

Incremental Entry Capacity Release (IECR) Methodology Statement Consultation

Gas TCMF, 25th April 06

IECR Annual Review

- ◆ Licence obligation to review IECR at least once a year and consult on any proposed amendments
- ◆ IECR consultation issued on 6th April
 - ◆ 28 day consultation
 - ◆ due to close on 5th May

IECR Proposals

- ◆ Pipeline investments costs determined by following formula in IECR:

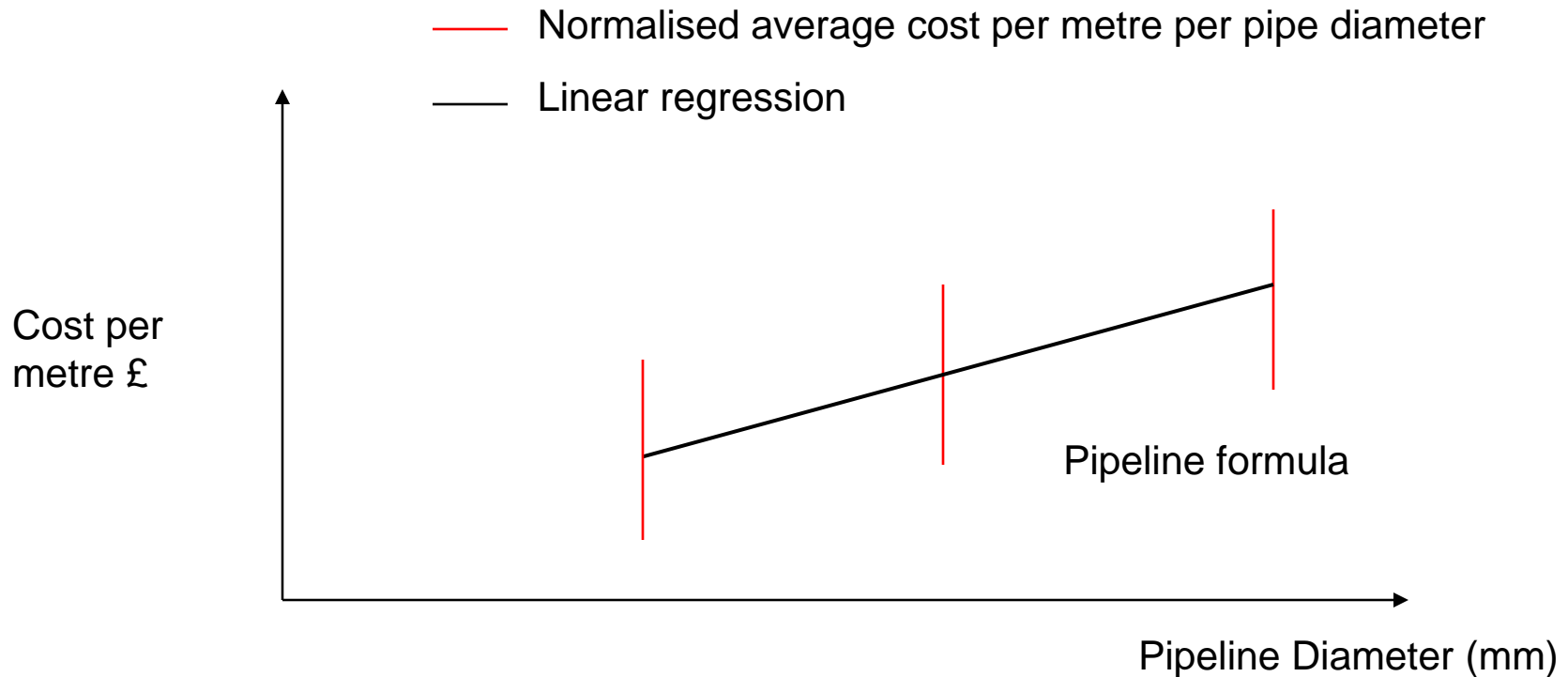
Pipeline cost £m per km = 0.000407 * diameter (mm) + 0.38561 / km

- ◆ Historically we have updated the formula parameters, where required, through the annual review consultation
- ◆ Propose that we introduce a methodology into IECR on which to determine the pipeline formula to promote transparency

Proposed Methodology

- ◆ Data taken from projects
 - ◆ undertaken in last 4 years; and
 - ◆ planned and projected to be completed in next 4 years
- ◆ For each project, determine average cost per metre per pipeline diameter
- ◆ Normalise the data, by use of the Structural Steelworks Labour Price costs index according to the construction year to take account of changes in
 - ◆ Steel Prices
 - ◆ Construction Costs
 - ◆ Inflation
- ◆ Pipeline cost formula then determined as “best-fit” of normalised data

Proposed Methodology



Current formula:

$$\text{Pipeline cost } \text{£m per km} = 0.000407 * \text{diameter (mm)} + 0.38561 / \text{km}$$

If proposal approved, revised formula would be

$$\text{Pipeline cost } \text{£m per km} = 0.0012507 * \text{diameter (mm)} - 0.01507 / \text{km}$$

Way forward

- ◆ Submit consultation report to Authority on 12th May
- ◆ If IECR Methodology Proposal not vetoed by Authority, we will apply revised pipeline formula for determination of entry capacity price schedules in Sept 06 long term auction