



GCM05 & Exit Reform

Gas TCMF

4th December 2008

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Issues

Ofgem have expressed concerns regarding the NTS Charging Proposals consulted on through GCM05

- ◆ GCM05 proposed that exit (flat) capacity charges would be adjusted to collect all target TO exit revenue
- ◆ The concern is that supply points relying on the interruptible or off-peak products may not pay an appropriate proportion of TO costs given that 'revenue foregone' licence arrangements would expire

National Grid has also identified some issues regarding the timing of the allocations impacting the information available at the time of charge setting

- ◆ Annual exit capacity allocated in the year prior to the gas year would not be known
- ◆ Daily capacity would also be unknown although revenue levels are anticipated to be low

'Charges Foregone'

Interruptible supply points do not currently attract NTS Exit Capacity charges

- ◆ Definition:
 - 'Charges Foregone' are those NTS Exit Capacity charges that Interruptible supply points would pay if they were Firm

Charges Foregone are (up to exit reform) included as

- ◆ SO allowed revenue
- ◆ TO actual (collected) revenue
- ◆ *i.e. an increase in SO allowed revenue is cancelled out by a net reduction in TO allowed exit revenue*

Removal of 'Charges Foregone'

Post Exit Reform – 'No Charges Foregone'

- ◆ SO Commodity Charges would reduce
 - Reduction of 0.0028 p/kWh at 1st October 2008 Prices
- ◆ TO Target Exit Revenue would increase

In theory this means that

- ◆ NTS Exit (Flat) Capacity charges could remain unchanged, if all 'interruptible' demand converted to firm,
- ◆ while SO Commodity charges would decrease

however, Flat Exit capacity charges would increase if existing 'interruptible' supply points relied on interruptible or off-peak services

Supply points booking capacity through these services would not contribute towards TO costs as they do under the prevailing arrangements through the SO commodity charge and revenue foregone arrangements

Potential Way Forward:

Non-zero 'Interruptible' Capacity Price

Non Zero Interruptible/Off-peak Capacity reserve prices could be set

- ◆ A defined discount could be applied

Discount Options

- ◆ 45/365 ~ 12% based on 45 Shipper Nominated Interruption duration
- ◆ 20% ~ off peak service applicable below 80% of peak demand
- ◆ Other?

While this might address the Interruptible issue, this would NOT overcome the capacity charge setting issues

- ◆ the level of capacity on which prices would be set would not be known in advance

and could make exit capacity prices more unstable

While potentially linked to the expected level of interruption, this might not be reflective of the TO costs incurred

Potential Way Forward: LRMC based Firm Capacity Prices

Firm capacity charges could be set based on exit LRMCs

- ◆ Prices would NOT be adjusted for allowed revenue
- ◆ Any shortfall would be recovered through a TO exit commodity charge
- ◆ Analogous with Entry
- ◆ Would lead to an approximate 50/50 TO capacity: commodity split

This would overcome the capacity charge setting issues

- ◆ the level of capacity on which prices would be set would be known in advance

and could make exit capacity prices more stable

This was the original proposal contained within GCD01

- ◆ Responses strongly supported adjusting exit capacity charges to collect the majority of TO exit revenue

Potential Way Forward: Firm Capacity Prices based on Connected Load

Firm capacity charges could be set based on an estimate of connected load

- ◆ Prices would be adjusted for allowed revenue
- ◆ i.e. charges would be set such that target TO exit revenue would only be recovered if this level of exit capacity was sold out
- ◆ Any shortfall would be recovered through a TO exit commodity charge
- ◆ Connected Load Options
 - Baseline
 - Historic Maximum Offtake Flows
 - Maximum Supply Point Offtake Rate (MSPOR)
 - Other?

This would overcome the capacity charge setting issues

- ◆ the level of capacity on which prices would be set would be known in advance

and could make exit capacity prices more stable

Firm Capacity Prices adjusted based on Baseline

Allocated Annual exit Capacity Scenario (As included in GCM05)	Annual Capacity Sold	Baseline less Capacity Sold	TO Revenue Shortfall	
	(GWh/day)	(GWh/day)	(£m)	(%)
Firm (As-is)	6227	1124	£74.0	25%
Firm + DC Interruptibles	6785	566	£32.0	11%
Firm + DC & DN Interruptibles	7070	281	£21.7	7%
Baseline Exit Capacity	7351	0	£0.0	0%

Assessment of Options

	Would 'Interruptibles incur appropriate TO costs?	Would the level of capacity, for capacity price setting, be known in advance?	Majority of Costs recovered through Capacity Charges?	Cost Reflective?
GCM05				
Non-zero 'Interruptible' Capacity Price				
LRMC based Firm Capacity Prices				
Firm Capacity Prices based on Connected Load				

Exit Reform Capacity Charging Timeline*

A re-consultation would be required;

Milestone	Date
Raise Revised Proposals	Dec 2008
Consultation	Jan 2008
Consultation Conclusions inc. Final Proposals	February 2009
Ofgem veto period expires (Assumes No Regulatory Impact Assessment)	March 2009
Notice of Indicative Prices	1th April 2009
Application/Auction	Summer 2009

**** An approved charging methodology is required to generate indicative prices in time for a Summer 2009 Application window***