NTS Exit Capacity Charge Volatility

Gas TCMF

9th July 2008

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Introduction

- Exit charges are set Oct_t to Sep_{t+1}.
  - Standard Special Condition A4 2. (a) (ii)
- TO MAR applies for Apr_t to Mar_t (formula year t)
- Charges set in October at a level to recover remaining TO MAR for current formula year (t)
  - takes into account revenue already recovered through Exit charges Apr_t to Oct_t, and therefore what needs to be recovered for the final 6 months of the formula year (first six months of the gas year)
- TO MAR changes in Apr_{t+1} and Exit charges set at a rate to recover remaining TO MAR for Oct_t to Mar_t
- This will cause volatility in Exit Charges as illustrated on the next slide

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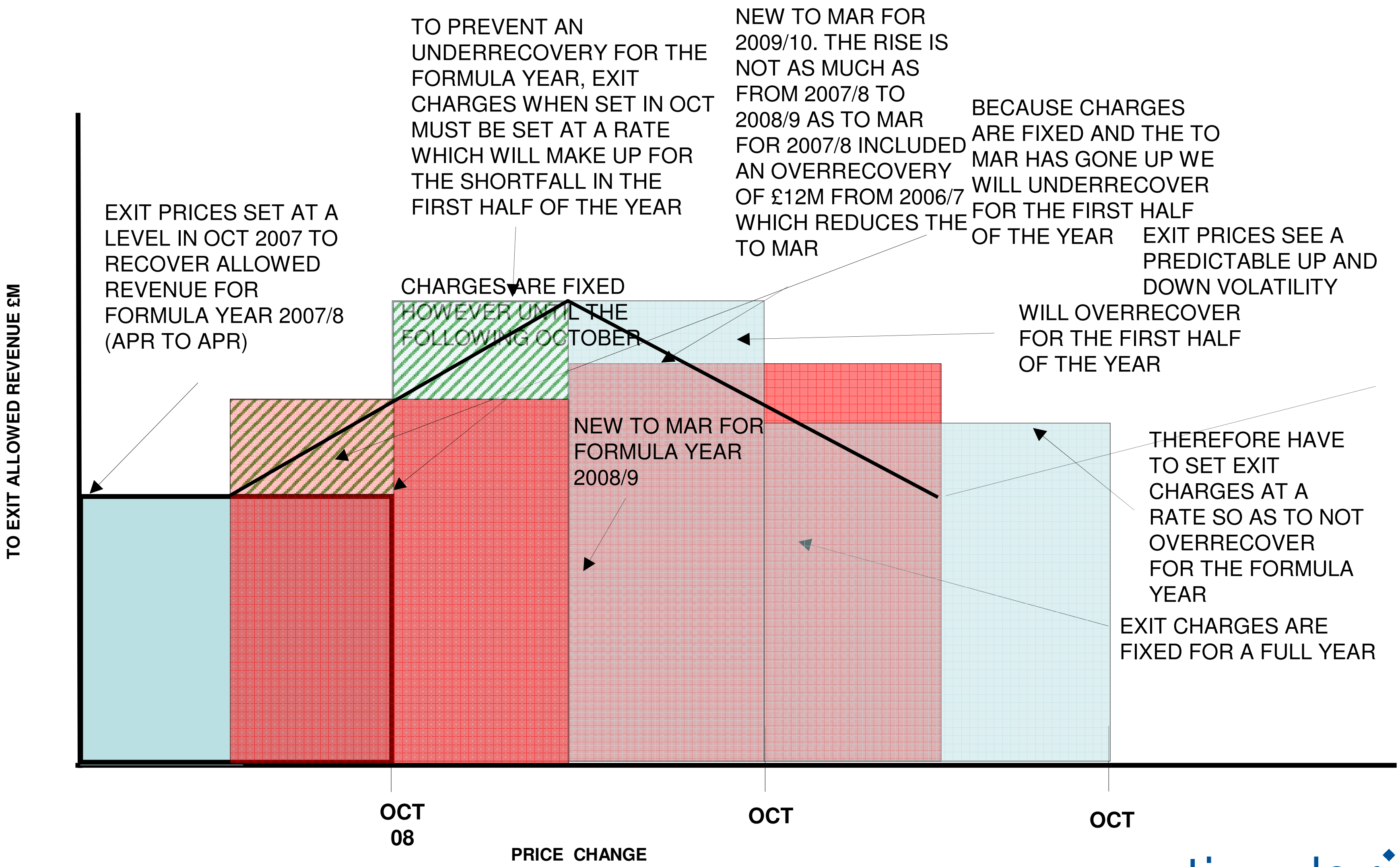
Exit Charges Volatility



