

# NTS Exit Reform: Exit Charging Consultation Proposals

---

Gas TCMF

1<sup>st</sup> February 2007

# Background

---

- ◆ Pricing Discussions
  - ◆ GCD 01 – NTS Exit (Flat) Capacity
    - ◆ NTS Exit (Flat) Capacity
    - ◆ Prevailing prices and annual and daily reserve prices
  - ◆ 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 – TO Under/over-recovery mechanisms
- ◆ Need to consult soon if we are to publish charges 2 months ahead of the proposed July application period/auction.
- ◆ Need to make assumptions regarding
  - ◆ Mod 0116V and alternates outcome – expected March 2007
  - ◆ Charging Proposal GCM 01 –25th April 2007 at the latest

# Content

---

- ◆ Proposals
  - ◆ Flat Exit Capacity
    - ◆ NTS TO Exit (Flat) Capacity
  - ◆ Flex Exit Capacity
    - ◆ NTS TO Exit (Flex) Capacity
  - ◆ SO Cost Recovery
    - ◆ NTS SO Exit (Flex) Commodity Charge
    - ◆ NTS SO Exit (Flat) Commodity Charge
  - ◆ TO Over/Under Recovery
    - ◆ NTS TO Exit (Flat) Commodity
- ◆ Way Forward

# Flat Exit Capacity

---

# Flat Exit Capacity

---

- ◆ **“Prevailing NTS Exit (Flat) Capacity”**
  - ◆ Users will be able to apply for such rights in July of Gas Year Y for Gas Year Y+4 onwards;
- ◆ **“Annual NTS Exit (Flat) Capacity”**
  - ◆ Users will be able to bid for such rights in August of Gas Year Y for Gas Years Y+1, Y+2 and Y+3 via annual auctions;
- ◆ **“Daily NTS Exit (Flat) Capacity”**
  - ◆ Users will be able to bid for such rights ahead of and during the Gas Day via daily auctions; and
- ◆ **“Daily Interruptible NTS Exit (Flat) Capacity”**
  - ◆ Interruptible NTS Exit (Flat) Capacity. Users will be able to bid for such rights ahead of the Gas Day via daily auctions.

# NTS TO Exit (Flat) Capacity Price Proposals

---

- ◆ Based on prevailing methodology (i.e. with GCM01 approved or rejected), except for
  - ◆ Nodal as opposed to zonal prices for NTS/LDZ offtakes
  - ◆ Interruption Payments Removed
- ◆ Applicable for
  - ◆ *"Prevailing NTS Exit (Flat) Capacity" Price*
  - ◆ *"Annual NTS Exit (Flat) Capacity" Reserve Price*
  - ◆ *"Daily NTS Exit (Flat) Capacity" Reserve Price*
  - ◆ Exception *"Daily Interruptible NTS Exit (Flat) Capacity"*
    - ◆ Zero Reserve Price

# NTS TO Exit (Flat) Capacity Price Proposals – dependency on GCM01

---

- ◆ GCM01 Approved
  - ◆ Transportation Model
  - ◆ Prices adjusted to collect forecast allowed revenue
  - ◆ Proposed input data changes
    - ◆ Network & Supply/demand input data based on year for which capacity is being released
    - ◆ Investment costs from 3 years prior to capacity release
- ◆ GCM01 Rejected
  - ◆ Transcost
  - ◆ Prices scaled to collect forecast allowed revenue
  - ◆ No input data changes proposed
    - ◆ Network & Supply/demand input data based on current year
    - ◆ Investment costs from current year

# Flex Exit Capacity

---



# NTS TO Exit (Flex) Capacity Price Proposals

---

- ◆ Zero Flex Capacity Reserve Price
- ◆ No Target Revenue associated with Flex
- ◆ All Flex Capacity Revenue treated as over recovery and re-cycled through negative TO Exit (Flat) Commodity Charge

# SO Revenue Recovery

---

# SO Cost Recovery Proposals

---

- ◆ NTS SO Exit (Flex) Commodity
  - ◆ Defer any proposal as implementation not required until 2010
  - ◆ Raise proposal subject to further monitoring of usage and costs indicating material change in behaviour/cost
  
- ◆ NTS SO Exit (Flat) Commodity
  - ◆ Map to NTS SO Exit Commodity for non-storage sites
  - ◆ Map to NTS SO Storage Commodity charge for storage sites
  - ◆ National Grid NTS View:
    - ◆ May not be an immediate requirement for a proposal
    - ◆ Consider as part of wider review of commodity charges

# Risks & Benefits of introducing a non-zero Flex Commodity Charge

---

## Benefit

- ◆ Incentivise appropriate usage of NTS Flexibility
  - ◆ *Should create a daily incentive for a DN to maximise the use of its own stock before using NTS FF capacity*

## Risks

- ◆ Adds additional complexity & cost
  - ◆ *Small quantity of revenue collected through the charge (5% of SO allowed revenue)*
  - ◆ *Hourly data issues*
  - ◆ *Users might need to check the billable quantity on a daily basis*
  - ◆ *Lack of User support*
- ◆ Charge might only be effective in influencing DNO behaviour if DNs are exposed to the cost through the incentive arrangements
  - ◆ *Structure of DN incentives may mean that DNs are incentivised to minimise their use of NTS flexibility without a flex commodity charge.*

# TO Under/Over Recovery

---

# TO Over/Under Recovery

---

- ◆ NTS TO (Flat) Commodity Charge
  - ◆ Sole revenue recovery correction mechanism
    - ◆ The absence of a buy-back incentive scheme means that any buy-back offset mechanism would be redundant
  - ◆ Calculated to ensure that 50% of TO Allowed Revenue (less revenue collected from DN Pensions charge) is recovered from NTS Exit Charges
  - ◆ Capped to ensure net commodity charge is non-negative
  - ◆ Applicable to all Exit Points
- ◆ National Grid NTS View:
  - ◆ No immediate requirement for a proposal
  - ◆ Consider as part of wider review of commodity charges

# Way Forward

---

# Exit Reform Charging Timeline

Milestone	Date
Raise Proposals ( <b>Latest Date</b> )	19 <sup>th</sup> February 2007
Consultation Ends	19 <sup>th</sup> March 2007
Decision on UNC Modification Proposal 0116	March 2007
Consultation Conclusions inc. Final Proposals*	2 <sup>nd</sup> April 2007
Ofgem veto period expires (Assumes no Impact Assessment)	30 <sup>th</sup> April 2007
Notice of Prices	30 <sup>th</sup> April 2007
Application/Auction	July 2007

***\* NB Final proposals may need to take into account Ofgem's decisions on UNC Mod 0116 and GCM01***



# Proposed Exit Reform Charging Way Forward

Issue	Proposal	Way Forward
Flat Exit Capacity	Raise February '07	Prevailing Methodology with minor variations & Removal of Interruption Payments
Flex Exit Capacity		Zero Reserve Price - Recycle all revenue through negative TO Commodity charge
SO Cost Recovery	No proposal at this stage. Consider as part of wider commodity review*	<i>No Change to Flat SO Commodity</i> <i>No Flex SO Commodity Proposal at this stage (effectively zero rate)</i>
TO Over/Under Recovery		TO commodity charge may not be required and would only be applicable from 2010

**\* Views sought from the Gas TCMF**

**nationalgrid**