

Gas Charging Consultations - Update

Gas TCMF

16th November 2006

Consultations

	Ref	Subject	Consultation Close
Consultation papers	GCM 01	Entry and Exit Capacity Charging	30 th Nov 06
	GCM 02	Reserve Price discounts	To be issued
	GCM 03	SO Storage Commodity Charge	20 th Nov 06
	GCM 04	Pensions Deficit Charge	To be issued
Discussion papers	GCD 01	Flat Capacity Charging	24 th Nov 06
	GCD 02	Flex Capacity and Commodity Charging	24 th Nov 06
	GCD 03	Exit Revenue Recovery	24 th Nov 06

GCM 01 – Entry and exit capacity charges

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GCM 01: Entry and Exit Capacity Charging

Option 1 – “Engineering Model approach”

- ◆ Key principles
 - ◆ LRMCs from Transcost/Graphical Falcon
 - ◆ Ten Year LRMC analysis
 - ◆ Includes spare capacity, excludes backhaul
- ◆ Exit – as now, but with enhancements to tariff model
- ◆ Entry Incremental Prices – no change
- ◆ Entry Reserve Prices calculated using increment of:
 - ◆ A) 2.834 mscm (consistent with Exit Pricing)
 - ◆ B) 6 mscm (consistent with 2002 UCA setting)

GCM 01: Entry and Exit Capacity Charging

Option 2 – “Transportation Model approach”

- ◆ Principles
 - ◆ LRMCs from Transportation Model (i.e. single model)
 - ◆ Single year LRMC analysis
 - ◆ Includes backhaul
 - ◆ Spare capacity treatment dependant on other options
- ◆ Entry Reserve Prices calculated based on:
 - ◆ A) Caters for spare capacity - use forecast supplies such that charges decrease as forecast decreases below baseline
 - ◆ B) Fully exclude spare capacity – use baseline data

GCM 01: Entry and Exit Capacity Charging

Common proposals for exit tariff model changes

- ◆ Use additive adjustment, rather than scaling to recover allowed revenue
- ◆ Removal of negative pricing at last point in process to avoid potential distortions
- ◆ No capping on annual price movements
- ◆ Update exit prices from 1 April 07

Treatment Of Spare Capacity

Objective	Include Spare Capacity	Exclude Spare Capacity
Cost reflectivity	◆ Users pay for incremental investment costs – based on what happens to be installed locally ◆ Recovery of previous sunk costs socialised leading to cross-subsidy	◆ All Users pay for capacity they utilise ◆ ...but could discourage use of spare capacity leading to asset stranding
Stable and predictable charges	◆ Undermines due to transient nature spare capacity (unless considered sufficiently static)	◆ Meets
Transparency	◆ Determination of location and amount and hence which Users obtain benefit subjective	◆ Meets

GCM 02: Entry Capacity Baseline Reserve Price Discounts

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Proposal discounts from 1 April 07

(subject to Licence)

Auction	Current Discount	Proposed Discount
QSEC (Firm)	0%	0%
AMSEC (Firm)	0%	0%
RMSEC (Firm)	0%	0%
DSEC Day Ahead (Firm)	33.3%	0%
DSEC Within Day (Firm)	100%	0%
DISEC (Interruptible)	100%	100%

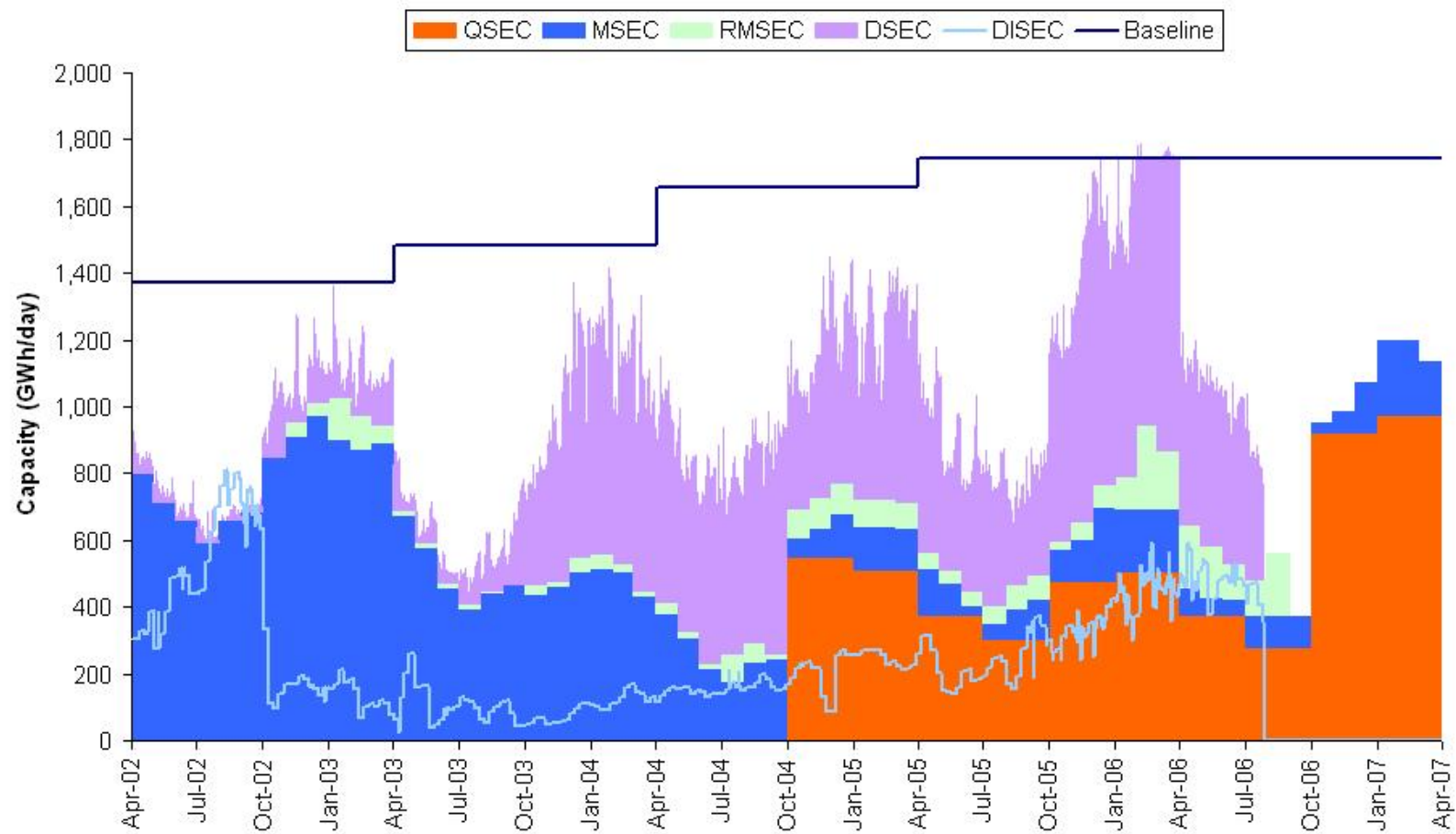
Benefits

- ◆ Removes incentive for Users to wait until Gas Day to book capacity requirements
 - ◆ particularly where “high” baselines
- ◆ Improve cost reflectivity
 - ◆ reduce cross-subsidies generated by “high” TO Commodity Charges
- ◆ Maintains locational signals across entry points, including those with few participants
- ◆ Improves short-term price stability when capacity becomes constrained

