Update on NTS consultations - Access and Charging

Gas Customer Forum

29 November 2006

Ritchard Hewitt

Gas Code Development Manager

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Reform of NTS Offtake Arrangements

Consultations	Close
UNC Modification Proposals 0116V, 0116A, 0116BV, 0116CV, 0116VD -Panel recommendation to be made at Dec meeting -Ofgem decision expected in Q1 2007	6th Dec 06
Exit Capacity Release Methodology -options for implementation of “User Commitment” -proposed commitment of 4 years of capacity charges	24th Nov 06
Charging Methodology (GCD 01, 02, 03) -options for treatment of flat and flex capacity products	24th Nov 06
Ofgem first informal Licence drafting	24th Nov 06
Ofgem Impact Assessment	11th Dec 06

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Comparison of Principles of UNC Mod Proposals

<table>
<tr><th></th><th>Products</th><th>Registration</th><th>Charge Types</th></tr>
<tr><td>0116V</td><td rowspan="3">Same product made available to all exit Users - Nodal Flat and Zonal Flex Products
◆0116V -1.5% flex tolerance
◆0116VD and 0116BV – 3% tolerance
◆0116VD – Also a negative flex product</td><td rowspan="2">◆Unconstrained – Annual Applications
◆Constrained – Auctions</td><td>◆New Flex Commodity Charge</td></tr>
<tr><td>0116VD</td></tr>
<tr><td>0116BV</td><td rowspan="3">◆No Flex Commodity Charge</td></tr>
<tr><td>0116CV</td><td>No change i.e.
◆Shippers – bundled product
◆DNs – Nodal Flat and Flex products</td></tr>
<tr><td>0116A</td><td>No change i.e.
◆Shippers – “first come first served”
◆DNs – Annual Applications</td></tr>
</table>

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Gas Charging Review

	Ref	Subject	Consultation Close
Consultation papers	GCM 01	Entry and Exit Capacity Charging	30th Nov 06
	GCM 02	Pensions Deficit Charge	To be issued
	GCM 03	SO Storage Commodity Charge	20th Nov 06
Discussion papers	GCD 04	Reserve Price discounts	To be issued

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GCM 01: Entry and Exit Capacity Charging

Option 1 – "Engineering Model approach"

- Key principles
  - LRMCs from Transcost/Graphical Falcon
  - Ten Year LRMC analysis
  - Includes spare capacity, excludes backhaul
- Exit – as now, but with enhancements to tariff model
- Entry Incremental Prices – no change
- Entry Reserve Prices calculated using increment of:
  - A) 2.834 mscm (consistent with Exit Pricing)
  - B) 6 mscm (consistent with 2002 UCA setting)

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Spare Capacity

- Spare Capacity is that **peak** capacity which has already been built to cater for peak field deliveries. As these fields decline and supplies are brought in at different entry points then this original capacity may be under utilised i.e. some spare.

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GCM 01: Entry and Exit Capacity Charging

Option 2 – "Transportation Model approach"

- Principles
  - LRMCs from Transportation Model (i.e. single model)
  - Single year LRMC analysis
  - Includes backhaul
  - Spare capacity treatment dependant on other options
- Entry Reserve Prices calculated based on:
  - A) Fully exclude spare capacity – use baseline data
  - B) Caters for spare capacity - use forecast supplies such that entry charges decrease as forecast decreases below baseline. Aims to encourage utilisation of spare capacity

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Treatment of Spare Capacity

Objective	Include Spare Capacity	Exclude Spare Capacity
Cost reflectivity	◆Users pay for incremental investment costs – based on what happens to be installed locally ◆Recovery of previous sunk costs is socialised leading to cross-subsidy	◆All Users pay for capacity they utilise ◆…but could discourage use of spare capacity leading to asset stranding
Stable and predictable charges	◆Undermines due to transient nature of spare capacity (unless considered sufficiently static)	◆Meets
Transparency	◆Determination of location and amount and hence which Users obtain benefit is subjective	◆Meets

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