Incremental Entry Capacity Release Statement

INCREMENTAL ENTRY CAPACITY RELEASE STATEMENT

Modification History

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A. FOREWORD

Transco's National Transmission System (NTS) plays an important role in facilitating the competitive gas market and helping to provide the UK with a secure gas supply. Transco believes it is appropriate for it to continue to develop the NTS in a way that provides its customers and Great Britain generally, with a gas transmission system that is robust against supply shocks and which keeps pace with changes in the gas market, such as increasing dependency on imported supplies.

To continue developing a flexible and responsive NTS, Transco believes it is important to seek wide views on the process for determining how it invests in its network as well as on the underlying assumptions that underpin such investment. Transco has consistently argued that it does not believe it is appropriate to rely on entry capacity auctions alone to provide investment signals. Transco intends, therefore, to continue to develop a planning approach that draws upon views of a range of stakeholders across the gas chain, and will continue to aim to invest where this is necessary to meet statutory obligations. As now, Transco will publish its conclusions within the Ten Year Statement.

Transco expects the results of long term auctions to influence its plans for investment through two routes. First, information from auctions can be considered alongside planning data as an additional piece of data. Second, a sufficiently strong, unambiguous, signal in long term auctions may trigger the sale of entry capacity which Transco would expect to support through investment. This statement describes the process by which such sales of entry capacity might be triggered.

B. INTRODUCTION

1. Purpose of Document

This methodology statement has been produced to meet the requirements of Special Condition 34 of Transco's GT licence. Transco believes the content is consistent with its duties under the Gas Act and is consistent with the standard, amended standard and Special Conditions of its GT Licence.

The methodology described will be used by Transco when determining whether to propose making incremental entry capacity available to users of its system. In this context, incremental entry capacity means capacity in excess of the volume of obligated entry capacity determined in accordance with paragraph 14(5)(g) of part 2 of Special Condition 28B of Transco's GT Licence. The methodology will be applied only for periods when Transco is able to physically respond to any signal that additional investment is required. In view of the lead times associated with investment in the NTS, this means applying the methodology for three years or more ahead – such that, for example, in January 2003 the methodology would be applied to decisions on the release of incremental entry capacity from January 2006 onwards.

Consistent with Transco's GT Licence and Network Code, system entry capacity is a firm commercial right that may be offered on a daily basis or multiples thereof: it does not reflect a commitment or obligation upon Transco to provide a matching investment in pipeline or similar.

2. Planning Requirement

Standard Condition 13 of the GT Licence requires Transco (subject to its statutory duty under Section 9 of the Gas Act) to plan and develop its pipeline system so that it will meet, after operational measures such as storage and contractual interruptions in the supply of gas, the peak aggregate daily demand for conveyance for supply to premises which is likely to be exceeded in only one in 20 years, having regard to historical weather data derived from at least the previous 50 years.

Standard Condition 12 requires Transco to comply with a direction to prepare a ten-year statement setting out forecasts as to the use likely to be made of its pipeline system and likely developments of that system.

Transco proposes to continue its existing planning process to facilitate compliance with Standard Conditions 12 and 13. The output of the planning process will continue to inform forecasts as to the use likely to be made of Transco's pipeline system and will underpin capital expenditure which Transco anticipates being reflected in allowed revenues in future price controls.

3. Planning Process

With the benefit of detailed consultation in 2001, Transco was able to enhance its 2002 Base Plan Assumptions (BPA) process. In addition to the established process of consulting on its BPA supply/demand forecasts, Transco has introduced an enhanced consultation process under the banner of 'Transporting Britain's Energy' with a view to obtaining industry views on the levels of flexibility and network resilience that users of the system would like to see developed. Views have been sought on a number of broad areas including gas/electricity interactions, central case gas supply and demand forecasts, likely remedies to projected supply deficits and sources of demand growth. The planning process is continually updated and, in conjunction with emerging signals from auctions, is capable of providing a base case projection of supply and demand at any point in time. The base case then provides a basis for determination of Transco's statutory investment requirements.

