



Incremental NTS Entry Capacity Treatment

Gas TCMF 4th June 2009

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Introduction

This presentation has been prepared for the 4th June 2009 Gas TCMF (as an update to the 4th December 2008 presentation) and covers NTS Incremental Allowed Revenue triggered as a consequence of releasing Incremental NTS Entry Capacity.

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NTS Entry Capacity Investment Incentive (old scheme)

April 2002-
March 2007

National Grid incremental allowed revenue

- ◆ Revenue driver in Licence for each ASEP (UCA*)
- ◆ Linked to additional entry capacity above prevailing obligated level that was released via a QSEC auction prior to April 2007

How does the incentive work?

- ◆ SO Allowed revenue based on 5 years' auction revenue from first month of release
 - Revenue from all auctions up to day-ahead (DADSEC)
 - allowed revenue = actual revenue subject to an annual cap and collar
 - Annual cap and collar based on the UCA and max 12.25% min 5.25% rates of return
- ◆ Correction applied at the next TO price control to avoid double counting across TO & SO controls
 - Investment not automatically included in TO RAV at the next price control
 - Depreciation and return for remaining regulatory asset life as part of the next TO price control subject to efficiency test on investments
 - Actual investment minus deemed Investment (UCA) added
- ◆ After the 5 year incentive period, SO allowed revenue fixed
 - Up to following price control (varying number of years)
 - (6.25% ROR) until next price control

NTS Entry Capacity Investment Incentive (old scheme)

