

Incremental NTS Entry Capacity Treatment

Gas TCMF 4th December 2008

nationalgrid

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Introduction

This presentation has been prepared for the December 2008 Gas TCMF and covers NTS Incremental Allowed Revenue triggered as a consequence of releasing Incremental NTS Entry Capacity.

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NTS Entry Capacity Investment Incentive (old scheme)

April 2002-
March 2007

National Grid incremental allowed revenue

- ◆ Additional entry capacity above prevailing obligated level that was released in QSECs prior to April 2007
- ◆ Revenue driver in Licence for each ASEP (UCA*)

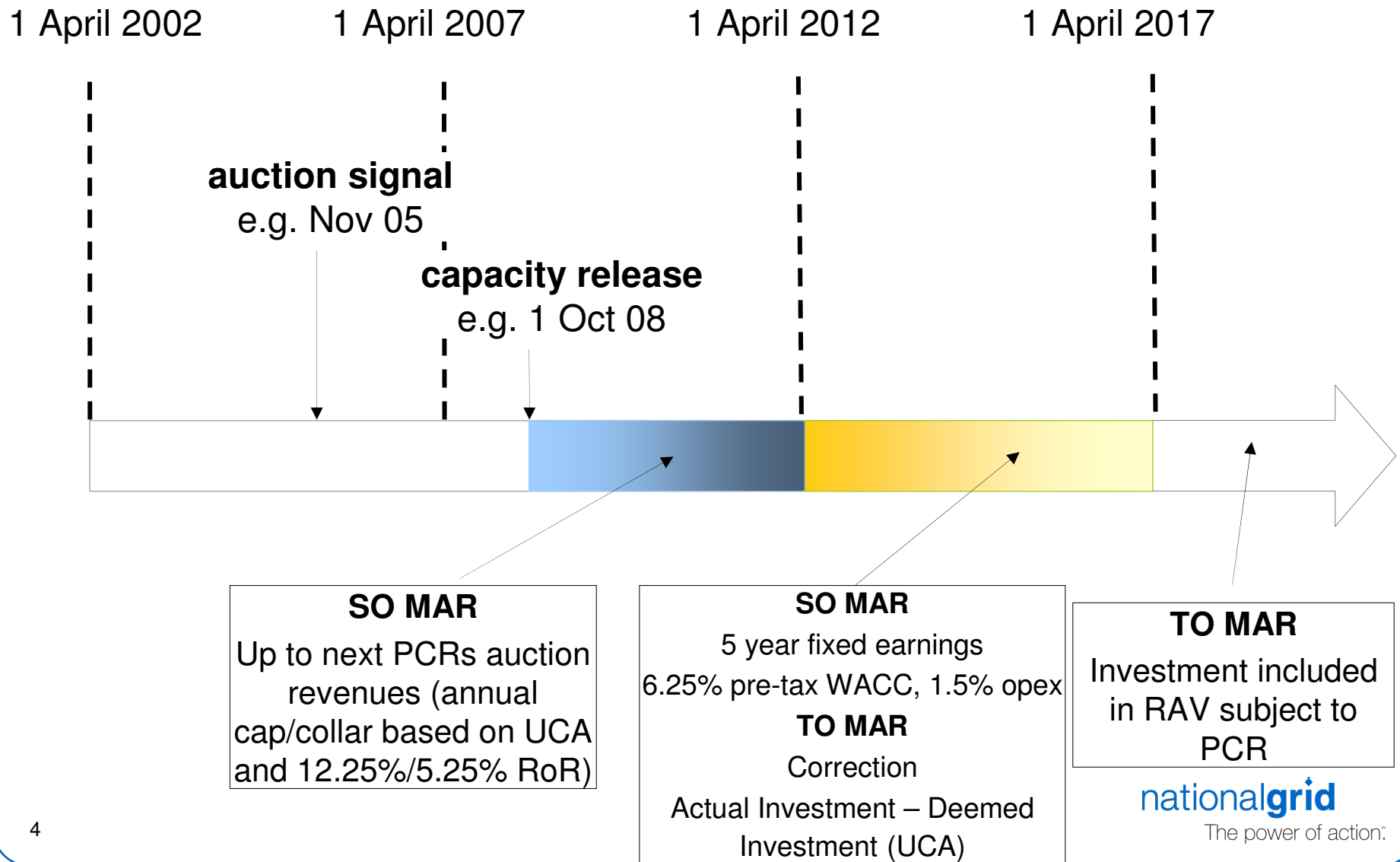
How does the incentive work?

- ◆ 5 years' auction revenue from first month of release
 - allowed revenue = actual revenue subject to an annual cap and collar
 - Annual cap and collar based on the UCA and max 12.25% min 5.25% rates of return
- ◆ After the 5 year incentive period, fixed return for varying number of years
 - (6.25% ROR, 1.5% opex) until next price control
 - Not automatically reclassified as non-incremental entry capacity after the 5 year incentive period
- ◆ Depreciation and return for remaining regulatory asset life as part of TO price control subject to efficiency test on investments

*UCAs quoted in 2000 prices, see Annex to Sp C C8D

NTS Entry Capacity Investment Incentive (old scheme)

April 2002-
March 2007



NTS Entry Capacity Investment Incentive (new scheme)



National Grid incremental allowed revenue

- ◆ Additional obligated entry capacity above prevailing obligated level that is not met by substitution
- ◆ Revenue driver function in Licence for each known ASEP

How does the incentive work?

