Gas Transmission

Mod 667 actions

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1101: *National Grid NTS to provide evidence as to whether the Duration Test was still appropriate and required.*

The entry capacity NPV test contains both a financial and duration element. The financial element is explicit and the duration element is implicit based on the current incremental pricing.

The financial element helps to provide a reasonable balance between user pays and socialisation for the project.

The duration element provides 2 purposes:

- **evidence of sustained user commitment to mitigate the risk of assets being underutilised.**
- **Smooths cash flow (and consequently price changes).**

1102: *National Grid NTS to look at the estimated product values in the Model and provide a view if they are representative of the costs they will face.*

The project cost may be calculated as:

a) **Project Values determined by the Long Run Marginal Cost Methodology.**

b) **Project cost derived from the Generic Revenue Driver Methodology.**

- However, there have been no revenue drivers produced in the RIIO-T1 price control. (Everything has been satisfied using substitution for which NG gets no additional revenue allowance).

LRMC	steps	steps	GRDM
Marginal Cost (km) determined using Transportation Model for each increment.	Marginal Cost	Required Assets	project options identified by network analysis with regards to real world construction options.
Expansion Coefficient. Average network parameters assumed on pipeline size & compressor frequency Unit Costs for pipelines and compressor power; + 15% project costs	Marginal Cost to £ Cost	Asset to Cost	Unit Costs for pipelines and compressors; + project (phase 2) costs; other costs may be proposed customised to the specific solution (e.g. uprating, AGIs, multijunction modifications etc.)
			Additionally possible (downwards) adjustment for commercial solutions

1104: *National Grid NTS to investigate the potential impacts and repercussions of removing the section of methodology and incorporating it into the UNC Code.*

The immediate risk to manage would be (temporary) conflict between the UNC and the Capacity Release Methodology.

NG preference is to avoid any such conflict arising.

In event of mod approval, NG would expect Ofgem to provide clear acknowledgement and direction regarding any such conflict.

Subject to timing, then NG would need to either:

- **incorporate any approved mod rules into the current Methodology Review.**
- **Raise a further Methodology Change later this year.**

Further consideration to the practicalities of this issue will be given when legal text is being drafted for the modification.

Gas Transmission

2

NPV test

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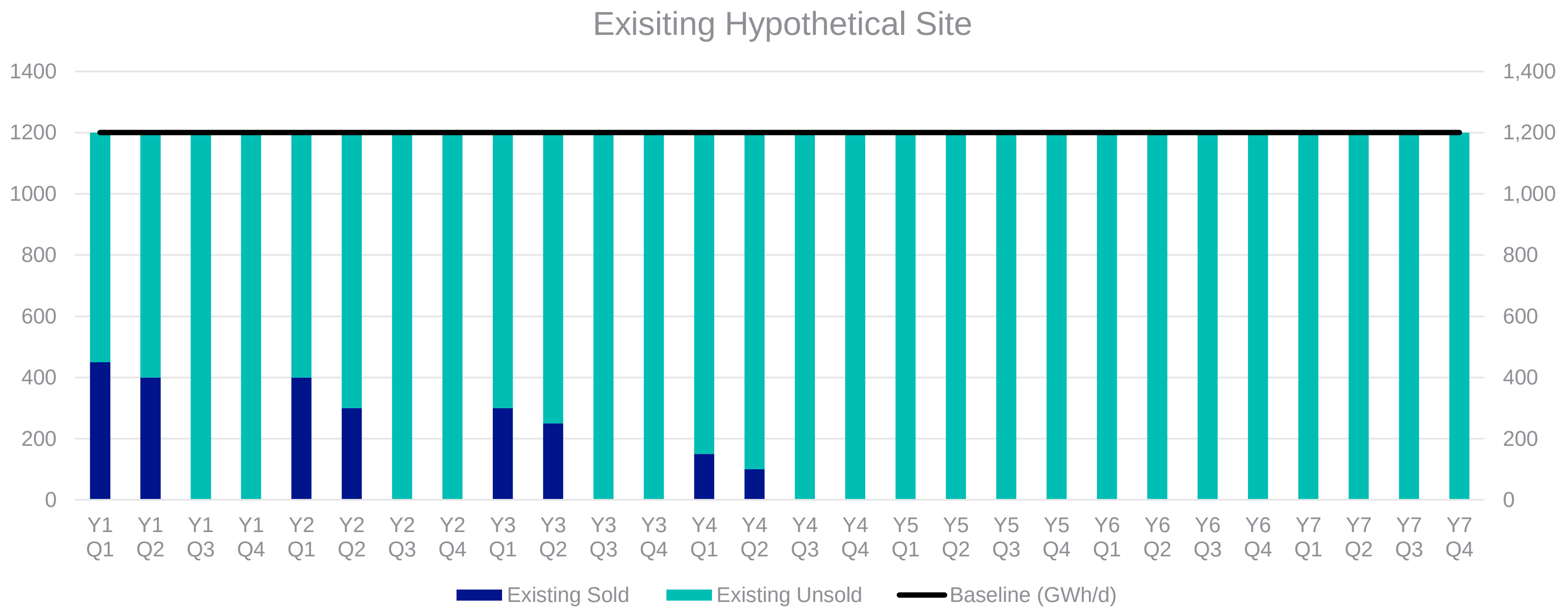
Further thoughts on NPV test.