Transco may propose to release incremental entry capacity in light of the planning data received, and would expect to do so where the information meets the criteria specified below in respect of information derived from long term entry capacity auctions. In accordance with the conditions of its GT Licence, any such application by Transco would be subject to approval by the Authority. Transco believes that, by giving that approval, the Authority accepts that investment undertaken by Transco with a view to physically meeting the demand for obligated entry capacity should be reflected in subsequent regulatory decisions, notably regarding proposals to modify the price controls and incentives defined within Transco's GT Licence. In this context, Transco believes that any such approval should be regarded as establishing an expectation that associated investment should be reflected in its assumed regulatory asset value[1]; that any proposals for revising the quantities of baseline entry capacity should be demonstrably consistent with the entry capacity incentive structure (such that the terms on which capacity may have previously been released will not be significantly altered for either Transco or Shippers); and that proposals for revising the entry capacity buy-back incentive parameters should demonstrably allow for the level of incremental capacity released. Transco believes this is consistent with the Authority's duty to ensure Transco is able to finance its functions.

4. Methodology Objective

The primary purpose of this methodology for determining incremental entry capacity volumes is to indicate the way in which Transco will interpret the results of long term entry capacity auctions in terms of whether or not to seek to allocate obligated incremental entry capacity rights to Users. In considering this, Transco believes it is appropriate to consider the financial incentives it faces under its GT Licence conditions, in particular as a result of the entry capacity investment incentive. However, Transco also believes it

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[1] Transco believes that, as with the approach to price controls to date, Ofgem would wish to assure itself that any such capital expenditure had been efficiently incurred.

is important for the assessment to be set in the context of its wider obligations. The methodology set out in this statement therefore seeks to describe the circumstances in which Transco believes there would (or would not) be a sufficient signal from entry capacity auctions to create a presumption in favour of releasing incremental entry capacity.

C. DECISION MAKING METHODOLOGY

1. Accumulate Information Received From Long Term Auction

The information for considering whether or not to release incremental entry capacity will be based on indications of Users' demand for entry capacity as revealed by the relevant allocation process described in Transco's Network Code.

In accordance with the Network Code requirements introduced by Modification Proposal 0500, Users will be invited to indicate, for each of a set of prices, the quantity of entry capacity they wish to acquire (if any) at each terminal in each available period. These prices will be published in Transco's Transportation Statement, and the current prices are included in Schedule 1 below. The methodology used to generate these prices is also included in Schedule 1, and forms part of this methodology.

Broadly, the methodology establishes the prices per unit of capacity which are the minimum Transco would expect to receive, over a sustained period and for all capacity made available, in order to justify releasing incremental entry capacity at any given terminal. In general, the price steps have been estimated based on potentially releasing capacity increments equal to 2.5% of the baseline capacity at the relevant terminal. That is, the second price step represents the minimum price at which valid bids for at least 105% of baseline capacity would need to be received before Transco would consider releasing incremental entry capacity equivalent to 5% of the baseline quantity at that terminal.

The baseline price is that at which Transco would release, in response to valid bids, up to the available quantity of obligated entry capacity – all bids will be accepted so long as the available quantity is not exhausted. This minimum available quantity will be calculated in accordance with Transco's GT Licence conditions and will be published in the Transportation Statement.

The baseline price at each terminal, as set out in Schedule 1 below, is generally the relevant Unit Cost Adjuster specified in Transco's GT Licence. This reflects Ofgem's determination, based on information supplied by Transco, of an appropriate measure of the long run marginal cost of providing additional entry capacity at each terminal. Transco believes that making baseline entry capacities available at long run marginal cost is consistent with its obligations and duties, including under the Gas Act and GT Licence. The exception is at terminals where the baseline capacities

specified in Transco's GT Licence are zero for all years. In these cases, the baseline price will also be zero.

As described in Schedule 1, subsequent price steps have been calculated for each terminal by estimating annualised investment costs associated with physically providing incremental entry capacity, dividing this cost by the baseline plus incremental volume of capacity, and adding this value to the baseline price. This approach produces price steps whereby the change in Transco's income from bidders, assuming all of the available quantity is sold at the baseline or incremental price step as appropriate, is equal to the estimated cost of providing incremental capacity. The signal of bidders willingness to pay is therefore set against estimated marginal cost in the methodology described below for proposing that incremental obligated entry capacity should be released, which Transco believes is consistent with its obligations and duties, including under the Gas Act and GT Licence.

