Updated Analysis: Removing Capacity Discounts

Entry Charging Review Group, 16th December 2009

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Introduction

- An action from the second Entry Charging Review Group meeting was "to provide analysis to support the selection of reserve price options, concentrating on historic data".
- A presentation was given covering a view of the potential entry capacity revenue going forward if entry capacity discounts were removed.
- The following is an update of the analysis based on the outcome of the 2009 QSEC auction.

Future Impact of Removing Entry Discounts

- The following analysis covers a forecast of entry capacity revenue going forward taking into account the potential removal of daily capacity discounts.
- The assumptions required in order to forecast entry capacity revenue are
  - Forecast peak supply levels
    - The Ten Year Statement (TYS) provides forecast peak and annual supply data but…
  - Forecast supply profiles
    - Experience indicates that capacity for peak supplies will not be procured 365 days per year
  - Capacity sold
    - The analysis has been updated to include the outcome of the 2009 QSEC auctions
  - Capacity requirement
    - Assume capacity equals supply forecast

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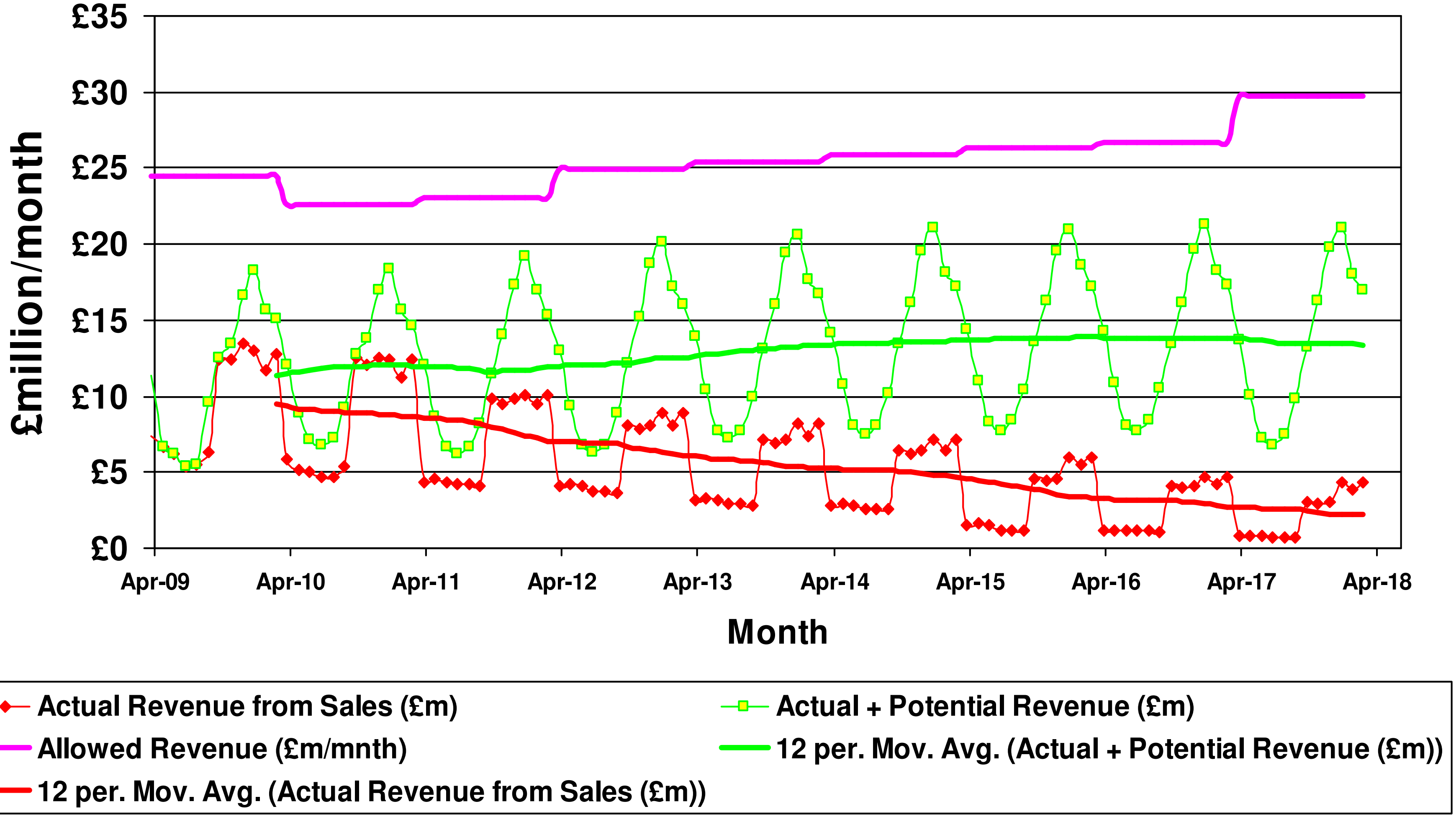
Model & Assumptions

- To take the profiling into account, a profiled capacity forecast, with the maximum equal to the forecast maximum supply and average equal to the forecast annual supply, has been fitted for each non-storage ASEP
  - Maximum supply in January equals peak supply (minimum supply in July)
  - Maximum supply equals peak supply unless load factor <50%
    - If load-factor<50%, January supplies are scaled down to avoid a negative supply in July
- Capacity is assumed to be procured to exactly meet the profiles
- 2009 QSEC prices have been used as the latest forecast of future prices

Forecast & Allowed Monthly TO Revenue (Pre 2009 QSEC)



The 12 month moving averages have been included so that they can be compared with the allowed revenue which is fixed for the 12 months of the formula year (April to March).

