NTS Firm & Interruptible Entry Capacity Discounts and Spare Capacity

Gas TCMF

11th June 2008

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Clearing Allocation Obligation

- Zero reserve price for capacity sold on the day coupled with an obligation to offer for sale the baseline level of capacity (which is sometimes above physical capability):
  - does not encourage long-term bookings;
  - does not encourage liquidity in the secondary market;
  - can result in under-recovery against the TO MAR, which leads to an increase in the TO commodity charge (payable on entry flows);
- Suggest that the obligation is removed and National Grid applies a reserve price for daily capacity as for other timeframes
- Potentially seek to price interruptible product providing opportunity for product differentiation

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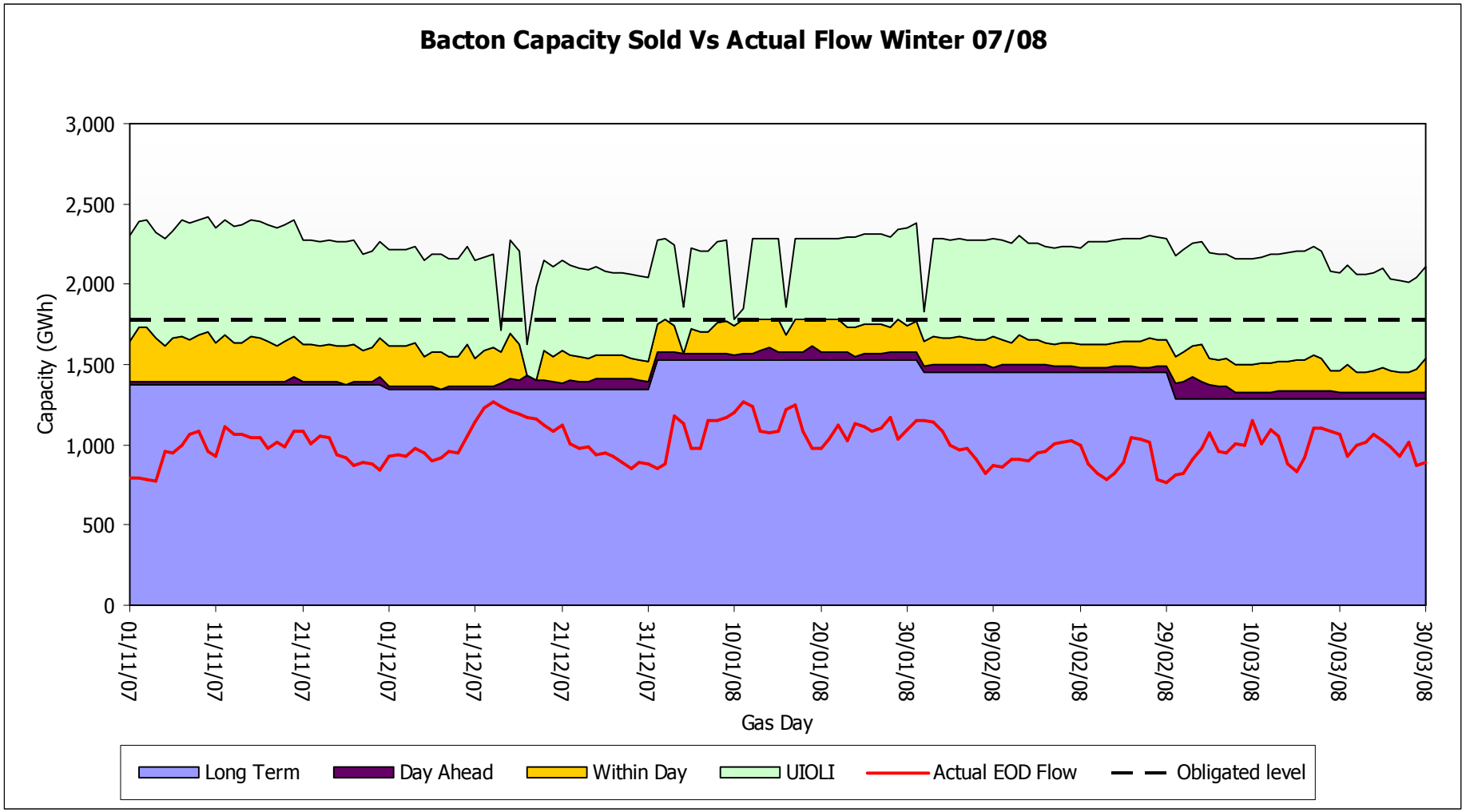
Capacity Sold vs. Actual Flow