2. **Procedure for Allocating Incremental Capacity**

1. **Qualifying Bids**

   a. In accordance with the Network Code, receive all Quarterly System Entry Capacity (QSEC) bids posted by the end of the bid process. Only bids that satisfy the relevant User credit requirements as specified in the Network Code will be considered in this procedure.

2. **Baseline Capacity**

   a. Allocate capacity in all instances where the aggregate quantity specified in valid bids at the baseline price is less than or equal to the available quantity of obligated entry capacity. This available quantity will be determined in accordance with paragraph 14(5)(g) of part 2 of Special Condition 28B of Transco's GT Licence.

3. **Incremental Capacity Allocation**

   a. At any terminal, for a continuous period that is less than four quarters in length, if a minimum quantity of incremental capacity is demanded in each quarter[2] then Transco would not expect to seek approval to designate and allocate that minimum quantity of incremental capacity as annual obligated entry capacity. There would be a presumption that incremental entry capacity should not be released.

   b. At any terminal, for a continuous period that is greater than eleven quarters in length but less than twenty quarters, if a minimum

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[2] The minimum quantity of incremental capacity demanded over a period is established by firstly identifying in each quarter the highest price steps at which the aggregate quantity specified in valid bids exceeds that potentially available at that price level – obligated entry capacity plus the increment assumed when setting the price steps; and secondly identifying over a series of consecutive quarters the lowest price step identified in the previous step.

quantity of incremental capacity is demanded in each quarter, then Transco would seek approval to designate and allocate that minimum quantity of incremental capacity as annual obligated entry capacity. There would be a presumption that incremental entry capacity should be released.

c. At any terminal, for a continuous period that is greater than three quarters in length but less than twelve quarters, or greater than nineteen quarters but less than thirty two quarters, if a minimum quantity of incremental capacity is demanded in each quarter, then Transco may seek approval to designate and allocate obligated entry capacity. There would be a presumption that non-auction based evidence would be required to support any decision to recommend releasing incremental entry capacity.

d. At any terminal, if a minimum quantity of incremental capacity is demanded in any quarter, and taking this plus the subsequent thirty one quarters (or less where this would be beyond the period for which capacity has been offered), the net present value[3] of bids which would be accepted if a given quantity of incremental capacity was released equals at least 50% of the "assumed project value", then Transco would seek approval to designate and allocate that quantity of incremental capacity as permanent obligated entry capacity. There would be a presumption that incremental capacity should be released. The "assumed project value" will be calculated by multiplying the size of the increment of capacity being considered for release by the gross, unadjusted, entry terminal UCAs specified in Transco's GT Licence (based on a 6.25% rate of return). For reference, the UCA based values for the main beach terminals are shown in the table below.

Table: Main beach terminals (gross UCA)

	£ million / mcm / day
Bacton	1.97
Barrow	0.16
Easington	0.37
St. Fergus	6.92
Teesside	0.64
Theddlethorpe	0.33

Transco has developed this methodology in good faith reflecting its understanding of the statutory obligations attached to both Transco and the Gas and Electricity Markets Authority, and its understanding of the regulatory framework which ensures continued remuneration of

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[3] For the purposes of this methodology, the first period considered will be that where the aggregate volume of valid bids received first exceeds or equals the available obligated quantity plus the quantity of incremental capacity that is being considered. All values will be discounted to this period on a quarterly basis using an annual discount factor of 8.3%.

