



Draft Proposal for Discussion:
Capacity Rebates for Entry Points
with Negative LRMCs - Update

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Introduction – A Reminder of the Issue

- For entry points which have a **negative** Long Run Marginal Cost (LRMC) in the 'Transportation' model, it is proposed that an *ex-post* rebate is paid to capacity holders; provided they have **demonstrated** at that specific entry point that they were **flowing gas** on **peak demand** days.
- The purpose is to reward locationally beneficial entry points on the NTS where a genuine, measurable benefit is being provided to the system by incremental flows.
➤ **More Cost Reflective**
- 'Capacity' rebates (i.e. negative generator TNUoS charges) already exist in electricity.

Issues Raised At Last TCMF (1)

Q. How many entry points are there with a negative LRMC?

A. There are **9** such entry points in the 2009/10 Transportation Model:

- Albury
- Avonmouth LNG
- Burton Point
- Humbly Grove
- Isle of Grain
- Cheshire
- Partington
- Wytch Farm
- Holehouse Farm
- Dynevor Arms (*only negative until Milford Haven operational*)
- Milford Haven (*only negative until Milford Haven operational*)

Issues Raised at last TCMF

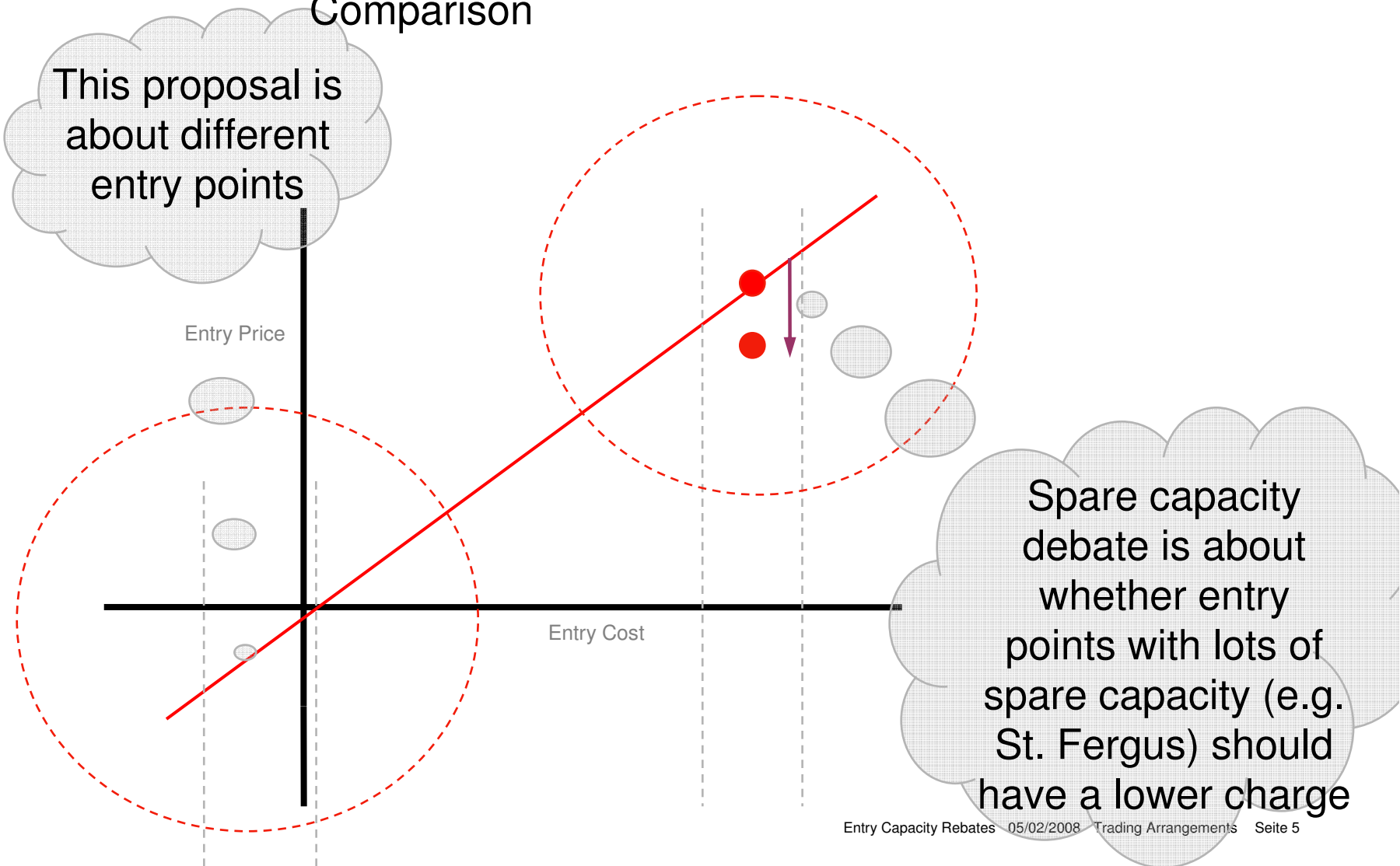
Q. Isn't this addressing the same issue as "spare capacity"?