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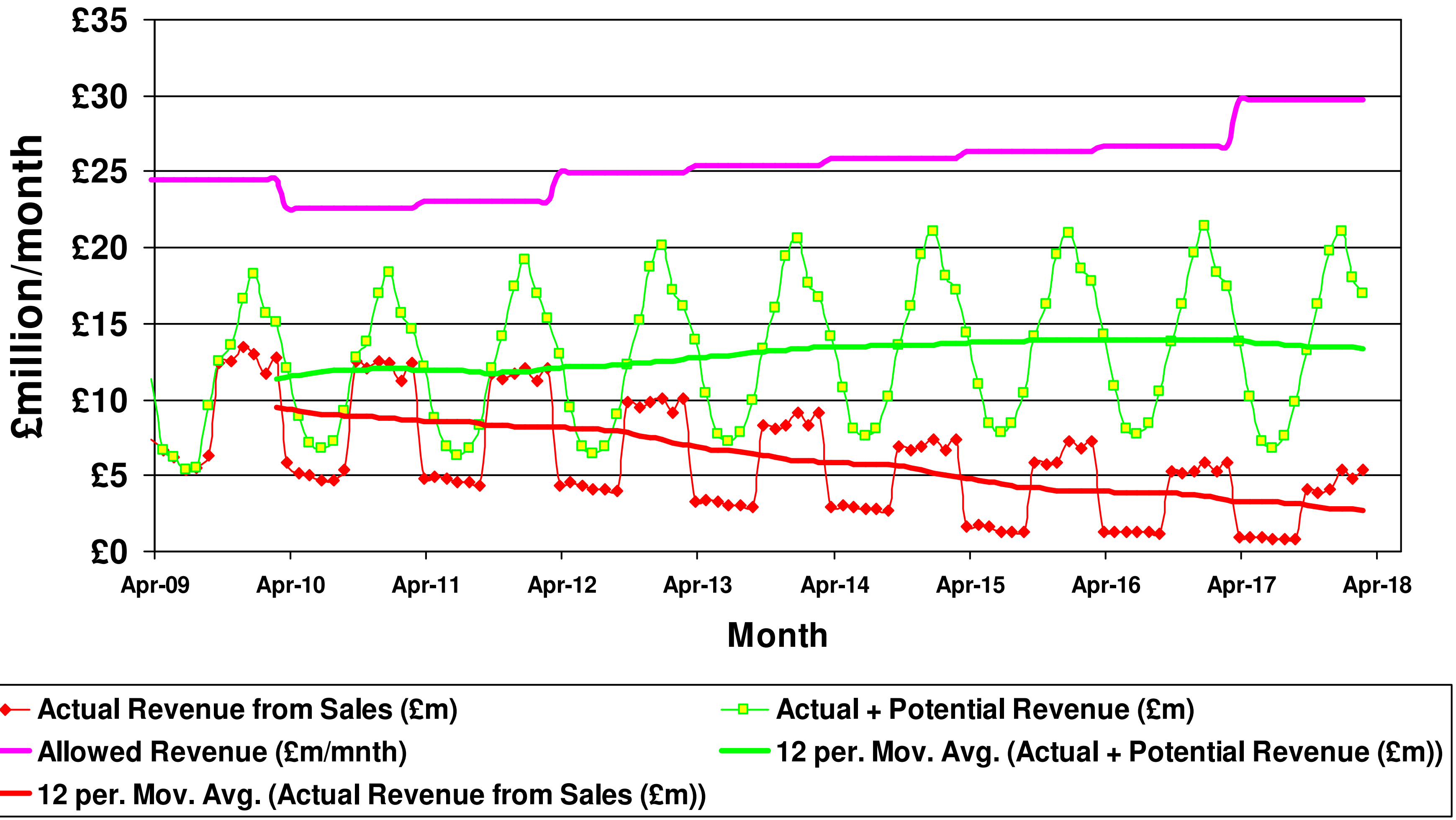
Forecast & Allowed Monthly TO Revenue (Post 2009 QSEC)



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Summary

- The forward looking analysis suggests that,
  - *assuming the removal of firm entry capacity discounts (& reduced interruptible quantity such that all flows are covered by firm capacity),*
- entry capacity revenue will increase as more capacity is procured based on prices generated from the prevailing charging methodology
- Removal of discounts will not necessarily remove the shortfall between TO target entry revenue and TO entry capacity revenue (depending on shipper booking behaviour)