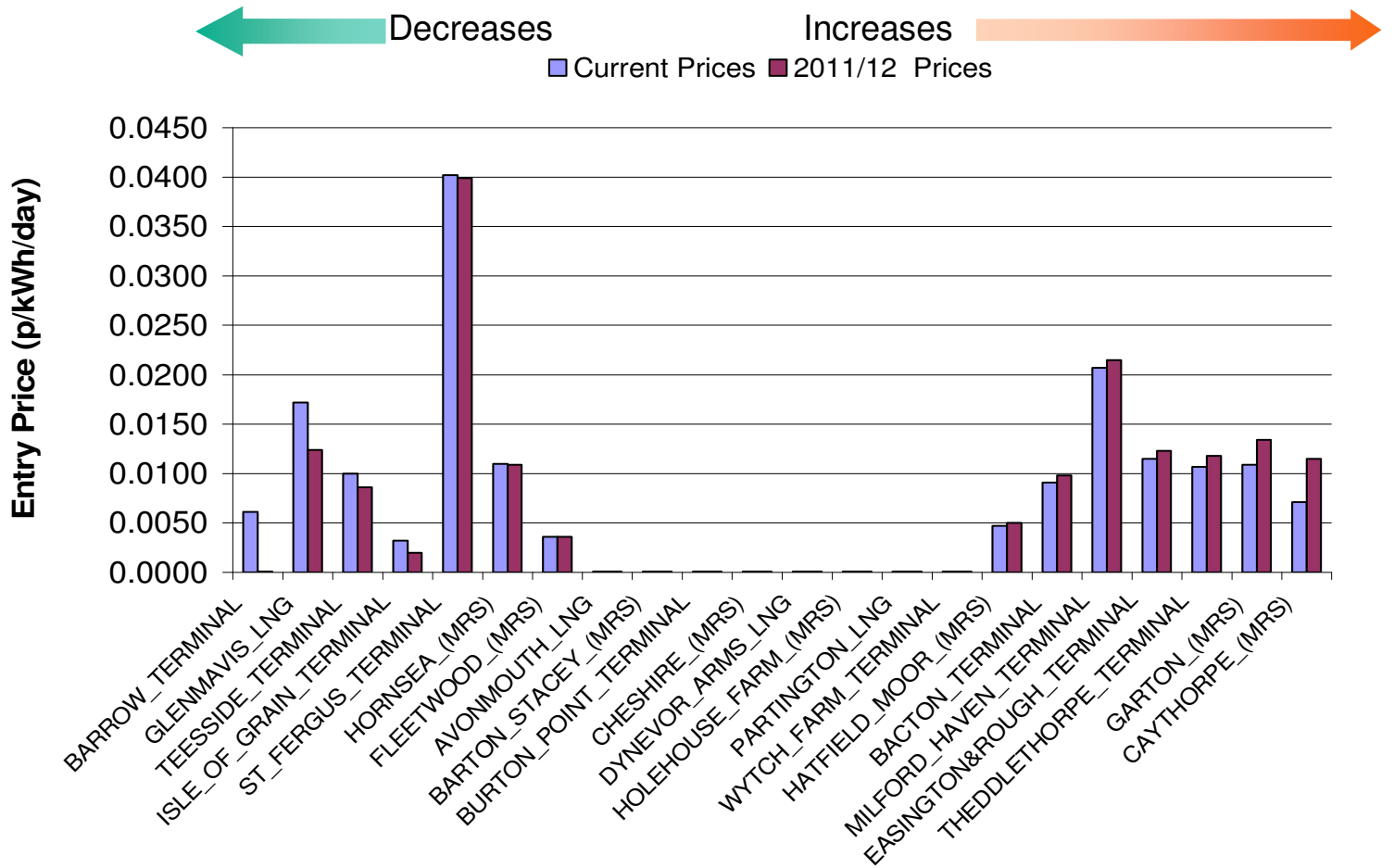

Reserve prices for MSEC capacity
($10/11_{RM}$ → $11/12_{RM}$)

