

TO NTS Exit Revenue Over-Recovery Mechanisms

Gas TCMF 7th April 2010



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Issue

- ◆ *As discussed at the 22nd February 2010 Gas TCMF...*

- ◆ Revenue uncertainty associated with the introduction of the Daily NTS Exit (Flat) Capacity product and the TO NTS Exit Commodity charge from 1st October 2012 may lead to revenue over-recovery

- ◆ A colder than forecast winter would lead to higher than forecast throughput which may create higher demand for Daily NTS Exit Capacity



- ◆ *This may simultaneously lead to higher than forecast TO NTS Exit Commodity and Daily TO NTS Exit Capacity revenue*
- ◆ Due to the 2 month notice period and monthly charge setting, TO NTS Exit Commodity charges could not be reduced post 31st December within a formula year.

Enduring Exit Charging Arrangements

- ◆ Daily NTS Exit Capacity will be introduced under the enduring exit arrangements implemented in relation to exit capacity applicable from 1st October 2012.
 - ◆ Firm Daily NTS Exit Capacity prices will be set as 1/365th of enduring annual price.
 - ◆ The price will be set such that if all baseline exit capacity is sold the revenue would match the TO NTS Exit Target Revenue
 - ◆ TO NTS Exit target revenue = 50% of TO allowed revenue having first deducted revenue from metering and DN pensions charges
 - ◆ Under and over-recovery are managed separately for TO entry and exit charge setting purposes.
 - ◆ A TO NTS Exit Commodity Charge component will apply to recover revenue associated with unsold baseline exit capacity

Proposed TO Exit Over-Recovery Mechanisms

1. TO NTS Exit Commodity Rebate
 - ◆ Rebate all or a proportion of TO commodity charges paid.
2. TO NTS Exit Commodity Credit
 - ◆ Triggered if there remained any over-recovery after step 1
 - ◆ Effectively a rebate of SO Exit Commodity Charge
 - ◆ For Licence reporting purposes this would be treated as a TO NTS Exit Commodity Credit which would partially offset the SO Exit Commodity charge

NB Under-recovery not included as part of these proposals

1. TO NTS Exit Commodity Rebate

- ◆ Partial or full rebate of TO NTS Exit Commodity charges
 - ◆ Mechanism
 1. TO exit revenue over-recovery amount calculated
 2. Credits would only be paid if the over-recovery was in excess of £1m (this equates to the minimum TO NTS Exit Commodity price of 0.0001 p/kWh)
 3. Ratio calculated of over-recovery amount and TO NTS Exit Commodity charges paid
 - ◆ Cap ratio at 100% i.e. only rebate TO NTS Exit Commodity revenue received
 4. Rebate of TO NTS Exit Commodity charges paid based on ratio
 5. Those flows that do not attract TO NTS Exit Commodity would be excluded (Storage & Short-haul)
 6. Rebate paid in April/May following formula year

2. TO NTS Exit Commodity Credit

- ◆ TO NTS Exit Commodity Credit – Effectively a retrospective negative charge
 - ◆ Mechanism
 1. Remaining over-recovery amount calculated after any TO NTS Exit Commodity Rebate
 2. Credits would only be paid if the residual over-recovery was in excess of £1m (this equates to the minimum TO NTS Exit Commodity price of 0.0001 p/kWh)
 3. Ratio calculated of remaining over-recovery amount and SO NTS Exit Commodity charges paid
 - ◆ Cap ratio at 100% i.e. prevent combined commodity charges being negative
 4. Credit of TO NTS Exit Commodity charges paid based on ratio
 5. Those flows that do not attract TO NTS Exit Commodity would be excluded (Storage & Short-haul)
 6. Credit paid in April/May following formula year

TO NTS Exit Over-Recovery Examples (1)

Mechanism	Step	Example 1	
	Over-recovery	£10m	
TO NTS Exit Commodity Rebate	TO NTS Exit Commodity collected	£40m	
	Ratio	25%	
	Rebate	£10m	
	Residual	£0	
TO NTS Exit Commodity Credit	SO Exit Commodity collected	£150m	
	Ratio	0%	
	Credit	£0	

TO NTS Exit Over-Recovery Examples (2)

Mechanism	Step	Example 1	Example 2
	Over-recovery	£10m	£55m
TO NTS Exit Commodity Rebate	TO NTS Exit Commodity collected	£40m	£40m
	Ratio	25%	100%
	Rebate	£10m	£40m
	Residual	£0	£15m
TO NTS Exit Commodity Credit	SO Exit Commodity collected	£150m	£150m
	Ratio	0%	10%
	Credit	£0	£15m

Going Forward

- ◆ Draft Charging proposal Available for comment
- ◆ April/May 2010 – Raise charging proposal
- ◆ May 2010 – Gas TCMF
- ◆ June 2010 – Final proposals
- ◆ July 2010 – Ofgem decision/28 day veto expires
- ◆ 1st October 2012 – Implementation
- ◆ April/May 2013 – Potential 1st application