Notices of changes to NTS charges for 2010/11

June 2010

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Recent notices of changes to capacity prices

- Updated Indicative **NTS Exit Capacity** prices effective from 1st October 2010 to 30th September 2011
  - supersedes the early indicative notice given in March

- **NTS Entry Capacity -** Reserve prices for capacity from 1st October 2010 to 30th September 2011 in advance of the RMTNTSEC auction for capacity in October 2010 onwards

Model for 10/11 updated with new data

NTS Entry Prices

Updated from 09/10 prices

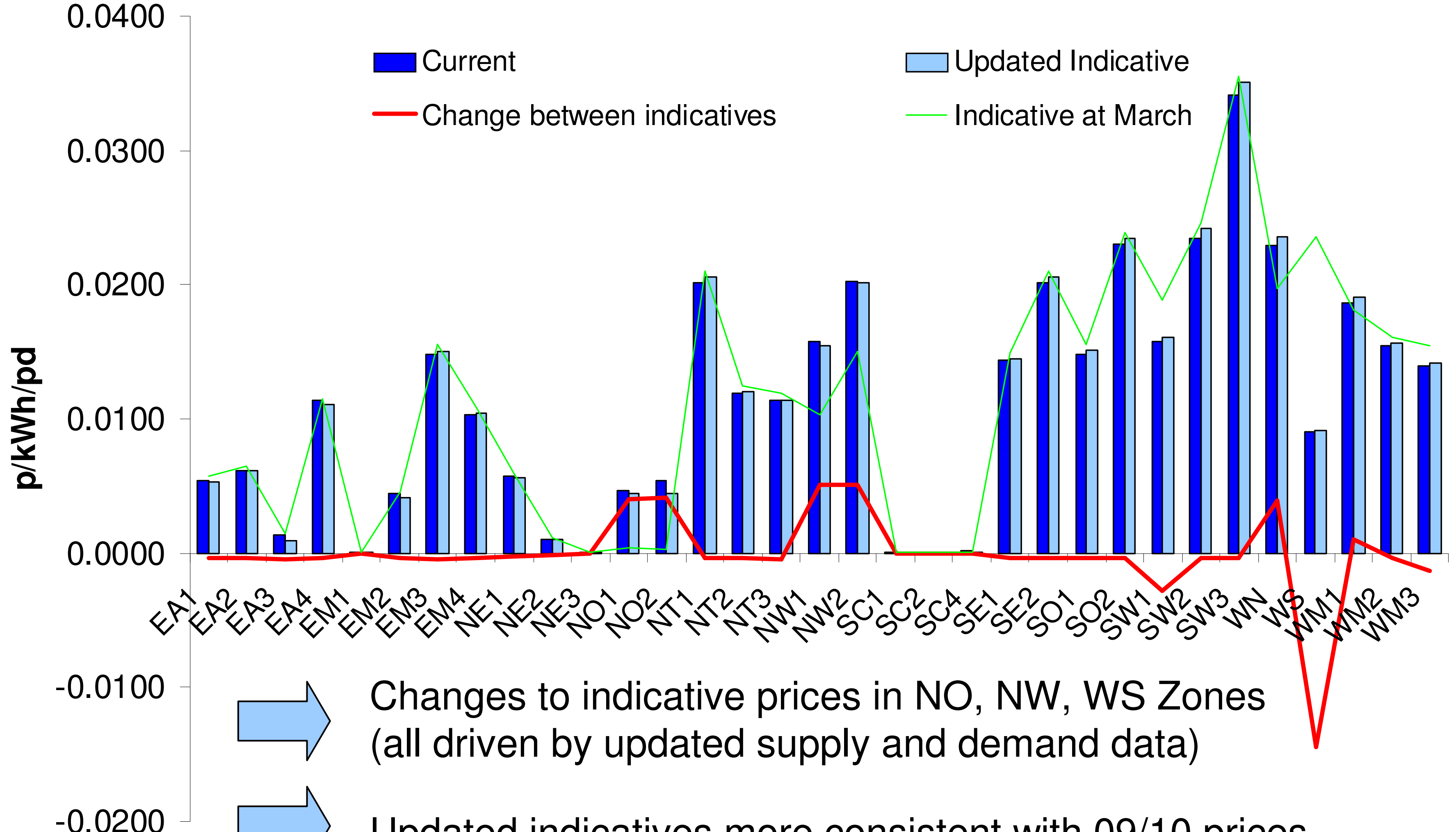
- Demand
- Supply
- Obligated Levels
- Expansion Constant
- Network