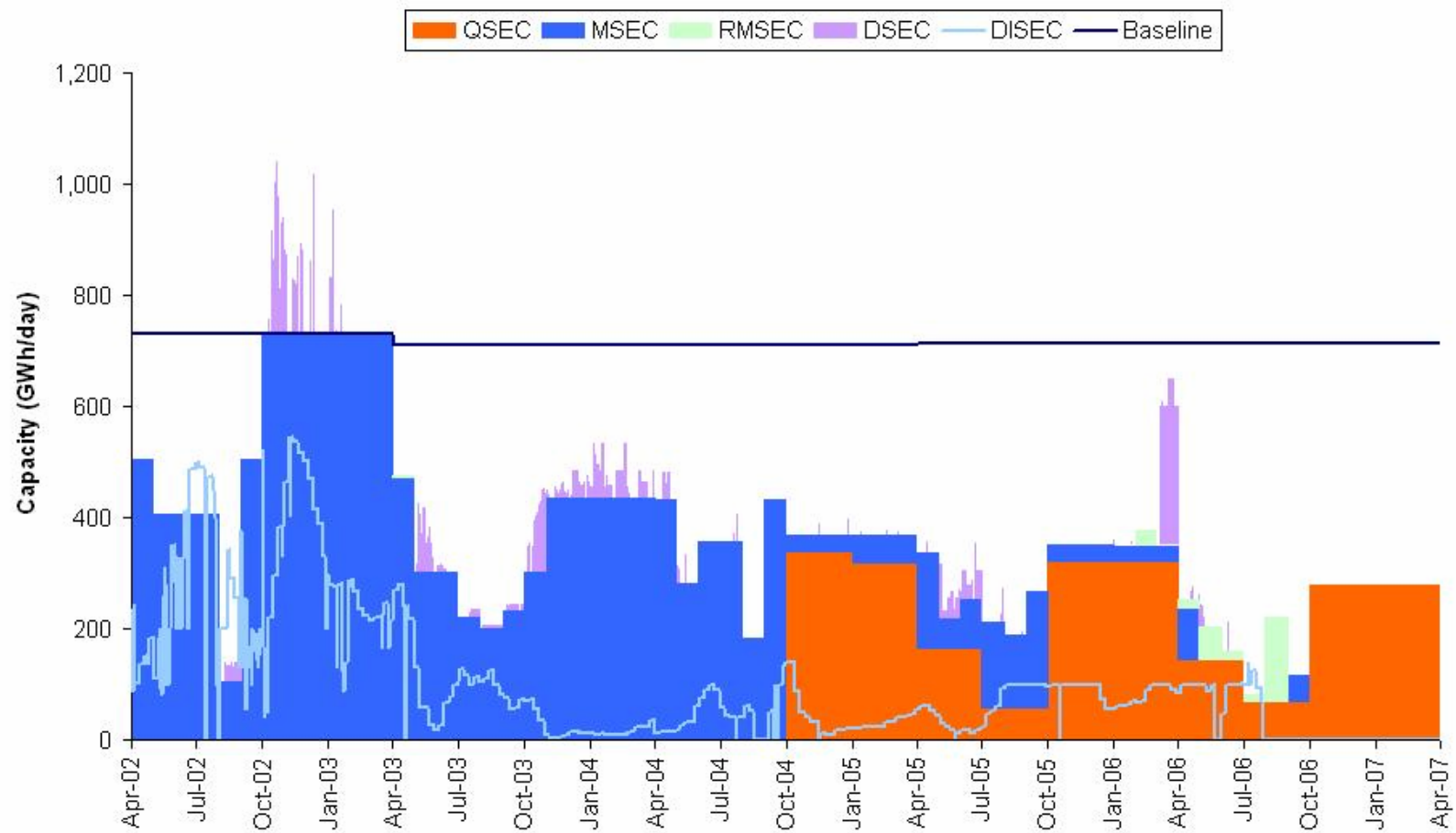
Analysis

- ◆ Capacity bookings since 1 April 2002 at 6 Beach Terminals analysed
 - ◆ St Fergus and Barrow bookings generally made long term
 - ◆ Other terminals showed increased amounts of daily capacity bookings since zero reserve price applied for on-the-day capacity sales (1 October 2003)
- ◆ Resulting increased TO Commodity charges generate a cross-subsidy between Users

