NTS GCM 06: Further Revision to Obligated NTS Entry Capacity Reserve Price Determination

Gas TCMF

18th May 2007

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Content

- What led to GCM06 being raised?
- What is the impact?

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Ofgem GCM01 Decision Document

- “In summary, Ofgem considers that the Proposal better facilitates the achievement of the relevant charging methodology objectives than the current methodology, however we consider that it would be in the interests of consumers to include spare capacity in the model, as described by option 2a of NGG’s consultation document. This would improve cost reflectiveness and better ensure the economic and efficient use of network assets. It would reduce the risk of underutilised assets and inefficient investment elsewhere on the network. This is a significant issue that Ofgem would urge NGG to consider in the immediate future through further modification proposals to the charging methodology. It may be that there are better solutions available which NGG can consider over the longer term, through its duty to review the suitability of the Methodology for achieving the relevant objectives.”

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GCM01 Decision

- "In summary, Ofgem considers that the Proposal better facilitates the achievement of the relevant charging methodology objectives than the current methodology, however we consider that it would be in the interests of consumers to include spare capacity in the model, as described by option 2a of NGG's consultation document. This would improve cost reflectiveness and better ensure the economic and efficient use of network assets. It would reduce the risk of underutilised assets and inefficient investment elsewhere on the network. This is a significant issue that Ofgem would urge NGG to consider in the immediate future through further modification proposals to the charging methodology. It may be that there are better solutions available which NGG can consider over the longer term, through its duty to review the suitability of the Methodology for achieving the relevant objectives."

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GCM01 Option 2b

- Initial analysis of the Base Case scenario – Exit Prices
- Entry baseline price generated from separate entry point specific analysis where the baseline/obligated level is different to the base case flow modelled
  - The Base Case scenario involves adjusting some supplies down in order to match the 1 in 20 forecast demand.
  - The entry point specific analysis involves adjusting the modelled entry point flow to the **baseline/obligated** level and adjusting the entry point or points furthest from the entry point being considered in order to maintain the supply and demand balance.
  - *All entry points are expected to be analysed separately.*

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GCM01 Option 2a

- Initial analysis of the Base Case scenario – Exit Prices
- Entry baseline price generated from separate entry point specific analysis where the maximum base case level is different to the base case flow modelled
  - The Base Case scenario involves adjusting some supplies down in order to match the 1 in 20 forecast demand.
  - The entry point specific analysis involves adjusting the entry point to the **maximum base case** level and adjusting the entry point or points furthest from the entry point being considered in order to maintain the supply and demand balance.
  - ***The entry point specific analysis will only apply to those entry points that have been scaled back to achieve a supply and demand balance.***
  - ***The entry points analysed separately are expected to be storage points, interconnectors and LNG importation facilities where the maximum flow for the purposes of charging would be based on the facility maximum deliverability.***

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GCM06

- National Grid NTS have issued charging methodology consultation (GCM06) to consider this change;
  - Why?
    - GCM01 Final decision on 2a/2b finely balanced
    - There were more respondents to the Ofgem IA than the original GCM01 process
    - New obligations on National Grid NTS in regard to baseline transfers trades and substitution may make the use of forecast maximum flow, rather than the obligated level, in the charging methodology the more cost reflective and stable way forward.
    - National Grid obligations in regard to
      - Developing an efficient and economic pipeline system
      - Continually reviewing the charging methodology

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Entry Capacity Substitution

- While Entry Capacity Substitution will not change the baseline levels it may change the levels of obligated capacity
- Obligated NTS Entry Capacity is
  - The SO Baseline NTS Entry Capacity Level
  - Plus any Incremental Obligated Capacity
  - Less any capacity substituted away
- Example
  - substitution may allow the obligated capacity level at entry point A to be increased in response to demand for capacity above the baseline (or prevailing obligated) level by reducing the obligated level below the baseline at entry point B.
  - The forecast Maximum Base Case flow (capped at the obligated capacity level) at entry point B may therefore be a better estimate of the eventual obligated level