Indicative NTSExit Prices

Updated from March indicative

- Demand
- Supply Balance
  - (Supply data unchanged from 2009 Ten Year Statement)
- (Other items updated previously in March)

Indicative Exit Capacity prices (Updated)



- Changes to indicative prices in NO, NW, WS Zones (all driven by updated supply and demand data)
- Updated indicatives more consistent with 09/10 prices

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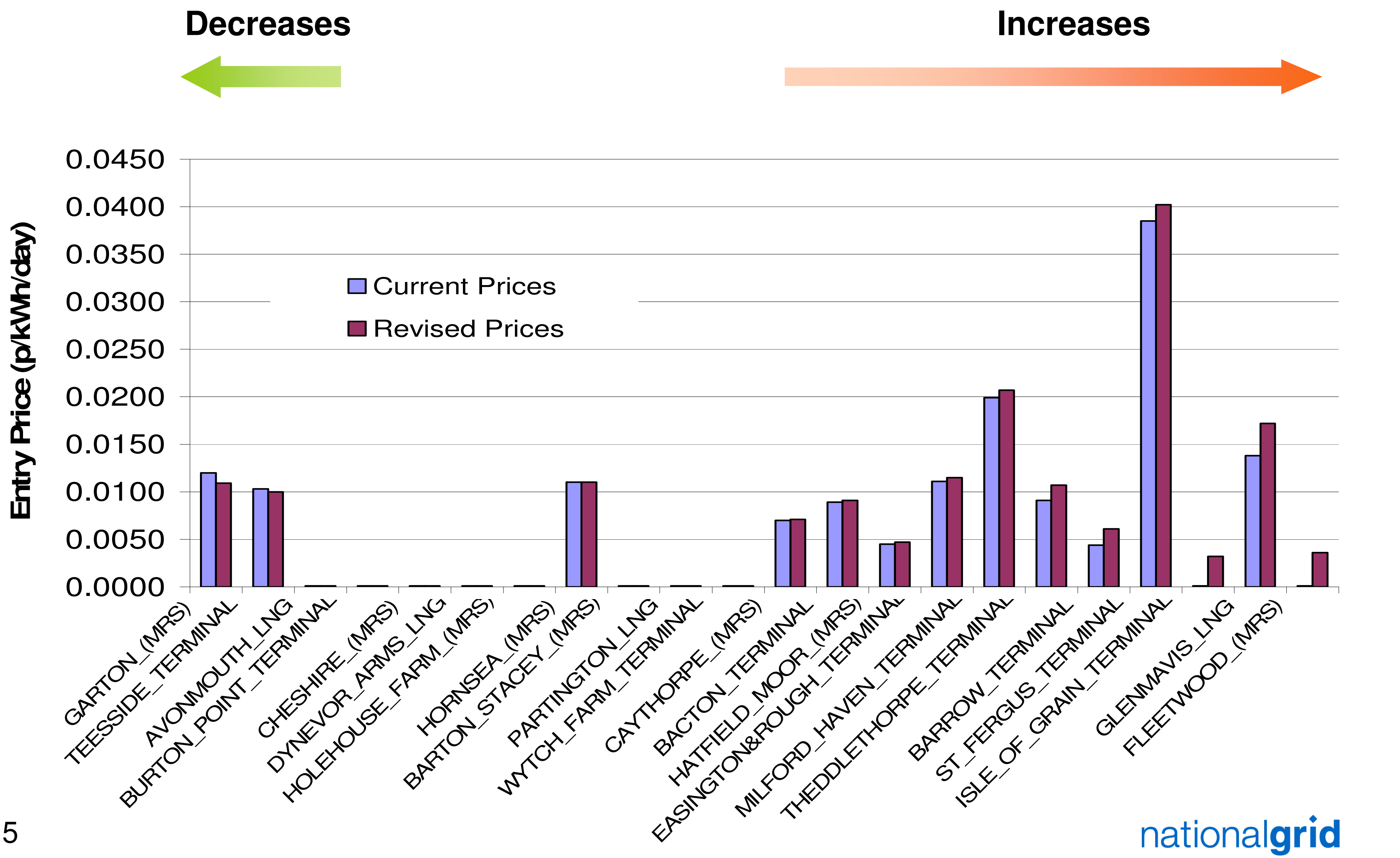
MSEC reserve prices for 10/11