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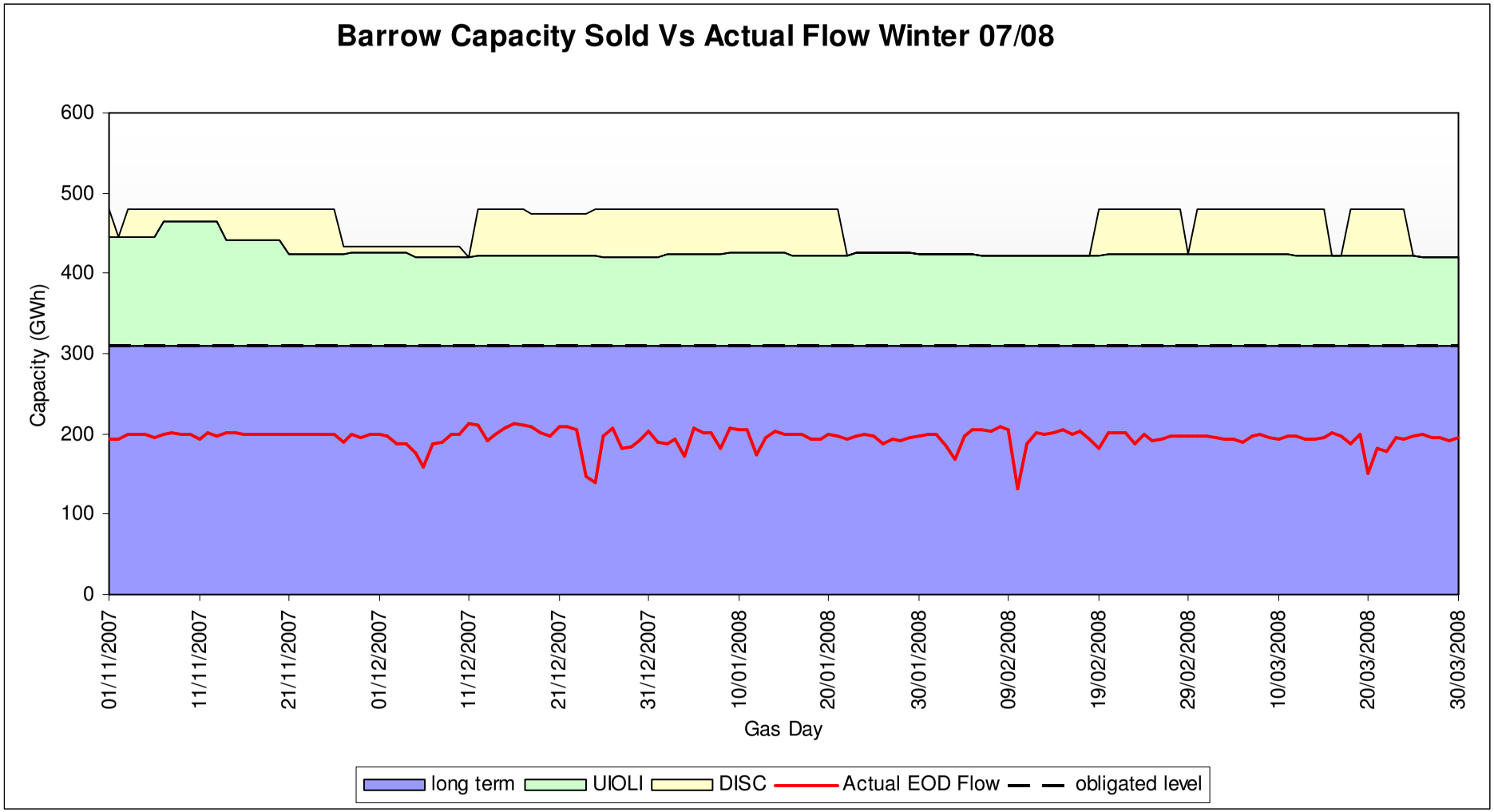