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	2010/11	2011/12	Change	% Change
AVONMOUTH_LNG	0.0001	0.0001	0.0000	0%
BACTON_TERMINAL	0.0091	0.0098	0.0007	8%
BARROW_TERMINAL	0.0061	0.0001	-0.0060	-98%
BARTON_STACEY_(MRS)	0.0001	0.0001	0.0000	0%
BURTON_POINT_TERMINAL	0.0001	0.0001	0.0000	0%
CAYTHORPE_(MRS)	0.0071	0.0115	0.0044	62%
CHESHIRE_(MRS)	0.0001	0.0001	0.0000	0%
DYNEVOR_ARMS_LNG	0.0001	0.0001	0.0000	0%
EASINGTON&ROUGH_TERMINAL	0.0115	0.0123	0.0008	7%
FLEETWOOD_(MRS)	0.0036	0.0036	0.0000	0%
GARTON_(MRS)	0.0109	0.0134	0.0025	23%
GLENMAVIS_LNG	0.0172	0.0124	-0.0048	-28%
HATFIELD_MOOR_(MRS)	0.0047	0.005	0.0003	6%
HOLEHOUSE_FARM_(MRS)	0.0001	0.0001	0.0000	0%
HORNSEA_(MRS)	0.0110	0.0109	-0.0001	-1%
ISLE_OF_GRAIN_TERMINAL	0.0032	0.002	-0.0012	-38%
MILFORD_HAVEN_TERMINAL	0.0207	0.0215	0.0008	4%
PARTINGTON_LNG	0.0001	0.0001	0.0000	0%
ST_FERGUS_TERMINAL	0.0402	0.0399	-0.0003	-1%
TEESSIDE_TERMINAL	0.0100	0.0086	-0.0014	-14%
THEDDLETHORPE_TERMINAL	0.0107	0.0118	0.0011	10%
WYTCH_FARM_TERMINAL	0.0001	0.0001	0.0000	0%

Changes from previous years prices
(10/11$_{RM}$ → 11/12$_{RM}$)

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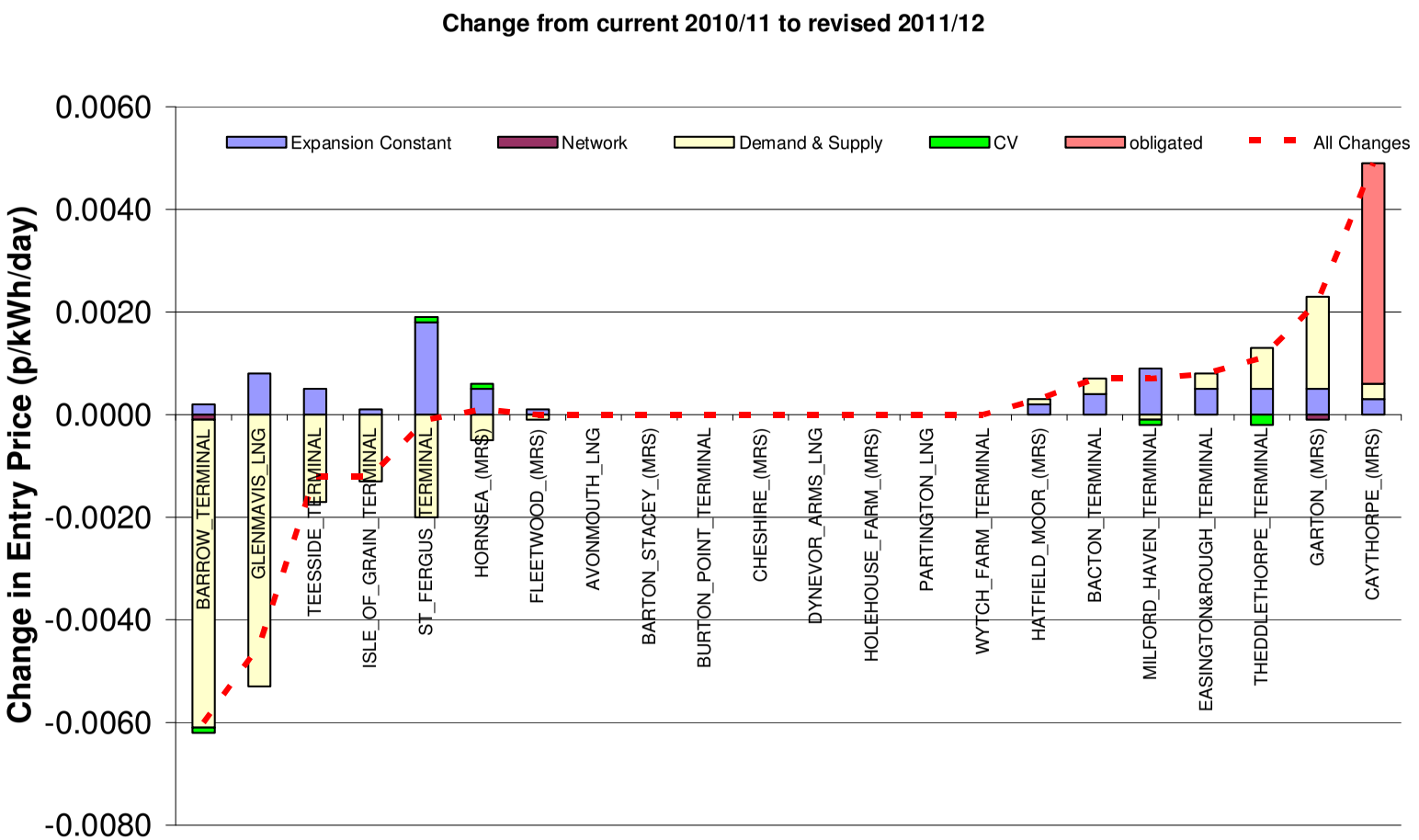