properly incurred expenditure on regulated assets. For the avoidance of doubt, Transco believes that any release of obligated incremental entry capacity is subject to approval by the Authority, whether explicitly in response to a specific proposal or implicitly through application of the methodology specified in this statement. Transco believes that, by giving that approval, the Authority accepts that the implications of applying this methodology, including subsequent investment undertaken by Transco with a view to physically meeting the demand for obligated entry capacity, should be reflected in subsequent regulatory decisions, notably regarding proposals to modify the price controls and incentives defined within Transco's GT Licence. In this context, Transco believes that any such approval should be regarded as establishing an expectation that associated investment should be reflected in its assumed regulatory asset value[4]; that any proposals for revising the quantities of baseline entry capacity should be demonstrably consistent with the entry capacity incentive structure (such that the terms on which capacity may have previously been released will not be significantly altered for either Transco or Shippers); and that proposals for revising the entry capacity buy-back incentive parameters should demonstrably allow for the level of incremental capacity released. Transco believes this is consistent with the Authority's duty to ensure Transco is able to finance its functions.

4. Additional Considerations

In circumstances and periods where the bids received in long term auctions do not meet the criteria set out above for the release of incremental entry capacity, Transco may still seek to designate and allocate incremental obligated entry capacity. In these circumstances, Transco would presume that Ofgem would only accept such a proposal if it were supported by other information, such as that generated through Transco's planning process, as described above.

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[3] Transco believes that, as with the approach to price controls to date, Ofgem would wish to assure itself that any such capital expenditure had been efficiently incurred.

Schedule 1: Entry Capacity Investment Incentive Price Setting Methodology

Introduction

This methodology has been established to provide a price schedule against which Quarterly System Entry Capacity (QSEC) can be demanded in accordance with Network Code section B2. Prices calculated in accordance with this methodology are applicable to the release of aggregate quantities of QSEC that are above the Baseline quantities identified in Transco's GT Licence.

The objective of the methodology is to produce a range of price steps which affords Users an opportunity to reveal their demand for entry capacity, but which also reflects the estimated construction costs potentially incurred by Transco for providing Entry Capacity at levels beyond the Baseline quantities identified in its GT Licence. The underlying cost assumptions are forward looking and are informed by present day cost estimates for pipe laying and associated activities to provide new capacity.

The methodology uses trend analysis to ensure a logical progression of prices in either ascending or descending direction. Application of this logic also ensures that programming is simplified for the purpose of providing readily soluble algorithms.

1. Calculation of Long Run Incremental Costs (LRICs)

The LRIC approach derives entry to exit costs which represent the cost of providing capacity to transport increments of gas through the NTS. The following Figure presents a schematic flow diagram of the steps involved in calculating entry LRICs reflective of NTS costs.

The starting point for the LRIC calculation is Transcost – a network simulation model which identifies incremental reinforcement requirements and their costs. Further details of the Transcost model are available on Transco's web site (www.transco.uk.com). The initial Transcost network is based on the supply/demand match set out in Transco's Base Plan Assumptions and the reinforcement plans that are derived from it. Transcost therefore contains a base network, which equates to the present NTS plus any known reinforcement projects that will be completed before year 1 begins. For the first year of analysis, Transcost tests whether, within its parameters, it is necessary to reinforce the base network so that it is just sufficient to support the supply/demand match for that year. For each subsequent year of the analysis Transcost will reinforce the modelled network from the previous year so that it is just sufficient to support the supply/demand match for that year. Since LRIC is estimated over a ten year period, there are ten separate but related "base" networks used in the analysis.

LRIC Overview

The steps in this process are described in more detail below.

