



NTS Exit Capacity Charging April Price Changes

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Introduction

Draft Consultation Paper GCM13 “April NTS Exit Capacity Price Changes” was discussed at the September Gas TCMF as a means of reducing exit capacity price variability.

Concerns were raised that the variability of the RPI, which is used in the calculation of TO allowed revenue, would undermine the benefits of the proposal.

This presentation demonstrates the impact that the RPI has on the setting of NTS Exit Capacity prices and has been produced to further inform the debate regarding GCM13

Base NTS TO Allowed Revenue (TOZt)

In respect of any formula year commencing on 1 April 2008 or on 1 April in any subsequent formula year:

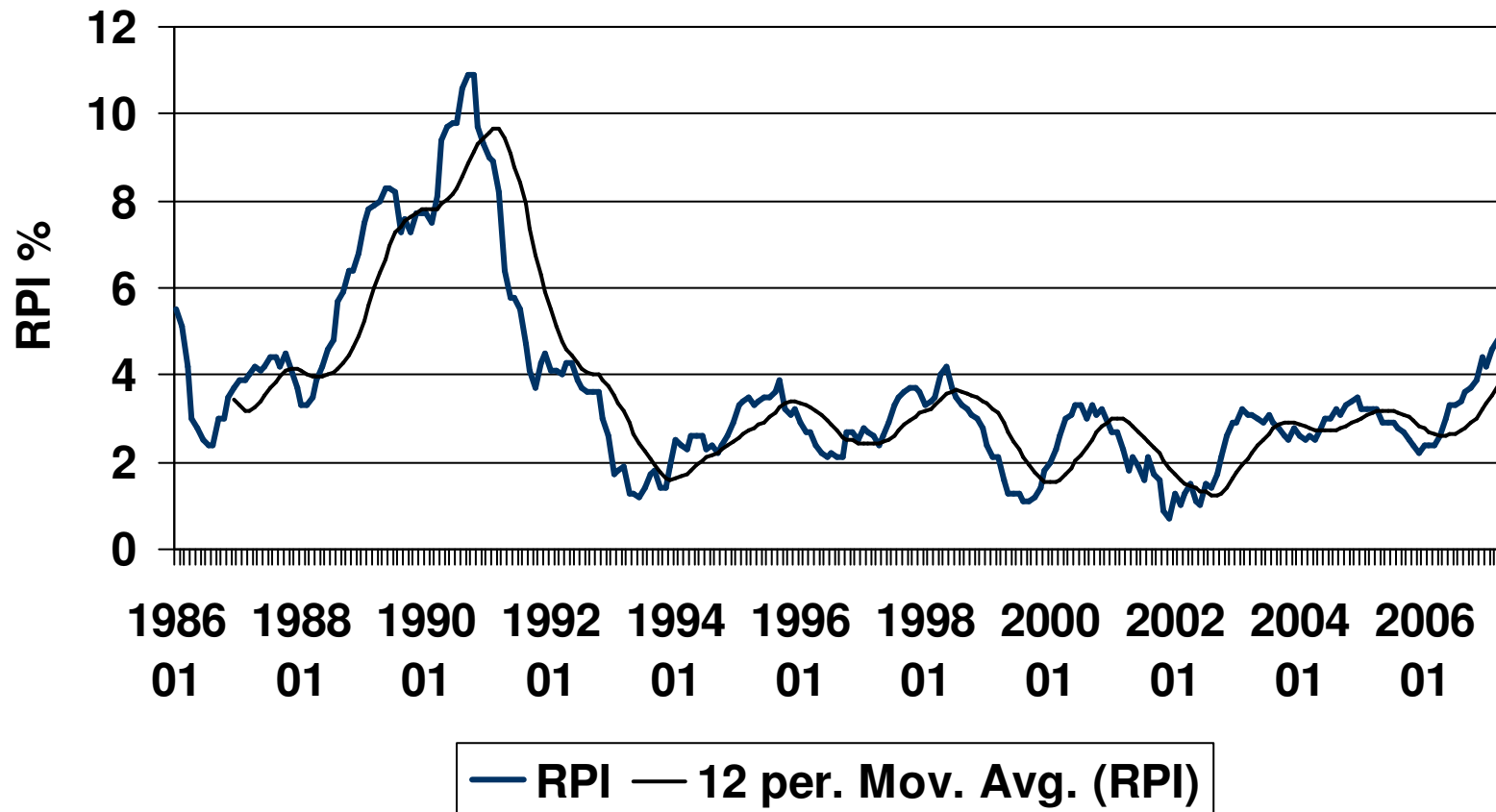
$$TOZ_t = TOZ_{t-1} \times \left[1 + \left(\frac{RPI_t - X}{100} \right) \right]$$