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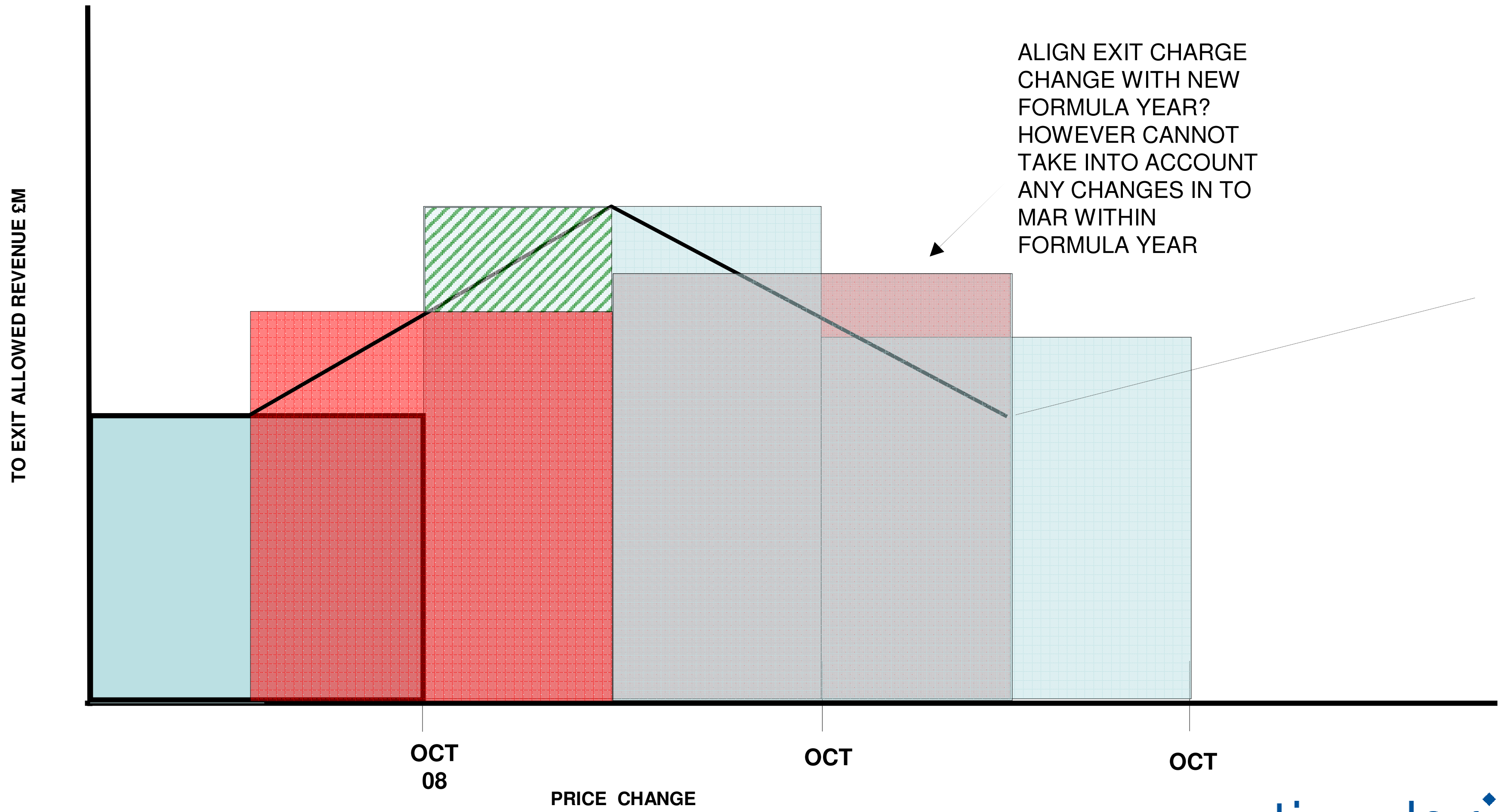
What can we do?

- Accept the volatility?
    - We have illustrated that charges will be volatile and this can be highlighted in charging notices
- Apply Exit charges April to April
- One off April price change in 2009
    - Full recalculation, or
    - TO target revenue only

Apply Exit charges April to April



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Apply Exit charges April to April

- **Pros**
  - Allowed exit revenue in line with TO MAR
  - Can apply final OCS statements. October change has to use OCS statements a year old
  - Use most recent TYS. Supply has biggest affect on Exit prices
  - Line up with proposed QSEC auction. Issue and set all prices using one set of Transportation models
- **Cons**
  - Regime and licence change
  - Exit Charges out of synch with Supply year
  - Demand and supply data 9 months old
  - Any changes past February$_{t-1}$ in TO MAR$_t$ cannot be incorporated into Exit charges. TO MAR$_t$ fixed by October$_t$
  - Peak demand forecast for supply year, charges set for formula year. How do we take into account changes in October in NDM Exit and annual demand?

