

GCM11: Retrospective Negative TO Entry Commodity Charge

Gas TCMF

6th November 2007

Issues

- ◆ There is a risk that both GCM09 and GCM10 do not fully manage TO Over-recovery
- ◆ This would result from either;
 - ◆ The TO Entry over-recovery amount being greater than the sum of the buy-back costs and the TO Entry Commodity revenue (not an issue for 2007/8), or
 - ◆ The TO Entry over-recovery amount being greater than the buy-back costs and GCM10 being vetoed

Potential Additional Mechanism GCM11

- ◆ Retrospective Negative TO Entry Commodity Charge
 - ◆ Credit based on relevant Entry throughput between April 2007 and March 2008
 - ◆ Mechanism
 1. Remaining over recovery amount calculated after buy-back offset mechanisms triggered and TO Entry Commodity Rebate
 2. Credits would only be paid if the residual over recovery was in excess of £1m (this equates to the minimum TO Entry Commodity price of 0.0001 p/kWh)
 3. Over recovery amount prorated based on throughput (April 07 to March 08) to calculate Shipper credits
 - ◆ This would effectively represent a negative TO Commodity charge having applied over the period
 4. Those flows that do not attract TO Commodity would be excluded (Storage & Short-haul)
 5. Credit paid in April following formula year [i.e. April/May 2008 in the first instance]

GCM11 Advantages & Issues

- ◆ Advantages

- ◆ Overcomes previous objections in regard to a negative TO Commodity charge i.e. clarity as to how it interacts with the buy-back offset mechanism

- ◆ Issues

- ◆ New Charge types required
 - ◆ Ad-hoc billing process and hence 1 months notice of new charge types assumed
- ◆ Invoice information could be provided giving the rebate amount relating to each month of the formula year

TO Entry Over-recovery Examples (1)

Mechanism	Step	Example 1		
Buy-back Offset (GCM09)	Over recovery	£15m		
	Buy-back Costs	£20m		
	Credit	£15m		
	Residual	£0m		
TO Entry Commodity Rebate (GCM10)	TO Entry Commodity collected	£40m		
	Ratio	0%		
	Rebate	£0		
	Residual	£0		
Retrospective Negative TO Commodity (GCM11)	Credit	£0		

TO Entry Over-recovery Examples (2)

Mechanism	Step	Example 1	Example 2	
Buy-back Offset (GCM09)	Over recovery	£15m	£15m	
	Buy-back Costs	£20m	£5m	
	Credit	£15m	£5m	
	Residual	£0m	£10m	
TO Entry Commodity Rebate (GCM10)	TO Entry Commodity collected	£40m	£40m	
	Ratio	0%	25%	
	Rebate	£0	£10m	
	Residual	£0	£0	
Retrospective Negative TO Commodity (GCM11)	Credit	£0	£0	

TO Entry Over-recovery Examples (3)

Mechanism	Step	Example 1	Example 2	Example 3
Buy-back Offset (GCM09)	Over recovery	£15m	£15m	£55m
	Buy-back Costs	£20m	£5m	£5m
	Credit	£15m	£5m	£5m
	Residual	£0m	£10m	£50m
TO Entry Commodity Rebate (GCM10)	TO Entry Commodity collected	£40m	£40m	£40m
	Ratio	0%	25%	100%
	Rebate	£0	£10m	£40m
	Residual	£0	£0	£10m
Retrospective Negative TO Commodity (GCM11)	Credit	£0	£0	£10m

GCM11 Example

Example Data

Residual from “buy-back Offset” &
TO Entry Commodity Rebate £10.0m

	UDQI (TWh) [excluding storage & short-haul]	Rebate
April	40	£0.37m
May	50	£0.46m
June	60	£0.56m
July	70	£0.65m
Aug	80	£0.74m
Sept	90	£0.83m
Oct	100	£0.93m
Nov	110	£1.02m
Dec	120	£1.11m
Jan	130	£1.20m
Feb	120	£1.11m
Mar	110	£1.02m
Total	1080	£10.00m

Each Shipper will receive a proportion of the rebate based on its proportion of the relevant UDQI in each month.

