

NTS Entry Capacity Reserve Price Discounts – Discussion Paper GCD04

5th April 2007

Gas TCMF

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Recap

- ◆ Issue identified in G TCMF in May 2006 and included in Progress Report (October 2006)
- ◆ March 2007 - High level data summary and Pros and Cons.....
 - ◆ Assist price discovery for short term auctions; ensures price does not inhibit clearance allocation
 - ◆ Under-recovery of TO revenue from auctions; diluted cost reflectivity; weakened investment signals; increased risk of constraints high/volatile short term prices; inhibit secondary capacity trading at unconstrained ASEPs, likelihood of interruption not reflected in price

Update

- ◆ Auction data from July 2006 to February 2007
- ◆ Comparison of capacity sold with actual energy flowed
- ◆ Auction type - % sales and % revenue

Definition for this update:-

“Daily” capacity = firm day ahead + firm within day

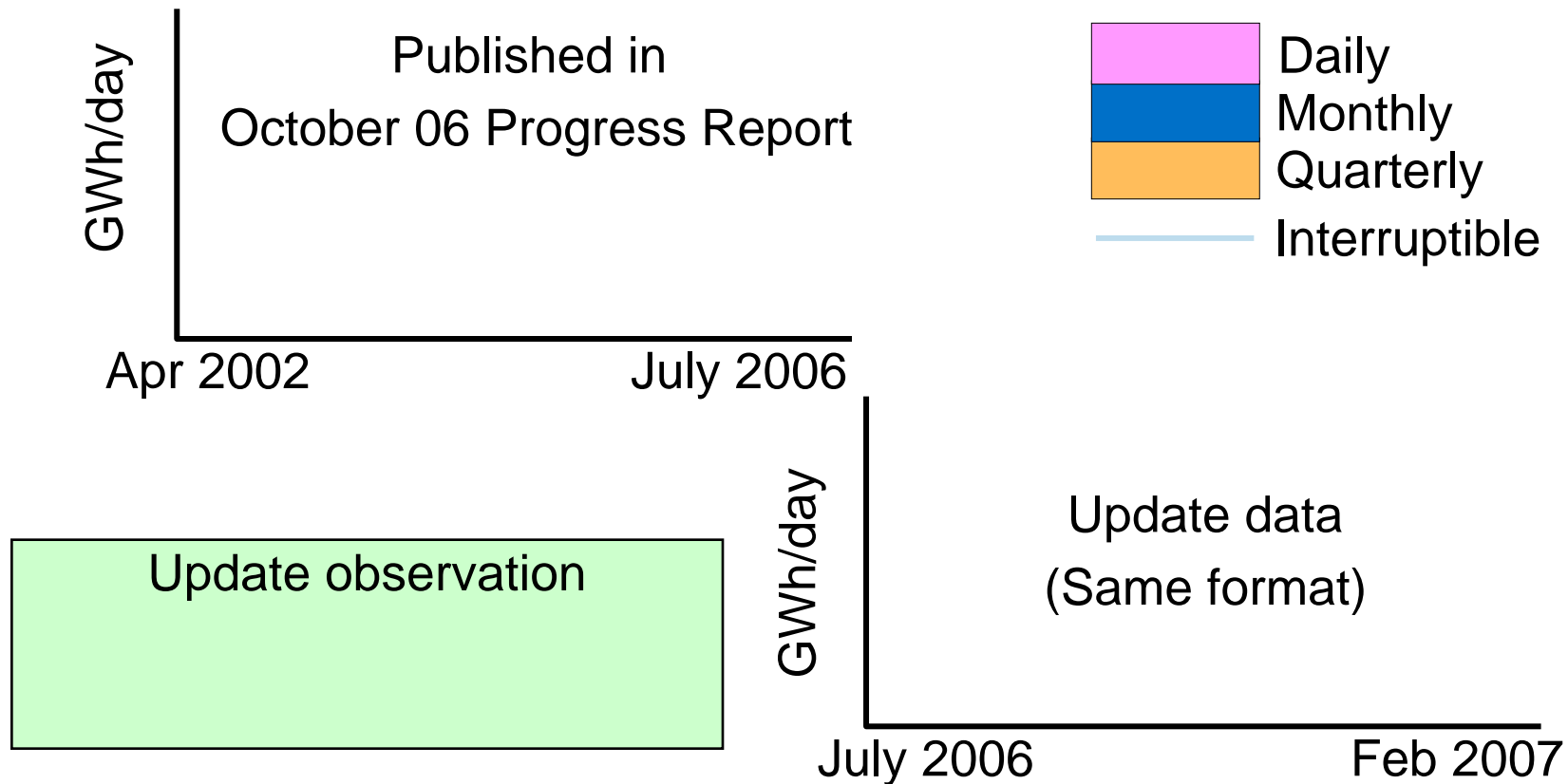
“Monthly” capacity = AMSEC + RMSEC

July06-Feb07 Baseline clearance, % DSEC

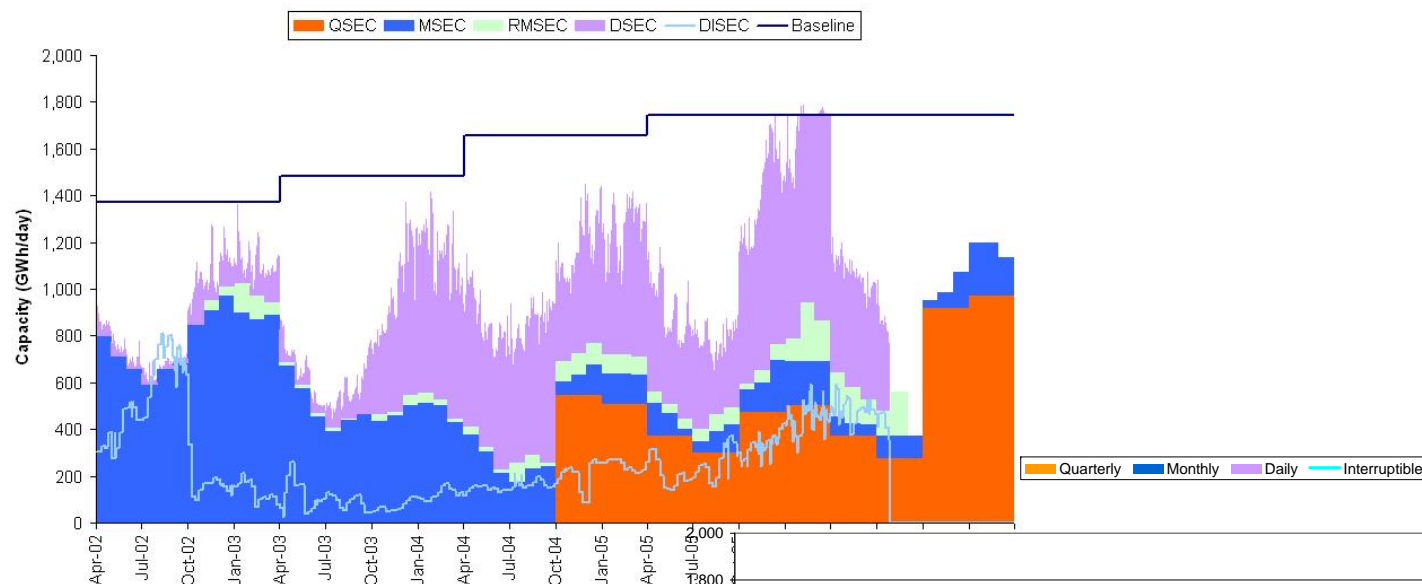
	Max. Baseline Sold (%)	Firm Daily auction (Average %)
Bacton	100	30
Barrow	100	31
Easington (inc Rough)	100	10
St Fergus	100	15
Teesside	100	69
Theddlethorpe	100	62

