



Update on Open NTS Charging Consultations

Gas TCMF

7th May 2009

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Content

Three NTS Gas Charging Methodology proposals currently open

- ◆ GCM15 – “User Commitment & Entry Capacity Cancellation Fees”
- ◆ GCM16 – “Supply and Demand Balancing Rules and Supply Source Data”
- ◆ GCM 17 – “QSEC New ASEP NTS Entry Capacity P0 Pricing”



GCM15 – “User Commitment & Entry Capacity Cancellation Fees”

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GCM15 – Entry Capacity Cancellation Fee Revenue

The capacity cancellation fee, as proposed through UNC0146, would need to be determined in accordance with the NTS Charging Methodology, in compliance with the following NTS Licence conditions, in order for it to offset other NTS charges;

- ◆ Standard Special Condition C8B 2(a); Definition of TORCOMt ~ TO revenue other than that collected through capacity charges
- ◆ Standard Special Condition C8C 2(a); Definition of RCOMt ~ SO revenue other than that collected through capacity and other Licence defined charges

Cancellation fees in regard to entry capacity that would have resulted in TO revenue would be treated as TO entry revenue

- ◆ This would result in reduced TO Entry Commodity Charges

Cancellation fees in regard to incremental entry capacity that would have resulted in SO revenue would be treated as SO revenue

- ◆ This would result in reduced SO Commodity Charges (Entry & Exit)



GCM 16 – “Supply and Demand Balancing Rules and Supply Source Data”

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GCM16 Overview

Changes to the supply and demand data in the Transportation Model have the potential to change the direction of the flow of gas and this is likely to noticeably impact capacity prices.

Changing the supply and demand balancing rules and the source of the supply data used could reduce the impact of supply changes on exit price variation.

Discussions at recent Gas TCMF meetings highlighted two potential factors contributing to price variation;

1. the methodology applied to achieve a supply and demand match in the Transportation Model
2. the source of the supply data used

Consultation paper NTS GCM 16 was released on the 17th April 2009 and closes on the 15th May 2009. It seeks views on two proposals.

GCM16: Proposal One – Supply and Demand Balancing Options

National Grid proposes that supplies would be split into six groups as follows:

- 1) Beach supplies**
- 2) Interconnectors**
- 3) Long-range storage**
- 4) LNG Importation**
- 5) Mid-range storage**
- 6) Short-range storage**

Each supply group would be fully utilised in turn and the supplies in the last required group would be scaled by an equal percentage to achieve a supply and demand match.

For those familiar with previous Gas TCMF discussions, this is Option Nine, as suggested by British Gas Trading.

GCM16: Proposal Two – Source of Supply Data

National Grid proposes that the Ten Year Statement would be used as the source of supply data for the following entry components:

- ◆ Bacton excluding BBL and IUK
- ◆ Barrow
- ◆ Burton Point (also known as “Point of Ayr”)
- ◆ Easington including Langedale, excluding Rough
- ◆ St Fergus
- ◆ Teesside including Excelerate
- ◆ Theddlethorpe
- ◆ Wytch Farm (Onshore field)

Physical capability would be used for all other supply components.

ASEPs would be capped at the obligated entry capacity level.

- ◆ *May not be appropriate for year 4 (for indicative exit capacity price generation) when entry capacity may be procured at the next QSEC*

Section 4.6 of the Ten Year Statement would be used to identify eligible entry points and the year that they are due to become operational. New entry points would only be included as available supply in future years if they were under construction.



GCM 17 – “QSEC New ASEP NTS Entry Capacity P0 Pricing”

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GCM17 – QSEC “P0” Price for New Entry Points

While the obligated entry capacity level is zero at new entry points, capacity can be released at the P0 price which is zero for new sites only.

This can occur when the economic test has been passed through capacity released through bids at earlier quarters.

- ◆ The NPV of the bids required to pass the economic test is 50% of the project value
 - This suggests that later capacity sales will cover the other 50%
 - This may not be the case if significant capacity has already been released at zero price i.e. allocated at P0 in the first auction for a new ASEP

It is proposed that this zero price is removed such that there is a consistent pricing approach for the price of NTS Obligated Entry capacity at all auctions i.e.

- ◆ The QSEC obligated entry capacity reserve price (“P0”) is calculated from the LRMC with the relevant entry point flowing at the obligated capacity level
- ◆ For new entry points this will be the unit cost of increasing from zero and will make the price similar to other local entry points

Charging Methodology Timelines

Milestone	GCM16 & 17	GCM15
Raise Proposal	<i>17 April 2009</i>	<i>16 April 2009</i>
Gas TCMF	<i>07 May 2009</i>	
Consultation Close-out	<i>15 May 2009</i>	<i>14 May 2009</i>
Consultation Report & Final Proposals	<i>29 May 2009</i>	<i>28 May 2009</i>
Gas TCMF	<i>04 June 2009</i>	
Veto period expires	<i>26 June 2009</i>	<i>25 June 2009</i>
Notice of Prices (QSEC)	<i>01 July 2009</i>	<i>N/A</i>