National Grid Gas TO Entry Charging

Centrica for TCMF 2 July 2009

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TO Charges - Overview

- TO Charges are based on recovering Allowed Revenue during Formula Year (Apr – Mar)
- TO Allowed Revenue is allocated 50:50 Entry:Exit.
- If Entry capacity auctions are not expected to recover allowed revenue then TO Entry commodity charge is applied, which is at an identical rate for all ASEPs
- Users who have bought firm entry capacity currently pay same commodity charge as those who have bought interruptible
- If there is surplus capacity at an ASEP then risk of interruption is remote and normal risk profile does not apply
- Concern is that this is leading to charges which are not cost-reflective: 1) insufficient variation between ASEPs; 2) zero reserve price for interruptible capacity is inappropriate

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TO Charges – Indicative Values Apr 2009 – Mar 2010

- **TO Allowed Revenue £610.8m (total)**
- **TO Entry Revenue target £296.7m (50% of total having first deducted DN pensions & NTS metering charge revenue and then adjusted for entry over/under recover from previous year)**
- **TO commodity rate Apr 09 – Sep 09 is 0.0114 p/kWh**
- **Indicative TO commodity rate from Oct 09 is 0.0251 p/kWh**
- **Revenue shortfall has grown over last two years:**
  - Changing pattern of supply - lower UKCS flows
  - Additional capacity available at Easington
  - More use of DISEC / WDSEC

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TO Entry Capacity Charges

- Use Transportation Model set to 1-in-20 peak demand to determine Long Run Marginal Cost of capacity at each Aggregated System Entry Point. Minimum set to 0.0001 p/kWh/day.
- The LRMC is the price used for P0 step in QSEC auctions
- The P0 price is also used as the reserve entry capacity price in AMSEC and RMTTSEC monthly auctions where capacity is sold in monthly blocks.
- A 1/3 discount is applied in daily capacity auctions, sold ahead of the day.

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TO Entry Commodity Charge

- Entry capacity auctions may not recover the exact allowed entry revenue.
- If a shortfall is expected then a TO Entry Commodity charge is used to recover the shortfall.
- If there is an over-recovery then this is put into a 'buyback fund'
- If there is an over-recovery at year end then if possible this is refunded first through reducing the revenue collected through the TO Entry Commodity charge and then by offsetting the revenue collected through the SO Entry Commodity charge if required
- If there is still an over-recovery then this passes through to adjust TO charges for the following year
- TO commodity charge does not give any incentive to users who give appropriate long-term signals
- Price discovery conflicts with target revenue recovery when there is an excess available compared with demand for capacity

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TO Entry Charges

- **Licence refers to reserve prices being set to promote efficiency and to promote competition. The current position does not appear to be efficient in that**
  - all the capacity on offer is not being sold (even with zero reserve prices)
  - users are not paying cost-reflective charges
  - interruptible capacity is available at zero price with zero probability of being interrupted
- **Ideas to make charges more cost-reflective in the event of flat TO commodity charge > [0.0100 p/kWh] (this is based on 40% of flow being at St. Fergus and 2/3 LRMC at St. Fergus being 0.0250 p/kWh but could vary according to expected % flow at St. Fergus)**
- **1) Move to variable TO commodity charge equal to [2/3] LRMC for ASEP (i.e. DADSEC reserve price), applicable to flows which are not supported by QSEC or AMSEC capacity holdings, in addition to a flat set commodity charge, to achieve allowed revenue. This can be done based on expected flows. NG would need to take account of expected flows against QSEC or AMSEC holdings when setting flat TO commodity charges. May need a UNC mod to introduce multiple TO charges**
- **2) Profile target revenue recovery to vary reserve prices & commodity charge monthly/quarterly**
- **3) Retain zero reserve price auctions but limit amount of of INTERRUPTIBLE capacity available when there is STILL FIRM CAPACITY AVAILABLE AND little competition for entry capacity at an ASEP, interruptible capacity should carry a risk of interruption**
- **All of the are designed to encourage users to give appropriate signals and promote effective competition between shippers**

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TO Entry Charges

- Illustrative examples of effects of the ideas
- 1) If shortfall if £183m: current methodology TO commodity charge is 0.0174 p/kWh then applying a new charge equal to 2/3 LRMC for ASEP (i.e DADSEC reserve price), applicable to flows which are not supported by QSEC or AMSEC capacity holdings, might reduce the flat set commodity charge to about 0.0140 p/kWh.
- 2) Profile target revenue recovery to vary reserve prices & commodity charge monthly/quarterly: could be as simple as reducing QSEC, AMSEC and RMTTSEC reserve prices by 50% for April to September and/or increasing reserve prices above LRMC for October to March.
- 3) Base amount of capacity available in zero reserve price auctions on amount already sold, set at a level which increases as more capacity has been sold. This is a UNC issue rather than TCMF

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