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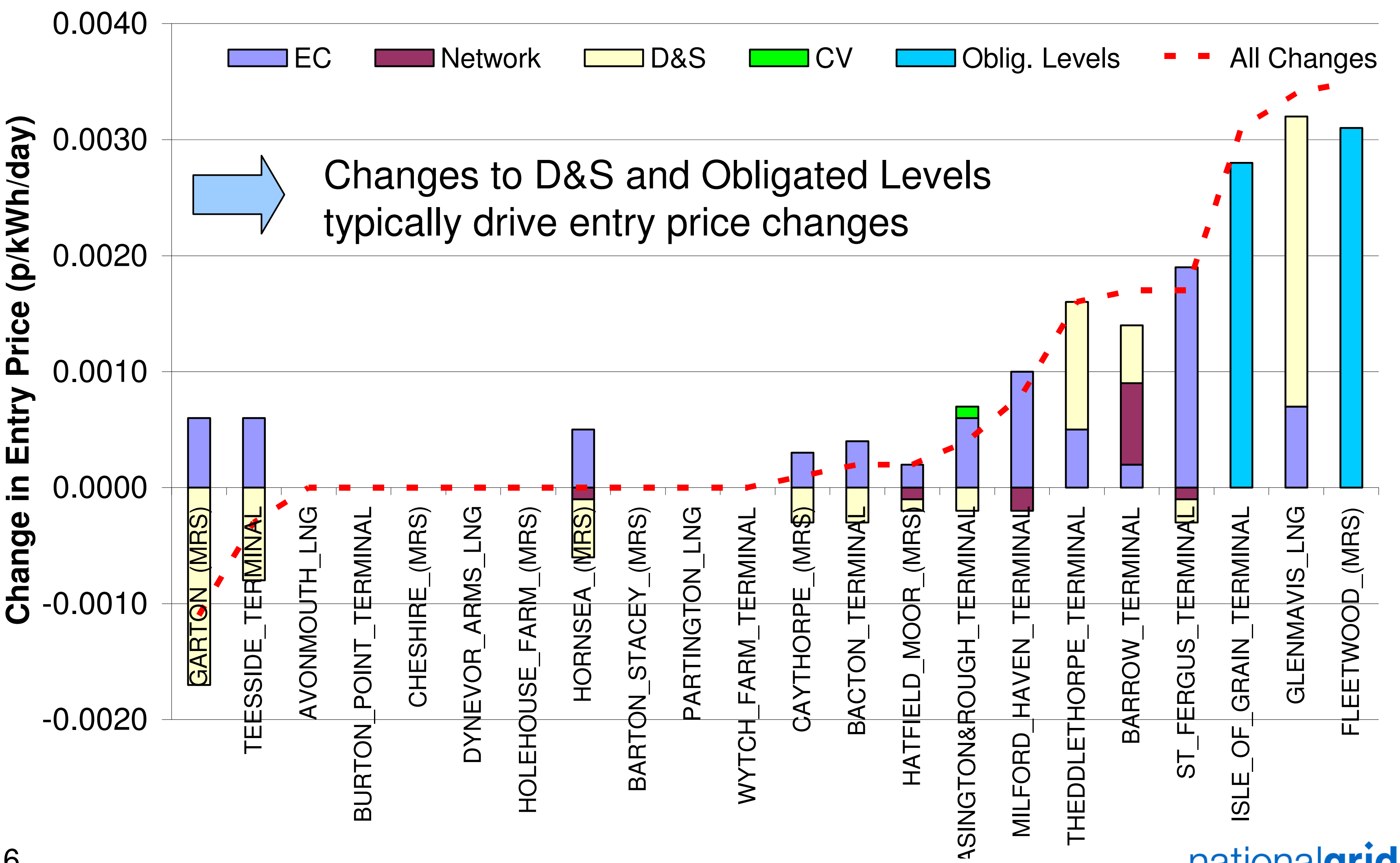
Changes from current MSEC prices