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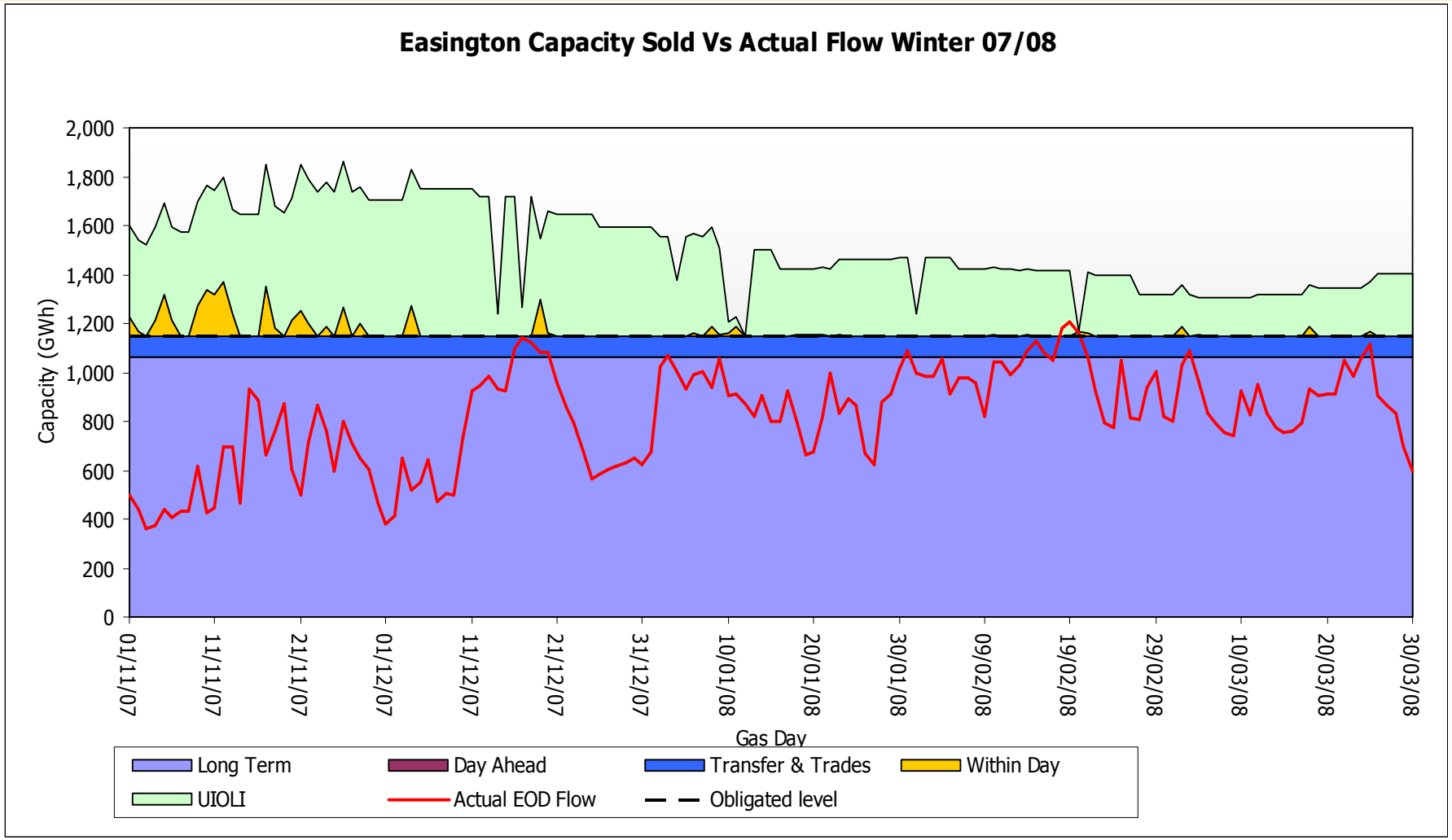

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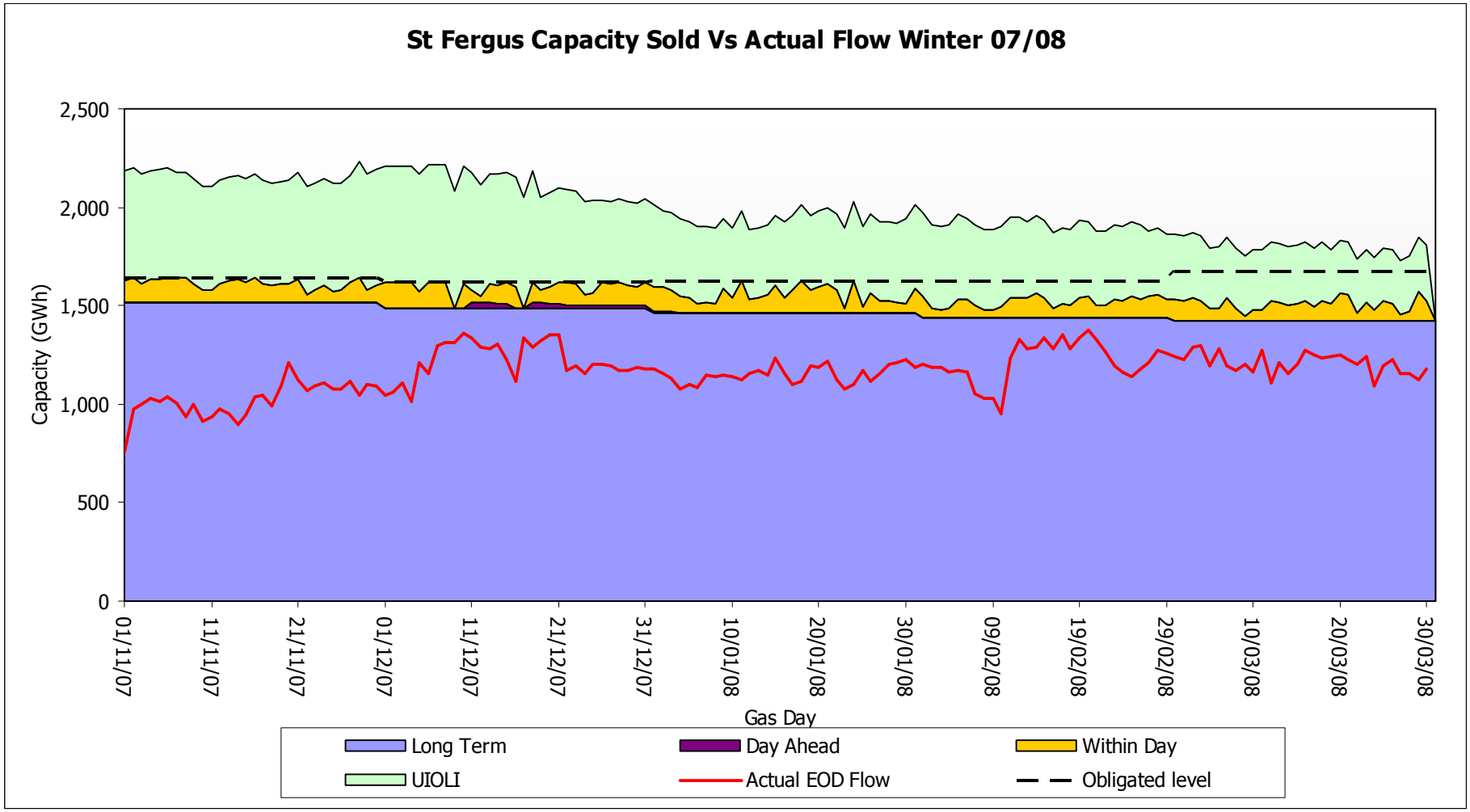

