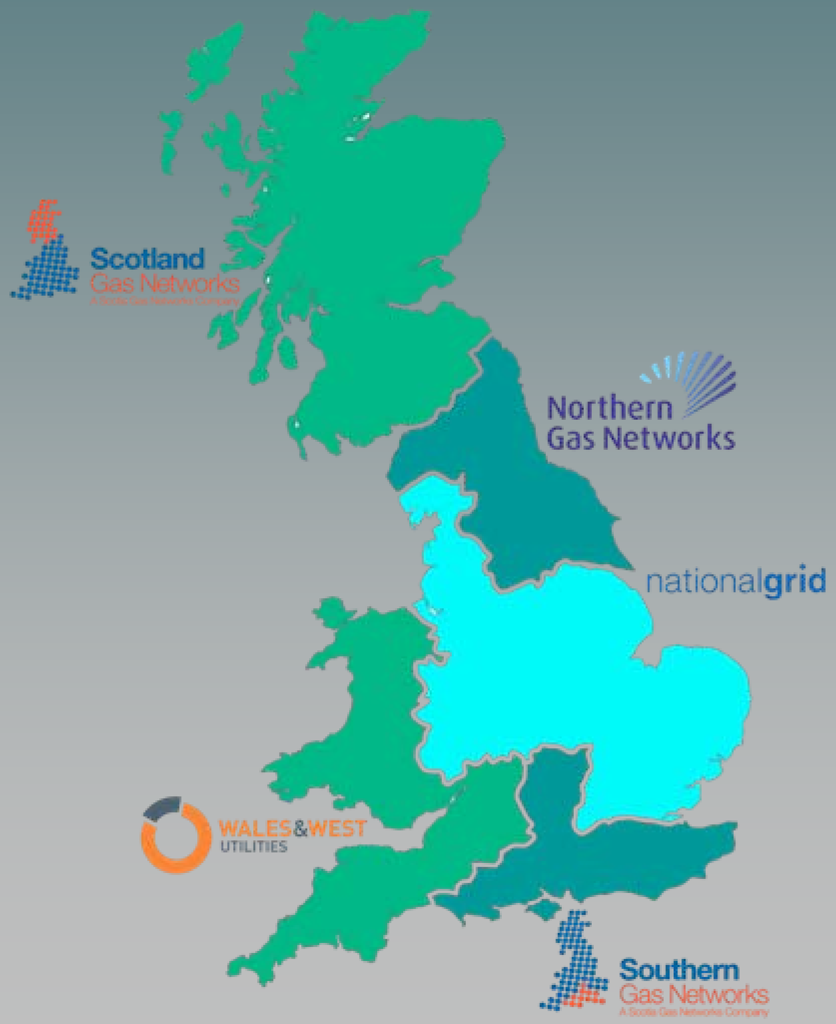
DNPD04
Proposals for LDZ Exit Capacity charges

Denis Aitchison

27 April 2009



Reason for Change

- Currently DN shippers pay Commodity and Capacity Charges for exit from the NTS direct to NG NTS

- As part of Exit Reform, with effect from 1 October 2012 the DNs will pay the Capacity Charges and their Allowed Revenues will be adjusted to allow them to recover the cost from the DN shippers

- This will require the introduction of new LDZ Exit Capacity Charges (the name is not necessarily final) or the adjustment of existing charges.

NG NTS Proposals

- Nodal, Offtake specific Exit (Flat) Capacity Charges applied to the DNs
- These Exit Capacity charges would be calculated using the Transportation Model
- The charge would be a flat pence per peak day kilowatt hour per day at each NTS/LDZ Offtake.
- No Flex Capacity Charges

DNs' Charge Proposals

- New charge based on flat pence per peak day kilowatt hour per day applied to supply point SOQs

- Include NTS costs in the DNs' cost analyses in determining charges

- Charging Options:
  - Introduce new charge type
  - Modify existing LDZ Capacity Charges
  - Scale up existing LDZ Capacity Charges to recover the extra revenue

New Charge

- Options:
- By Offtake
- By Exit Zone
- By Network

By Offtake

- Might be the most cost reflective
- Might have the most precise locational signals
- But lack of consistent Offtake to Supply Point mapping could make impractical and invalidate cost reflectivity and locational signals
- Not currently possible to bill on this basis
- May be most expensive option for DNs and shippers
- Least stable charges

By Exit Zone

- Consistent with current NTS practice
- No practical billing or mapping problems
- May be most cost-reflective practical option
- Maintains current locational signals
- Charges probably more stable than By Offtake option but less stable than By Network option

By Network

- Maintain principle of same charges across whole Network

- Simplest to administer and probably cheapest for DNs and shippers

- Less cost reflective than other options?

- No Locational signals within the Network

- Most stable charges

Include in Existing Charges

Compared with setting up new charge:

- Administratively Simpler and Cheaper
- More stable charges

But:

- Less cost reflective
- Locational signals within the Network would be lost

Effect of Interruption Rights

- After 1 October 2011 all DN Supply Points will be firm
- DNs will purchase interruption rights from Supply Points
- This might reduce the amount of NTS Exit capacity required by the DN
- The charges to shippers will be based on the total the DN has to pay to NG NTS

UNC Based Charges

- DNs will be subject to NTS Overrun charges
- If new charge LDZ Ratchet charges may be amended to include the relevant Exit Capacity Rate in the calculation of the charge
- If included in existing charges this would happen automatically

Changes to the Level of Charges

- NG NTS changes its Exit Capacity Charges on 1 October
- DNs change their charges on 1 April
- Misalignment could cause the DNs to under- or over-recover because they will not be able to respond to an NTS October price change until April the following year.

Separate Management of K

- Separate K for the recovery of the cost of NTS Exit Capacity Charges
- This K would reflect shipper proportions of Exit Capacity charges only
- Would be used for setting the levels of the Exit Capacity charges
- Only possible if a new charge is set up

Questions for Discussion

- Should LDZ Exit Capacity charges be a new charge based on a flat rate pence per peak day kWh rate
- Should this new charge be applied by Offtake, by Exit Zone or by Network or
- Should the costs be recovered by including them in the existing structure of charges
- Should the misalignment of the NTS and DN dates for changing charges be addressed
- Should a separate K be introduced for these charges, for the purpose of setting the level of the charges