

NTS Entry Capacity Reserve Price Setting

Gas TCMF

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Holistic Overview

Access arrangements should be based on:

User commitment:

- ◆ **Long-term user commitment to underpin investment to avoid significant transfer of stranding risk to customers.**

Incentive to Deliver;

- ◆ **Strong financial incentives on NG to make new capacity available/deliver new investment on time**

Incentive to Release:

- ◆ **Incentives on NG to release further non obligated capacity closer to real time and/or**

Tradable rights:

- ◆ **Tradable rights at and across entry points with mechanisms to ensure capacity is not hoarded or sterilised**

NTS Entry Capacity Pricing & Discounts

Obligated NTS Entry Capacity pricing based on annuitised Long Run Marginal Costs (LRMCs)

- ◆ Incremental based on change in marginal cost

All entry prices based on 1/365th of the annuitised costs.

- ◆ Long term (QSEC)
- ◆ Annual & rolling monthly auctions (MSEC)
- ◆ Daily (DSEC/DISEC)

Daily Auctions: discounts applied to daily (DSEC, DISEC) reserve prices

- ◆ 33% for day-ahead auction (DADSEC)
- ◆ 100% for within-day auctions (WDDESC)
- ◆ 100% for interruptible (DISEC)

Issues

NTS Access arrangements should be based on: Prevailing Arrangements

- ◆ **User commitment:** Long-term user commitment to underpin investment to avoid significant transfer of stranding risk to customers.
- ◆ **Tradable rights** at and across entry points with mechanisms to ensure capacity is not hoarded or sterilised
- ◆ **Clearing Auction:** The zero on the day reserve price for firm entry capacity is consistent with the Licence requirement to hold a clearing auction but is it consistent with EU regulations to be cost reflective?
- ◆ **Long Term Booking:** The availability of zero priced entry capacity on the day and the lack of significant price differences between QSEC and AMSEC disincentivises long term booking
- ◆ **Secondary Market:** The availability of zero priced entry capacity on the day undermines the secondary market

Principle

To reflect the increasing costs associated with releasing increased levels of capacity and to appropriately incentivise capacity procurement consistent with user commitment and the planning process

QSEC Prices should be...

less than MSEC and...

(in the event of limited or no competition)

less than DSEC Prices.

NTS Entry Prices – Way Forward

Removal (potentially conditional) of reserve price discounts day-ahead and on-the-day to encourage long term bookings

- ◆ **Daily Firm discounts may not lead to cost reflective charges and hence may not be consistent with EU Regulations**
- ◆ **Interruptible discounts may still be appropriate provided all (or most) firm capacity has been sold**

Potentially seek to increase daily prices from 1/365th of annuitised cost

Substitution may well provide a significant solution to the ‘spare capacity’ charging issue (i.e. charges linked to obligated rather than assumed flows).

Additional charging enhancements could be made to incentivise long term booking of existing “spare capacity” e.g. QSEC discounts

- ◆ **Can be achieved under the Licence and EU objectives by moving more towards ‘average’ rather than ‘marginal’ pricing.**
- ◆ **Consistent with Ofgem desire to incentivise the use of “spare” (i.e. existing) capacity**

QSEC P0 Options

Modify expansion factor

- ◆ **A revised expansion factor could be used to represent the depreciated cost of assets**
 - This might represent the cost of assets utilised rather than the replacement cost
 - This could realistically only be done nationally and therefore arguably would not be cost reflective
 - This could lead to an increased TO commodity charge to cover over-heads/non-asset costs