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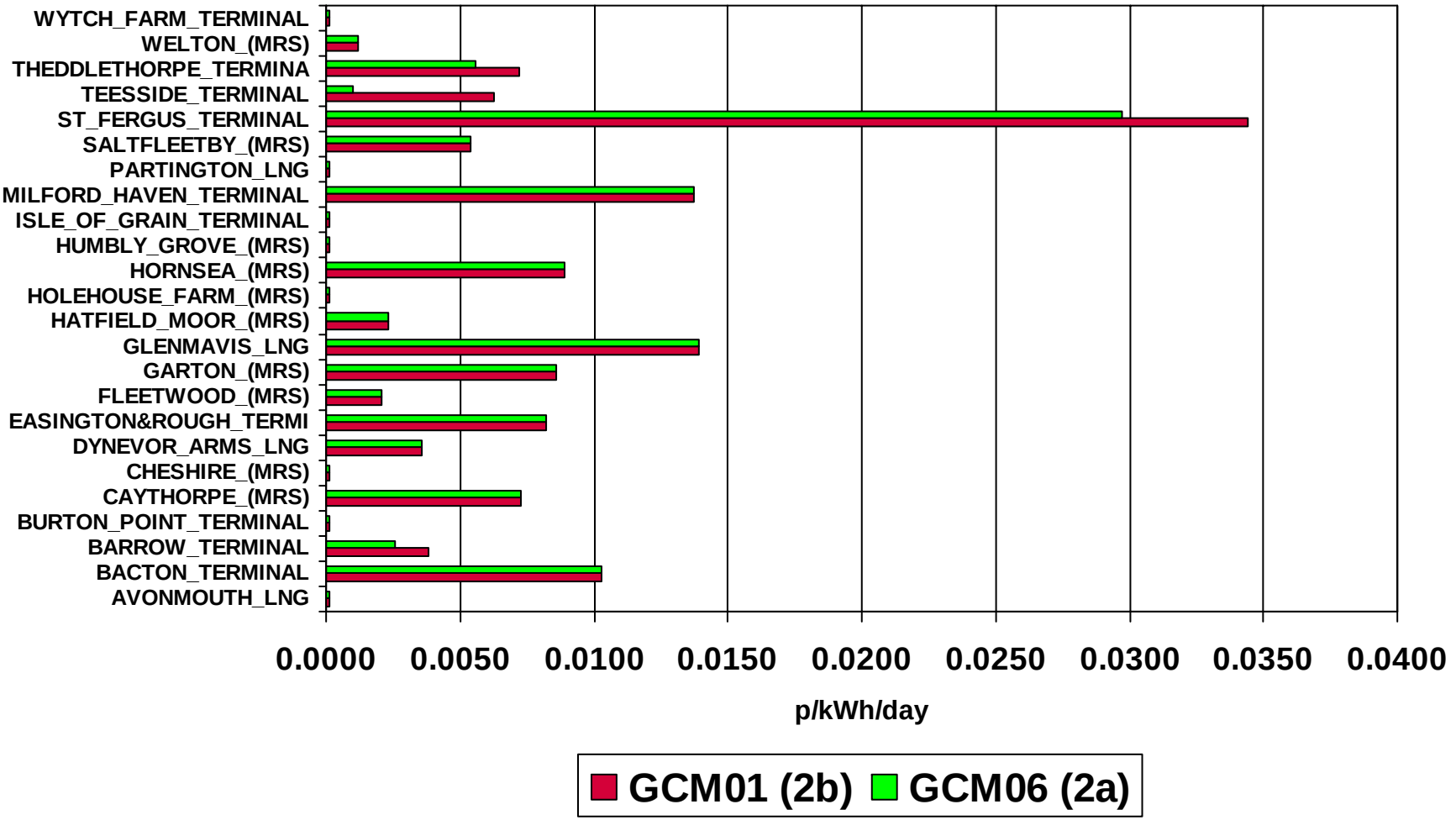
Impact of GCM06: 2009/10 Indicative Charges