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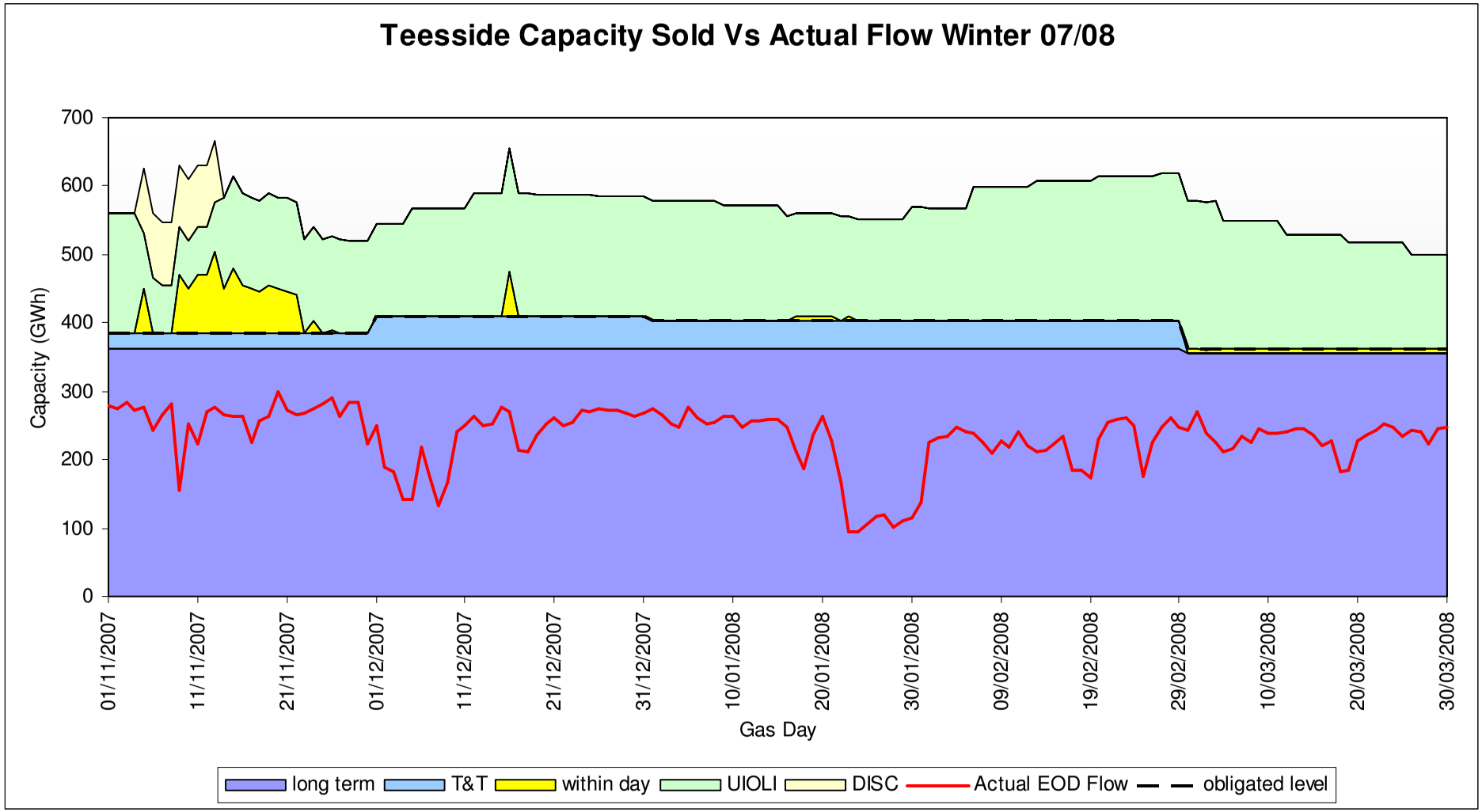