Focus on Expansion Constant

- Entry points that are furthest from the centres of demand most affected
  - The Expansion Constant represents the capital cost for an additional unit of capacity per unit of gas flow distance (£/GWh/km)
  - Updated annually according to RPI (as an indicator for materials & labour) (5% increase on last years)
  - Those Entry Points with the greatest impact are (largest first):
    - St. Fergus
    - Milford Haven
    - Glenmavis
  - An incremental GWh of supply at these sites will result in an increased flow over a greater distance to transport the gas to the demand centres; therefore, these entry prices are more sensitive to changes in the Expansion Constant

Obligated Levels

Changes at 3 ASEPs

- Cheshire 350.1 to 542.7 GWh
- Hole House Farm (HHF)131.6 to 296.6 GWh
- Caythorpe 0 to 90 GWh
- Increase in obligated capacity→ increase in network flow → increase in cost (LRMC) → increase in price
- Cheshire & HHF not affected because at minimum price

Network Changes & CVs

- Minor changes to network, no large projects
- Small changes to CVs with no significant effects

Focus on Supply and Demand

- Peak demand forecasts have risen from last years level of 5,618 to 6,055 GWh
- Supply has increased to match demand but not uniformly (in line with GCM16 rules)
- St Fergus, Easington, Burton Point & Barrow beach supplies have decreased (as in Ten Year Statement)
- Supplies from the Milford Haven and Isle of Grain LNG have increased

Supply changes in 2011/12 (c.f. 2010/11) (GWh)