- Want to have a meaningful capacity commitment.
- Want some consistency between duration rules for entry and exit.
- Want some consistency between duration rules for funded incremental and substitution.
- Proposing to remove test for substitution only solutions, noting that...
- If financial element test removed for substitution then duration element becomes more important.

Summary of Options identified for revised NPV test

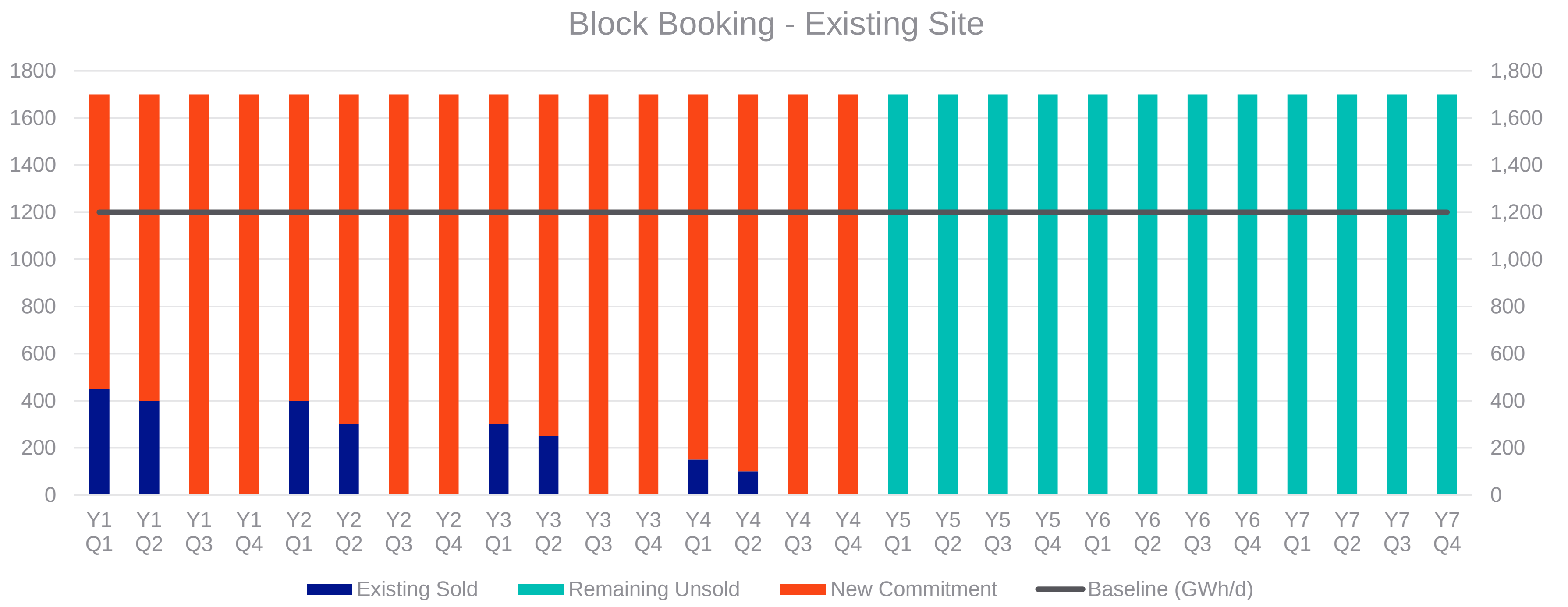
- EU style test. Block duration required for x quarters.
- EU style test. Seasonal duration required for x in 4 quarters over y years.
- EU style test. Hybrid of above.
- Quantity / duration test (no financial element). Hold for x quarters regardless of price.
- Fixed Fee. Pay fixed amount (e.g. 50% of project cost), not linked to capacity. Buy capacity as and when required. Possible offsetting of capacity revenue required?