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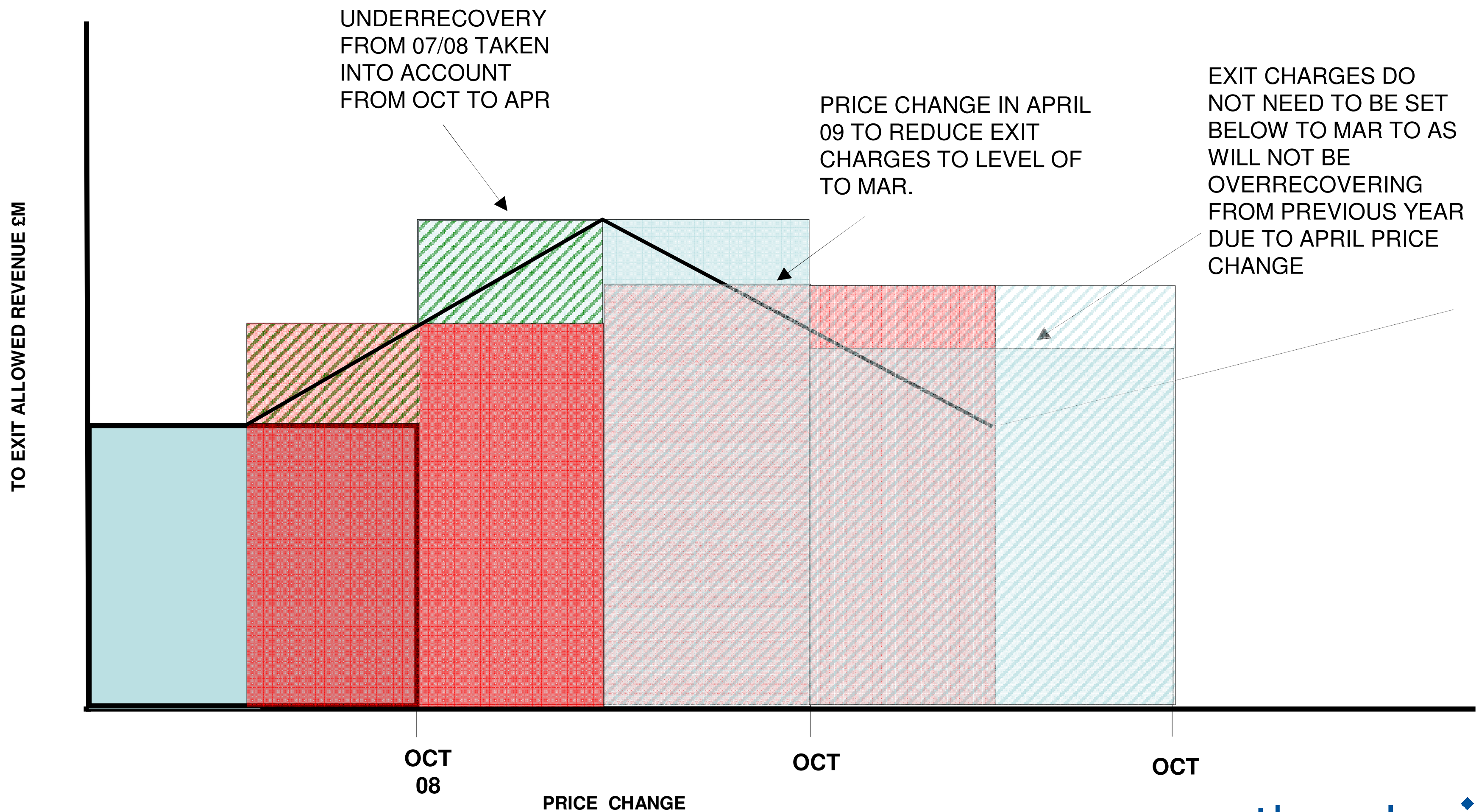
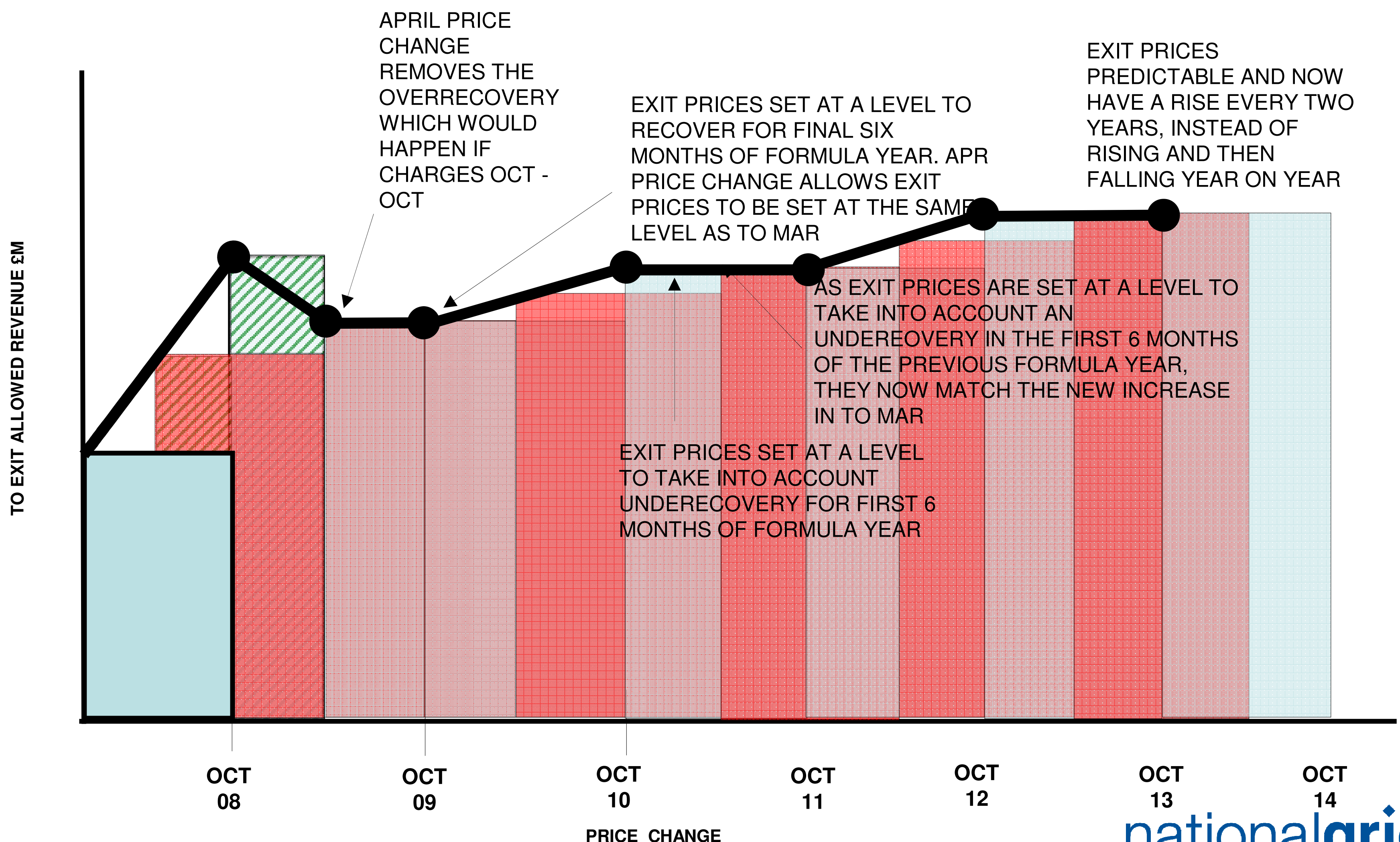
One off April 2009 Exit Price Change