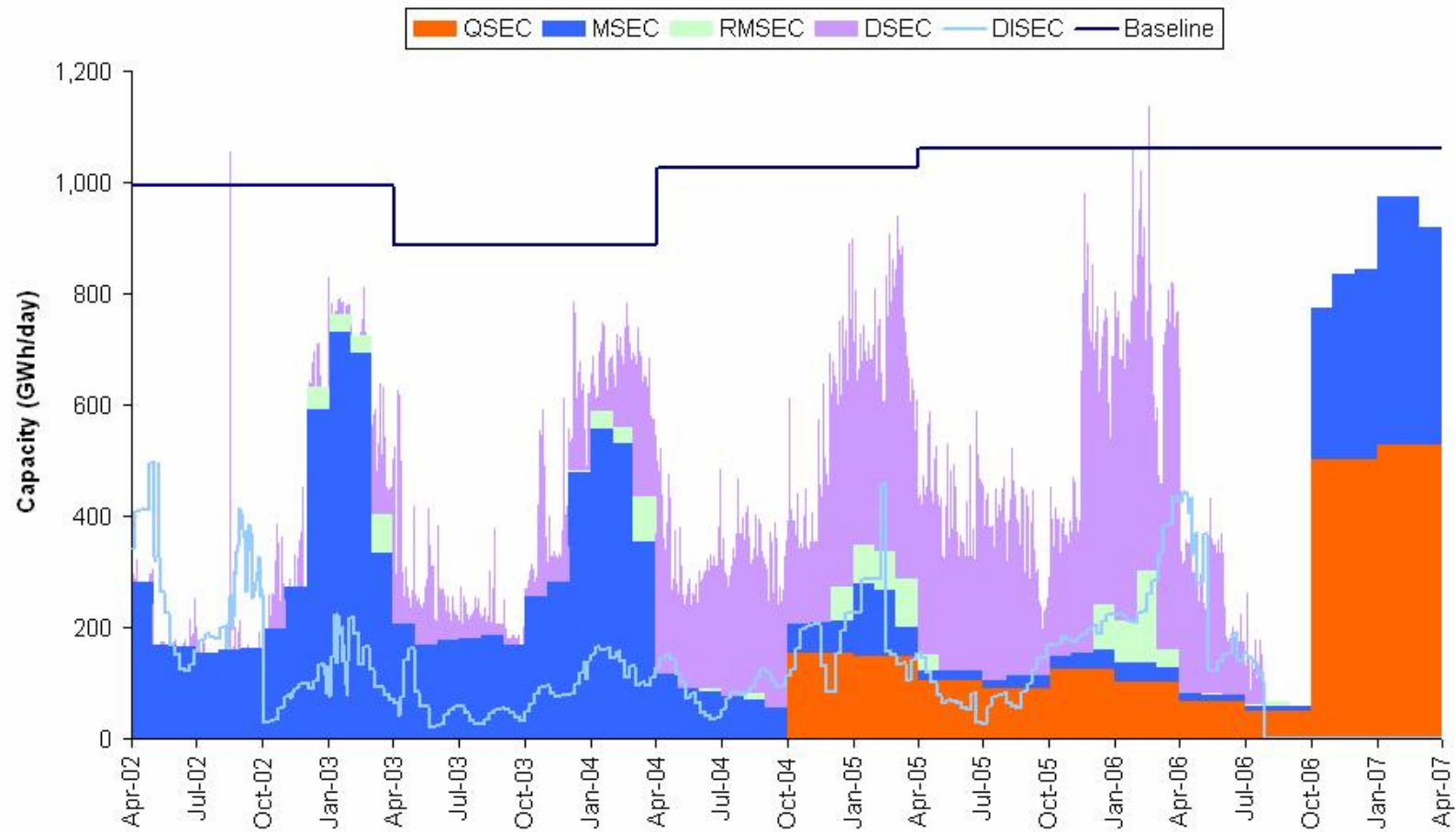
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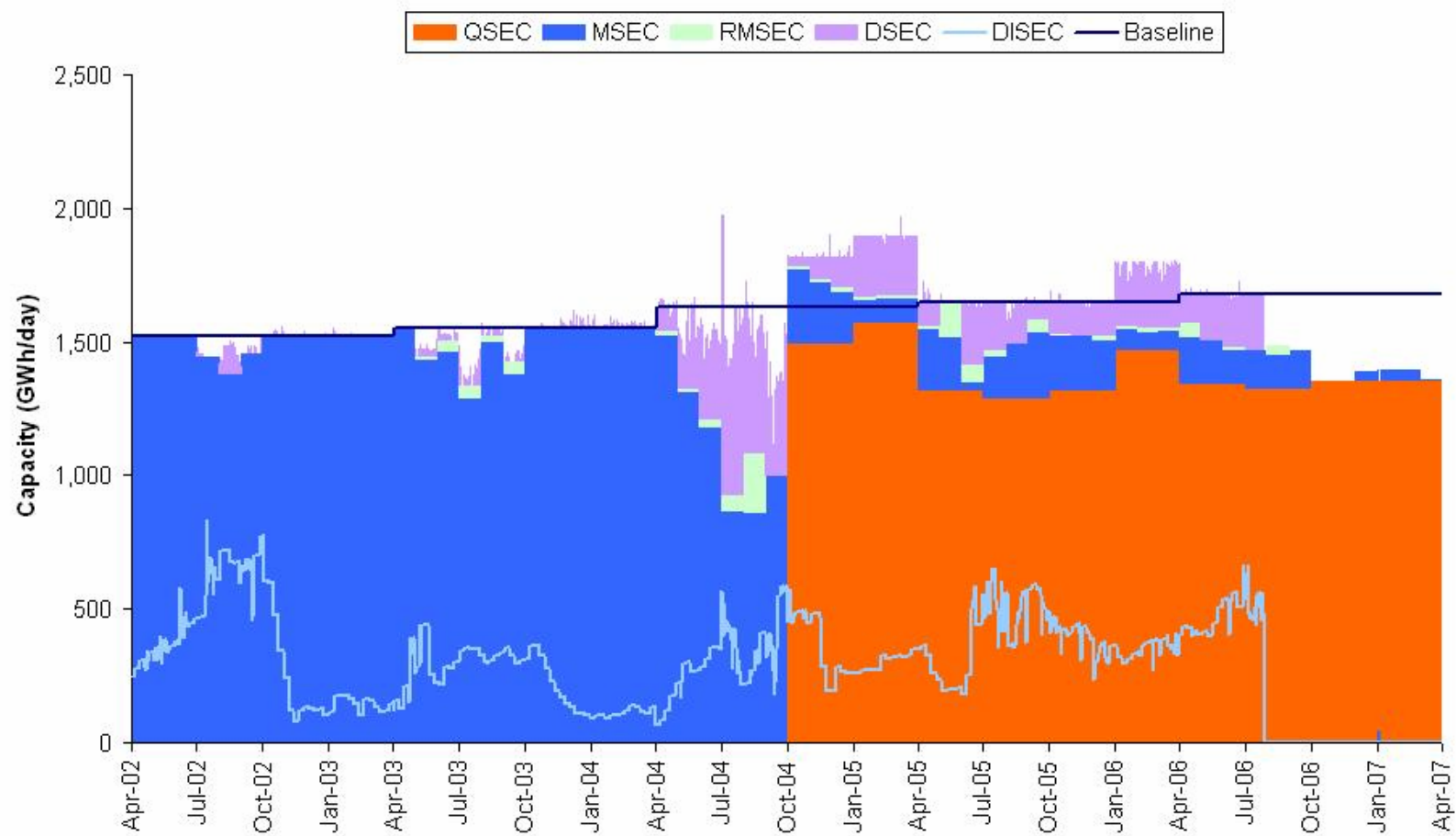
Barrow