A. No – accounting for so-called "spare capacity" at any entry point is a different issue. This proposal only deals with certain entry points; i.e. those with a negative LRMC.

At entry points with positive LRMCs and spare capacity, the LRMC is **less positive** to attract new sources of gas.

Whilst modelling spare capacity may ultimately affect the **level** of the proposed rebate, it is not dealing with the same issue (nor is it mutually exclusive).

Positive LRMCs vs. Negative LRMCs – A Comparison



Issues Raised at last TCMF (3)

Q. How would this proposal interact with Constrained LNG payments & locational actions on the OCM?

A. When National Grid LNG set the constrained LNG payment prior to the LNG storage tender, they could factor in this rebate (i.e. they could reduce the level of constrained LNG payment somewhat, as the shippers will already be receiving the rebate).

As for locational actions, the rebate may actually encourage shippers to flow the gas to qualify for the rebate and so there may be less need for locational actions, or it would be factored into the price that they offered.

Issues Raised at last TCMF (4)

Q. Could this proposal apply to Exit as well as Entry?

A. In electricity, exit capacity charges (i.e. demand TNUoS) are not allowed to go negative on the basis that Users should not be rewarded for consuming **more** energy at the system peak demand.

Therefore on the same basis, we are not proposing that gas exit capacity charges should be allowed to go negative.

Issues Raised at last TCMF (5)

Q. What are the quantifiable benefits/costs of this proposal?

A. Based on 2009/10 Transportation Model and removing the “zero” constraint, the following indicative charges could apply:

<i>Entry Point</i>	<i>Entry Flow (GWh)</i>	<i>Entry Cost (km)</i>	<i>Entry Price (p/kWh/d)</i>
ALBURY_(MRS)	0	-227.8888	-0.0143
AVONMOUTH_LNG	0	-146.9788	-0.0092
BACTON_TERMINAL	882	29.5512	0.0018
BARROW_TERMINAL	184	37.4912	0.0023
BURTON_POINT_TERMINAL	22	-187.5588	-0.0117
CAYTHORPE_(MRS)	90.03	135.1712	0.0085
CHESHIRE_(MRS)	87.97	-142.1688	-0.0089
DYNEVOR_ARMS_LNG	0	82.3812	0.0052
EASINGTON&ROUGH_TERMINAL	1395	128.2212	0.0080
FLEETWOOD_(MRS)	0	-72.3788	-0.0045
GARTON_(MRS)	216.56	120.0112	0.0075
GLENMAVIS_LNG	0	208.4312	0.0130
HATFIELD_MOOR_(MRS)	25.03	54.4312	0.0034
HOLEHOUSE_FARM_(MRS)	90.03	-148.5288	-0.0093
HORNSEA_(MRS)	84.58818	124.7512	0.0078
HUMBLY_GROVE_(MRS)	79.95	-257.1088	-0.0161
ISLE_OF_GRAIN_TERMINAL	330	-149.6488	-0.0094
MILFORD_HAVEN_TERMINAL	799	238.7612	0.0149
PARTINGTON_LNG	0	-144.7588	-0.0091
ST_FERGUS_TERMINAL	1300	491.5412	0.0308
TEESSIDE_TERMINAL	197	32.6112	0.0020
THEDDLETHORPE_TERMINAL	257	84.9512	0.0053
WELTON_(MRS)	94.03	81.0412	0.0051
WYTCH_FARM_TERMINAL	0	-212.4388	-0.0133

Next Steps?

- We continue to see merit in developing the proposal further and have had no objections raised to the principle of the idea since the last TCMF.
- We believe the TCMF is the right place to explore and develop the proposal in detail.
- If necessary, we could raise a UNC Modification Proposal, which if implemented would oblige NG NTS to review their charging methodology.
- At this stage, we believe that active debate and development in TCMF meetings would be the most constructive way forward.

Any Questions?