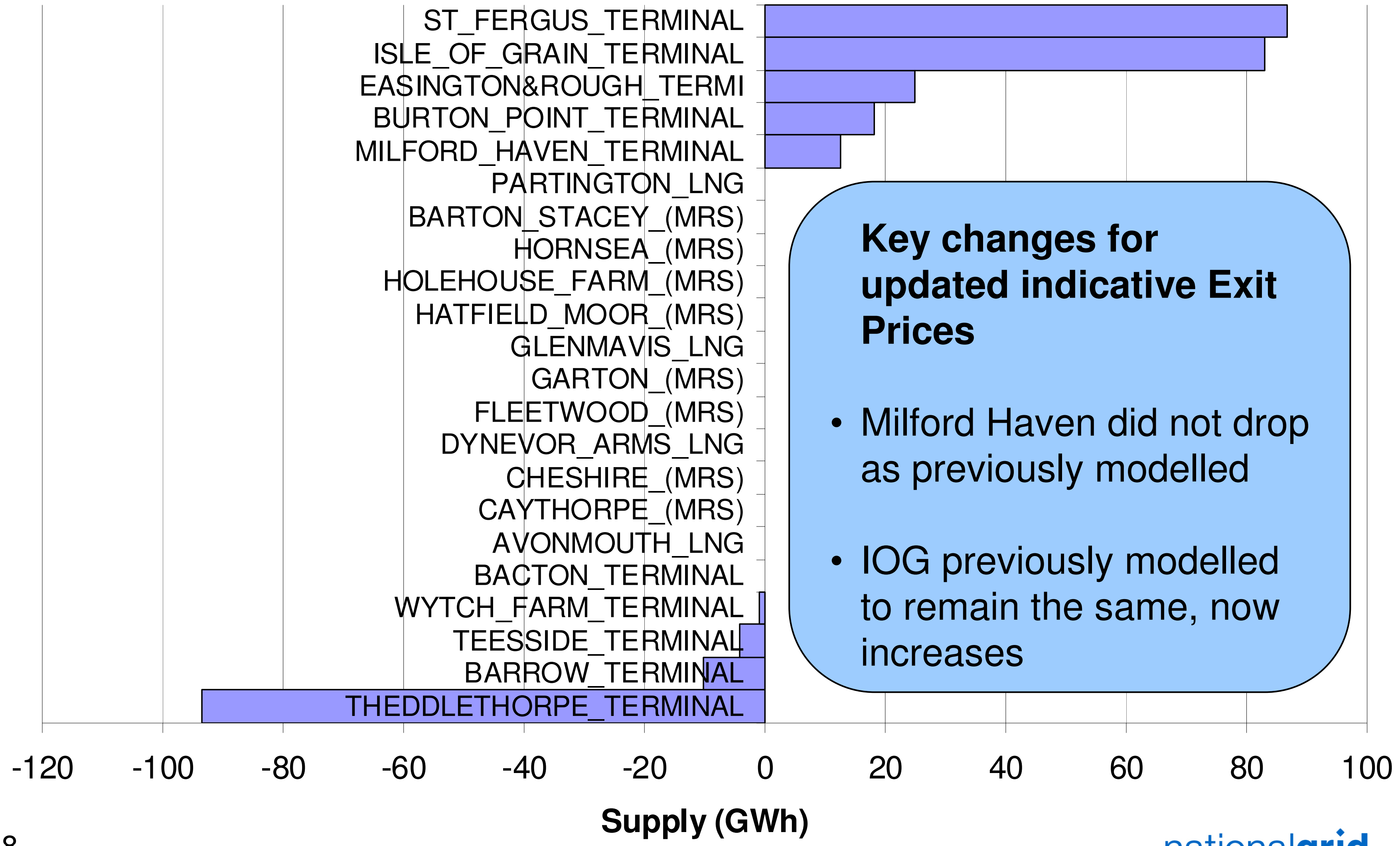
Supply & Demand changes for Entry & Exit