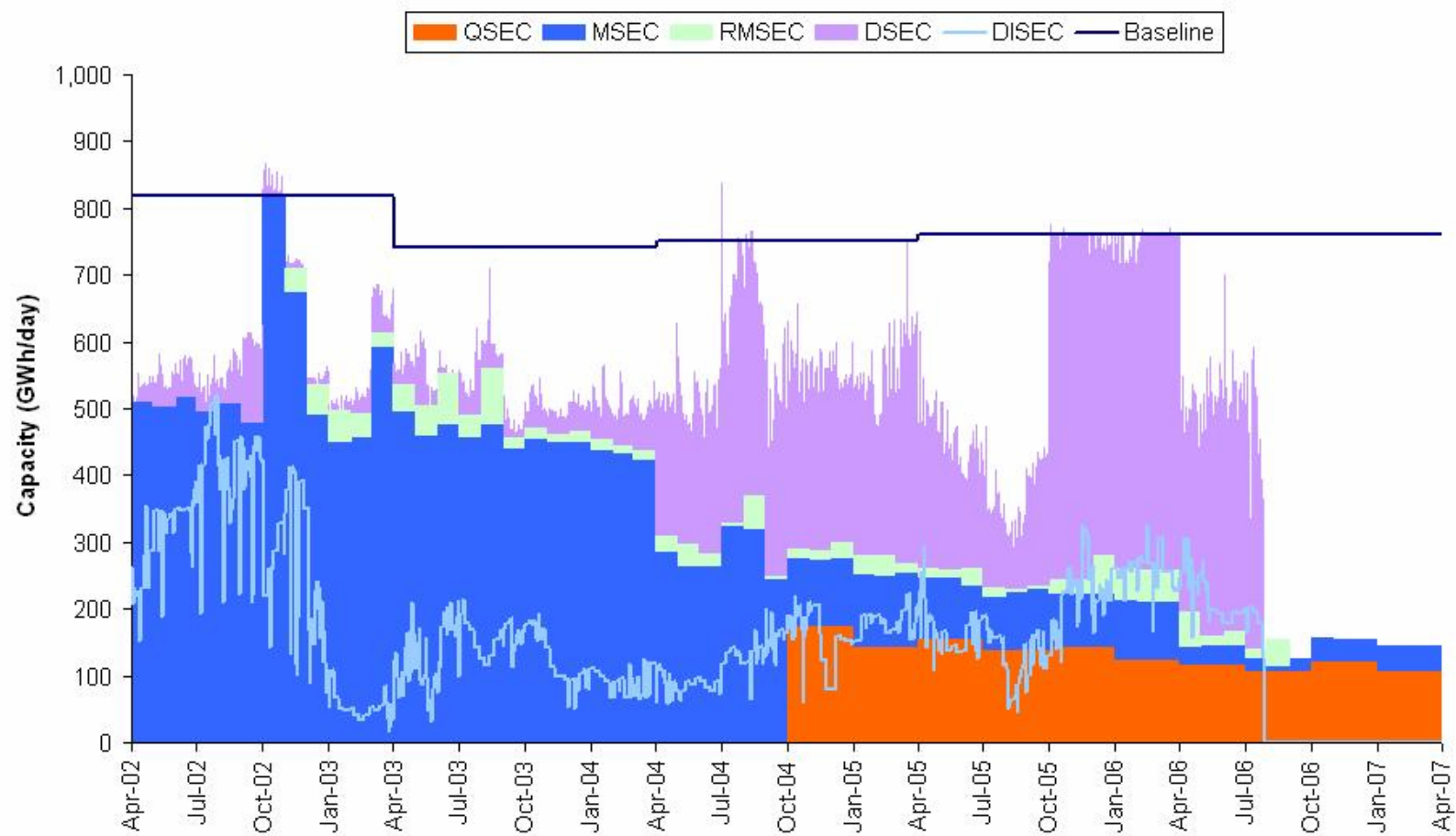
Easington and Rough



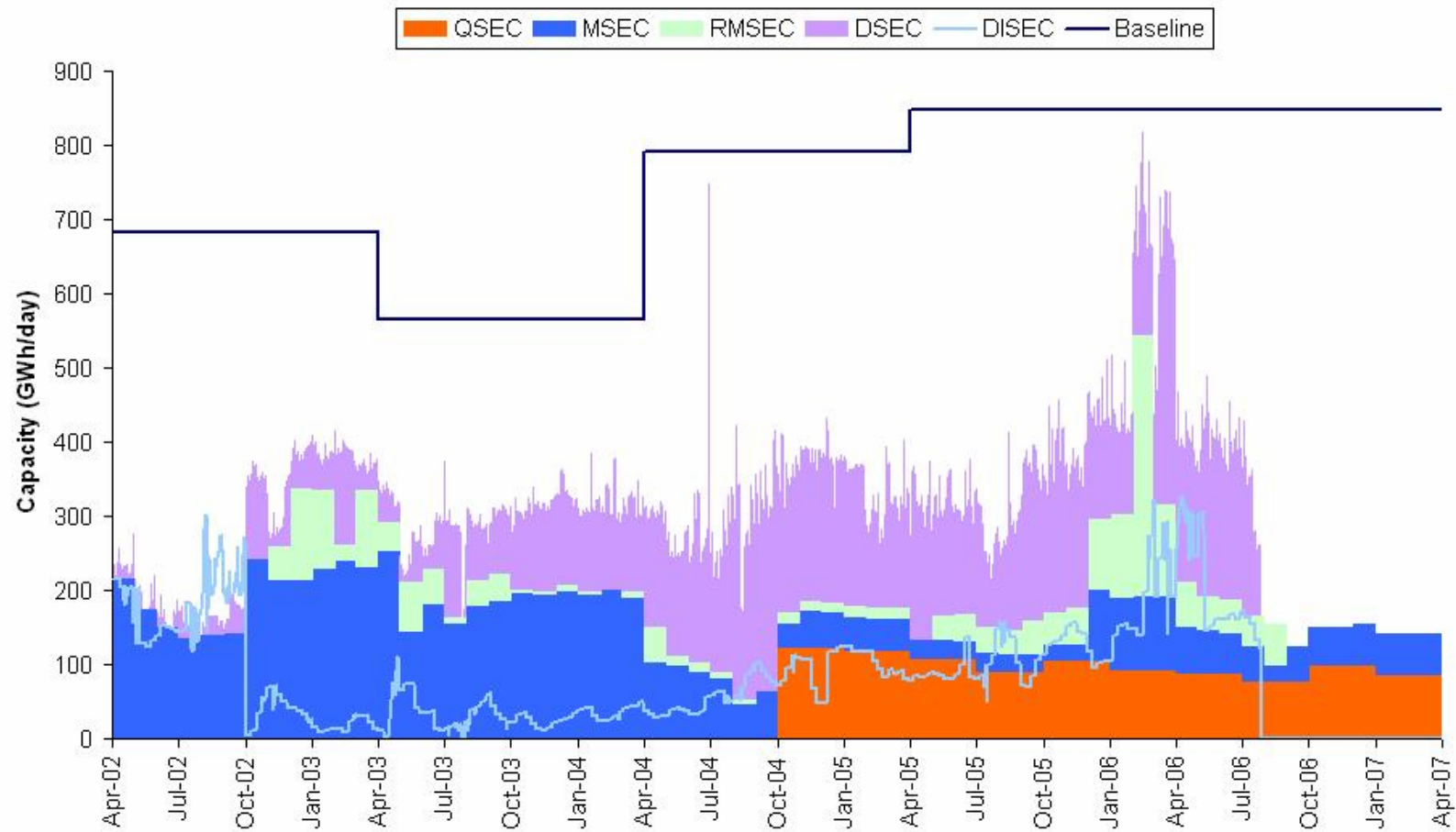
St Fergus



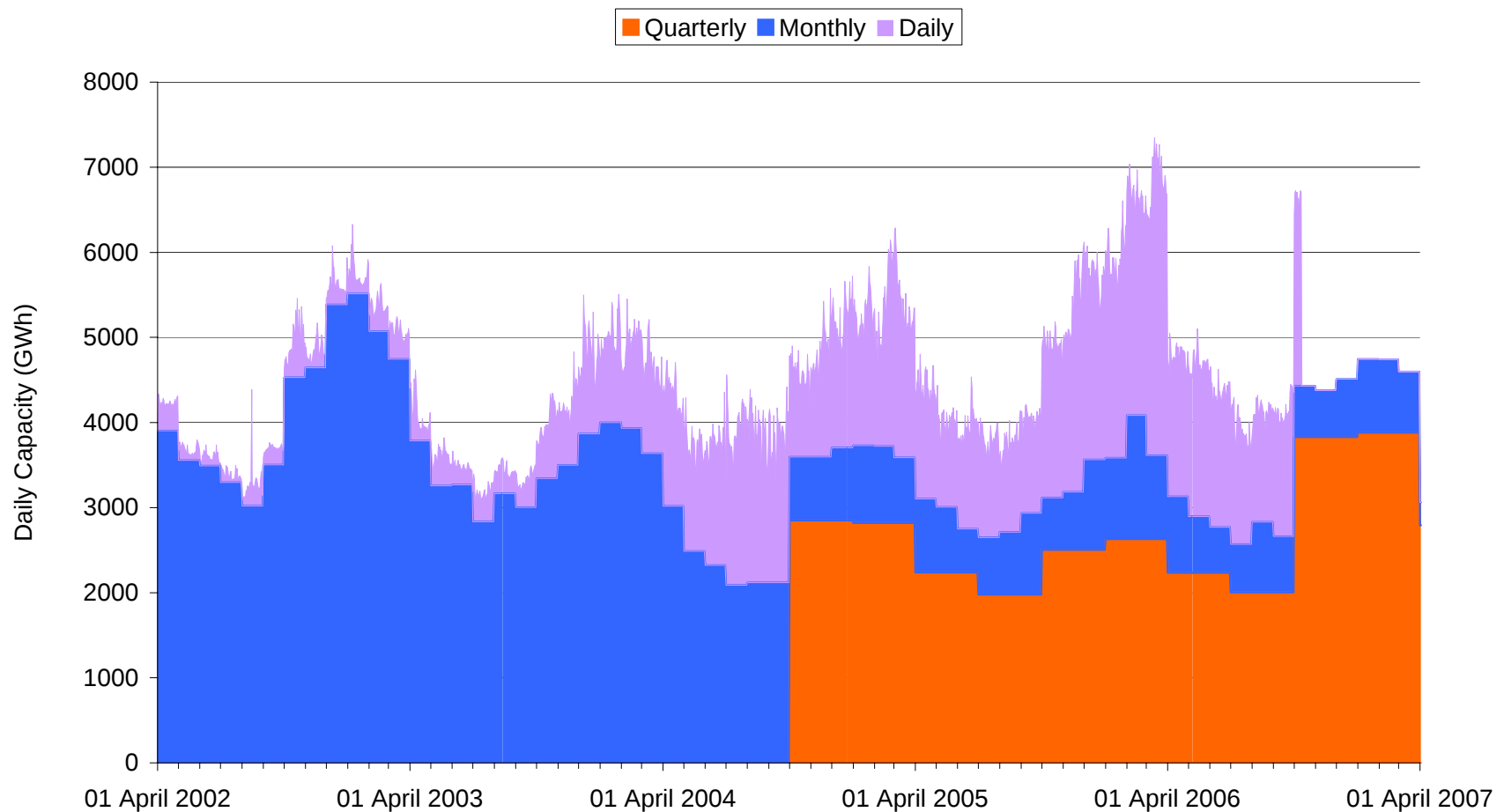