Hypothetical Existing Site



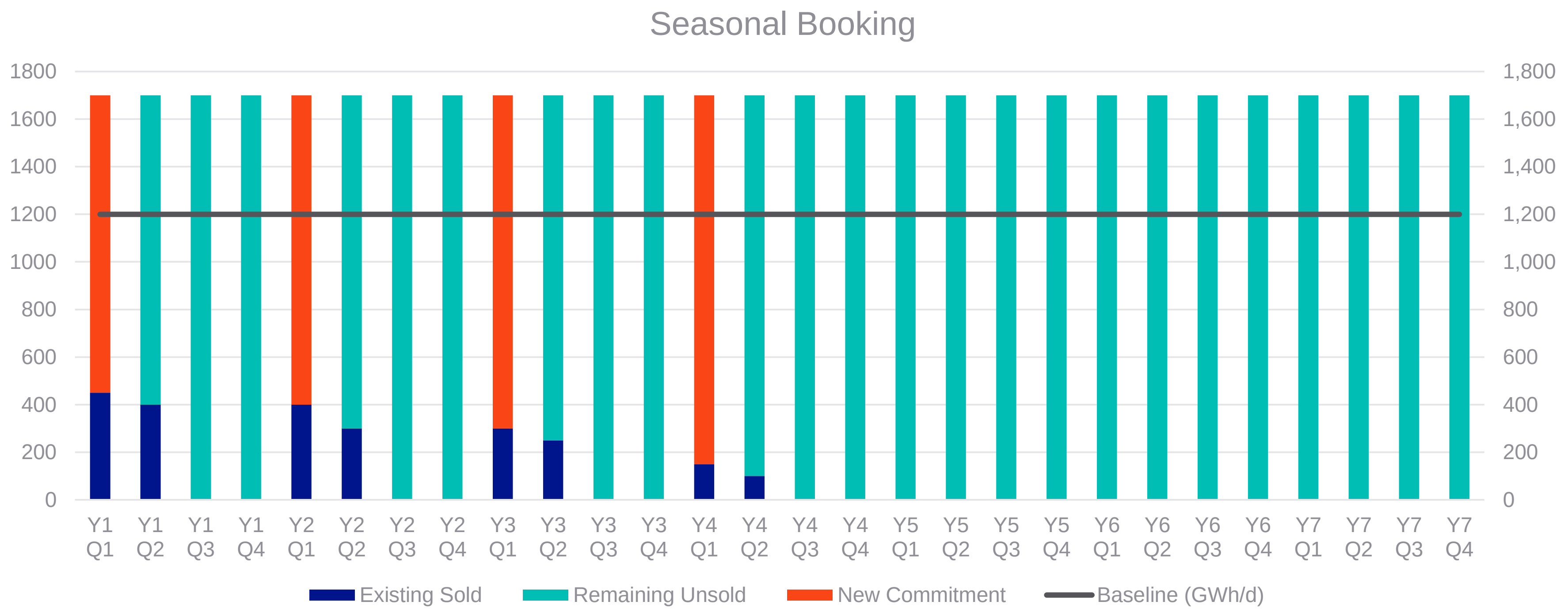
New Commitment under a ‘block booking’ duration rule

