

NTS Entry Revenue Collection

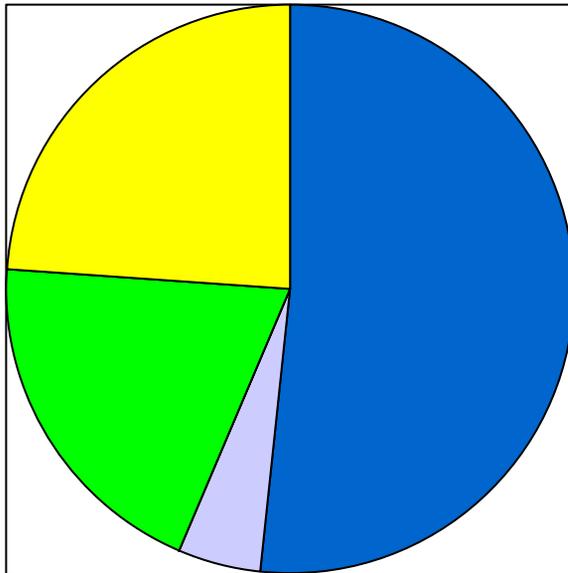
NTS Charging Methodologies Forum
14th October 2011

Introduction

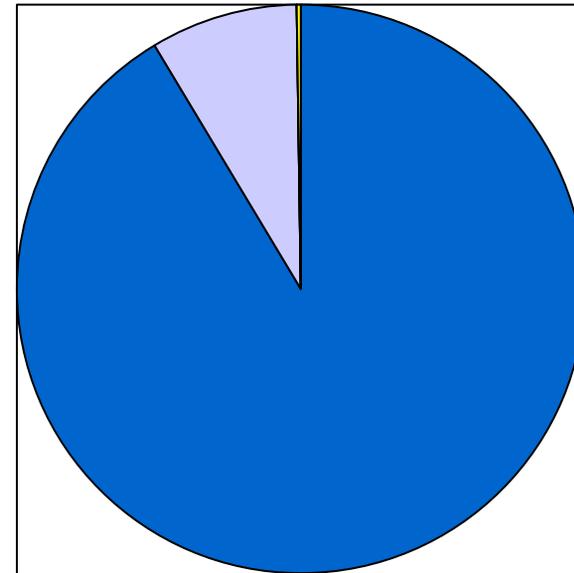
- At the 7th July 2011 NTS Charging Methodologies Forum National Grid agreed to an action to investigate alternate entry revenue approaches including a 2-tier commodity charge
- Assumption:
 - A 2-tier TO Entry Commodity Charge would involve applying a lower rate for those shippers that relied on long term capacity bookings and a higher rate for those shippers that relied upon short term capacity bookings

Booked 2010/11 NTS Entry Capacity by Auction

Capacity (kWh)



Revenue (£)



Process Steps

- The following process steps would be required to implement a 2-tier TO Entry Commodity Charge;
 1. Allocation of Shippers to tier 1 & 2
 2. Mapping of TO Entry costs to tier 1 & 2
 3. Separate forecast of throughput for tier 1&2 shippers
 4. Calculation of charge rates for tier 1 & 2