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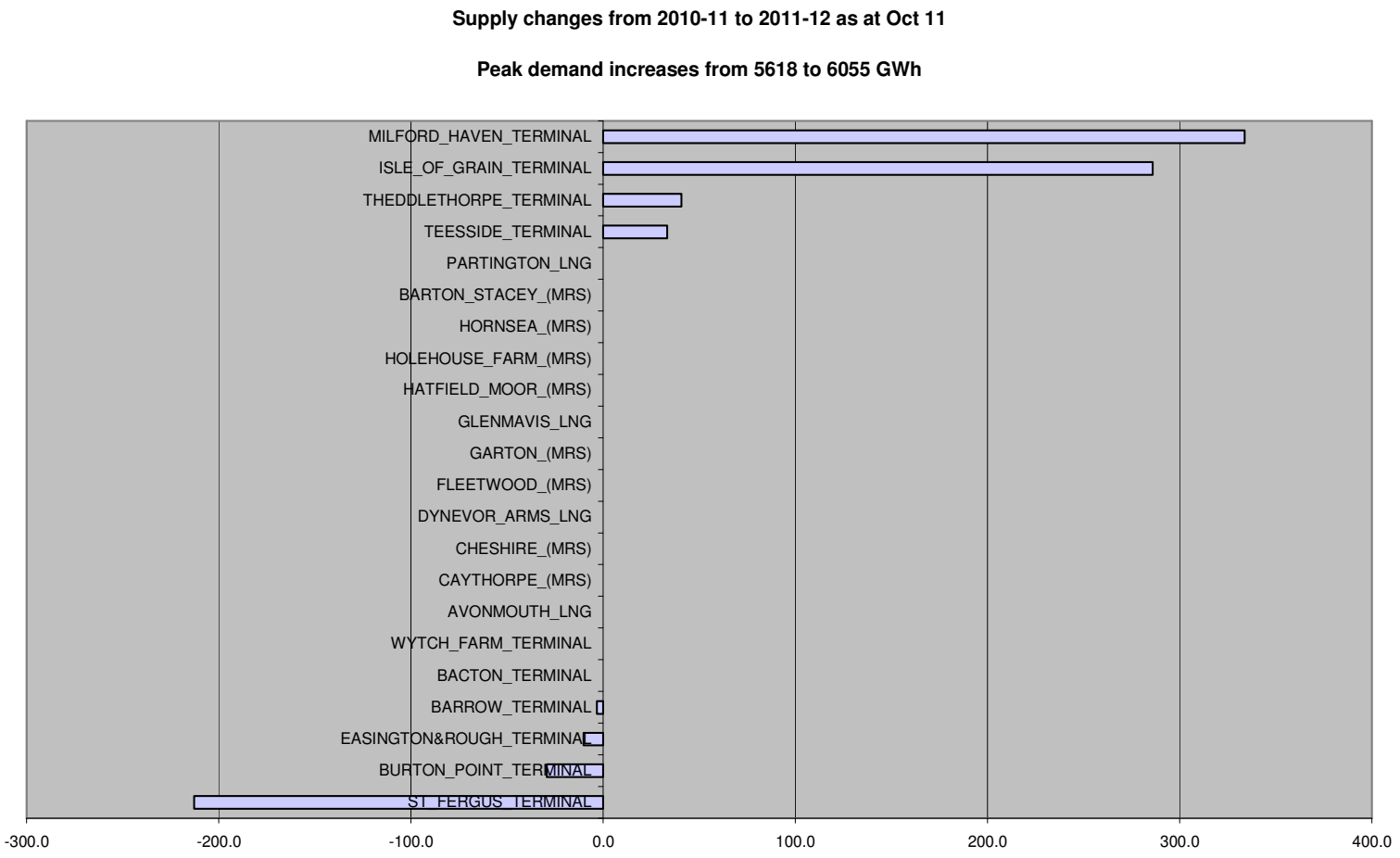
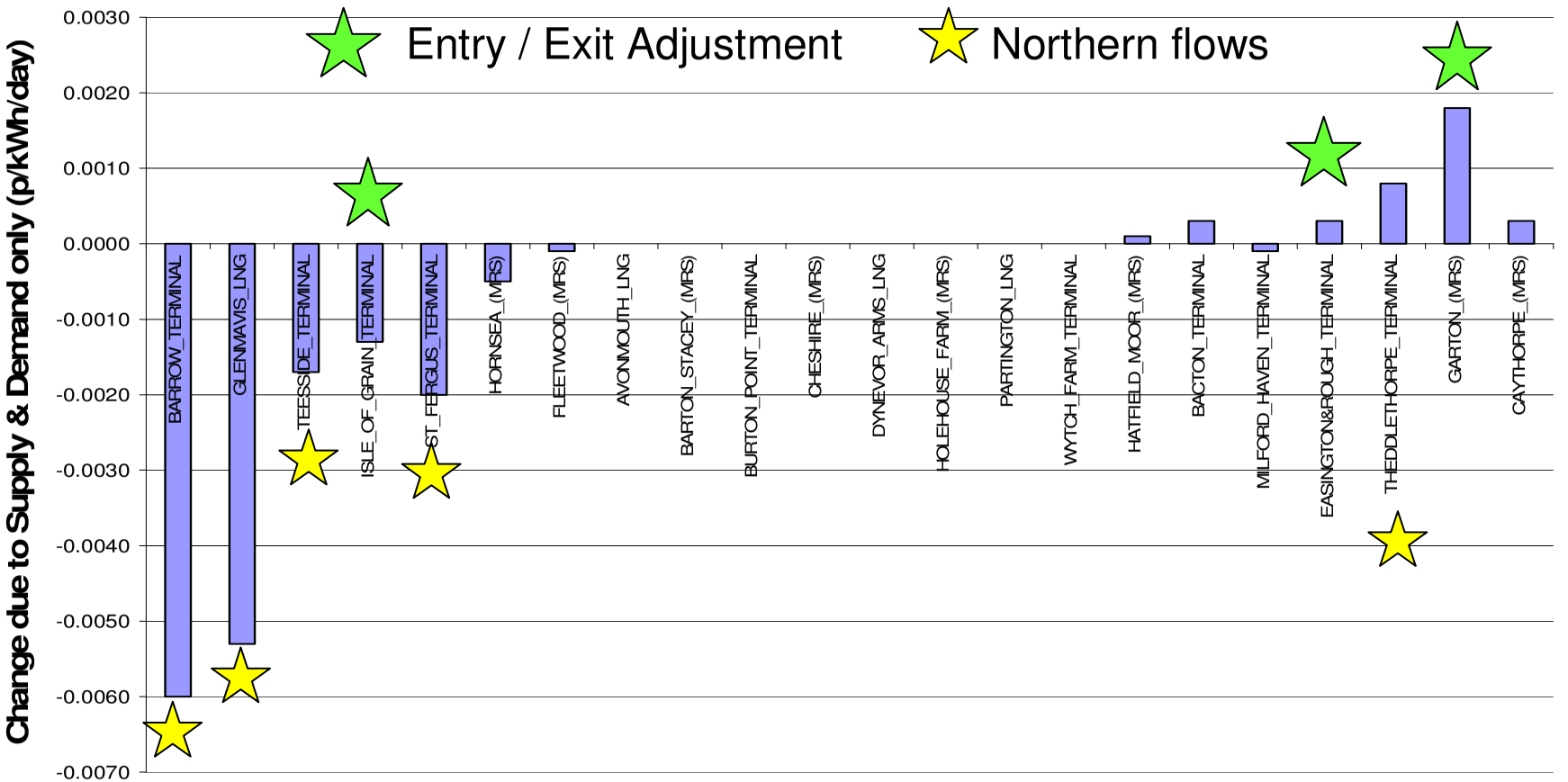