One off April 2009 Exit Price Change



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One off April 2009 Exit Price Change

- Pros
  - Allowed exit revenue in line with TO MAR
  - Stable predictable prices
  - No regime or licence change
  - Uses most up to date demand and supply forecasts
  - Can incorporate any changes in TO MAR
  - No licence change
- Cons
  - TYS data 8 months old
  - OCS statements 1 year old
  - Have to produce two sets of Transportation models using different sets of data
  - May cause confusion as changing Exit Prices 3 times in 18 months

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One off April 2009 Exit Price Change (TO Target Revenue Only)

- **Pros**
  - Allowed exit revenue in line with TO MAR
  - Stable predictable prices
    - Constant adjustment to all prices
    - Indicative prices could b produced along with notice for October price change
  - No licence change
  - Can incorporate any changes in TO MAR
  - No licence change
- **Cons**
  - May cause confusion as changing Exit Prices 3 times in 18 months
  - May require transportation charging methodology change

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Way Forward

- The potential for a April Exit Capacity price change, based on TO revenue only, would require a Charging Methodology change.
    - Would need to clarify that prices could be reset by only changing the target revenue
- A charging proposal would provide a route for gauging industry support
    - A final proposal would be raised subject to industry support
    - Ofgem consent to change exit capacity prices in April would be required ~ consultation would help process

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