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┌─────────────────────────────────────────────────┐
│              NTS Capacity Planning              │
│  1.  Supply/demand forecasting                  │
│  2.  Identify year X base network               │
│  3.  Transcost constructs base networks for     │
│      years Y+3 to Y+13                           │
└─────────────────────────────────────────────────┘
         │
         │    ┌──────────────────────────────────────────────┐
         │    │             LRIC Calculation                 │
         └───▶│  1.  Calculate incremental investment costs  │
              │  2.  Aggregate into exit zones               │
              │  3.  Calculate Project Management &          │
              │      Operating costs                         │
              │  4.  Annuitise costs                         │
              │  5.  Discount and sum annual costs &         │
              │      incremental volumes                     │
              │  6.  Divide sum of costs by sum of volumes   │
              └──────────────────────────────────────────────┘
                       │
                       │   ┌──────────────────────────────────────────────┐
                       │   │              Cost Calculation                │
                       └──▶│  1.  Convert to Capital cost £M/Mcm/d         │
                           │  2.  Apply optimisation procedure to LRIC     │
                           │      matrices to generate entry and exit      │
                           │      costs                                    │
                           │  3.  Calculate entry only capital costs (£M)  │
                           │      and ensure that the capital cost for     │
                           │      each increment is greater than or equal  │
                           │      to the next lowest increment             │
                           │  4.  Convert to £k/GWh 2002 prices using      │
                           │      inflation factor and terminal specific   │
                           │      CVs.                                     │
                           │  5.  Calculate annuitised prices (p/kWh/day)  │
                           │  6.  Use linear interpolation to calculate    │
                           │      prices for each 2.5% increment           │
                           │  7                                            │
                           └──────────────────────────────────────────────┘
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2.   Calculation of Incremental Investment Costs

Transcost calculates the additional investment required in new pipelines and/or compressors to support a sustained incremental increase in flow along each route. The more constrained a route is, in terms of available capacity, or the longer a route is, the higher will be the level of investment necessary. This analysis is carried out using the base case networks described above for 10 years starting from the first year that new investments can be delivered given a three year planning horizon i.e. year Y+3. Increments of varying size from 1.5 Mscm/d through to 12 Mscm/d (or 50% of baseline if less than 12 Mscm/d) have been used.

Range and Size of Increment This is set such that the economic signals resulting from the LRIC process are clear: The increment chosen, 1.5 Mscm/d represents in general, around 2% to 10% of the flow along a route. The present version of Transcost can reliably assess increments up to the point when a new "greenfield" compressor station is identified as being required along a route, which typically occurs at approximately 12 Mscm/d.

For increments of greater magnitude, more detailed network analysis is required to provide robust cost estimates.

Investment Costs The estimated costs of various types of investment are set out below. Transcost is configured such that these estimates can be changed as appropriate.

Investment Costs

Description	Cost £M
Pipeline /km	0.0003115 × diameter (mm) + 0.3505652
Compressor – Greenfield	30.0 per station
Compressor – Existing site	15.0 per turbine

3. Aggregation into Entry and Exit Zones

NTS exit points that deliver gas into Transco's Local Transmission System (LTS) are grouped into 33 exit zones within Transcost, consistent with Transco's approach to NTS Transportation Charges. Investment costs for an exit zone are calculated by means of a flow-weighted average of all the individual exit points within that zone. Flow weighting is based upon the projected peak day delivery volumes at each exit point. It should be noted that individual supply points that are supplied directly from the NTS are excluded from this aggregation process.

4. Project Management and Operating Costs

Project management costs are variable costs that are dependent upon many factors including location, timing, type and size of investment. However, size of investment is the main indicator of the scale of expected project management costs. In the LRIC estimation process project management costs are assumed to be 15% of the previously identified investment costs. Similarly, the change in operating costs associated with the increased throughput of the increment is assumed to be 1.5% of investment costs.

5. Calculation of Annuitised Costs

The capital cost is annuitised, that is spread evenly over the expected life of the asset taking into account the required rate of return and the 20% of costs that are incurred in the year before an investment project is delivered. The annuity period assumed is 40 years, reflecting the assumption of the average economic life of new NTS pipeline assets. The annuity discount factor is 6.25% per annum, consistent with the cost of capital used to set maximum allowed revenue under NTS TO and SO price controls applicable from 1 April 2002.

6. Calculation of Discounted Annual Costs and Incremental Volumes

The LRIC for the entire period of the analysis is the weighted average of each individual year's estimate of the marginal cost, with earlier years

having a greater weight than later ones. In order to provide appropriate weighting the costs and incremental volumes for future years are discounted at 6.25% per annum. Capacity charges are expressed in terms of pence per peak day kilowatt-hour per day. However incremental volumes are expressed in terms of millions of cubic metres. Therefore, at this stage in the process, the incremental volumes are converted into energy units.

7.   Calculation of LRIC

The LRIC in pence per peak day kilowatt-hour (pkdkWh) per day is calculated by dividing total discounted cost by total discounted volume.