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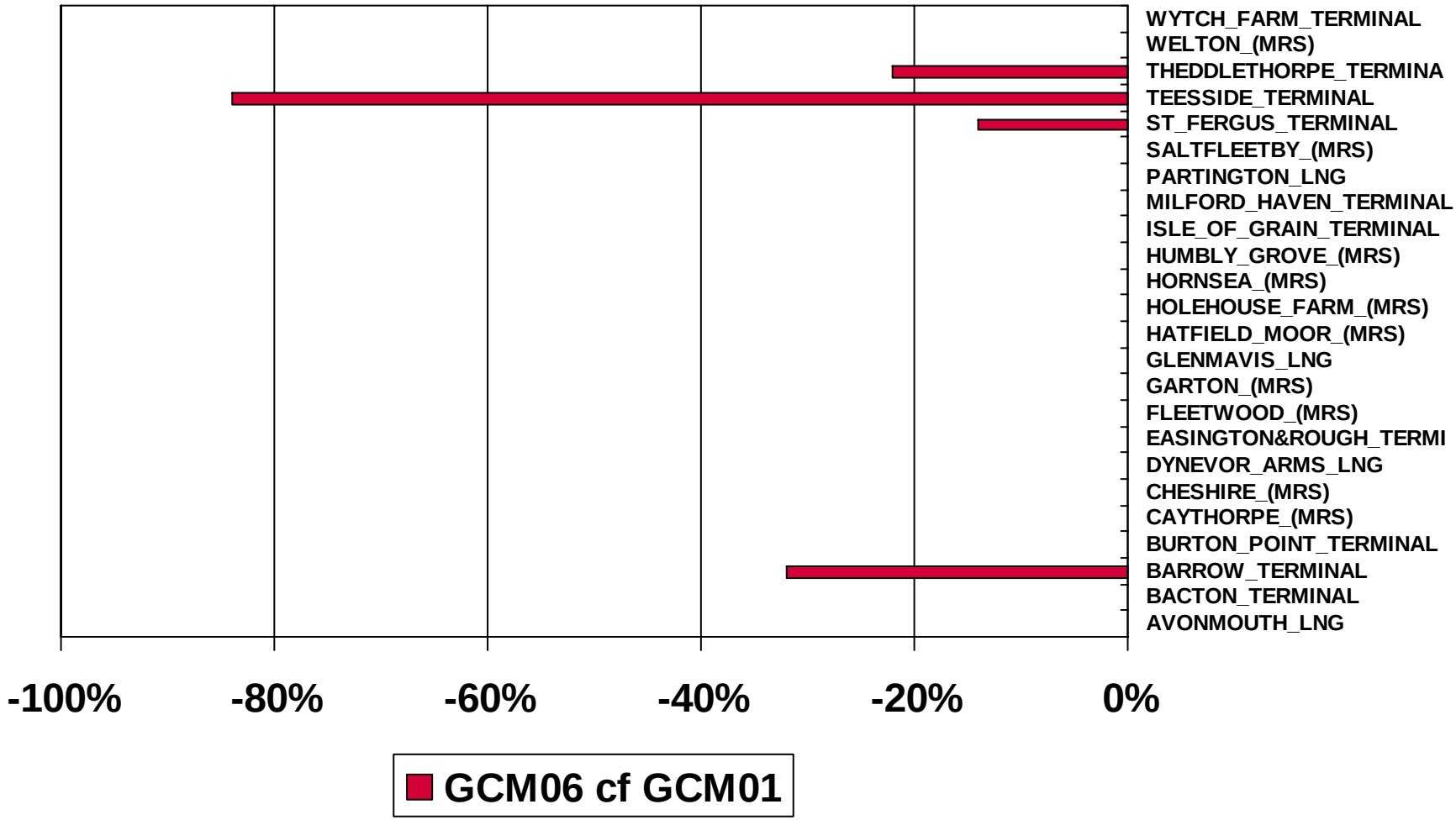
Impact of GCM06: 2009/10 Indicative Charge change



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Further ('2a') Baseline Entry Capacity Charging Proposed Timeline

Milestone	Date
Proposal issued	8th May 2007
Consultation Ends	5th June 2007
Consultation Conclusions inc. Final Proposals	12th June 2007
Ofgem veto period ends (Assumes no Impact Assessment and agreement to implement a charging methodology change less than 28 days after final proposals are submitted)	10th July 2007
Notice of Prices	
Implementation	10th September 2007

NB Change from 2b to 2a would only affect obligated entry capacity prices and would have no impact on exit prices.

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The Transportation Model

- The Model is available
  - Details are available on our website
- The UNC proposal to release demand data is being considered
- The IECR proposals will incorporate Transportation model based pricing
- National Grid NTS are further developing the interface and would welcome ideas and feedback

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