Entry Exit Target Revenue Split (50 50?)

Gas TCMF

7th May 2008

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Action from April 2008 TCMF

- Shippers, via the April 2008 Gas TCMF and 2008 Gas TCMF survey have requested a review of the underlying 50-50 Entry-Exit target revenue assumption within the NTS Charging Methodology.
- This presentation covers
  1. TO Prevailing Arrangements
  2. SO Prevailing Arrangements
  3. Comparison with Electricity Transmission
  4. Way Forward

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1. Transportation System Owner (TO)

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TO: Prevailing Arrangements

- TO allowed revenue (less DN pensions) explicitly split 50-50 between entry and exit
- Entry
  - Capacity
    - Obligated Capacity Sales
  - Commodity
    - TO Entry Commodity charge rate set to collect target allowed entry revenue less revenue collected from obligated capacity sales other than on the day sales.
- Exit
  - Administered prices for baseline exit capacity adjusted to collect target allowed revenue

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TO History

- Prior to the TO/SO price control separation NTS allowed revenue was recovered 65% capacity and 35% commodity; capacity charges were split 50-50 between entry and exit.

- Since the introduction of separate TO and SO price controls in 2002; capacity charges have been split 50-50 between entry and exit.
    - The TO Entry Commodity charge is applied to manage TO Entry Capacity under recovery

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50-50 Logic

- Transportation Model Prices are based on the Long Run (Investment timescales) Marginal cost (LRMC) of increasing capacity between entry and exit points
- Any entry exit split could be adopted with the combined entry plus exit LRMC remaining equal to the route LRMC
- The fifty-fifty split was explicitly retained as part of GCM01

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2. System Operator (SO)

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SO: Prevailing Arrangements

- Commodity
  - Standard rate applied to all non storage entry and exit flows
  - Shrinkage means that marginally more SO allowed revenue is collected through entry flows via this process
  - Short-haul charge replaces both standard entry (TO and SO) and standard (SO) exit charges
- Capacity
  - Entry
    - Incremental
    - On the day sales
    - Non obligated
  - Exit
    - Incremental

SO History

- The NTS SO Commodity charge, established by PC70, applied solely to gas offtaken at exit points from the NTS.
- In response to Ofgem's decision letter on PC70, Transco agreed to raise a further pricing consultation in order to seek views on levying the charge on both entry and exit flows from 1 October 2002.
- As a consequence, PC73 was raised and introduced the SO Commodity charge at NTS entry points with a uniform rate applying at entry and exit.

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3. Electricity Transmission Charges

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Electricity Transmission Overview

- Transmission Network Use of System (TNUoS) charges reflect the cost of installing, operating and maintaining the transmission system for the Transmission Owner (TO)
  - TNUoS revenue is split 27% generation and 73% demand.
- Balancing Services Use of System (BSUoS) charges reflect the cost of operation of the transmission system and the procuring and using of Balancing Services for the purpose of balancing the transmission system for the System Operator (SO)
  - All CUSC Parties are liable for Balancing Services Use of System charges based on their energy taken from or supplied to the National Grid system in each half-hour Settlement Period.
  - BSUoS revenue is therefore approximately split 50% generation and 50% demand

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4. Way Forward

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Options - SO

- SO Commodity
  - An exercise to attribute costs to either entry or exit could be carried out.
  - Costs could be managed separately with entry and exit rates being reset within year
  - Alternatively a fixed entry/exit ratio could be set either within the charging methodology or at the start of the year based on a defined charging methodology process
  - It is anticipated that all costs are passed through at the NBP and hence the entry exit split should have no impact on costs passed through to end consumers

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Options - TO

- TO Capacity
  - The Licence definition of Incremental capacity revenue as SO revenue leads to a non 50-50 split between entry & exit capacity charges
  - A revised splits could be identified based on incremental capacity moving from SO to TO after 5 years of release: ***This could get very complicated***
  - Alternative approaches could be based on entry credits netting off entry charges leading to a 0% entry 100% exit approach

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Relevant Objectives

- Any change would need to achieve the relevant objectives
- The National Grid plc Gas Transporter Licence in respect of the NTS requires that proposed changes to the Charging Methodology shall achieve the relevant methodology objectives.
- Where transportation prices are not established through an auction, prices calculated in accordance with the methodology should:
  1. Reflect the costs incurred by the licensee in its transportation business;
  2. So far as is consistent with (1) properly take account of developments in the transportation business;
  3. So far as is consistent with (1) and (2) facilitate effective competition between gas shippers and between gas suppliers.
- Does this issue warrant a discussion paper/further analysis?

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