Total Discounted Cost (£s m)	31.07
Total Discounted Volume (GWh)	233.37
LRIC (p / pkdkWh / annum)	13.3136
Days in Year	365
LRIC (p / pkdkWh / day)	0.0365

8.   Calculation of NTS Capacity Costs

An LRIC estimate is determined for each entry point and each exit point such that, when these are combined for any particular pairing of entry and exit point, they replicate as closely as possible the calculated LRIC for that pairing.

An optimisation procedure (Microsoft Excel Solver) is used to determine LRIC reflective entry and exit costs. For each combination of entry point and exit point, the solver uses the cost figure as the dependent variable in an equation that represents the sum of one entry cost and one exit cost. Each valid combination of entry to exit can be represented by the following equation:

$$y_{ij} = x_i + x_j + e_{ij}$$

Where:
y_{ij} is the LRIC for the route from entry point i to exit point j;
x_i is the entry cost at point i;
x_j is the exit cost at point j; and,
e_{ij} is the absolute error.

The optimisation procedure calculates the best fit by minimising the sum of the squared error terms, e_{ij}, for all entry and exit combinations. To achieve a unique solution to the procedure, it is necessary to fix at least one parameter. To achieve this the optimisation is constrained such that costs allocated to either an entry or exit point cannot be negative.

Regression fitting techniques enable the solver to determine the allocation between entry and exit, which achieves the closet fit for each route cost. This does not, therefore, produce a constant, or indeed pre-determined,

allocation of costs between entry and exit, such as the 50:50 ratio presently used by Transco when setting NTS exit capacity charges.

9.   Calculation of Costs above 12 Mscm/d

Since Transcost was not designed to accurately model relatively large increments, costs for providing increments above 12 Mscm/d will be estimated using the Graphical Falcon Network Analysis modelling program and the planning assumptions that are encoded within Transcost. The estimated costs for projects identified will also be based on the same asset costs used for the Transcost analysis. The years analysed will be Y+3, Y+5 and Y+8 (2005, 2007 and 2010 initially) with costs for the intervening years interpolated. Costs for 2010 are used to set the costs for 2011 onwards, consistent with the Transcost analysis, as baseline levels do not change from 2010 onwards. The increments considered will represent 50% of baseline. Where an increment of 25% of the baseline is greater than 12 Mscm/d further analysis will be carried out. Routes for Graphical Falcon analysis will be identified from the Transcost analysis for which the reinforcement costs identified most closely represent entry costs. Once incremental entry costs have been identified for each of the ASEPs and for all ten years, the LRICs will be calculated using the process described in paragraphs 4 to 7 above.

10.   Calculation of NTS Capacity Costs

Baseline quantities will generally be offered at prices consistent with the UCA values set in Transco's GT Licence. The exception is where baseline quantities are zero for all periods identified in the GT Licence, where all capacity offered is effectively incremental. In these circumstances, the baseline price will also be zero. Increment sizes will be reflective of the Baseline Capacity requirement for the year in which Network Code first identifies a requirement to hold an annual MSEC allocation following the date of publication, or y+3 in instances where the GT licence identifies a Baseline Capacity that increases from an initial zero value. Price steps for incremental capacity will be based on a cost function determined by a best fit to the data set of costs produced by Transcost and Graphical Falcon analysis.

The annualised cost of each 2.5% increment will first be interpolated from the Transcost and Graphical Falcon based data to create an initial cost function for each ASEP. Interpolation is necessary because fixed increments, common to each terminal, are considered in the incremental cost analysis rather than considering the 2.5% increment specific to each terminal.

11.   Determination of Minimum Cost

In some cases, the methodology outlined above can suggest that additional capacity could be provided without investment. Investment signals would be distorted if zero priced increments were to be offered. In order to avoid this,

a minimum 0.0001p/kWh change in the price steps will be applied at all locations.