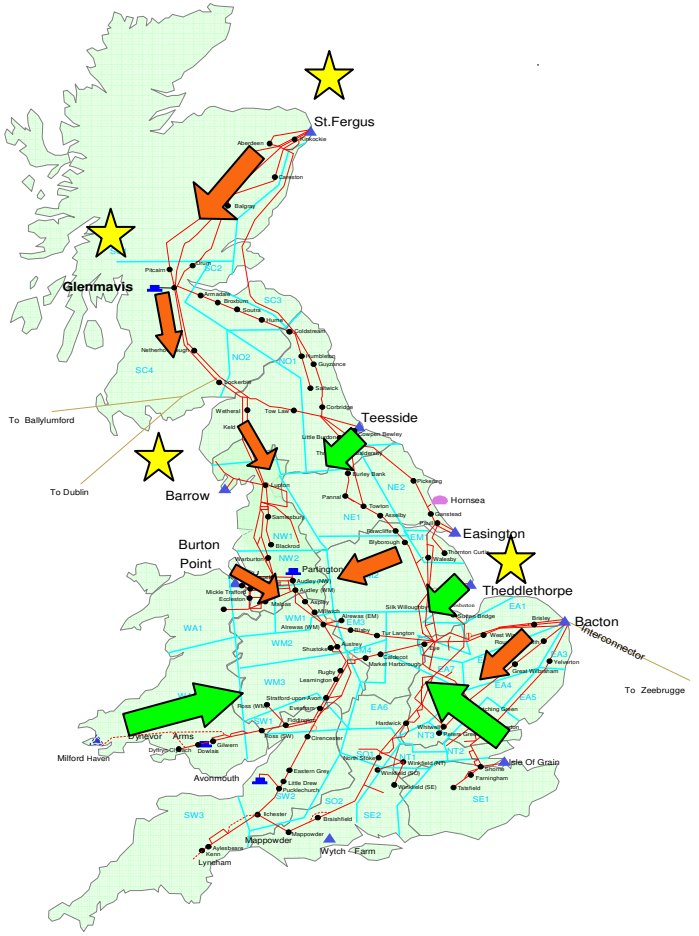
Main changes broadly attributable to 1 of 2 explanations