Where X =0

RPI Calculation

RPI_t means the percentage change (whether of a positive or a negative value) in the arithmetic average of the retail prices index published or determined with respect to each of the six months from July to December (both inclusive) in formula year t-1 and the arithmetic average of the retail prices index numbers published or determined with respect to the same months in formula year t-2

RPI Data



Impact of RPI Changes on NTS Exit Capacity Prices

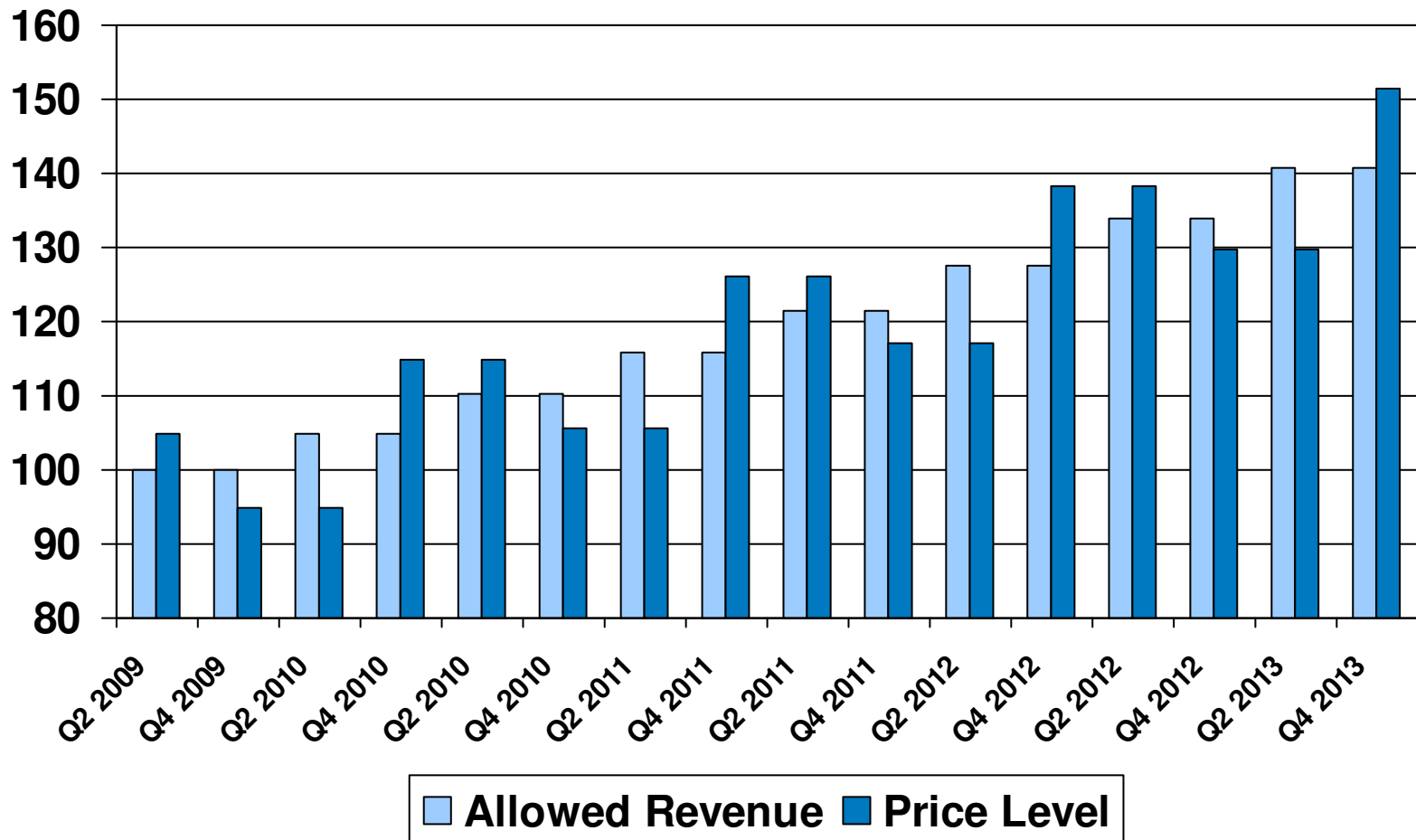
Four Scenarios Investigated

1. **No GCM13 – No April Price Change – RPI Constant***
2. **No GCM13 – No April Price Change – RPI Variable****
3. **GCM13 – April Price Change – RPI Constant***
4. **GCM13 – April Price Change – RPI Variable****