12   Calculation of Incremental Price Steps

The incremental price is calculated by dividing the annuitised cost (annuitised unit cost multiplied by increment volume) by the baseline plus assumed incremental volume (i.e. the 2.5% steps). This incremental price is than added to the baseline price (i.e. UCA) in order to derive the price steps. In most cases, twenty price steps will be offered. In accordance with the Network Code, however, fewer price steps will be specified at the smallest terminals. At Entry Points that have an SO Baseline Capacity requirement that is less than 300GWh per day then the following will apply;

- In the first instance Transco will determine the number of 15GWh price steps are required to offer no less than 50% of SO Baseline Capacity. The chosen increment size approximates to the increment that would be required if 300 GWh is offered in 20 equal sized increments.

- No less than five increments are permitted. In instance's where the application of a 15GWh increment infers that less than five increments will be required then a quantity that is equivalent to no less than 50% of SO Baseline Capacity at the relevant Entry Point will be divided into five equal sized increments.

The price steps consistent with this methodology will be published in Transco's Transportation Statement, and the present price steps are reproduced in the table below.

13   Price Steps in Excess of 150% of Baseline.

Additional price steps might be required in circumstances where demand is expected to exceed 150% of baseline. Broadly this circumstance can arise at locations that have previously experienced high demand and at new entry points for which there is no baseline capacity identified in the GT licence.

At terminals where above Baseline quantities have previously been allocated, price steps will be specified such that twenty steps remain available, with progression continuing on the basis of 2.5% of Baseline capacity steps. For example, if 110% of baseline was allocated in the first long term auction, the twenty price steps in the subsequent auction would enable bids to be lodged in respect of a quantity of capacity that is no less than 160% (110% + 50%) of the Baseline quantity.

At entry points where the planning process has signalled to Transco's satisfaction that more than 50% above baseline may be demanded in a given year, Transco would set price steps on the basis of quantities which were expected to exceed the indicated demand.

From time to time demand may emerge for entry capacity at new terminals. When, through its planning process, a requirement for a new entry point has been demonstrated to Transco's satisfaction, a price schedule will be published for subsequent long-term auctions. Preservation of commercial confidentiality is an important consideration when developing a new entry point and therefore Transco will publish price steps that seek to preserve confidentiality with respect to expected deliverability. The number of price steps will be fixed and the aggregate size will be subject to a range of uncertainty as follows;

- The minimum number of price steps will be 20 increments of 15 GWh each.

- The maximum number of price steps will be 20 increments of equal size, which in total are equivalent to 150% of the capacity requirement signalled to Transco through its planning process.

If a new terminal is developed, Transco would expect Ofgem to initiate the process necessary to modify Transco's GT Licence such that the terminal concerned is identified in Transco's Licence. If this was not the case, the entry capacity investment incentive scheme would not be effective in the case of new terminals. As previously described in this methodology statement, price steps at locations that have a zero baseline quantity, such as new terminals, will commence at an initial price of zero.

Price Steps (P/kWh/day) Calculated in Accordance with this Methodology Statement

	Coastal terminals					
)	Bacton	Easington & Rough	Theddlethorpe	St. Fergus	Teesside	Barrow
Baseline	0.0056	0.0011	0.0010	0.0198	0.0018	0.0004
2.50%	0.0057	0.0012	0.0011	0.0204	0.0019	0.0005
5.00%	0.0058	0.0013	0.0012	0.0212	0.002	0.0006
7.50%	0.0059	0.0014	0.0013	0.0214	0.0022	0.0007
10.00%	0.006	0.0015	0.0014	0.0222	0.0025	0.0008
12.50%	0.0061	0.0016	0.0015	0.0229	0.0028	0.0009
15.00%	0.0062	0.0017	0.0016	0.0236	0.0029	0.001
17.50%	0.0063	0.0018	0.0017	0.0243	0.003	0.0011
20.00%	0.0064	0.0019	0.0018	0.0251	0.0032	0.0012
22.50%	0.0065	0.002	0.0019	0.0259	0.0033	0.0013
25.00%	0.0066	0.0021	0.002	0.0266	0.0034	0.0014
27.50%	0.0067	0.0022	0.0021	0.0273	0.0036	0.0015
30.00%	0.0068	0.0023	0.0022	0.0281	0.0037	0.0016
32.50%	0.0069	0.0024	0.0023	0.0288	0.0038	0.0017
35.00%	0.007	0.0025	0.0024	0.0295	0.0039	0.0018
37.50%	0.0071	0.0026	0.0025	0.0301	0.004	0.0019
40.00%	0.0072	0.0027	0.0026	0.0306	0.0041	0.002
42.50%	0.0073	0.0028	0.0027	0.031	0.0042	0.0021
45.00%	0.0074	0.0029	0.0028	0.0315	0.0043	0.0022
47.50%	0.0075	0.003	0.0029	0.0319	0.0044	0.0023
50.00%	0.0076	0.0031	0.003	0.0324	0.0045	0.0024
Baseline (GWh)	1374	995	682	1520	819	731