The following 2 slides provide an explanation

ASEPs impacted by northern flows

Change in flow c/f 2010/11

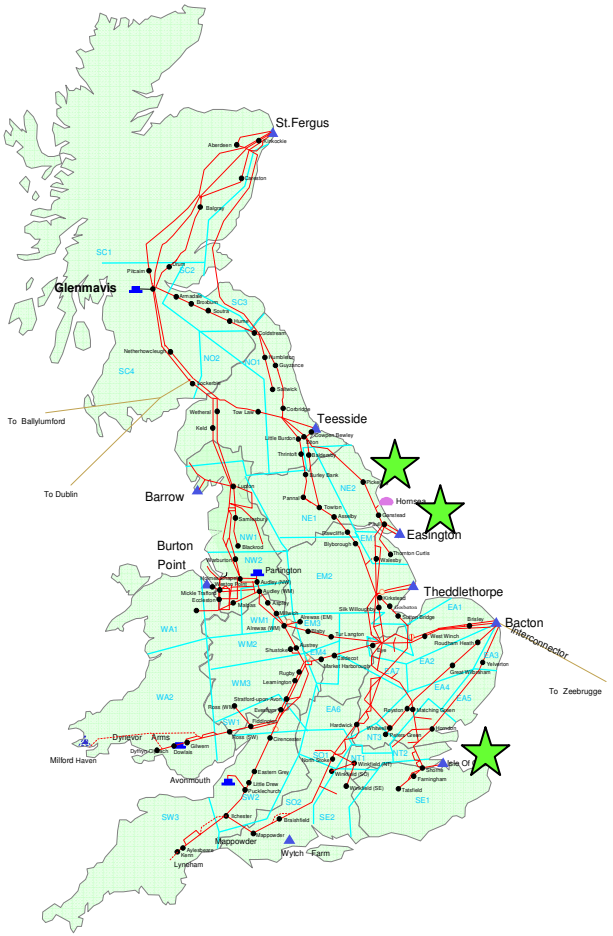


Decreased flows

Increased flows

- Decreased supplies from St. Fergus reduces network flows on west coast; travels less to meet demand
- This reduces cost (price) for entry capacity in this area; therefore the prices decrease at these locations: St. Fergus, Glenmavis and Barrow, Teesside
- however, gas entering at Theddlethorpe flows further into the network. Increased flows in the area → higher costs → higher price