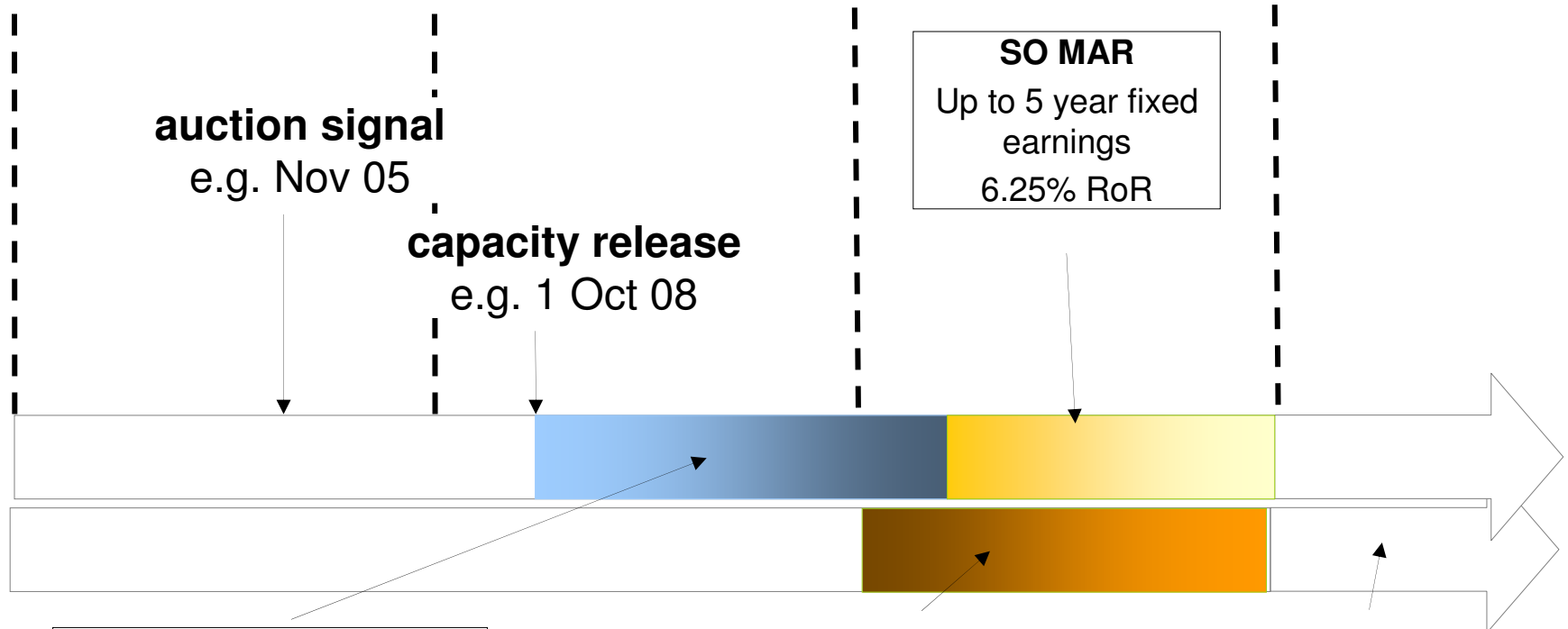
April 2002-
March 2007

1 April 2002

1 April 2007

1 April 2012

1 April 2017



SO MAR
5 Years of revenues
(annual cap/collar based
on UCA and
12.25%/5.25% RoR)

TO MAR
Correction
Actual depreciated investment
(included subject to PCR) minus
depreciated deemed Investment
(UCA)

TO MAR
Investment included
in RAV subject to
PCR

NTS Entry Capacity Investment Incentive (new scheme)

post April
2007

National Grid incremental allowed revenue

- ◆ Additional obligated entry capacity above prevailing obligated level that is not met by substitution
- ◆ Revenue driver function in Licence for each known ASEP

How does the incentive work?

- ◆ 5 years incentive revenue from first month of release
- ◆ After the 5 year incentive period reclassified as non-incremental obligated entry capacity
 - Depreciation and return for next 40 years as part of TO price control subject to efficiency test on investments