- New demand data from May 2010 SD Statements

- Peak demand forecasts have risen from last years level of 5,502 GWh to 5,618 GWh
  - mainly from power generation and exports to Ireland
  - some LDZ demand growth

- Supply increased to match demand within the model but not uniformly (according to GCM16)

Changes in Supply (09/10 to 10/11)



Key changes for updated indicative Exit Prices

- Milford Haven did not drop as previously modelled
- IOG previously modelled to remain the same, now increases

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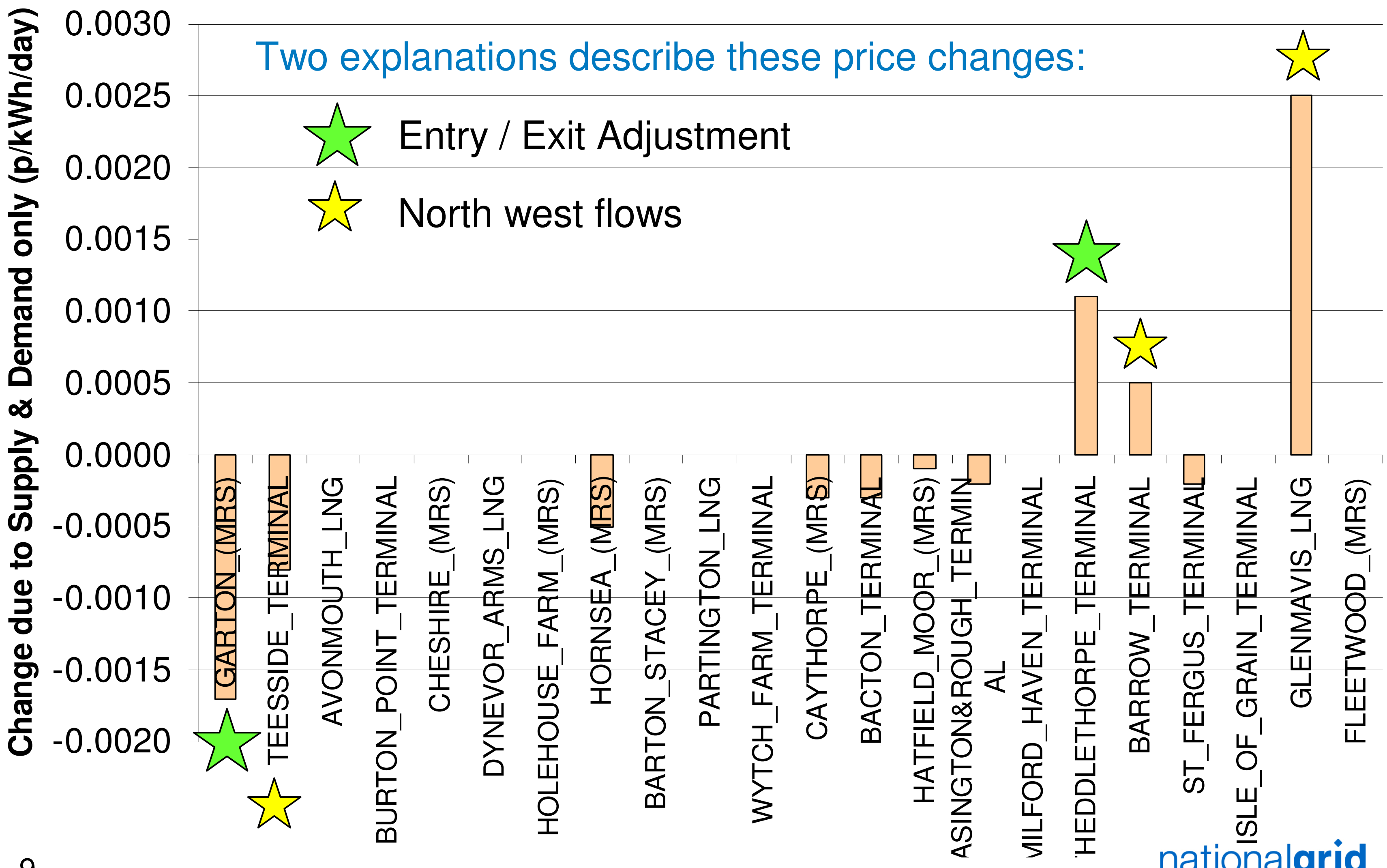
Impact of Supply & Demand changes on Entry



