



# GCM05 Re-consultation & Exit Reform (UNC 0195AV)

---

**Gas TCMF**

**8<sup>th</sup> January 2009**

**nationalgrid**

The power of action.™

# Issues

## **Ofgem have expressed concerns regarding the NTS Charging Proposals consulted on through GCM05**

- ◆ GCM05 proposed that exit (flat) capacity charges would be adjusted to collect all target TO exit revenue
- ◆ The concern is that supply points relying on the 0195AV 'off-peak' interruptible product may not pay an appropriate proportion of TO costs given that 'revenue foregone' licence arrangements would expire

## **National Grid has also identified some issues regarding the timing of the allocations impacting the information available at the time of charge setting**

- ◆ Annual exit capacity allocated in the year prior to the gas year would not be known
- ◆ Daily capacity would also be unknown although revenue levels are anticipated to be low

## 'Charges Foregone'

### **Interruptible supply points do not currently attract NTS Exit Capacity charges**

- ◆ Definition:
  - 'Charges Foregone' are those NTS Exit Capacity charges that Interruptible supply points would pay if they were Firm

### **Charges Foregone are (up to exit reform) included as**

- ◆ SO allowed revenue
- ◆ TO actual (collected) revenue
- ◆ *i.e. an increase in SO allowed revenue is cancelled out by a net reduction in TO allowed exit revenue*

# Removal of 'Charges Foregone'

## Post Exit Reform – 'No Charges Foregone'

- ◆ SO Commodity Charges would reduce
  - Reduction of 0.0028 p/kWh at 1<sup>st</sup> October 2008 Prices
- ◆ TO Target Exit Revenue would increase

### In theory this means that

- ◆ NTS Exit (Flat) Capacity charges could remain unchanged, if all 'interruptible' demand converted to firm,
- ◆ while SO Commodity charges would decrease

**however, Flat Exit capacity charges would increase, under the original GCM05 proposal, if existing 'interruptible' supply points relied on Off-Peak Daily NTS Exit (Flat) Capacity**

**Supply points booking Off-Peak capacity would not contribute towards TO costs as they do under the prevailing arrangements through the SO commodity charge and revenue foregone arrangements**

## Solution: Charging Methodology 'Charges Foregone'

**Assuming UNC 0195AV is directed for implementation, Firm capacity charges could be set to recover TO exit allowed revenue from Baseline exit capacity**

- ◆ Prices would be adjusted for allowed revenue
- ◆ i.e. charges would be set such that target TO exit revenue would only be recovered if baseline exit capacity sold out
- ◆ Any shortfall relating to unsold baseline capacity would be recovered through a TO Exit (Flat) Commodity charge

**This would overcome the capacity charge setting issues**

- ◆ the level of capacity on which prices would be set would be known in advance
- ◆ could make exit capacity prices more stable

**This approximates to retaining charges foregone via the charging methodology as suggested at the 4<sup>th</sup> December 2008 Gas TCMF**

- ◆ Difference: Unsold baseline costs would be recovered from exit users rather than both entry & exit as now.

# Alternatives

## LRMC based Firm Capacity Prices

- ◆ Prices would NOT be adjusted for allowed revenue
- ◆ Any shortfall would be recovered through a TO exit commodity charge
- ◆ Analogous with Entry
- ◆ Would lead to an approximate 50/50 TO capacity: commodity split

**Would overcome the capacity charge setting issues as the level of capacity on which prices would be set would be known in advance**

**This was the original proposal contained within GCD01**

- ◆ Responses strongly supported adjusting exit capacity charges to collect the majority of TO exit revenue

## Non-zero 'Interruptible' Capacity Price

- ◆ A defined discount could be applied

**Would NOT overcome the capacity charge setting issues**

- ◆ the level of capacity on which prices would be set would not be known in advance

**While potentially linked to the expected level of interruption, this might not be reflective of the TO costs incurred**

# Assessment of Options

	Would the level of capacity, for capacity price setting, be known in advance?	Majority of Costs recovered through Capacity Charges?	Cost Reflective?
Firm capacity charges could be set to recover all TO exit allowed revenue (Original GCM05)	No	Yes	Yes
Non-zero Off-Peak Capacity Price (+GCM05)	No	Yes	?
LRMC based Firm Capacity Prices	Not applicable	No	Yes
Firm capacity charges could be set to recover TO exit allowed revenue from Baseline exit capacity (Revised GCM05)	Yes	Yes	Yes

# Revised GCM05 Proposal

## Demand Data

- ◆ flow data will be Baseline and incremental exit capacity levels other than bi-directional system points which will be assumed to be in supply mode and hence will have a zero exit flow.
- ◆ Capacity data will be the baseline quantities.
  - Sites representing incremental capacity release will have the capacity level (but not the flow level) capped at the baseline level as this is the level of capacity that represents TO revenue; capacity in excess of this level represents SO revenue.

## The NTS (Flat) Commodity charge rate would be determined from a combination of SO & TO charges

- ◆ The SO NTS Exit (Flat) Commodity charge maps onto and replaces the existing SO NTS Exit Commodity charge.
- ◆ A new TO Exit (Flat) Commodity charge is introduced in addition to the SO Exit (Flat) Commodity charge
  - The level of the TO Exit (Flat) Commodity charge would be set to seek to adjust the level of TO collected exit revenue if there is forecast to be under recovery.
  - The NTS TO Exit (Flat) Commodity charge will have an identical structure to, and be applied in the same way as, the NTS SO Exit (Flat) Commodity charge



## Indicative TO Exit (flat) Commodity Charges

Firm Capacity Prices adjusted based on Baseline

Allocated Annual exit Capacity Scenarios (As included in GCM05)	Annual Capacity Sold	Unsold Baseline	TO Revenue Shortfall		TO Exit Commodity Charge
	(GWh/day)	(GWh/day)	(£m)	(%)	(p/kWh)
Firm (As-is)	6,130	2,496	£74.12	25.3%	0.0067
Firm + DN Interruptibles	6,393	2,234	£63.81	21.8%	0.0058
Firm + DC Interruptibles	7,306	1,320	£32.07	10.9%	0.0029
Firm + DC & DN Interruptibles	7,569	1,058	£21.76	7.4%	0.0020
Baseline Exit Capacity	8,627	0	£0.0	0%	0.0000

## GCM05 Re-consultation Timeline\*

Milestone	Date
<b>Raise Revised GCM05 Proposal</b>	<b>16<sup>th</sup> January 2009</b>
<b>Consultation Close-out</b>	<b>13<sup>th</sup> February 2009</b>
<b>Consultation Conclusions inc. Final Proposals</b>	<b>27<sup>th</sup> February 2009</b>
<b>Ofgem veto period expires</b> (Assumes No Regulatory Impact Assessment)	<b>27<sup>th</sup> March 2009</b>
<b>Notice of Indicative Prices</b>	<b>1<sup>th</sup> April 2009</b>
<b>Application/Auction</b>	<b>Summer 2009</b>

***\* An approved charging methodology is required to generate indicative prices in time for a Summer 2009 Application window***