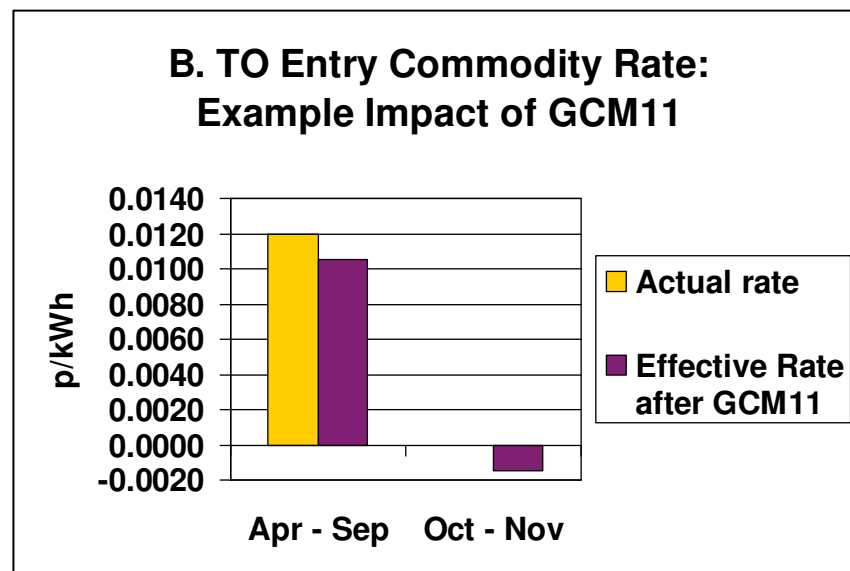
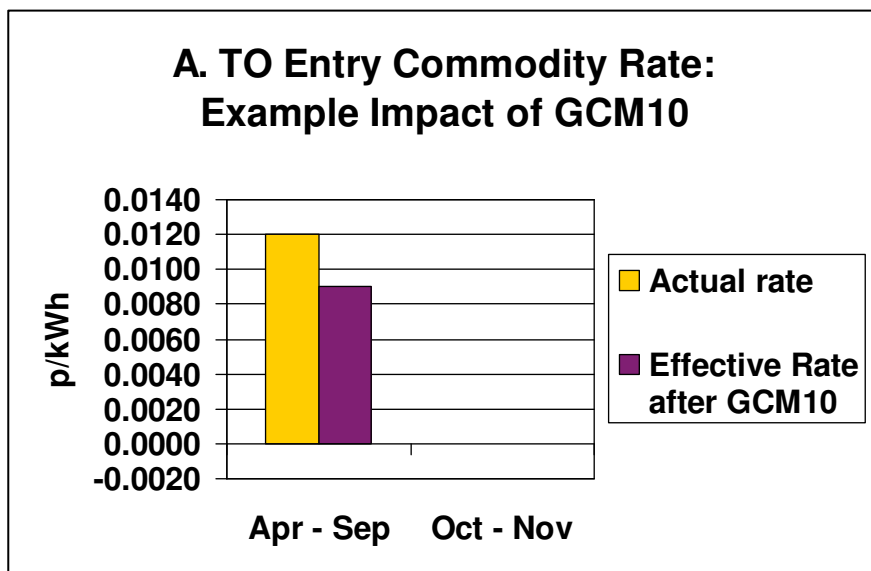
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GCM11 Summary

- ◆ The mechanism will redistribute any residual TO Entry over-recovery after the GCM09 and GCM10 mechanisms subject to a minimum £1m aggregate credit.
- ◆ Each Shipper will receive a proportion of the residual over-recovery amount based on its proportion of the relevant UDQI over the formula year.
- ◆ This is equivalent to a negative TO Entry Commodity price having applied throughout the formula year
 - ◆ NB if GCM10 is vetoed then GCM11 becomes equivalent to a reduction in the TO entry commodity price throughout the formula year.

GCM11 Interaction with GCM10

- ◆ NB if GCM10 is vetoed then GCM11 becomes equivalent to a reduction in the TO entry commodity price throughout the formula year.
- ◆ The following graphs show
 - ◆ A. The Impact of GCM10 assuming 25% rebate of TO Entry
 - ◆ B. The impact of GCM11 as an alternative to GCM10



Potential Charging Proposal Timeline

GCM11 "Retrospective Negative TO Commodity Charge"

Milestone	Date
Charging Methodology Proposal issued	10 th November 2007
Consultation Ends	8 th December 2007
Consultation Conclusions Report inc. Final Proposals	January 2008
Ofgem veto period (Assumes no Impact Assessment)	28 Days
Implementation	1 st February 2008 or 1 st April 2008
Ofgem veto period (Assumes no Impact Assessment)	Up to 3 months
Implementation	29 th March 2008 or 1 st April 2008

Summary

- ◆ Four Step Approach
 1. Monthly buy-back offset payments
 - ◆ PC65/GCM09 implemented
 2. End of year buy-back offset payments
 - ◆ GCM09 implemented
 3. Rebate TO Entry Commodity Charges
 - ◆ GCM10 proposed
 4. Retrospective Negative TO Entry Commodity Charge
 - ◆ Potential GCM11 proposal