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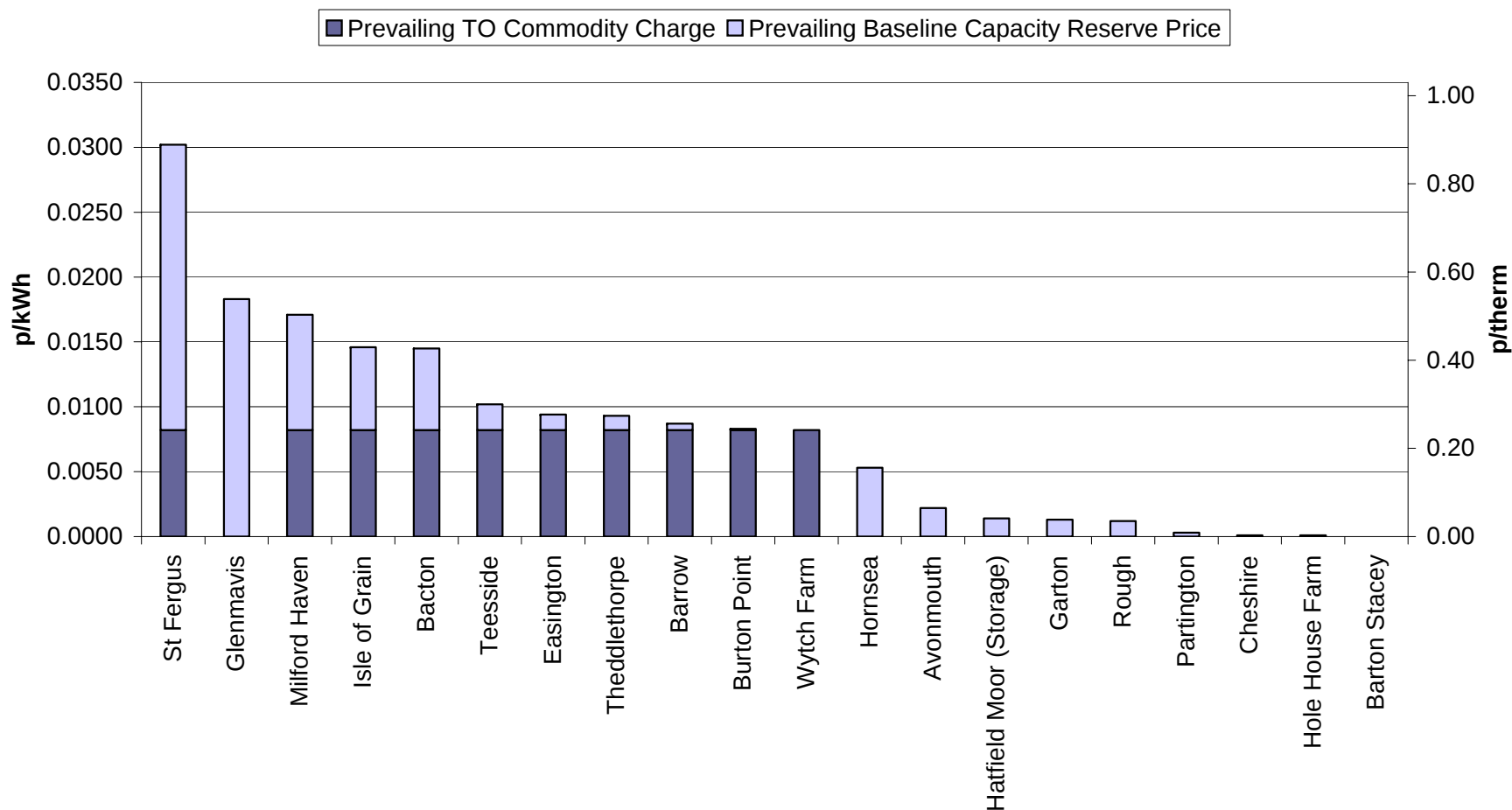
Theddlethorpe



Total Capacity Bookings (All ASEPs)



Prevailing TO Charges (Capacity + TO Commodity Charges)