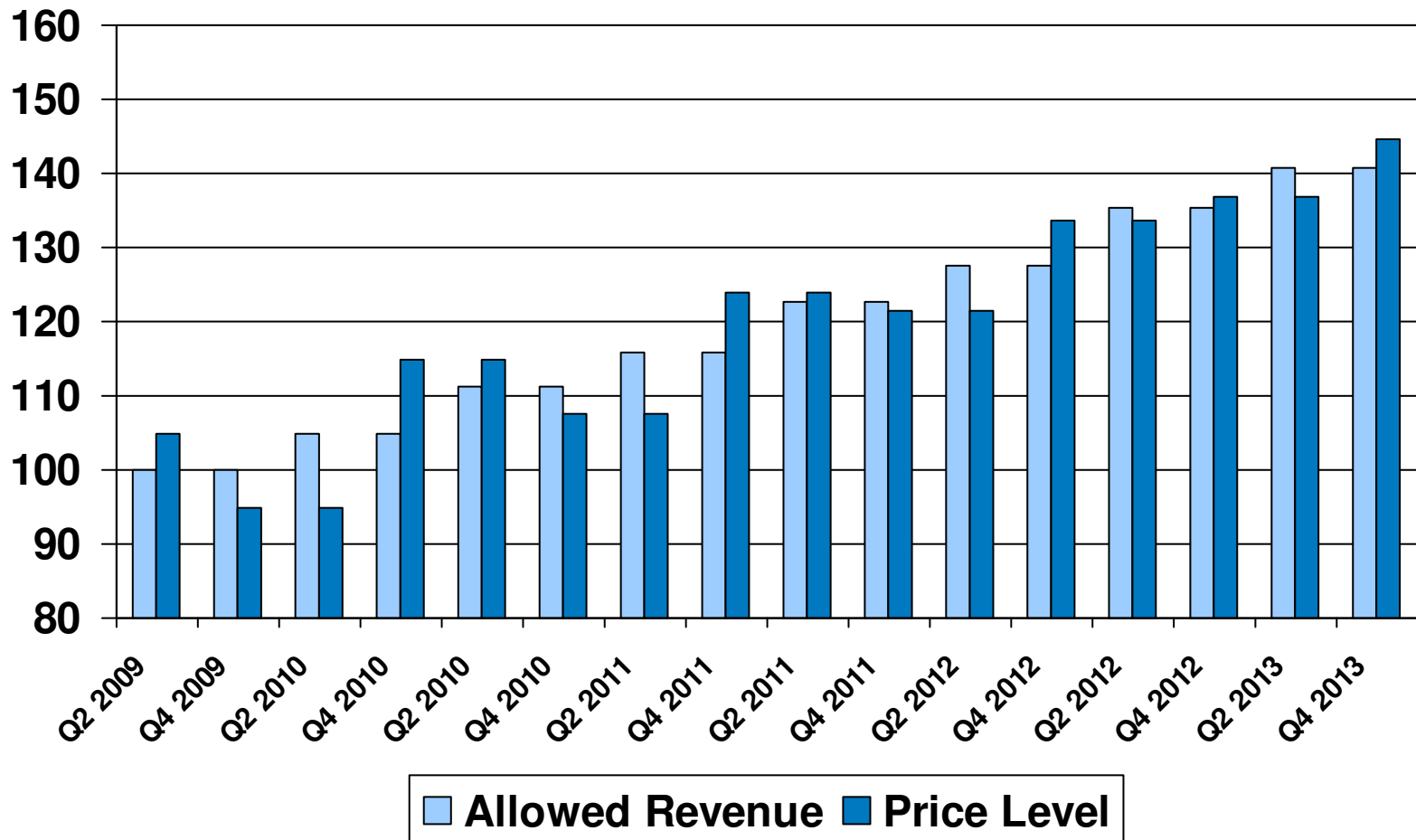
Results presented relative to the 2008/9 Price Level