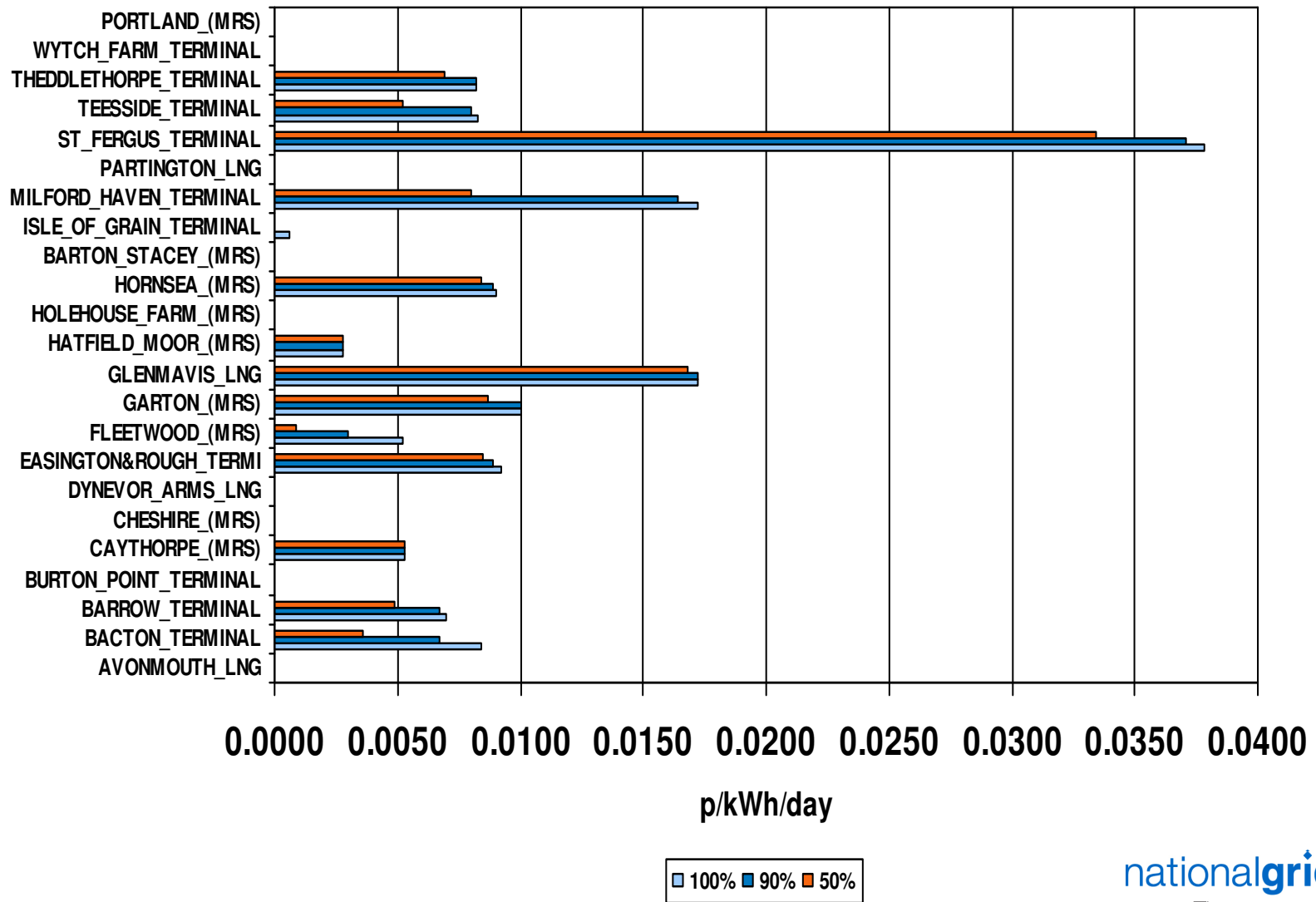
Reflect Capacity Released

- ◆ **90% of the obligated level is released in the QSEC and hence the P0 price could be set by using 90% of the obligated level**

Average rather than Marginal Costs

- ◆ **The average rather than the marginal distance travelled could be used to create an average replacement cost rather than a marginal cost**
 - This might better represent the replacement cost of assets utilised
 - Could be achieved by setting prices based on 50% of the obligated level

LRMC v % of Obligated Level



Daily Prices – 1/Xth of LRMCs

All entry prices based on 1/365th of the annuitised costs.

- ◆ If capacity does not sell at a uniform annual level then charges might not reflect costs
- ◆ If prices were based on expected utilisation then sales of capacity might better reflect the costs incurred

Alternatives to 1/365th

- ◆ System load factors or demand forecast could be used to set prices to recover costs over a reduced number of days
- ◆ E.g. a 40% load factor implies annual demand equal to 146 days of peak demand and a price multiplication factor of 2.5 i.e. daily prices could be 150% higher than MSEC

Further Analysis

National Grid invites views on what further analysis might be carried out to further inform the debate on entry capacity pricing

Potential areas for analysis

- ◆ Available capacity and forecast demand levels
- ◆ Capacity procured by auction
- ◆ Level of competition at ASEPs
- ◆ Implied Revenue recovery from pricing scenarios
- ◆ Licence Implications