Example rule: min 16 quarters



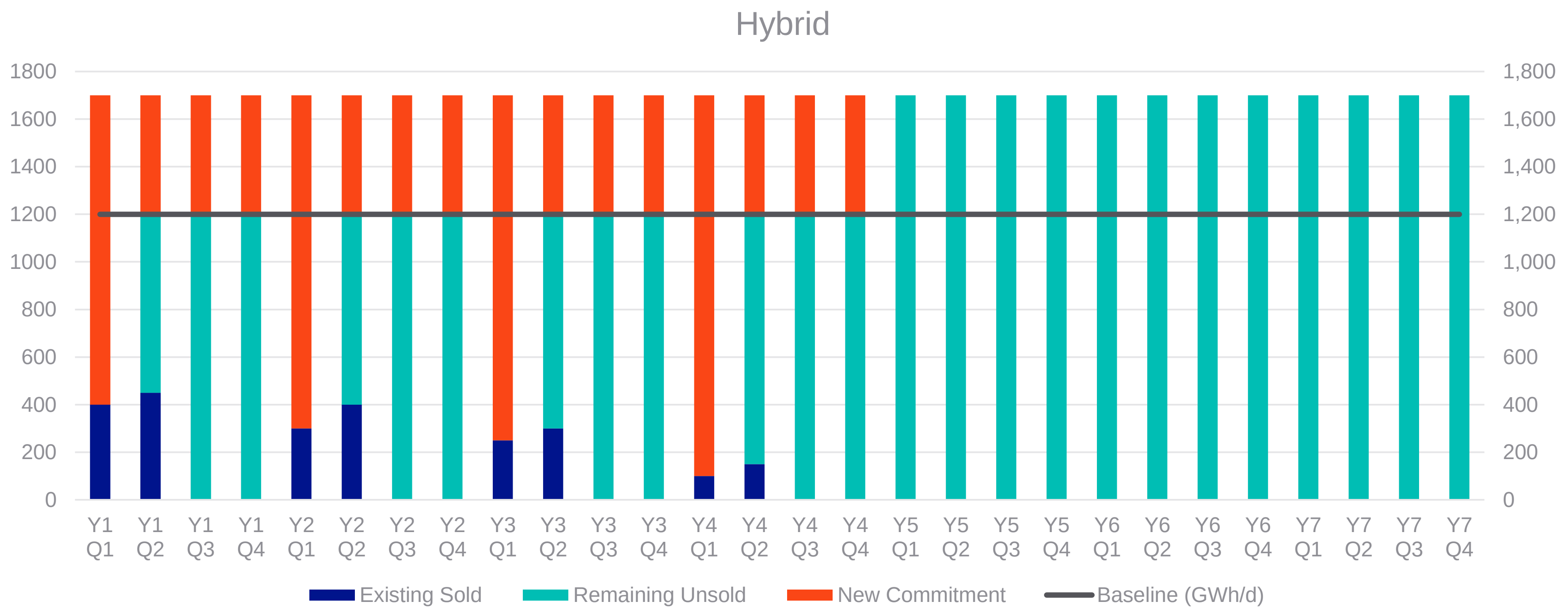
New Commitment under a seasonal booking duration rule

Example rule: min 1 of 4 quarters over 4 years



New commitment under a hybrid duration rule

Example rule: min 16 quarters for quantity & min 1 in 4 quarters over 4 years for inc.



Fixed Fee example (with offsetting)

Fixed Fee amount = £120m.

Spread over 15 years in this example i.e. 15 x £8m payments. (no discounting assumptions made in this example)

Any incremental (and only incremental) sales could offset the amount owed.

year	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	sum
fixed fee (£m)	£8	£8	£8	£8	£8	£8	£8	£8	£8	£8	£8	£8	£8	£8	£8	£120
£ amount of incremental sold	£4	£10	£12	£6	£0	£0	£0	£0	£0	£5	£7	£0	£8	£11	£5	£68
fixed fee - top up	£4	£0	£0	£2	£8	£8	£8	£8	£8	£3	£1	£8	£0	£0	£3	£61

Issues

- **Investment not underpinned by long term capacity bookings.**
- **Offsetting gives a party a ‘free’ option on the incremental capacity in the auctions. Would this be distorting?**
- **Licence change required.**

Timetable 2018/2019

Consultation on the capacity methodology statements will follow the proposed timetable outlined below (specific dates TBD)