- **Constant 5%**
- **Variable RPI 4%/6% alternating annually**

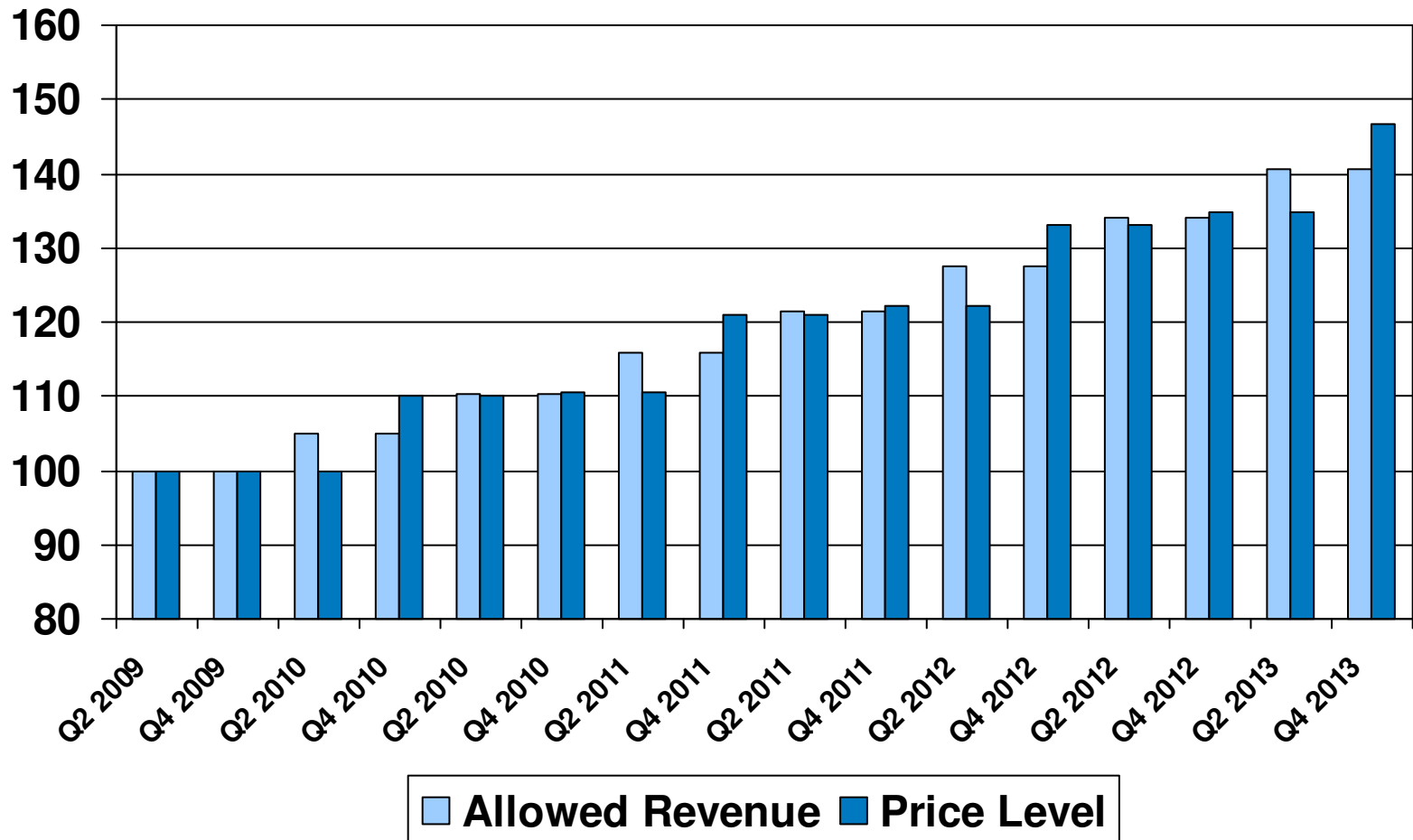
Allowed & Collected Revenue No GCM13 - Constant RPI