Define rule for mapping of Shippers to tier 1 & 2

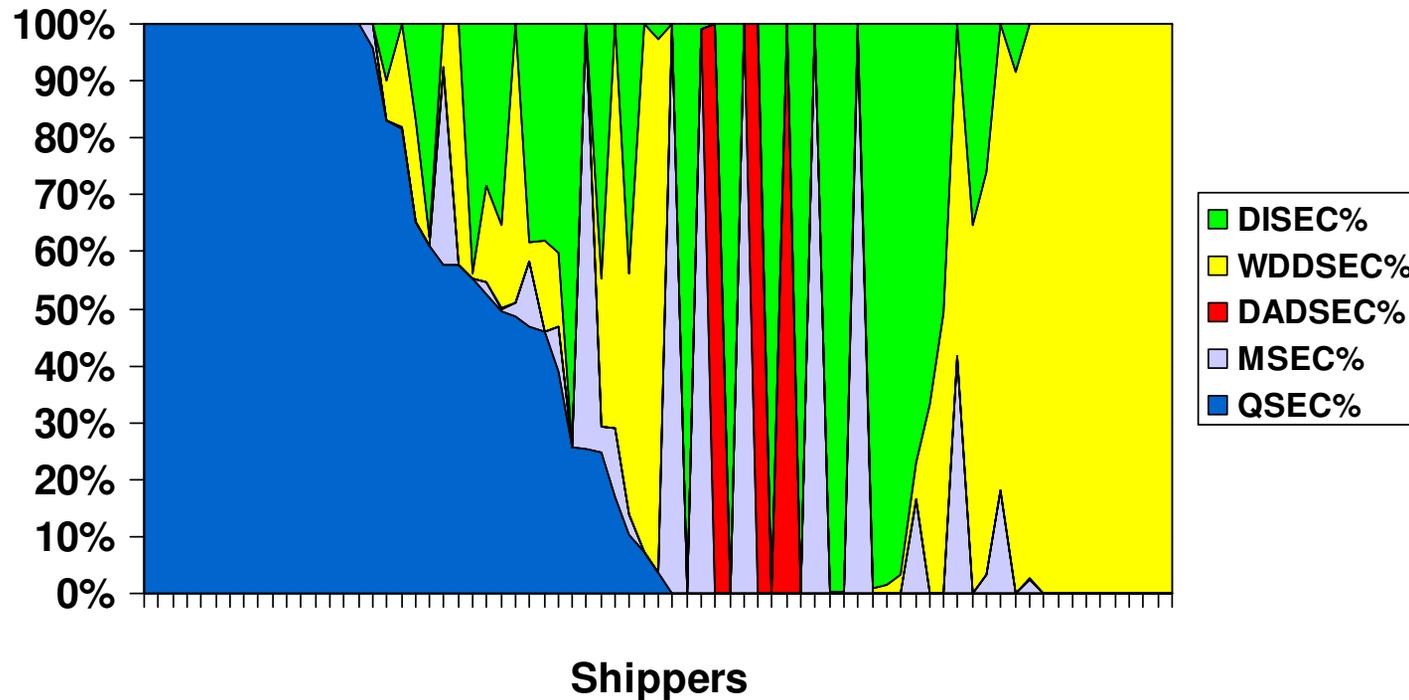
■ Issues

- Do we assume that a shipper must buy only certain capacity products to be classed as 'long term' (tier 1)?
- Which capacity products should count towards defining a shipper as 'long term' (tier 1)?
 - QSEC only?
 - QSEC & (A)MSEC?
- How do we know if a shipper has procured all the 'long term' capacity they need ahead of the formula year?
 - Registration process?
- What happens if a 'long term' (tier 1) shipper buys 'short term' (tier 2) capacity later in the formula year?

Shipper Booking by Auction

2010/11

Shipper NTS Entry Capacity Procurement by Auction 2010/11



'MSEC includes both AMSEC and RMTTSEC auction types.

Shipper Booking by Auction 2010/11 (2)

NTS Entry Capacity Holding (GWh/day)						
Number of Shippers	QSEC	MSEC	DADSEC	WDDSEC	DISEC	Grand Total
100% QSEC						
15	737,520	0	0	0	0	737,520
Mixed						
22	1,137,527	76,223	947	468,533	572,797	2,256,025
0% QSEC						
36	0	88,568	695	250,048	288,547	627,858

Allocate TO Entry costs to tier 1 & 2

- Potential options

1. Costs could be allocated to long term (tier-1) Shippers based on the shortfall between
 - Actual long term entry capacity Revenue, and Long term capacity bookings multiplied by prevailing prices
 - The short term (tier 2) rate would recover the residual revenue.
2. Costs could be allocated to short term (tier-2) Shippers based on forecast short term capacity bookings multiplied by prevailing prices
 - The long term (tier 1) rate would recover the residual revenue.
3. A single commodity rate could be calculated which would recover 100% of TO Entry allowed revenue with a discount or rebate applied for those booking long term capacity
4. Other?

2010/11 Entry Revenues

- '2010/11 Cost' ~ Cost of capacity at 2010/11 prices without discounts for daily capacity
- Revenue ~ actual revenue
 - TO revenue only other than WDDSEC & DISEC which are SO
- Difference ~ difference between '2010/11 cost' and actual revenue
- Difference % ~ difference as a percentage of 2010/11 Cost

	'2010/11 Cost'	Revenue	Difference	Difference %
QSEC	£174,577,386.45	£100,756,954.53	£73,820,431.91	42.3%
MSEC	£13,682,310.09	£12,097,591.76	£1,584,718.33	11.6%
DADSEC	£71,471.11	£41,336.15	£30,134.96	42.2%
WDDSEC	£116,578,755.12	£136,300.41	£116,442,454.71	99.9%
DISEC	£132,051,365.27	£315,971.83	£131,735,393.44	99.8%
Grand Total	£436,961,288.03	£113,348,154.68	£323,613,133.35	74.1%

'MSEC includes both AMSEC and RMTTSEC auction types.

Forecast throughput separately for tier 1 & 2 shippers

■ Issues

- How could National Grid forecast individual shipper entry allocations accurately enough for charge setting purposes?
 - Would shipper behaviour change?
- Companies have multiple shipper licences
- How do we take into account trading of capacity?

Calculate charge rates for tier 1 & 2 separately

- Divide target cost by forecast throughput for tier 1 & 2 separately
- Commodity prices set 1st April and 1st October
 - How would the October price change be managed?

Summary of Issues

- **It is difficult to see how shippers could be allocated to an appropriate tier other than retrospectively.**
 - Would a 2-tier commodity charge impact security of supply?
- **How could National Grid forecast individual shipper entry allocations with an appropriate level of accuracy for charge setting processes?**
 - Would shipper behaviour change?
- **How do we take into account trading of capacity?**
 - Would a 2-tier commodity charge impact trading?
 - Some companies have multiple shipper licences
 - The shipper invoiced for the capacity and the shipper effectively utilising the capacity and attracting the TO Commodity charge can be different.