NTS Entry Capacity Investment Incentive (new scheme) - Example

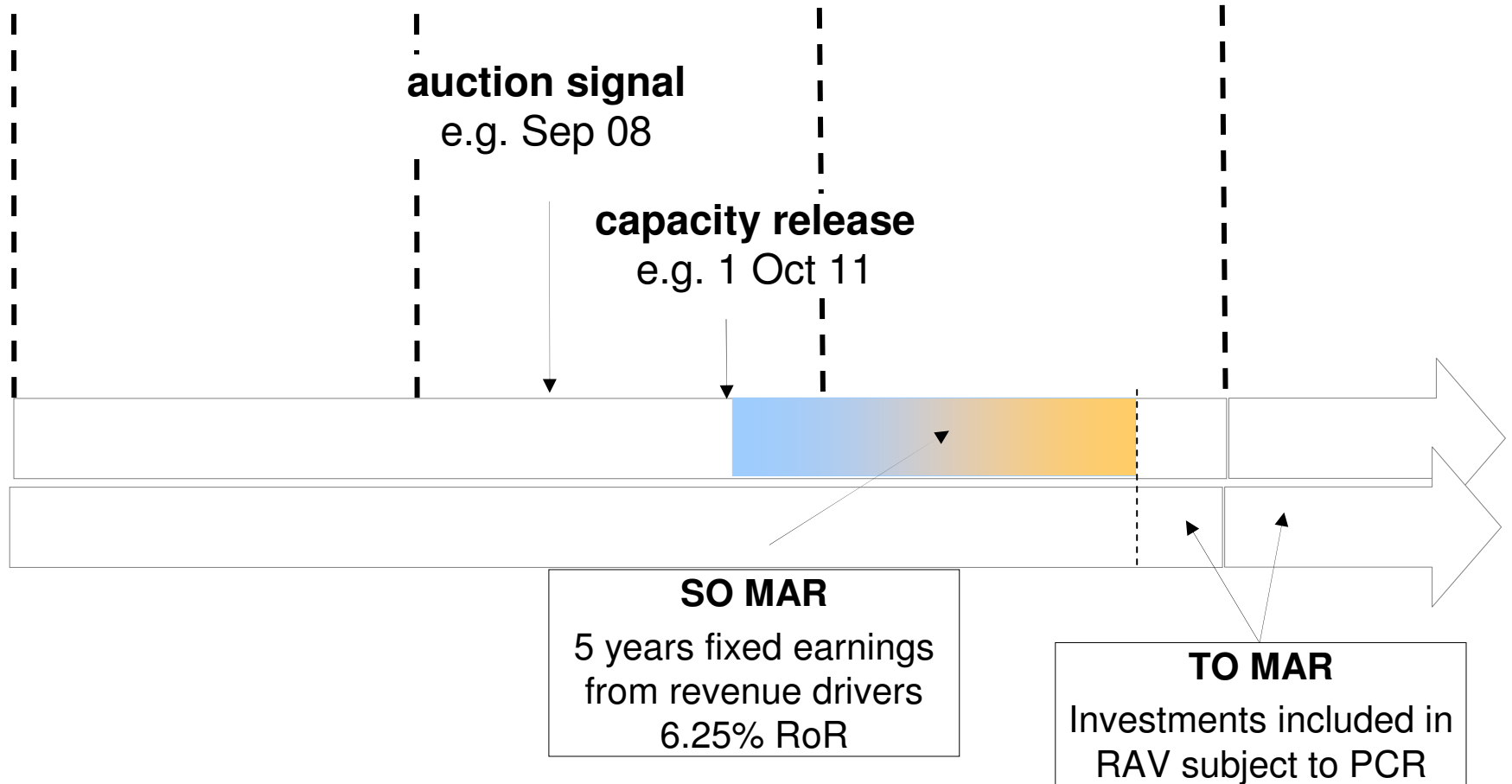


1 April 2002

1 April 2007

1 April 2012

1 April 2017



SO MAR

5 years fixed earnings
from revenue drivers
6.25% RoR

TO MAR

Investments included in
RAV subject to PCR

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Impact on SO Charges

Incremental Capacity Revenue is defined as SO actual revenue under both the old and new schemes

Old Scheme

UCAs based on Transcost analysis and hence prices linked to UCAs.

As incremental allowed revenue is defined as incremental actual revenue (subject to the caps/collars), there is no impact on the SO commodity charge (provided that capacity charges are recovered) unless the caps/collars apply.

New Scheme

Revenue drivers based on network analysis and de-linked from prices.

Incremental allowed revenue is defined by the revenue drivers.

Incremental actual revenue may not equal allowed revenue and hence the residual will increase or reduce the target revenue for the SO Commodity charge

Incentive Scheme Allowed Revenue Treatment Examples by Formula Year

'Old' Scheme (2002/3 - 2006/7)

Formla Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
SO Treatment		Incentive Period 1 (5 Years) Auction Revenue					Period 2 fixed earnings				
TO Treatment				Depreciated (Actual - Deemed) Investment				Investment			

'New' Scheme (2007/8 -)

Formla Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
SO Treatment					Incentive Period 1 (5 Years) fixed earnings						
TO Treatment										Investment	

NTS Entry Capacity Revenue Drivers

Main terminals (new scheme)



£m/GWh/month	0-25GWh	25-100GWh	100-500GWh	>500GWh
Easington	0.0013	0.0019	0.0059	0.0044
Bacton	0.0026	0.0057	0.0063	0.0072
Isle of Grain	0.0029	0.0026	0.0047	0.0105
Milford Haven	0.0088	0.0137	0.0116	0.0184
St. Fergus	0.0002	0.0054	0.0163	0.0126
Teesside	0.0013	0.0013	0.0020	0.0072
Barrow	0.0037	0.0014	0.0021	0.0081
Theddlethorpe	0.0016	0	0.0021	0.0068

Revenue drivers applied in a similar way to tax bands

Uplifted with pre-determined factor to cover cost changes that were anticipated at TPCR4

St Fergus Revenue Driver – Example (new scheme)



The following example is for 250 GWh/day of incremental entry capacity.

Revenue driver band (GWh)	Capacity in band (GWh)	Allowance (£m/GWh/month)	Allowed revenue* (£m/month)
0-25	25	0.0002	0.005
25-100	75	0.0054	0.405
100-500	150	0.0163	2.445
>500	0	0.0126	0
Total	250		2.855

Revenue driver prior to adjustments = £2.855m/month

Apply “additional cost inflation index” of 1.085 for 2011/12

Apply RPI from 2004/5 (PIT_t) onwards

*2004/5 prices, excludes RPI and indexation adjustments