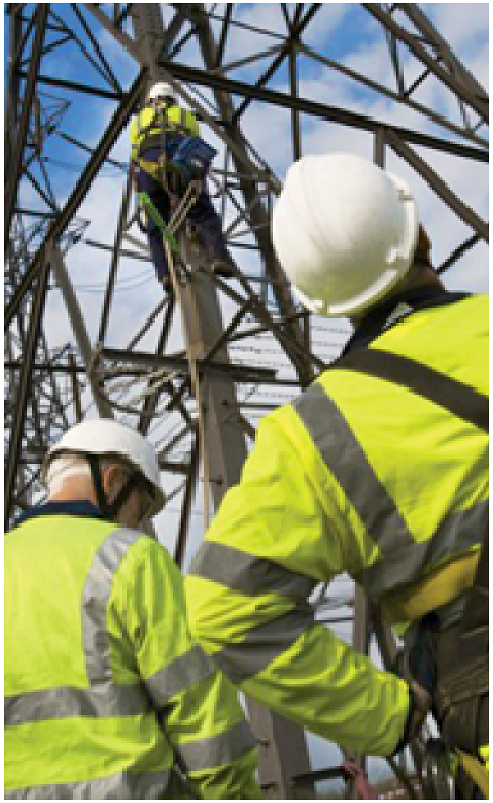
Comparison of Entry and Exit Capacity Charging Arrangements

ECRG 11th November 2009



nationalgrid

The power of action.

Introduction

- Request from 2nd ECRG Meeting 6th October 2009:
  - Review which of the exit charging principles might usefully be applied to entry

- This presentation provides a comparison between the entry and exit charging arrangements, both prevailing and enduring (post exit reform) arrangements

Capacity Products

Product	Entry	Exit (Transitional)	Exit (Enduring)
Annual – Firm	✗	✓	✓
Annual Interruptible	✗	✓	✗
Quarterly Firm	✓	✗	✗
Monthly Firm	✓	✗	✗
Daily Firm	✓	✗	✓
Daily Interruptible	✓	✗	✓

Comparison (Prevailing Exit Arrangements)

- **Entry**
  - Pay as bid auction
  - Quarterly, Monthly and Daily Products
  - Multiple auctions up to Y+17
  - Prices based on 1/365th of annuitised LRMCs
  - TO Entry Commodity charge applied to recover the deficit between allowed revenue and capacity revenue

- **Exit**
  - Administered charges set for single gas year ahead of the gas year
  - Annual product
  - Application for single year in advance (subject to SPA rules)
  - Prices based on annuitised LRMCs with an additive adjustment
  - Additive adjustment applied to all NTS Exit Point prices such that forecast revenue equals forecast allowed revenue

Comparison (Enduring Exit Arrangements)

- **Entry**
  - Pay as bid auction
  - Quarterly, Monthly and Daily Products
  - Multiple auctions up to Y+17
  - Prices based on 1/365th of annuitised LRMCs
  - TO Entry Commodity charge applied to recover the deficit between allowed revenue and capacity revenue

- **Exit**
  - Administered charges set for single gas year ahead of the gas year
  - Annual **& daily products**
  - Application for single year **or enduring (multiple years)**
  - Prices based on annuitised LRMCs with an additive adjustment **- daily 1/365th**
  - Additive adjustment applied to all NTS Exit Point prices such that forecast revenue **(from baseline level of capacity)** equals forecast allowed revenue
  - **TO Exit Commodity charge applied to recover the deficit between allowed revenue and capacity revenue**

nationalgrid
The power of action.

Entry Issues

- The high NTS TO Entry Commodity Charges, which triggered the Entry Charging Review, are caused by three main drivers;

1. Historic QSEC auctions (Prior to 2007 based on UCAs)
2. Availability of ‘Free’ Capacity
3. Ability to profile capacity procurement to match flows (availability of quarterly, monthly and daily commercial capacity products while ‘physical’ entry capacity is 365 days per year)

Relevance of Entry Issues to Exit

Entry Issue	Prevailing Exit	Enduring
Historic auction prices	Not applicable	Not applicable
Availability of 'Free' Capacity (Firm)	Not applicable	Not applicable
Availability of 'Free' Capacity (Interruptible)	Interruptible Status	Daily Off-peak product
Ability to profile capacity procurement to match flows	Not applicable	Daily Firm and Off-peak products

Summary

- Key enduring exit regime features that might lead to majority of TO costs being met through capacity charges;
  - *Annual product only until on-the-day*
  - *No ‘free’ firm capacity*
  - *Administered prices, reset annually and adjusted for allowed revenue*