



## Credits for NTS Entry Points with Negative Long Run Marginal Costs

---

**Gas TCMF**

**2nd October 2008**

**nationalgrid**

The power of action.™

# Issue

*Issue raised by E.ON in previous TCMF:*

**E.ON suggested:**

- ◆ **That for entry points with negative Long Run Marginal Costs (LRMCs) in the Transportation model that an ex- post rebate is paid to capacity holders.**
- ◆ **That this rebate would be conditional on demonstration of flow on peak demand days.**
- ◆ **This would reward locationally beneficial entry points on the NTS where a genuine, measurable benefit is being provided by entry flows**

# Consideration of the Issue

## Obligations on National Grid

- ◆ **National Grid gas network investment must satisfy the requirements under the 1 in 50 severe winter and the 1 in 20 peak day Licence obligations.**
- ◆ **In order to satisfy 'Transmission support' requirements there would have to be a guarantee of flow when required so that network investment can be avoided.**
- ◆ **In essence this would mean a specific contract.**

## Interaction with the Constrained LNG credit.

- ◆ **Where Transmission support is required by National Grid there is the potential to contract for this service via the 'bundled' storage service offered by National Grid LNG.**
- ◆ **This is currently possible at Avonmouth and Dynevor Arms although the service is only required at Avonmouth for 2008/9.**

# What Form Could Any Rebate Take?

## Capacity versus Commodity

- ◆ The setting of negative prices for capacity creates a perverse incentive to book more capacity than is required.
- ◆ Previous discussions in this area (GCM01) have considered it more appropriate to consider a commodity rather than a capacity rebate.

## On what volume would it be appropriate to pay a credit.

- ◆ Could apply on all daily flows or flows during a shorter period (e.g. Oct to Mar).
- ◆ Could mirror electricity regime and pay in relation to flow over a number of high demand days.
- ◆ **Interactions with Storage**
- ◆ Potential to credit via TO commodity
- ◆ Would need to consider the appropriateness of a credit, which represents a rebate, to a charge that has not been applied.

# Questions for Further Thought?

**Can a credit be justified where the benefits by way of a more efficient (i.e.smaller) NTS are not easily demonstrable?**

- ◆ **The safety case ( 1 in 20 requirement) for gas determines the minimum system size.**
- ◆ **This does not exist in the case of electricity so easier to justify negative charges for generators.**

**Are there any benefits that have been overlooked?**

- ◆ **Clearly the CLNG sites where National Grid requires Transmission support provide a benefit.**
- ◆ **A methodology is in place to credit the Users of these storage facilities. It may be appropriate to review the CLNG methodology.**

**Does there already exist a sufficient signals to encourage supplies at beneficial locations?**

- ◆ **Locational signals are already provided by setting a minimum price of 0.0001p/kWh for entry capacity.**

# Next Steps

## Further work

- ◆ **Given the potential overlap with the CLNG methodology National Grid intends to present potential improvements to the existing methodology in the near future.**

## Comments

- ◆ **Any comments welcomed here.**
- ◆ **Otherwise, any suggestions either in favour of or against progressing further please email one of the Charging team.**