

NTS Exit Reform: Update on Exit Charging Proposals

Gas TCMF

1st May 2007

Background

- ◆ Pricing Discussions held (Oct/Nov '06)
 - ◆ **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**
- ◆ Pricing Consultations held (Feb/Mar '07)
 - ◆ **GCM04 - NTS Exit (Flexibility) Capacity**
 - ◆ Zero reserve prices for annual and daily auctions

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 now approved) , 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 – GCM01 approved

- ◆ 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

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 2011
 - ◆ 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
 - ◆ *If introduced*, Map to NTS SO Storage Commodity charge for storage sites
 - ◆ View agreed by Gas TCMF:
 - ◆ No 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
- ◆ View agreed by Gas TCMF:
 - ◆ 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 (Latest Date)	February 2008
Consultation Ends	March 2008
Consultation Conclusions inc. Final Proposals	2 nd April 2008
Ofgem veto period expires (Assumes no Impact Assessment)	30 th April 2008
Notice of Prices	30 th April 2008
Application/Auction	July 2008

Proposed Exit Reform Charging Way Forward

Issue	Proposal	Way Forward
Flat Exit Capacity	Raise between Summer '07 and Winter 07/08	Prevailing Methodology with minor variations & Removal of Interruption Payments
Flex Exit Capacity	Consultation complete. Final proposal to be issued shortly.	GCM04: 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 will be required but would only be applicable from 2011