Entry Capacity Auction Data - Format

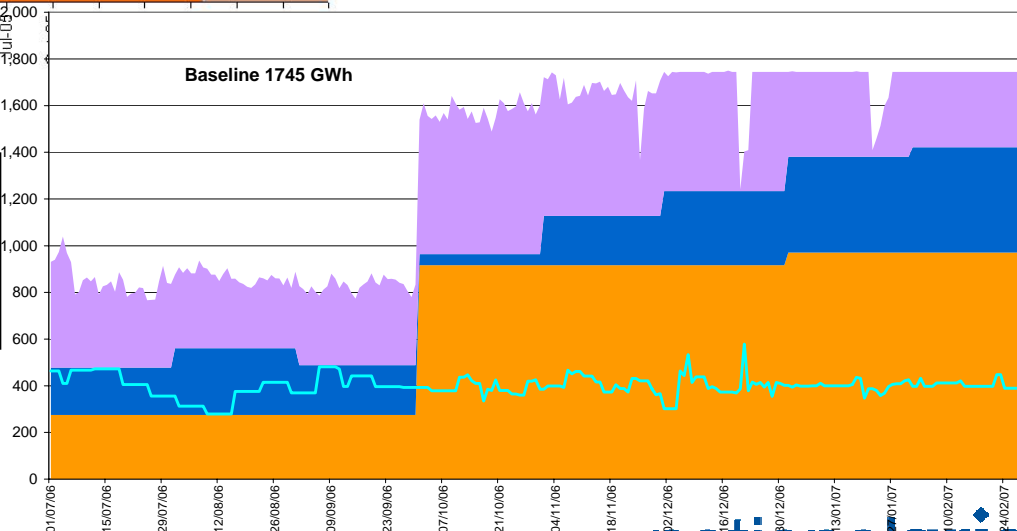
SIX MAIN BEACH TERMINALS



Bacton capacity sales update

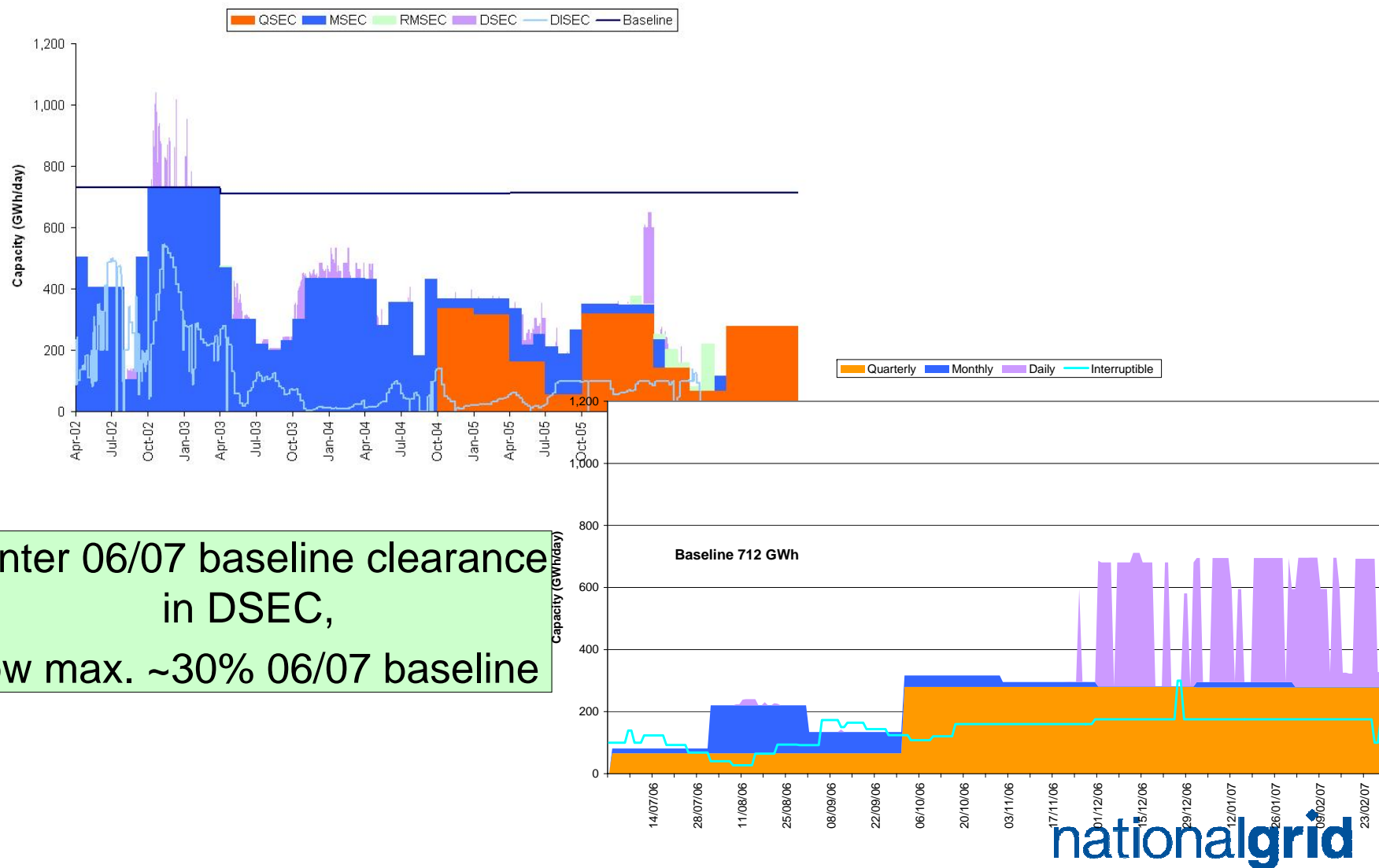