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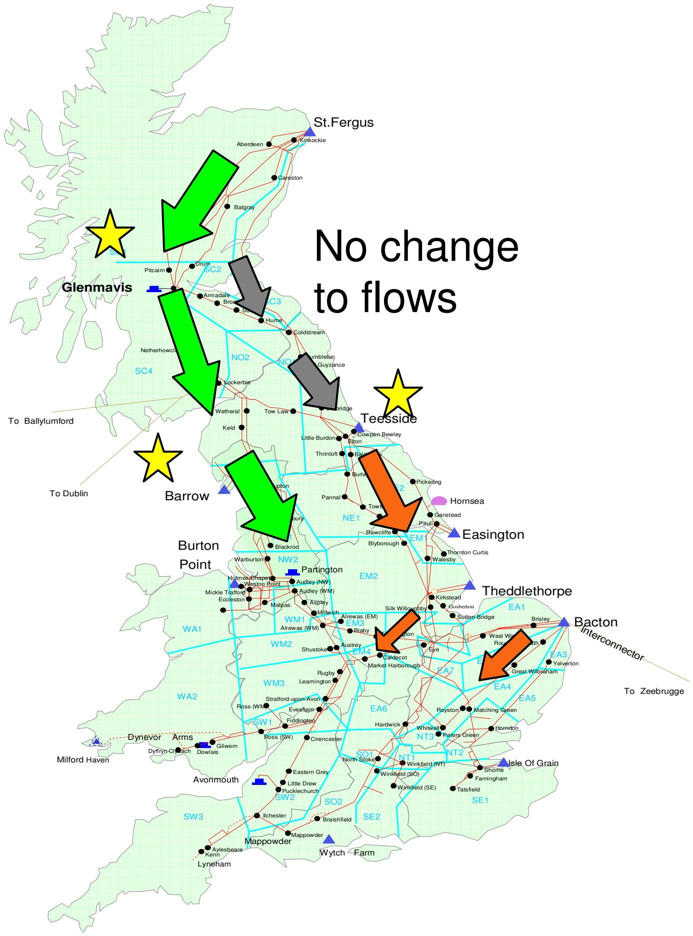
ASEPs impacted by north west flows

Change in flow c/f 200910



Decreased flow (though small)

Increased flow

- Increased supply from St. Fergus flowing through north west; travels further to meet demand
- Therefore the prices increases at locations on the west: Glenmavis and Barrow
- Decreased flows in the area → lower modelled costs → lower prices at Teesside

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Entry / Exit Adjustment

- The charging methodology requires pipeline investment costs to be split 50:50 between entry and exit

- This is achieved by adding a fixed amount (x) to entry prices and taking the same amount away from exit prices

Compared to 2009/10…

- Average entry costs when modelling Garton have increased and so adjustment factor has reduced → lower price

- Average entry costs when modelling Theddlethorpe have reduced so a larger fixed amount needs to be added to these sites to maintain a 50:50 split → higher price

Focus on Obligated Levels

- Obligated levels have increased at 3 ASEPs
  - Cheshire, Fleetwood, and IOG
- Entry prices calculated at the obligated level
- An increase in obligated level typically increases the flow distance, which is reflected increased modelled network costs and therefore subsequently in prices
- Cheshire not affected because at minimum price

Next Steps for October Price Setting

- **Provide 2 months notice of final exit capacity prices and also TO and SO commodity prices by 1 August 2010**
- Final exit capacity prices to be updated for allowed revenues
- Considering including adjustment in the SO commodity charge for the meter errors reported on the Joint Office website
  - take into account as much of the error now as possible, but
  - may need to make subsequent smaller adjustments when the final numbers are known
- To illustrate the impact, an adjustment of £15-20m would reduce the SO commodity charge by 0.0013 – 0.0017 p/kWh if applied from October

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