Indicative TO Commodity Charges

Capacity Charging Option	Continuation of discounts for daily auctions (p/kWh)		Removal of discounts for daily auctions (p/kWh)	
	2007/8	2008/9	2007/8	2008/9
Ofgem Proposed UCA (0-50 GWh)	0.0121	0.0092	0.0038	0.0008
Option 1a	0.0130	0.0120	0.0088	0.0078
Option 1b	0.0130	0.0122	0.0093	0.0086
Option 2a	0.0116	0.0096	0.0048	0.0033
Option 2b	0.0111	0.0085	0.0030	0.0002

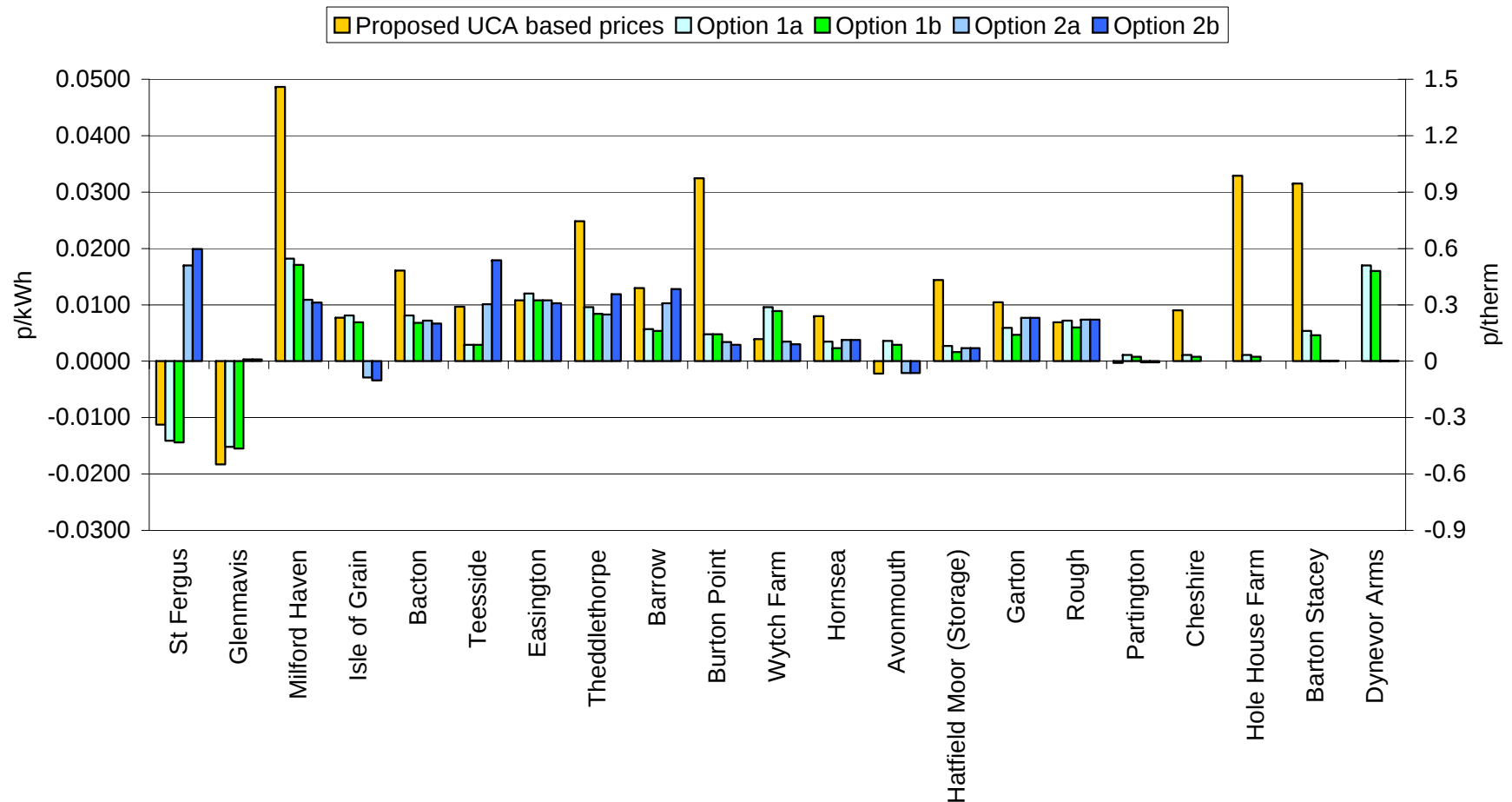
Option 1a = Transcost (2.834 mscm)

Option 1b = Transcost (6 mscm)

Option 2a = Transportation Model (Base Case flow)

Option 2b = Transportation Model (Baseline/Obligated level flow)

2007/8 Indicative Changes to Total TO Charges – Continuation of Discounts



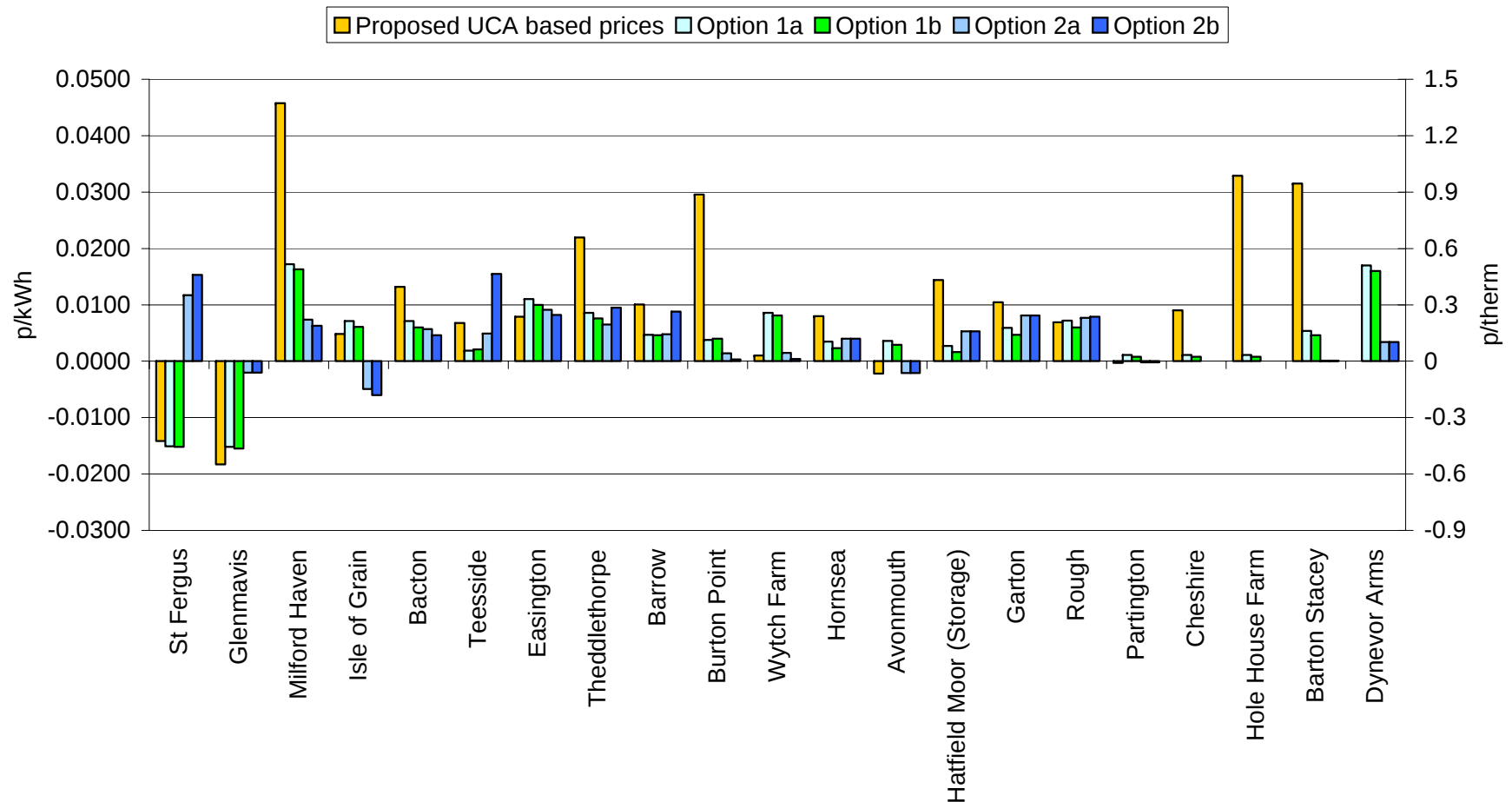
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2008/9 Indicative Changes to Total TO Charges – Continuation of Discounts