Winter 05/06 and 06/07
baseline clearance in DSEC,
flow max. ~60% 06/07 baseline

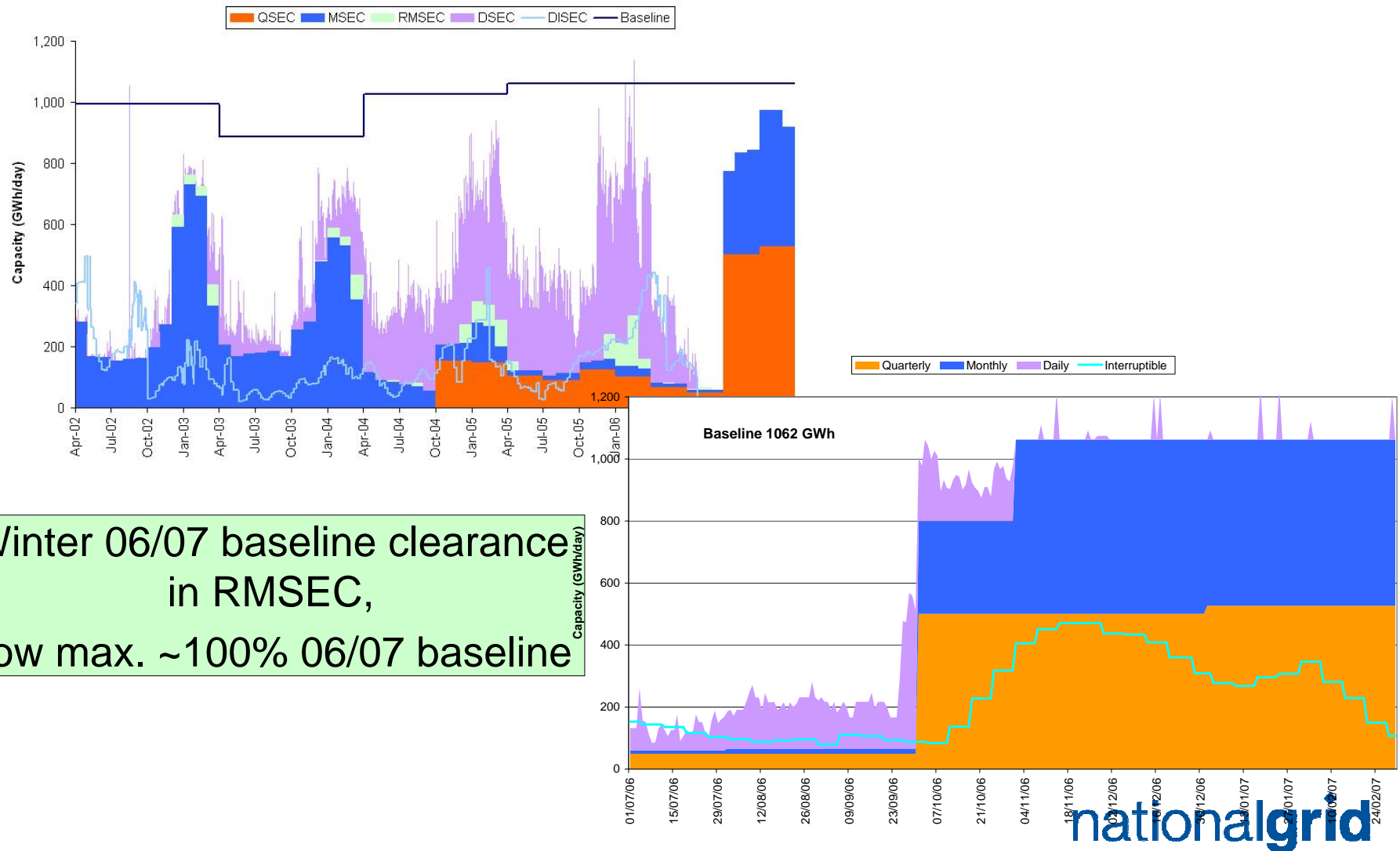


nationalgrid

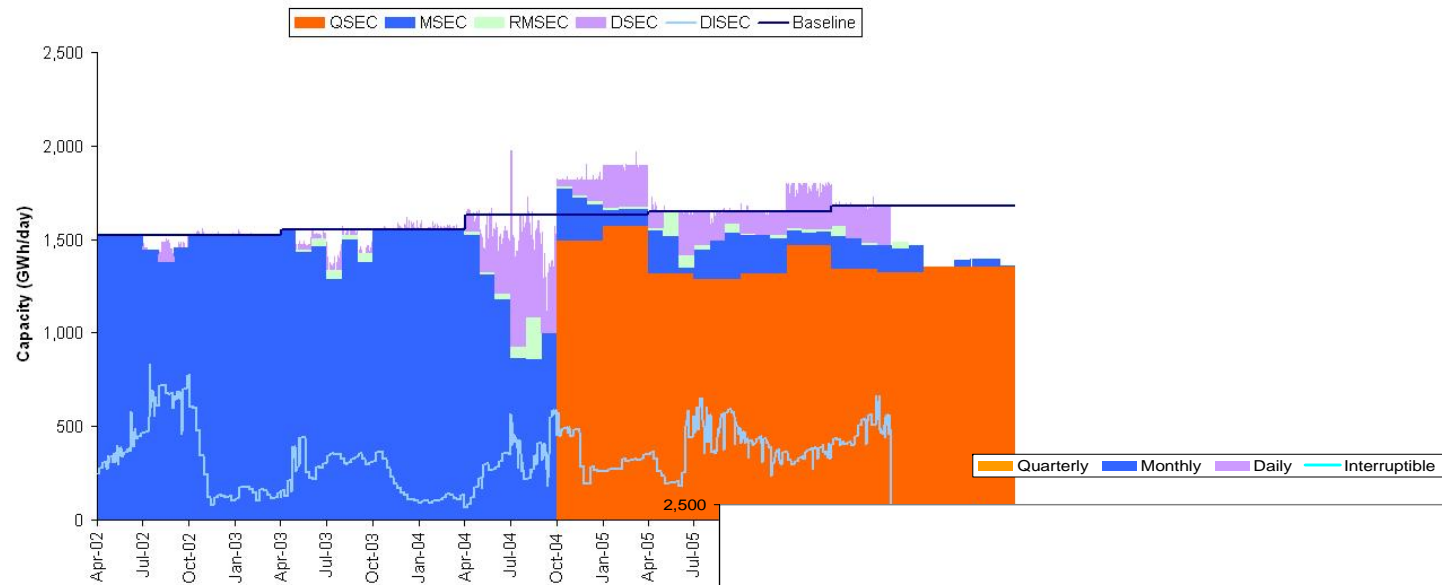