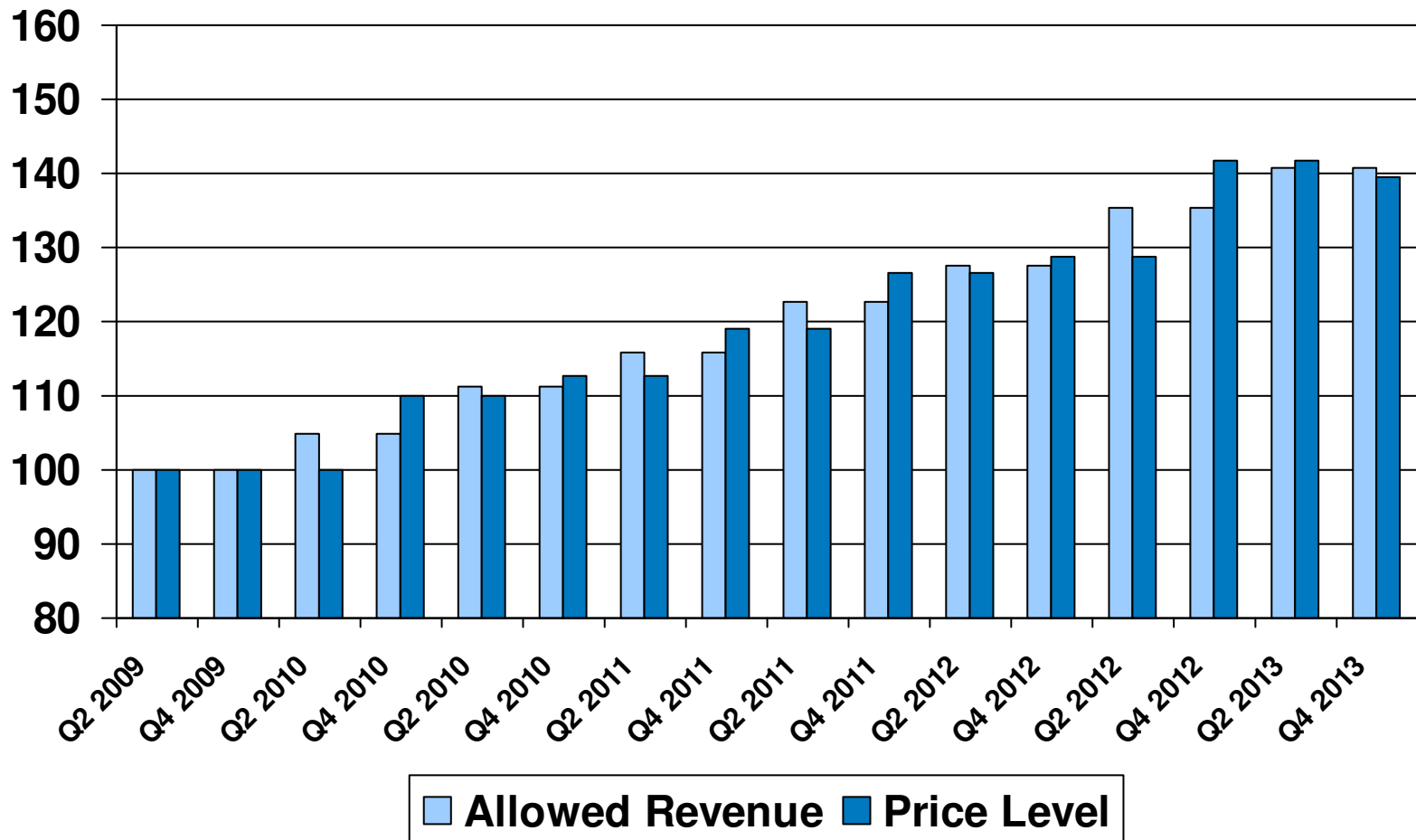
Allowed & Collected Revenue No GCM13 - RPI Variable



Allowed & Collected Revenue GCM13 - Constant RPI



Allowed & Collected Revenue GCM13 - RPI Variable



Summary

The results indicate that an April NTS exit capacity price change (as facilitated by GCM13) would reduce exit price volatility given variable RPI over the remainder of the price control

- ◆ **This assumes that the separate management of K (GCM12) has been implemented**
- ◆ **NB ~ NTS TO Exit is 100% capacity and hence not subject to the demand uncertainty variability that has previously affected DN charges.**

While this may not be an enduring solution it may be an appropriate short-term solution while other options are identified