

TO Exit Revenue Over Recovery (post 2012)

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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 Exit Target Revenue
 - ◆ TO 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 Exit Commodity Charge component will apply to recover revenue associated with unsold baseline exit capacity

Issue

- ◆ Revenue uncertainty associated with the introduction of the Daily NTS Exit (Flat) Capacity product may lead to over recovery

Entry Revenue Mechanisms

The following mechanisms apply if there is a within year entry over recovery;

1. Buy-back Offset (PC65 / GCM09)

- ◆ A payment is made, based on entry capacity holdings, which offsets the costs of buy-back which are recovered, based on entry capacity holdings, via entry capacity neutrality

2. TO Entry Commodity Rebate (GCM10)

- ◆ A payment is made which rebates all or a proportion of TO Entry Commodity Charges paid.

3. TO Entry Commodity Credit (GCM11/12)

- ◆ A payment is made which effectively rebates a proportion of SO Entry Commodity Charges paid
- ◆ For Licence reporting purposes this is treated as a TO Entry Commodity Credit which partially offsets the SO Entry Commodity charges

1. Not applicable to Exit as there is no exit capacity neutrality

2. Could be applied to Exit

3. Could be applied to Exit

Additional slides for information

not for presentation

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Entry Mechanisms

1. Buy-back Offset (PC65 / GCM09)
 - ◆ Build on the concept of returning NTS TO Entry Capacity Revenue to NTS Entry Capacity holders without influencing bidding behaviour
 - ◆ Further credits based on capacity holdings might influence capacity bidding behaviour
 - ◆ (“buy cheap capacity to benefit from over-recovery”)
2. TO Entry Commodity Rebate (GCM10)
 - ◆ Rebate all or a proportion of TO commodity charges paid.
3. TO Entry Commodity Credit (GCM11/12)
 - ◆ Effectively a rebate of SO Entry Commodity Charge
 - ◆ For Licence reporting purposes this is treated as a TO Entry Commodity Credit which partially offsets the SO Entry Commodity charge

1. Entry Buy-Back Offset

- ◆ Offset buy-back costs levied through capacity neutrality
 - ◆ Mechanism
 1. Over recovery amount calculated
 2. Credits would only be paid if total TO over recovery was in excess of 4% or 6% over two years (NTS Licence obligation).
 3. Rebate Calculated to offset monthly buy-back costs levied on Shippers via the capacity neutrality mechanism
 4. Rebate paid monthly throughout the formula year
 - ◆ The full over recovery amount available in the first month that over-recovery is identified rather than dividing by the number of remaining months
 5. Additional credits would be paid at the end of the formula year to offset the buy-back costs from the start of the formula year against which credits had not already been paid.

2. TO Entry Commodity Rebate

- ◆ Partial or full rebate of TO Entry Commodity charges
 - ◆ Mechanism
 1. Remaining over recovery amount calculated after taking into account any payments resulting from the buy-back offset mechanisms triggered
 2. Credits would only be paid if the residual over recovery was in excess of £1m (this equates to the minimum TO Entry Commodity price of 0.0001 p/kWh)
 3. Ratio of remaining over recovery amount and TO Revenue paid calculated
 - ◆ Cap ratio at 100% i.e. only rebate TO Entry Commodity revenue received
 4. Rebate of TO Entry Commodity charges paid based on ratio
 5. Rebate paid in April/May following formula year

3. TO Entry Commodity Credit

- ◆ Retrospective negative TO Entry Commodity Charge
 - ◆ Mechanism
 1. Remaining over recovery amount calculated after any buy-back offset payments and TO Entry Commodity Rebate
 2. Credits would only be paid if the residual over recovery was in excess of £1m (this equates to the minimum TO Entry Commodity price of 0.0001 p/kWh)
 3. Over recovery amount prorated based on SO Entry Commodity Charges to calculate Shipper credits
 - ◆ This would effectively represent a negative TO Commodity charges having applied over the period offsetting the SO Entry Commodity charges
 4. Those flows that do not attract Entry Commodity would be excluded (Storage & Short-haul)
 5. Credit paid in April/May following formula year