Barrow capacity sales update



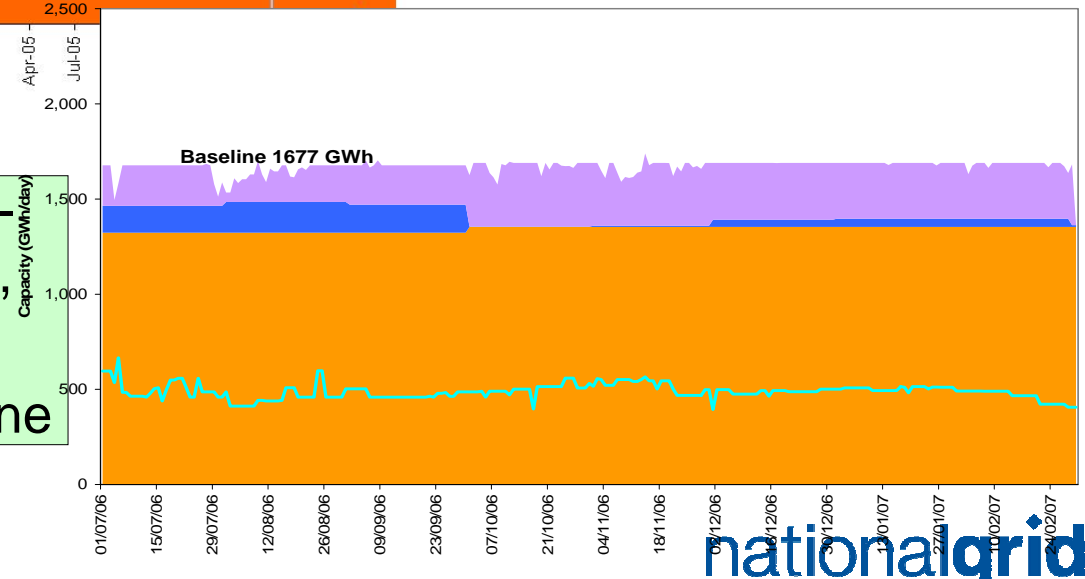
Easington & Rough capacity sales update



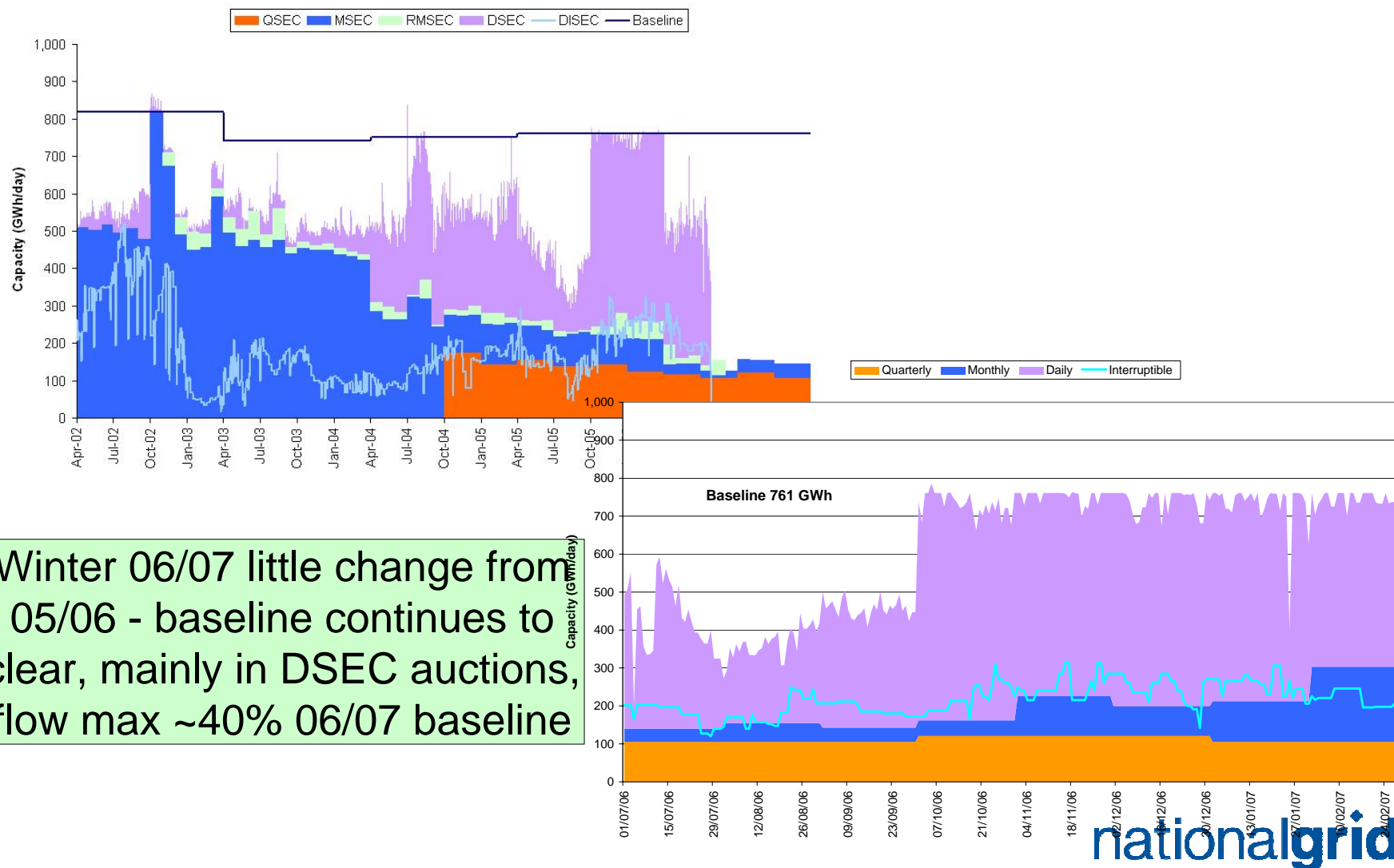