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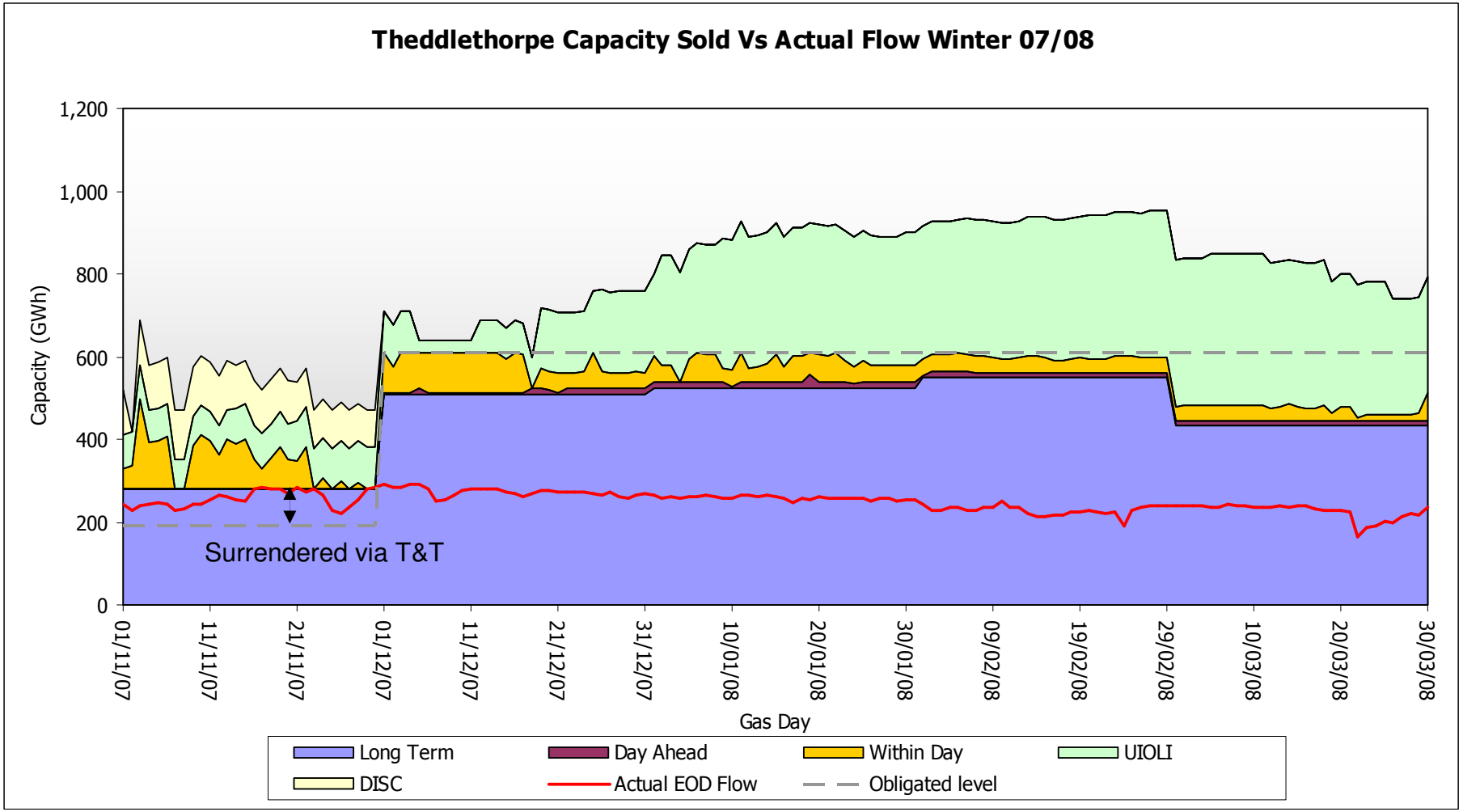

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Interruptible Capacity & Secondary Market

- UIOLI
  - Rationale behind the UIOLI product was as an anti-hoarding device;
    - Potentially still warranted today and is required to comply with EU Regulation – *but only where there is contractual congestion*.
    - Could it be sharpened from a charging perspective to stimulate the secondary market as the “lose it” does not bite?
    - Quantity: Is zero priced interruptible appropriate if firm still available at the ASEP or in the locality?

- Discretionary interruptible
  - Product introduced given the potential issues identified during implementation of T&T for winter 2007/8 .
    - Should this be released on a risk reward basis?

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Spare Capacity & QSEC Discounts

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What is Spare Capacity

- Spare System Capacity ~ Capability:
  - Un-used physical capability in an individual pipe or a sub-network i.e. series of connected pipes?
- Or
- Spare Entry Capacity
  - Commercial

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Spare System Capacity ~ Capability

- Transcost approach
  - Leads to unstable prices
  - Highly influenced by network configuration (discretion of the analyst) and therefore
    - Not transparent or replicable
    - open to industry criticism.
  - Prices no longer reflect costs incurred so not appropriate for Exit
    - Not an issue for Entry reserve prices under the Licence but what about the EU Regulations?)
- Transportation Model approach used previously for Electricity Transmission
  - Reduced line lengths (75%) were included in the Electricity TM to represent spare capacity in the south west – but removed as part of BETTA.
  - Reduction arbitrary and identification of lines to reduce is either arbitrary or involves complex network analysis hence
    - Not transparent or replicable
    - open to industry criticism.

