

Charging Impacts of UNC Modification Proposal 0116 “Reform of the NTS Offtake Arrangements”

Gas TCMF

10th October 2006

Update on Exit Reform

- ◆ National Grid NTS has raised UNC Modification Proposal 0116
- ◆ Transmission Workstream considered proposal sufficiently developed to commence consultation
- ◆ UNC Mod Panel vote on 12th Oct
- ◆ Aim to consult on 0116 over period 13th Oct to 10th Nov 06 in parallel with:
 - ◆ ExCR Methodology Statement
 - ◆ Charging Methodology amendments
 - ◆ Ofgem's Exit Licence drafting

Proposed Charging Discussion Papers

- ◆ GCD 01 – NTS Exit (Flat) Capacity
 - ◆ Prevailing NTS Exit (Flat) Capacity
 - ◆ Reserve prices for annual and daily auctions
- ◆ GCD 02- NTS Exit (Flexibility) Capacity and Commodity
 - ◆ Reserve prices for annual and daily auctions
 - ◆ New SO Flexibility Commodity Charge Rate
 - ◆ Revised SO Commodity Charge Rate
- ◆ GCD 03 – Under/over-recovery mechanisms

GCD01 – Based on current charging arrangements

Types	Proposal
Prevailing NTS Exit (Flat) Capacity	Pay prevailing charge for year of use (as under current regime*) -based on 10 years of supply/demand forecasts and network analysis
Annual NTS Exit (Flat) Capacity	Pay bid price, subject to reserve price equal to: <ul style="list-style-type: none"> ▶ for Gas Year Y+1 – prevailing charge for Y+1 ▶ for Gas Year Y+2 - prevailing charge for Y+1 ▶ for Gas Year Y+3 - prevailing charge for Y+1
Daily NTS Exit (Flat) Capacity	Pay bid price, subject to reserve price equal to prevailing charge for the Gas Year
Daily Interruptible NTS Exit (Flat) Capacity	Pay bid price, subject to reserve price equal to 0 p/kWh

*except for “other changes” summarised later

GCD01 – Based on Transportation Model

Types	Proposal
Prevailing NTS Exit (Flat) Capacity	Pay prevailing charge for year of use (as determined by proposed Transportation Model approach) -based on single years of supply/demand forecast and network model
Annual NTS Exit (Flat) Capacity	Pay bid price, subject to reserve price equal to: <ul style="list-style-type: none"> ▶ for Gas Year Y+1 – prevailing charge for Y+1 ▶ for Gas Year Y+2 - prevailing charge for Y+2 ▶ for Gas Year Y+3 - prevailing charge for Y+3
Daily NTS Exit (Flat) Capacity	Pay bid price, subject to reserve price equal to prevailing charge for the Gas Year
Daily Interruptible NTS Exit (Flat) Capacity	Pay bid price, subject to reserve price equal to 0 p/kWh

GCD01 – Other changes

- ◆ Interruption Payments removed
- ◆ Tariff model preserves locational differentials in determination of (entry and) exit prices from LRMCs, but no adjustment to recover allowed revenue
- ◆ No capping of annual price movements
- ◆ Removal of zones for NTS/LDZ offtakes

GCD02 - NTS Exit (Flex) Capacity Reserve Prices

Types	Proposal
Annual NTS Exit (Flex) Capacity	Pay bid price, subject to reserve price equal to 0 p/kWh, consistent with principles that no specific NTS investments for flexibility capacity
Daily NTS Exit (Flex) Capacity	

GCD02 – NTS Exit (Flexibility) Commodity Charges

- ◆ UNC Mod Proposal 0116 defines NTS Exit (Flex) Commodity charge as
 - ◆ User Daily Flexibility Utilisation (UDFQ) x Applicable Commodity Rate
- ◆ $UDFQ = [UDQO_{2200, Z} * (1 - FT)] - [UDQO_Z * (16 / 24)]$

where:

- ◆ $UDQO_{2200, Z}$ = gas offtaken by User between 06:00 hours and 22:00 hours on the Day for all NTS Exit Points in NTS Exit Zone
- ◆ $FT = 0.015$ (a 1.5% flexibility tolerance)
- ◆ $UDQO_Z$ is gas offtaken by User over Gas Day for all NTS Exit Points in NTS Exit Zone

GCD02 – NTS Exit (Flexibility) Commodity Charges

- ◆ Applicable Commodity Rate proposed to be set at common rate for all zones
- ◆ Based on proportion of relevant SO costs considered appropriate to target to within day flow variations
- ◆ For 2006/07:
 - ◆ Within day costs estimated to be [4.2%] of SO Costs
 - ◆ Resulting in indicative rate of [0.0427] p/kWh

GCD02 – NTS Exit (Flat) Commodity Charges

SO Cost Component	Percentage of Total SO Cost (A)	Percentage applicable to FF (B)	Percentage of Total SO Cost applicable to FF (AxB)
Internal Costs	19%	3.5%	0.7%
System Reserve (OMG)	7%	27%	1.8%
Shrinkage UAG/CV	7%	3.5%	0.3%
Shrinkage OUG	38%	3.5%	1.4%
Constrained LNG	1%	3.5%	0.0%
TOTAL	100%	-	4.2%

* Based on Baselines of Flex=22 mscm, Flat=600 mscm

GCD02 – NTS Exit (Flat) Commodity Charges

- ◆ UNC Mod Proposal 0116 defines NTS Exit (Flat) Commodity charge as
 - ◆ User Daily Offtake Quantity (UDQO) x Applicable Commodity Rate
- ◆ Applicable Commodity Rate proposed to be set at common rate for all NTS Exit Points
- ◆ Set to recover of 50% of allowed SO revenue net of flexibility commodity charges
- ◆ For 2006/07:
 - ◆ Indicative rate reduction from 0.0114 to [0.0101] p/kWh (with difference due to flexibility commodity charge)

GCD03 – Under/over-recovery Issue

- ◆ NTS TO Exit (flat) & (Flexible) Capacity reserve prices
 - ◆ Proposals do not involve scaling to allowed revenue hence under recovery mechanism is required
 - ◆ Scaling may create price instability & may distort auction behaviour
 - ◆ Auctions may result in over recovery hence over recovery mechanism is required

Entry Over/Under Recovery Mechanisms

- ◆ Under-recovery
 - ◆ a forecast of auction revenue for the following financial year is made, and where we expect to recover below target TO revenue, the TO commodity charge is introduced in the following October for a 6 month duration at a level to reduce the level of 'K' towards zero by the end of that financial year. The TO commodity charge has then typically been re-set to zero from the following April, although for the introduction of the charge this year (Oct 2006) the intention is not to re-set the charge to zero for the period April - Oct 2007. This methodology was implemented in October 2004 following approval of PC78.
- ◆ Over-recovery
 - ◆ following the assessment of auction revenue described above, if auction implied revenue is more than 110% of the target level, the level of this excess revenue is divided into 12 monthly amounts (for the following financial year) and is used to fund the entry buy-back scheme. This has the effect of offsetting the costs of buy-back that would otherwise be borne by shippers through neutrality, by way of a reduction in their entry capacity charges for each month (by the lower of the monthly excess and monthly buy-back cost).
 - ◆ Any excess amount (of over-recovery) remaining for any month is carried forward to the end of the period and rebated to Shippers through adjustments to NTS exit capacity charges. This methodology was implemented in October 2001 following approval of PC65.

Exit Options

- ◆ Under Recovery

- ◆ TO Exit (Flat) Commodity Charge

- ◆ Would be designed to recover residual TO Exit (50%) revenue after TO Exit (Flat) & (Flexibility) Capacity auction outcome

- ◆ Over Recovery

- ◆ Exit Buy-back fund

- ◆ Negative TO Exit (Flat) Commodity Charge

- ◆ Would be designed to redistribute residual TO Exit (50%) revenue after TO Exit (Flat) & (Flexibility) Capacity auction outcome