St Fergus capacity sales update



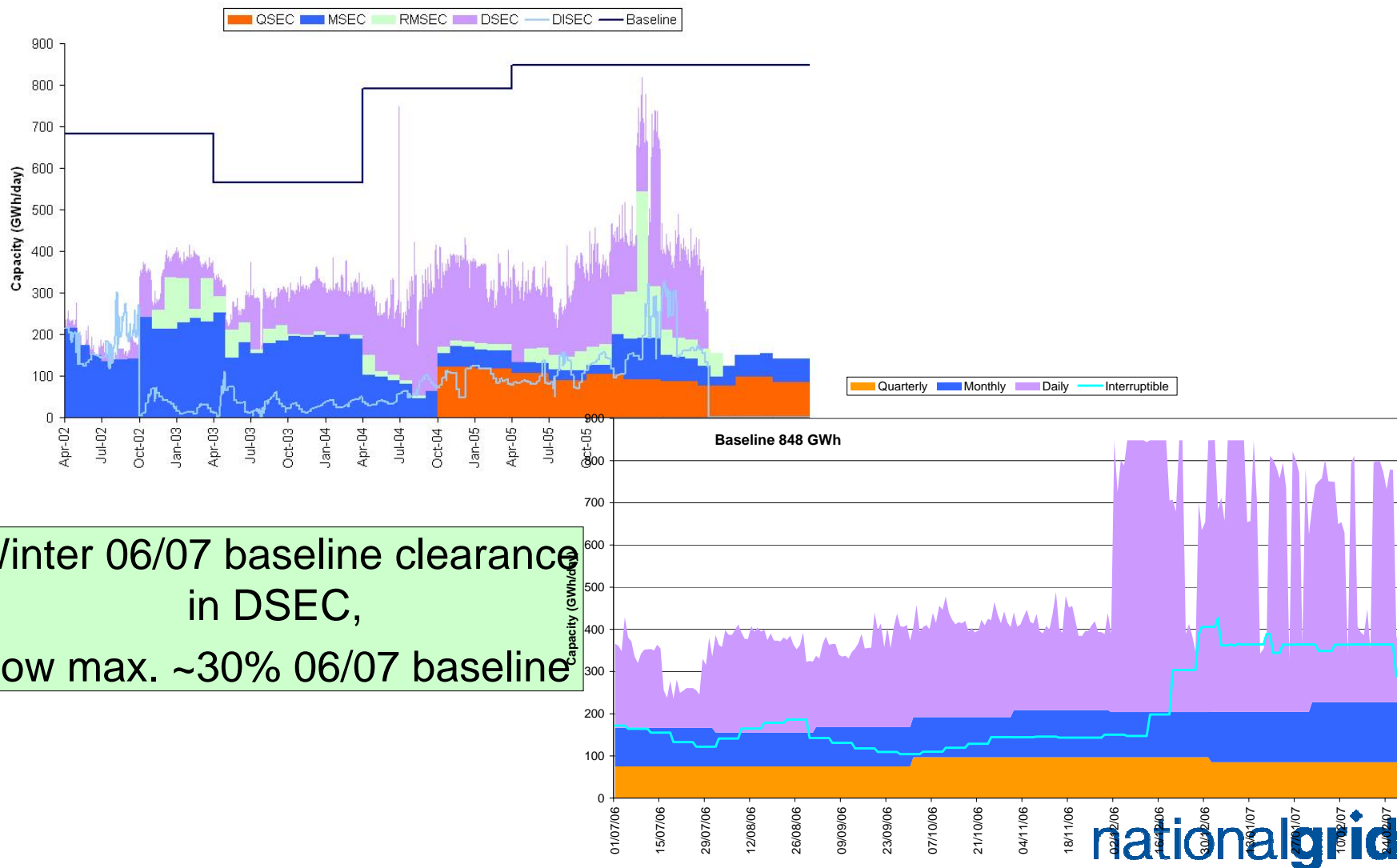
Winter 06/07 little change -
baseline continues to clear,
mainly long term auctions,
flow max ~70% 06/07 baseline



