GCM09: Revisions to the TO Entry Over Recovery Mechanism

Gas TCMF

6th September 2007

nationalgrid

Issue

- The TO Entry Commodity charge rate will be set at or close to zero as a result of the revenue implied by the 2007 AMSEC auction.
- Revenue resulting from the RMSEC auctions (and potentially Entry Capacity Trade & Transfer processes) may result in over recovery.

nationalgrid

Buy-back Offset Over-Recovery Mechanism PC65 & 67

- PC65 amended the transportation charging methodology such that :
  - If auction implied revenue is above, but within 10% of, the target level, there will be no automatic offsetting adjustment to transportation charges;
  - If auction implied revenue is more than 10% above the target level, National Grid NTS will calculate the level of this excess revenue;
  - The excess revenue will then be divided by six in order to establish monthly amounts;
  - For any month where the excess amount exceeds aggregate User buy-back costs, the excess amount for the following month will be increased by the amount by which the excess exceeds aggregate User buy-back costs; and
  - National Grid NTS will reduce each Users' entry capacity charges by a share of the lower of the excess or buy-back costs for the relevant month, with that share based on the proportion of aggregate MSEC held by the User concerned in the relevant month, **subject to that share not exceeding its unadjusted entry charge**.
- PC67 removed the rule "***subject to that share not exceeding its unadjusted entry charge***."

nationalgrid

Issues

- Credits may be less than both the buy back costs and the over recovery in the period hence the process may be inefficient in redistributing excess revenue.
- The Charging Methodology is unclear as to what happens if TO revenue over recovery is triggered by the RMSEC or any other auctions that may be introduced
- Buy-back costs from earlier in the formula year but prior to over-recovery being identified might not be included
  - E.g. what if buy back costs are high in January but we do not over recover until February?
- There is a risk that buy-back costs are less than the over recovery amount

GCM09

- GCM09 was proposed as an incremental change to improve current process
  - Build on the concept of returning NTS TO Entry Capacity Revenue to NTS Entry Capacity holders without influencing bidding behaviour

- Investigate further options and raise as separate change proposals as appropriate.

nationalgrid

GCM09 Proposal Step 1

- Mechanism trigger linked to obligation not to over recover > 4% in any year and not to over recover > 6% over any two years.

- Credit Calculated to off-set buy-back costs only

- The full over recovery amount available in the first month rather than dividing by the number of remaining months

nationalgrid

GCM09 Proposal Step 2

- In addition to step 1
- **Additional credits would be paid at the end of the formula year to off-set the buy-back costs from the start of the formula year against which credits had not already been paid.**
- This should increase the credits paid such that the total credits equal the buy-back costs over the relevant period (if the excess revenue is greater than the buy-back costs).

nationalgrid

Charging Methodology Proposal GCM09 Timeline

Milestone	Date
Charging Methodology Proposal issued	16th July 2007
Consultation Ends	14th September 2007
Consultation Conclusions Report inc. Final Proposals	28th September 2007
Ofgem veto period ends (Assumes no Impact Assessment, No notice of prices required)	26th October 2007
Implementation	1st November 2007

Summary

- GCM09 would allow the credits to be maximised such that over recovery was minimised.
- **NB**
  - No change to National grid buy-back incentive
  - If Buy-back costs are less than over recovery then this process will still leave a residual over-recovery amount which would feed in to K for the following formula year
- A negative TO commodity charge has been proposed (and vetoed) in the past
  - Applying this approach in parallel with the buy-back offset mechanism would involve forecasting both monthly over recovery and buy-back costs
  - Required notice periods would make a negative TO commodity ineffective in managing over recovery identified in February/March.
  - Could be overcome by applying retrospectively

nationalgrid

Potential Additional Mechanisms (1)

- TO Entry Commodity Rebate
  - Partial or full rebate of TO Entry Commodity charges (i.e. charges paid between April 07 and September 07)
  - Mechanism
    1. Remaining over recovery amount calculated after taking into account any payments resulting from the buy-back offset mechanisms triggered
    2. Ratio of remaining over recovery amount and TO Revenue paid (April 07 to September 07) Calculated
       - Cap ratio at 1 i.e. only rebate TO Entry Commodity revenue received
    3. Rebate of TO Entry Commodity charges paid based on ratio
    4. Rebate paid in April following formula year [i.e. April 2008 in the first instance]

nationalgrid

Potential Additional Mechanisms (2)

- 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. 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
    3. Those flows that do not attract TO Commodity would be excluded (Storage & Short-haul)
    4. Credit paid in April following formula year [i.e. April 2008 in the first instance]

nationalgrid

Potential Additional Mechanisms (3)

- Advantages
  - Over comes previous objections in regard to a negative TO Commodity charge i.e. clarity as to how it interracts 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 on a monthly basis

nationalgrid

Potential Charging Methodology Proposal Timeline

“TO Commodity Rebate”/”Retrospective Negative Commodity Charge”

Milestone	**Date**
Charging Methodology Proposal issued	28th September 2007
Consultation Ends	26th October 2007
Consultation Conclusions Report inc. Final Proposals	16th November 2007
Ofgem veto period ends (Assumes no Impact Assessment, No notice of prices required)	14th December 2007
Implementation	1st January 2008

nationalgrid