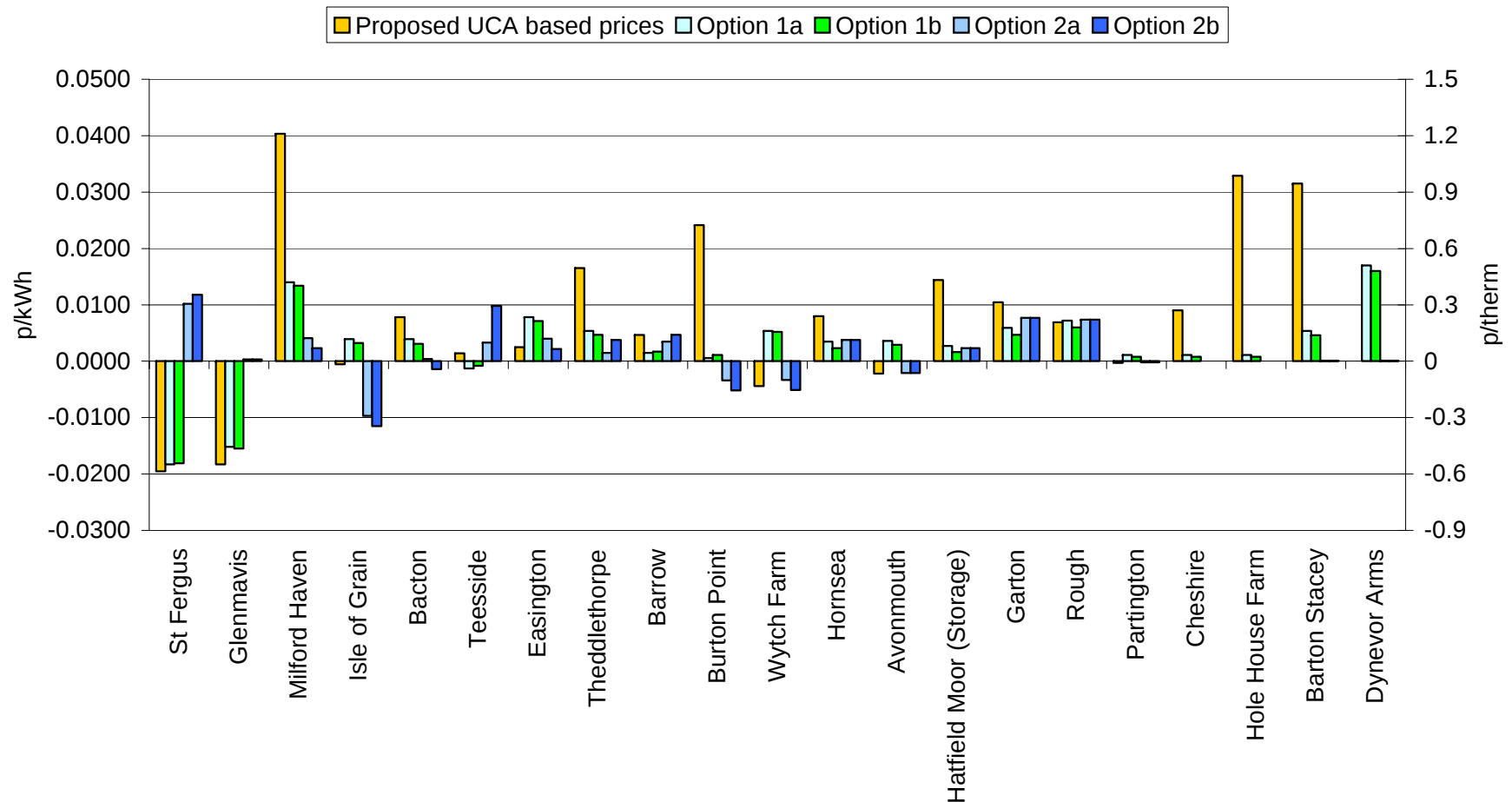
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2007/8 Indicative Changes to Total TO Charges – Removal of Discounts