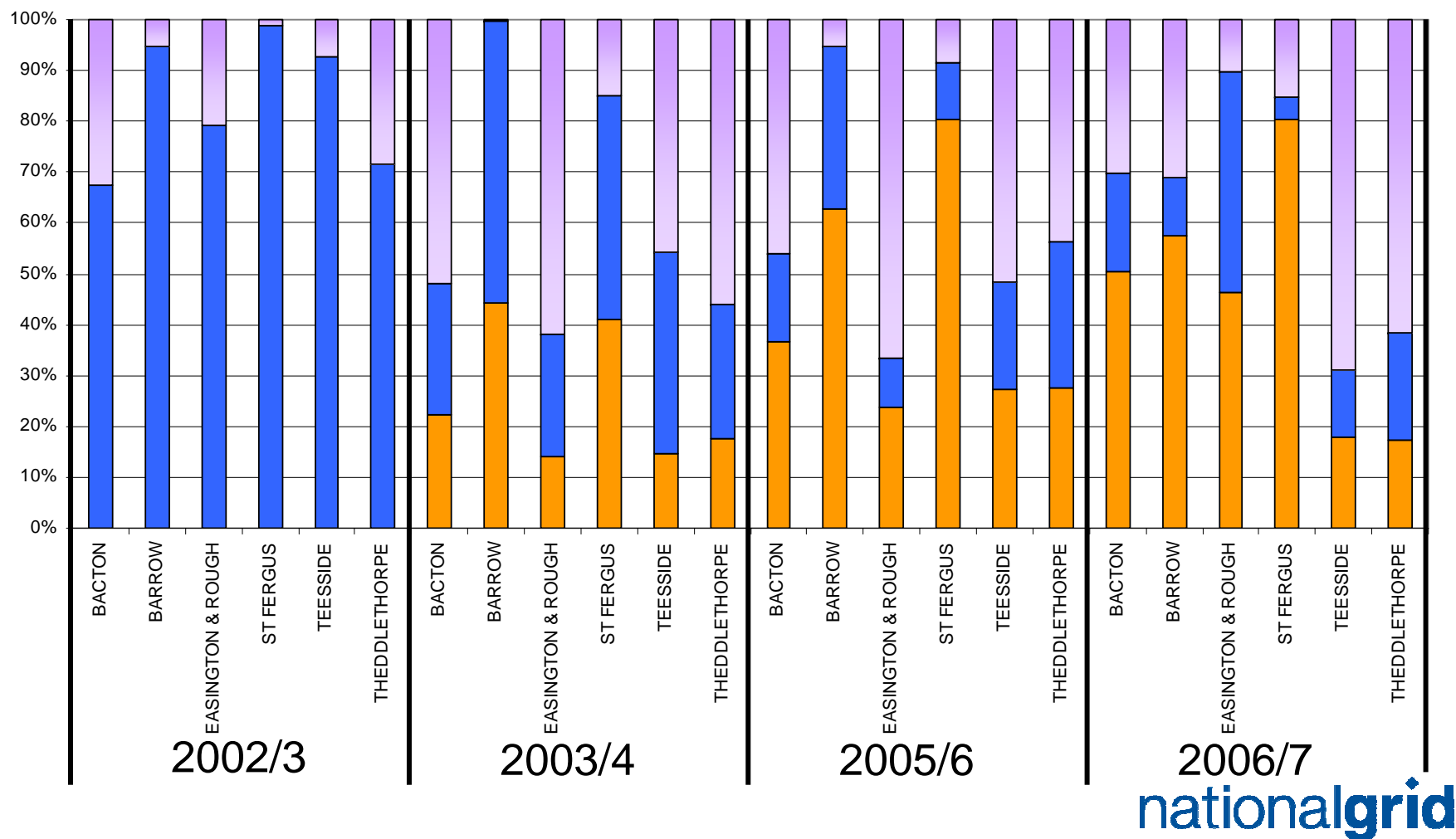
Teesside capacity sales update



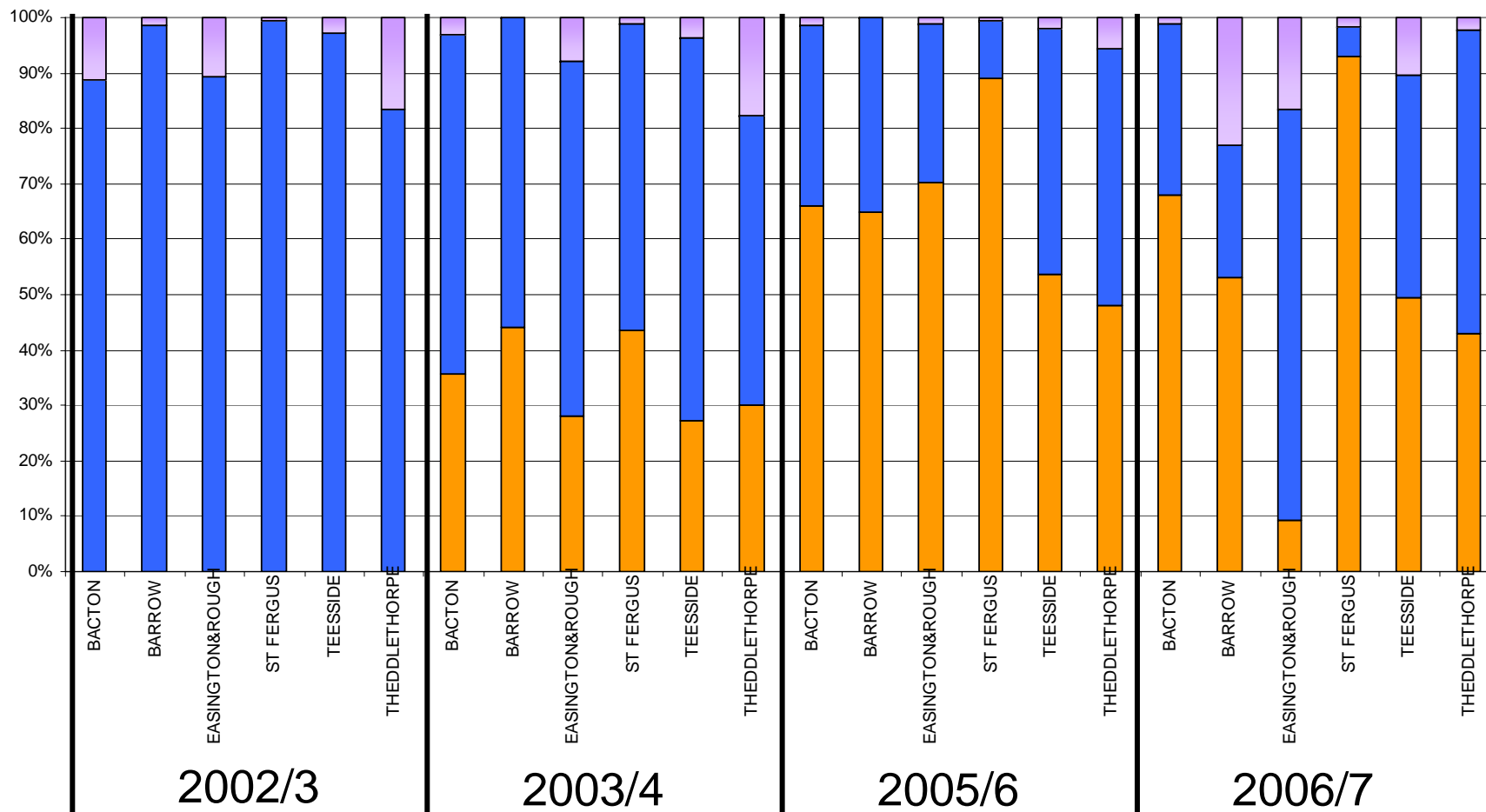
Theddlethorpe capacity sales update



Capacity energy sale (%) by Auction Type



Capacity revenue (%) by Auction Type



Summary of Observations from auctions

- ◆ Baseline clearance has occurred
- ◆ Daily capacity allocation 10-70% of total
- ◆ Daily capacity revenue 0-30% of total
- ◆ Flow max. less than baseline (except Easington)
- ◆ Revenue under-recovery has lead to high TO commodity charge

Options: Entry Capacity Baseline Reserve Price Discount

	Option 1	Option 2	Option 3	Option 4 (As Current)
LTSEC (Firm)	0%	0%	0%	0%
AMSEC (Firm)	0%	0%	0%	0%
RMSEC (Firm)	0%	0%	0%	0%
DSEC Day Ahead (Firm)	0%	33.3% conditional	33.3% conditional	33.3%
DSEC Within Day (Firm)	0%	100% conditional	100% conditional	100%
DISEC (Interruptible)	100%	100%	100% conditional	100%

Conditional reserve price discounts

- ◆ Option 2 discounts only apply to firm DSEC if all or a significant proportion of capacity available in Quarterly and Monthly auctions is sold
- ◆ Option 3 discounts only apply to interruptible if all or a significant proportion of firm capacity available is sold (i.e. product may otherwise effectively be firm) + option 2 for firm DSEC

Discussion questions

- ◆ Use of discounts for day ahead and within day firm capacity?
- ◆ Conditional use of discounts?
 - ◆ “Firm” condition after AMSEC or after RMSEC?
 - ◆ “Interruptible” condition, no/limited firm available?
- ◆ Capacity trading at ASEPs currently inhibited?
- ◆ Necessity / problems arising from zero priced within day firm capacity?
- ◆ Linkage of discounts to under-recovery and thence smeared costs?

Next step

- ◆ Publish and consult on Pricing Discussion paper (28 day consultation).