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Spare Entry Capacity

- What is Spare Entry Capacity?
  - Un-utilised Entry Capacity at an ASEP?
    - We don't know this until after the day and hence is of no value in regard to forward charge setting
  - Baseline Entry Capacity less forecast entry flows?
    - This was the GCM06 proposal which was vetoed
    - Only way to take into account 'spare capacity' in investment timescales
    - Forecasting becomes contentious
    - Potentially undermines TBE
  - Unsold Obligated Entry Capacity?
    - This is what we sell in every auction at every ASEP

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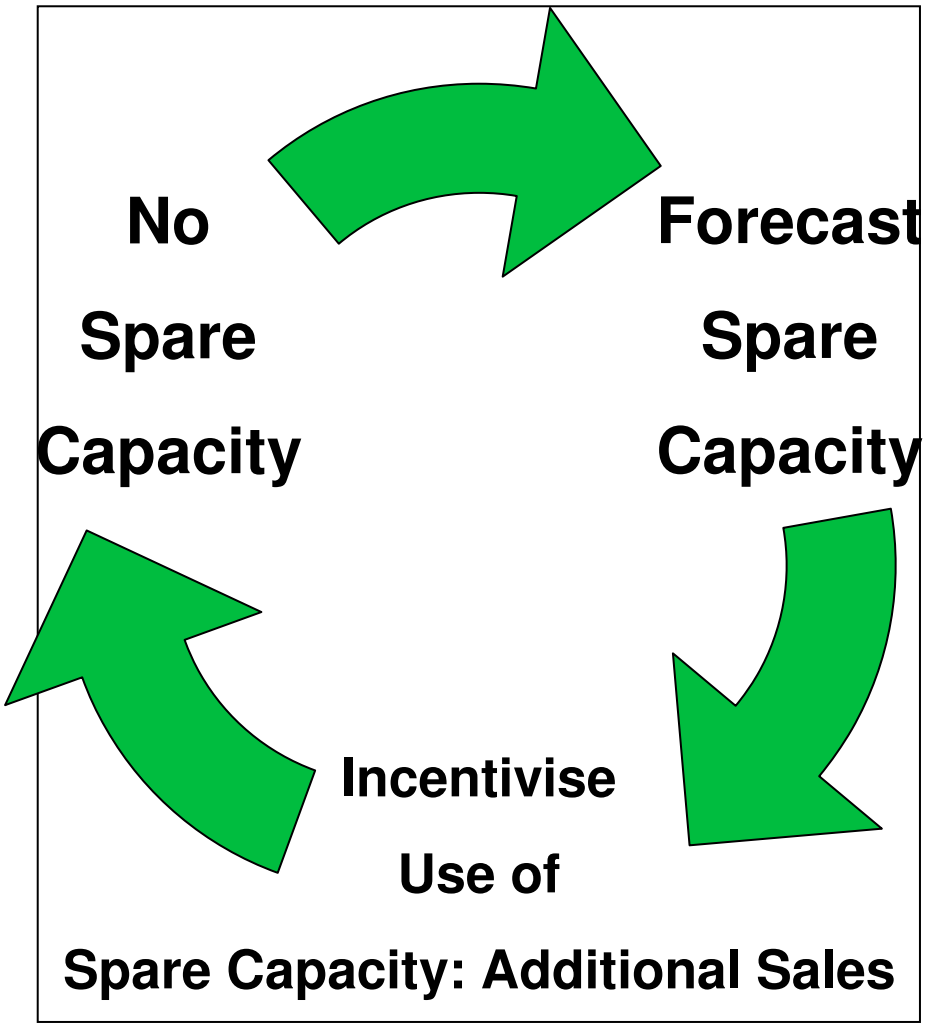
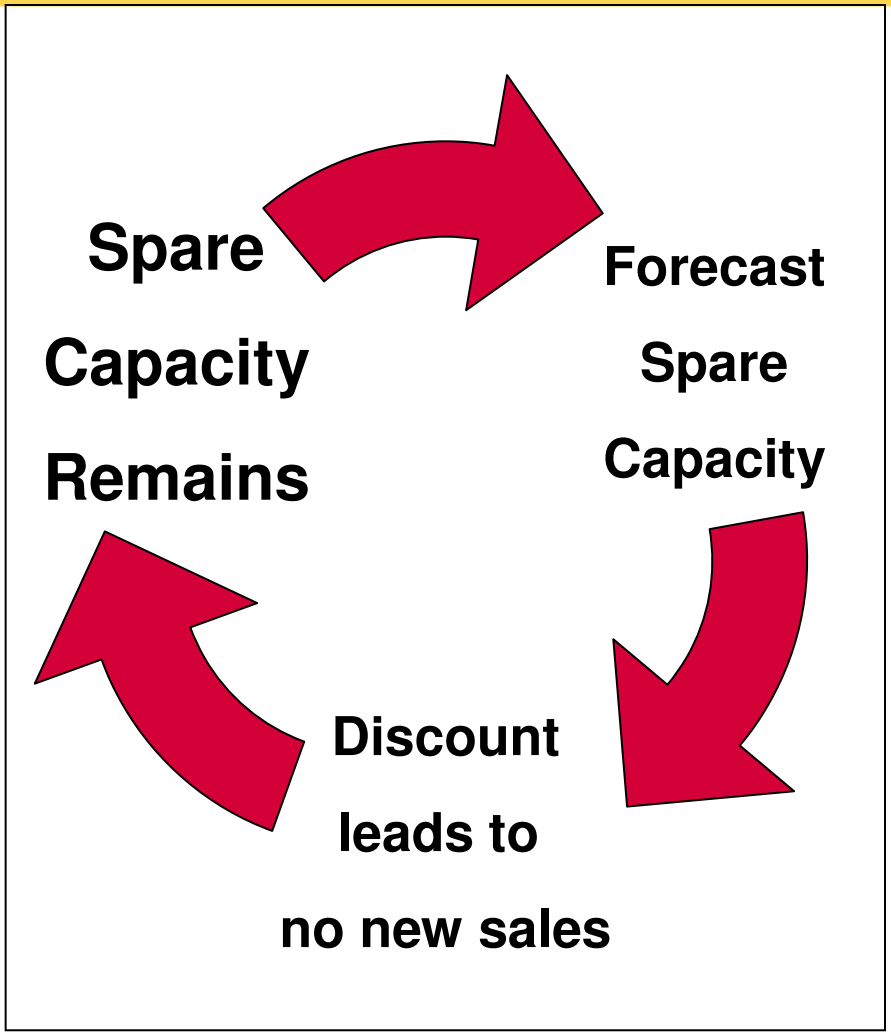
Forecast Loop