- ◆ 5 years incentive revenue from first month of release
- ◆ After the 5 year incentive period reclassified as non-incremental obligated entry capacity
 - Depreciation and return for next 40 years as part of TO price control subject to efficiency test on investments

NTS Entry Capacity Investment Incentive (new scheme) - Example

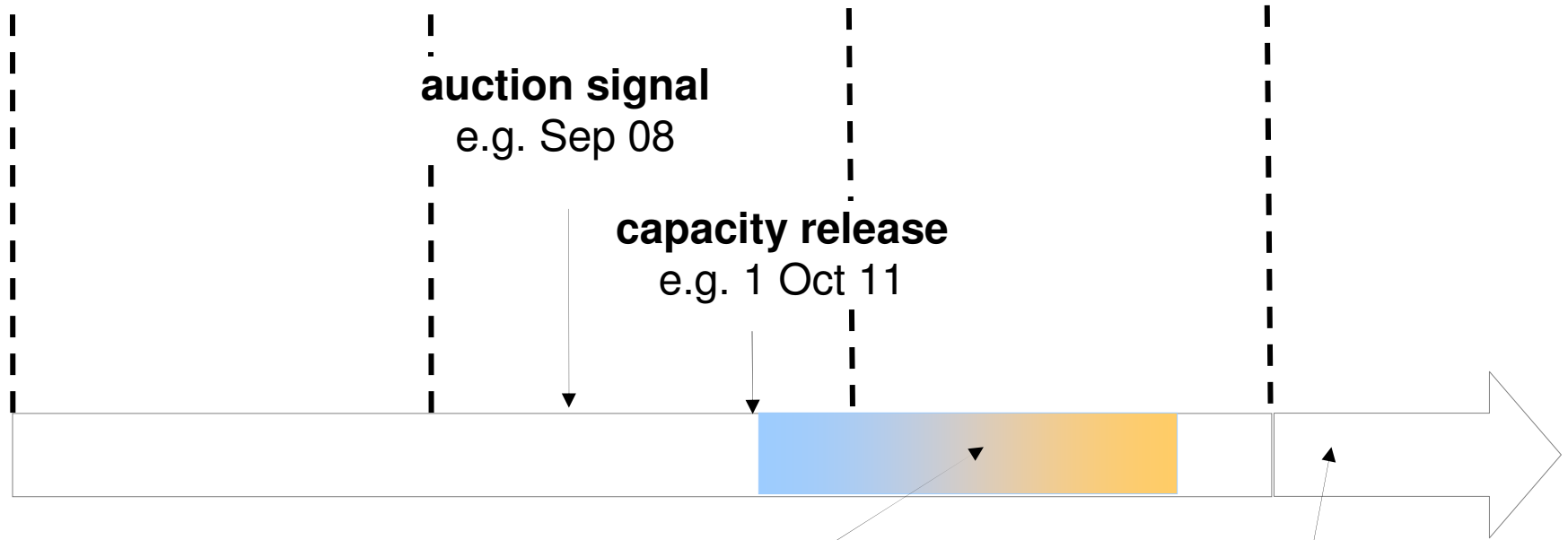


1 April 2002

1 April 2007

1 April 2012

1 April 2017



SO MAR
5 years fixed earnings
from revenue drivers
6.25% pre-tax WACC
1% opex

TO MAR
Investments included in
RAV subject to PCR

Impact on SO Charges

Incremental Capacity Revenue is defined as SO actual revenue under both the old and new schemes

Old Scheme

As incremental allowed revenue is defined as incremental actual revenue (subject to the cap/collars), there is no impact on the SO commodity charge provided that capacity charges are recovered.

New Scheme

Incremental allowed revenue is defined by the revenue drivers.

Incremental actual revenue may not equal allowed revenue and hence the residual will increase or reduce the target revenue for the SO Commodity charge

NTS Entry Capacity Revenue Drivers

Main terminals



£m/GWh/month	0-25GWh	25-100GWh	100-500GWh	>500GWh
Easington	0.0013	0.0019	0.0059	0.0044
Bacton	0.0026	0.0057	0.0063	0.0072
Isle of Grain	0.0029	0.0026	0.0047	0.0105
Milford Haven	0.0088	0.0137	0.0116	0.0184
St. Fergus	0.0002	0.0054	0.0163	0.0126
Teesside	0.0013	0.0013	0.0020	0.0072
Barrow	0.0037	0.0014	0.0021	0.0081
Theddlethorpe	0.0016	0	0.0021	0.0068

Revenue drivers applied in a similar way to tax bands

Attract inflation and pre-defined indexation for contractor and steel costs

Include assumptions of 6.25% pre-tax WACC and 1% opex and profile of spend

St Fergus Revenue Driver - Example

post April
2007

The following example is for 250 GWh/day of incremental entry capacity.

Revenue driver band (GWh)	Capacity in band (GWh)	Allowance (£m/GWh/month)	Allowed revenue* (£m/month)
0-25	25	0.0002	0.005
25-100	75	0.0054	0.405
100-500	150	0.0163	2.445
>500	0	0.0126	0
Total	250		2.855

Revenue driver prior to adjustments = £2.855m/month

Apply “additional cost inflation index” of 1.085 for 2011/12

Apply RPI from 2004/5 (PIT_t) onwards

*2004/5 prices, excludes RPI and indexation adjustments