

NTS Entry Capacity Reserve Price Discounts – Discussion Paper GCD04

5th March 2007

Gas TCMF

Contents

- ◆ Background
- ◆ Pros & Cons
- ◆ Initial Thoughts Proposal
- ◆ Discussion Questions

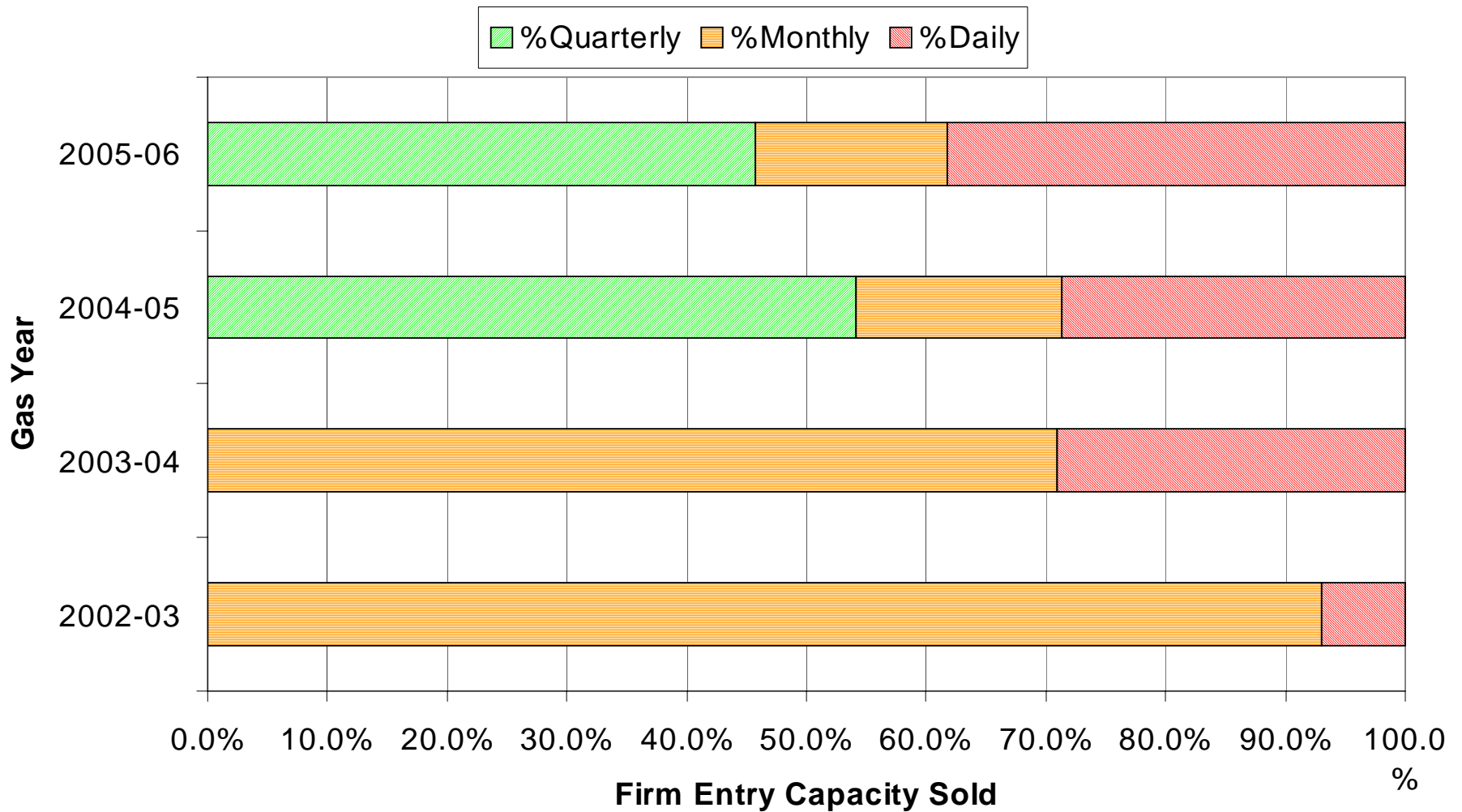
Background

- ◆ Baseline entry capacity available in long term and short term entry auctions
 - ◆ 20% held back for short term (10% from 1st April 2007)
 - ◆ reserve price discounts for daily firm
- ◆ Zero reserve price (100% discount) on the day consistent with National Grid NTS Licence obligation to hold a clearing auction
- ◆ Interruptible capacity available
 - ◆ UNC defined UIOLI basis (Previous 30 day unused firm)
 - ◆ 100% reserve price discount

Issue

- ◆ Substantial capacity sales in short term auctions at low prices – low revenue recovery
 - ◆ Under-recovery of allowed revenue from auctions – collected by TO commodity charge for terminals.
 - ◆ Under-recovery has increased hence the TO Commodity charge has increased
- ◆ Little secondary capacity trading at ASEPs

Firm Capacity Sales by Auction Type



Under recovery impact on TO Commodity

Total annual entry throughput ~ 1100 TWh

Under Recovery (£m)	TO Commodity Charge (p/kWh)
1	0.0001
10	0.0009
50	0.0045
100	0.0091
150	0.0136

Pros & Cons

Pros.....

- ◆ Zero reserve price (100% discount) on the day consistent with National grid NTS License obligation to hold a clearing auction
- ◆ No pricing disincentive for all available capacity to be cleared
- ◆ Removal of price differentials between terminals facilitates competition between terminals
- ◆ Reduced reserve price may be consistent with User risk associated with on the day entry capacity procurement

Cons.....

- ◆ Cost reflectivity diluted by under-recovery adjustment
 - ◆ New entrants (new ASEPs with zero baseline) may cross subsidies existing Users
- ◆ User disincentive to commit in long term auctions
- ◆ Weakened pricing and investment signals from long term auctions
- ◆ Incremental investment may not be triggered
 - ◆ risk of constraints
 - ◆ high/volatile short terms prices
- ◆ No trading opportunity at unconstrained ASEPs – what is true firm requirement on the Day?
- ◆ Interruptible price may not reflect likelihood of interruption if firm remains unsold on the day

Initial Thoughts: Entry Capacity Baseline Reserve Price Discount

	Current Discount	Proposed Discount
LTSEC (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%

Discussion questions

Short term capacity auction discounts....

- ◆ Trading at ASEPs inhibited?
- ◆ Undue preference from zero reserve price for within day auctions?
- ◆ Remove, reduce or retain discounts
 - ◆ Pros and cons of initial thoughts proposal?
 - ◆ Improve signals from long-term auctions?
 - ◆ Reduce smeared costs?
 - ◆ Timing for implementation?

Any other questions for discussion paper?