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Forecast Loop Outcome

- Success – Increased 'Spare' Capacity Sales
  - Discounts for additional capacity

  …but discounts for capacity that would otherwise have been sold

  … new sales would need to outweigh discount otherwise

  …cross subsidy from other Users

  - Capacity utilised is in excess of the forecast

  …the forecast is incorrect

- Failure – No increase in 'Spare' Capacity Sales
  - Discounts for capacity that would otherwise have been sold

  … cross subsidy from other Users

  - Capacity utilised similar to the forecast

  …the forecast is viewed as being correct

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Spare Capacity Conclusion

- We have not identified a useful forward looking definition of Spare Capacity for charge setting purposes other than that based on a forecast
  - Proposing using forecasts in the charging model led to accusations of manipulation and pollution of the TBE process and unstable pricing
  - GCM06 did not gain support from the industry for this reason
- Should we be focusing on incentivising the use of existing capacity within investment time scales?
  - i.e. obligated entry capacity ~ P0 QSEC prices
- We must be mindful that any capacity discounts will lead to TO Entry Commodity increases unless new sales outweigh the discounts

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QSEC P0 Options

- P0 prices are currently set using the Transportation Model with the relevant entry point at the obligated level
  - 10% Discount
    - We only offer 90% of the obligated level in the QSEC hence we could reduce to this level which would reduce prices
    - P1 to P20 prices would be unaffected
  - Other
    - Views?

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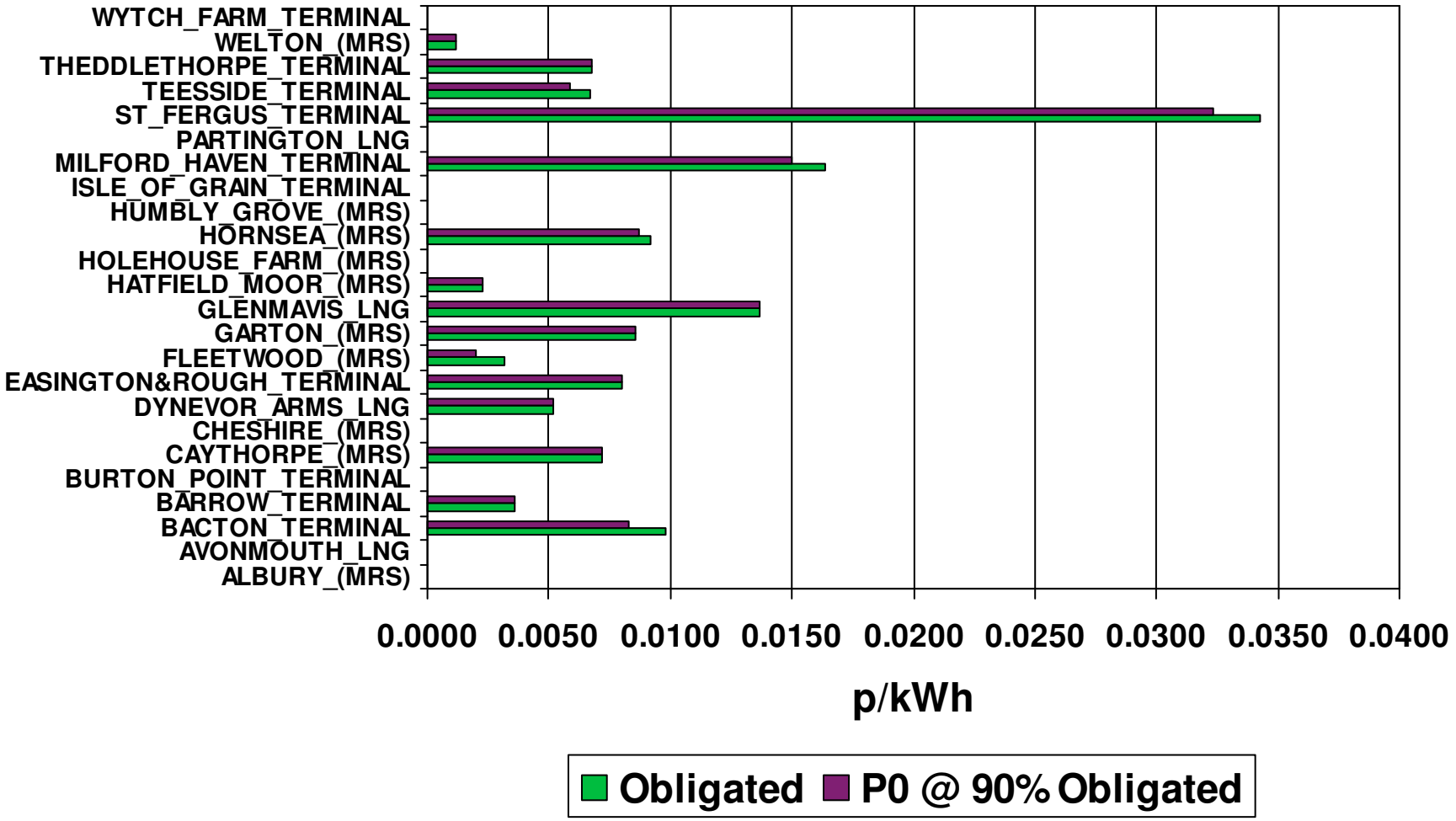
Impact on 2007 QSEC P0 Prices