Entry / Exit Adjustment



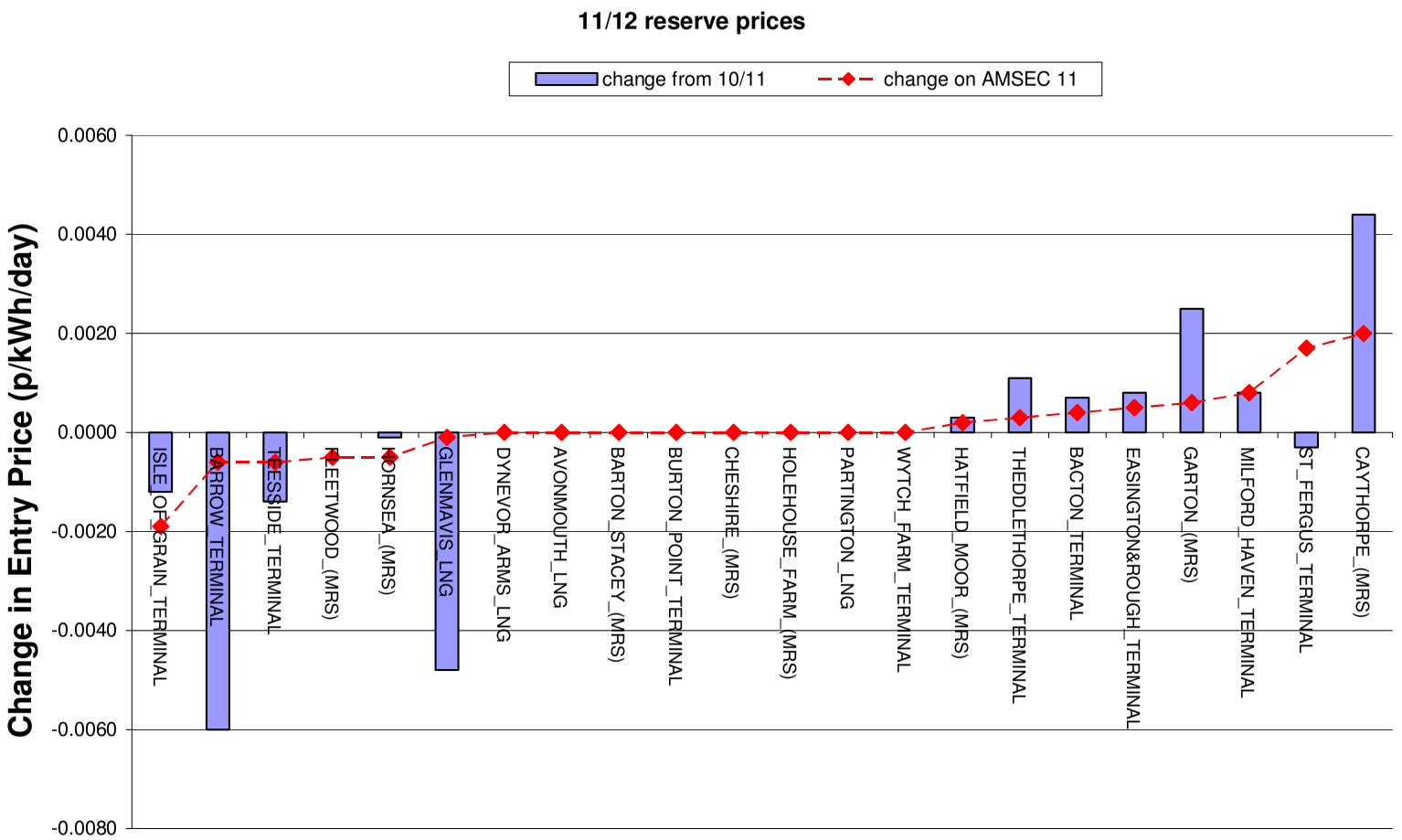
- The charging methodology requires that pipeline investment costs are split 50:50 between entry and exit
- This is achieved by adding a fixed cost adjustment factor* (x) to each ASEP and taking the same amount away for each exit point

Compared to 2010/11

- Average entry costs for Garton, Easington have decreased and so adjustment factor has increased →higher price
- Average entry costs for IOG have increased consequently, a smaller fixed amount needs to be added to these sites to maintain a 50:50 split → lower price.

* The adjustment factor is used to ensure that average entry and exit costs are equal such that the choice of reference node does not materially effect prices. The adjustment factor may be positive or negative.

Reserve prices for MSEC capacity for 2011/12 (AMSEC 2011→ 11/12$_{RM}$)



Although some large changes between 2010/11 and 2011/12, the updated 2011/12 reserve prices are broadly in line with the previous levels