	Onshore Fields and connections						
)	Hatfield Moor		Wytch Farm		Burton Point		Hole House Farm
	Baseline	0.0013	Baseline 0.0000	Baseline 0.0001		Baseline	0.0001
	10%	0.0014	10% 0.0001	10% 0.0002		10%	0.0002
	20%	0.0015	20% 0.0002	20% 0.0003		20%	0.0003
	30%	0.0016	30% 0.0003	30% 0.0004		30%	0.0004
	40%	0.0017	40% 0.0004	40% 0.0005		40%	0.0005
	50%	0.0018	50% 0.0005	50% 0.0006		50%	0.0006
Baseline (GWh)	55		3		55		26

Storage Sites

Aldborough		Cheshire		Hornsea		Glenmavis		Partington	
Baseline	0.0018	Baseline	0.0001	Baseline	0.0047	Baseline	0.0165	Baseline	0.0003
3.13%	0.0019	7.14%	0.0002	4.20%	0.0049	7.10%	0.0170	3.60%	0.0004
6.25%	0.0020	14.29%	0.0003	8.30%	0.0051	14.30%	0.0174	7.10%	0.0005
9.38%	0.0021	21.43%	0.0004	12.50%	0.0053	21.40%	0.0180	10.70%	0.0006
12.50%	0.0022	28.57%	0.0005	16.70%	0.0054	28.60%	0.0184	14.30%	0.0007
15.63%	0.0023	35.71%	0.0006	20.80%	0.0056	35.70%	0.0191	17.90%	0.0008
18.75%	0.0024	42.86%	0.0007	25.00%	0.0058	42.90%	0.0198	21.40%	0.0009
21.88%	0.0025	50.00%	0.0008	29.20%	0.0060	50.00%	0.0205	25.00%	0.0010
25.00%	0.0026			33.30%	0.0061			28.60%	0.0011
28.13%	0.0027			37.50%	0.0062			32.10%	0.0012
31.25%	0.0028			41.70%	0.0063			35.70%	0.0013
34.38%	0.0029			45.80%	0.0064			39.30%	0.0014
37.50%	0.0030			50.00%	0.0065			42.90%	0.0015
40.63%	0.0031							46.40%	0.0016
43.75%	0.0032							50.00%	0.0017
46.88%	0.0033								
50.00%	0.0034								
Baseline (GWh)	233		107		175		99		215

Constrained LNG

Avonmouth		Dynevor Arms		Isle of Grain	
Baseline	0.0020	Baseline	0.0000	Baseline	0.0058
5.00%	0.0021	10%	0.0001	3.30%	0.0059
10.00%	0.0022	20%	0.0002	6.70%	0.0060
15.00%	0.0023	30%	0.0003	10.00%	0.0061
20.00%	0.0024	40%	0.0004	13.30%	0.0062
25.00%	0.0025	50%	0.0005	16.70%	0.0063
30.00%	0.0026			20.00%	0.0064
35.00%	0.0027			23.30%	0.0065
40.00%	0.0028			26.70%	0.0066
45.00%	0.0029			30.00%	0.0067
50.00%	0.0030			33.30%	0.0068
				36.70%	0.0069
				40.00%	0.0070
				43.30%	0.0071
				46.70%	0.0072
				50.00%	0.0073
Baseline (GWh)	149		50		218