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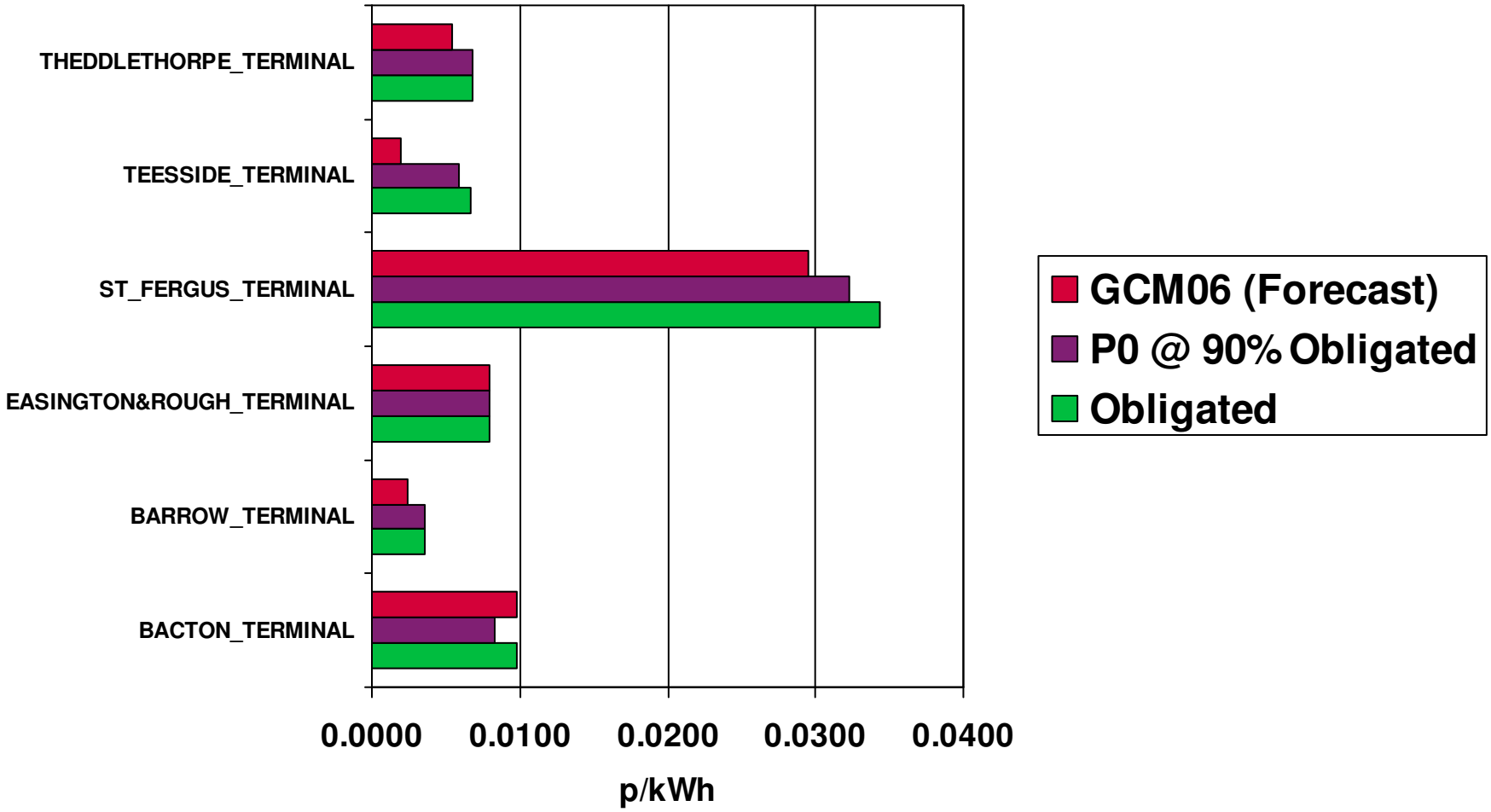
Impact on 2007 QSEC P0 Prices - Beach



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Consultation Options

- Discussion followed by Consultation
- Draft Consultation for comment followed by Consultation
- Straight to Consultation

Views?

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