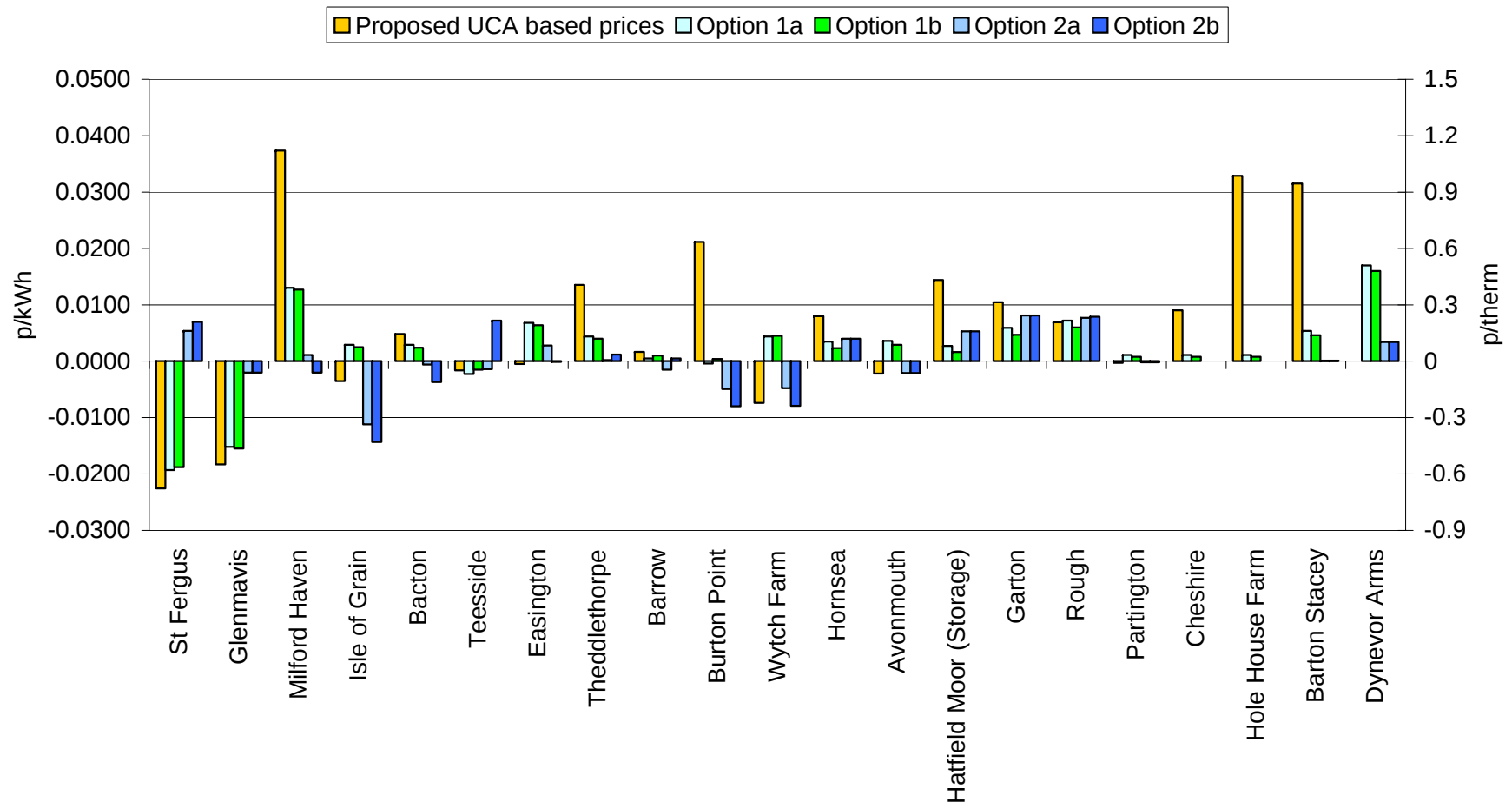
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2008/9 Indicative Changes to Total TO Charges – Removal of Discounts



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GCM 03 – SO Commodity Charge for NTS Storage Users

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Summary - Proposal

- ◆ UNC Proposal - SO Commodity charge applied to all storage input and output flows
 - ◆ $UDQI \times \text{Applicable Commodity Rate (in UNC already)}$
 - ◆ $UDQO \times \text{Applicable Commodity Rate (proposed)}$
- ◆ Applicable Daily Rate proposed to be based on “discounting” full SO Commodity Charge Rate
 - ◆ Exclude compressor and OM SO costs
- ◆ For 2006/07
 - ◆ Storage commodity rate = 0.0065 p/kWh (£5.3m revenue)
 - ◆ Standard commodity rate reduction from 0.0114 p/kWh to 0.0112 p/kWh

Charging Impacts of Enduring Exit Reform

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GCD01 – Based on current charging arrangements

Types	Proposal
Prevailing NTS Exit (Flat) Capacity	Pay prevailing charge for year of use (as under current regime*)
Annual NTS Exit (Flat) Capacity	Reserve Price equal to: ➤ 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	Reserve price equal to prevailing charge for Gas Year
Daily Interruptible NTS Exit (Flat) Capacity	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*
Annual NTS Exit (Flat) Capacity	Reserve Price equal to: ➤ for Gas Year Y+1 – prevailing charge for Y+1 ➤ for Gas Year Y+2 – forecast prevailing charge for Y+2 ➤ for Gas Year Y+3 – forecast prevailing charge for Y+3
Daily NTS Exit (Flat) Capacity	Reserve price equal to prevailing charge for Gas Year
Daily Interruptible NTS Exit (Flat) Capacity	Reserve price equal to 0 p/kWh

***Set charges for following Gas Year as now, but also forecasts for following Gas Years to support provision of User Commitments**

GCD01 – Other changes

- ◆ Tariff model
 - ◆ no adjustment to recover allowed revenue
 - ◆ no capping of annual price movements
 - ◆ removal of zones for NTS/LDZ offtakes
- ◆ Interruption payments removed

GCD02 - NTS Exit (Flex) Capacity Reserve Prices

Types	Proposal
Annual NTS Exit (Flex) Capacity	Reserve price equal to 0 p/kWh
Daily NTS Exit (Flex) Capacity	

GCD02 – NTS Exit (Flexibility) and (Flat) Commodity Rates

For 2006/07:

- ◆ Flex Commodity rate:
 - ◆ Within day costs estimated to be 3.5% of SO Costs
 - ◆ Resulting in indicative rate of 0.0343 p/kWh
- ◆ Flat Exit Commodity rate:
 - ◆ Set to recover SO Exit Revenue net of flex
 - ◆ Indicative rate reduction from 0.0114 to 0.0103 p/kWh

GCD 03: Under/over recovery mechanisms

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Proposal

Exit capacity prices not adjusted to recover allowable revenue, instead replaced with new mechanism....

- ◆ Under-recovery:
 - ◆ NTS TO Exit Commodity Charge levied on Users at NTS Exit Points
 - ◆ Based on utilisation of NTS Exit (Flat) Capacity and/or NTS Exit (Flexibility) Capacity

Proposal

- ◆ Over-recovery:
 - ◆ If buy-back costs recovered via neutrality
 - ◆ redistributed to Users in line with their proportion of aggregate Firm NTS Exit (Flat) Capacity holding for Gas Days on which buy back actions taken (reflecting the Buy-back Offset Entry arrangements outlined in PC65);
 - ◆ If over recovery in excess of buy-back costs (or if buy-back costs not recovered via neutrality)
 - ◆ negative NTS TO Exit Commodity Rate utilised, collared to prevent the aggregate of NTS TO and SO Exit Commodity Rates from being negative

GCM 04: Proposed DN Pensions Deficit Charge

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Proposed DN Pensions Deficit Charge

- ◆ Allowance in Transmission Price Control to be included for deficit in National Grid UK Pensions Scheme (formally LGPS)
- ◆ National Grid NTS to recover deficit cost relating to DN former employees, via new transportation charge on DN
- ◆ Annual allowance in respect of each DN to be “hard-coded” in NTS’ GT Licence and each DN GT Licence
- ◆ Require:
 - ◆ UNC Modification Proposal required to define new charge type
 - ◆ Charging Methodology change to describe determination new charge amounts

Proposed DN Pensions Deficit Charge – Next Steps

- ◆ Pricing Consultation Paper to be issued shortly
- ◆ UNC Modification Proposal to be raised at December Mod Panel meeting
- ◆ Seek to commence charging from 1 April 2007, but dependant on TPCR