

NTS Update

Gas Customer Forum

10th July 2006

Area updates

- ◆ Transmission Charging Methodology Forum (TCMF)
- ◆ Price Control Process
- ◆ NTS exit reform
- ◆ Winter Consultation Report
- ◆ Recent operational experience
- ◆ “Interesting mods”
- ◆ Licence website and forecasting incentives

NTS Charging Proposal

- ◆ August Pricing Consultation Document
 - ◆ Changes to NTS Capacity charge methodology
- ◆ Proposal key changes
 - ◆ Replace Transcost with a Transportation Model
 - ◆ Move from ten years of forward looking costs to a single year model
- ◆ Details and indicative charges on nationalgrid.com

Reason for Proposed Change

- ◆ Cost Reflectivity

- ◆ Exit Prices have not been rebalanced for five years

- ◆ Stability

- ◆ The significant changes to the S&D balance (declining beach terminals and new LNG importation) will produce significant pricing instability if Transcost were to be retained
 - ◆ Transportation model indicative prices are closer to prevailing prices compared with rebalancing using Transcost Moving to a single year Transportation model Increases price stability as the model is based on flows and distance and not on a physical model, and results in customers paying for the capacity they utilise

- ◆ Transparency

- ◆ We intend to make the combined Transport and Tariff Model available as an easy to use spreadsheet facilitating scenario analysis
 - ◆ Moving to a single year model and allows future prices to be forecast
 - ◆ Indicative prices <http://www.nationalgrid.com/uk/Gas/Charges/TCMF/>

NTS Capacity Charging Proposal Implementation

◆ Exit

- ◆ Implementation for 1st April 2007
- ◆ Prices would be rebalanced on 1st October 2007 and then on each subsequent October 1st

◆ Entry

- ◆ Implementation for 1st April 2007 – revised reserve prices would apply for all auctions held on or after 1st April 2007
- ◆ Prices would be rebalanced in December 2006 for the February 2007 AMSEC auction and subsequent RMSEC and DSEC auctions for capacity from 1st April 2007

◆ Charging Model

- ◆ The combined Transport and Tariff model would be made available to Users once S&D data could be made available

Transmission Charging Methodology Forum (TCMF)

- exit reform flat/flex issues not yet considered
- proposed exit charge rebalancing April '97

Transmission price control process

June Initial Proposals document produced

- ◆ Entry
 - ◆ “trigger levels” (baselines) and revenue driver approach
 - ◆ National Grid methodology
 - ◆ transparent means for swapping capacity between ASEPs
- ◆ Exit
 - ◆ User commitment
 - ◆ Flat and flex products
 - ◆ Baselines and “substitution” obligation
 - ◆ baselines with all interruptible SOQs
 - ◆ conflicts with baselines consistent with physical capability
- ◆ Next document September

... National Grid NTS has concerns about “interruptible SOQ baselines”

NTS exit reform

... EOWG have explored a strawman proposal that features firm capacity rights that can be obtained on a “prevailing” rights basis in longer leadtimes or via “finite” rights that might be obtained within investment leadtimes

... EOWG is still considering the nature of the “flexibility product”

06/07 Winter Consultation

- ◆ Process
 - ◆ May document
 - ◆ 33 responses
- ◆ Next steps
 - ◆ Assessing responses
 - ◆ Next stage in TBE
- ◆ Update document
 - ◆ To be published this week

... responses please by 11th August
- ◆ Final “Winter Consultation Report”
 - ◆ late September

Winter Consultation Report

Views about

- * **NDM demand response to higher prices**
- * **extent of demand management**
- * **GBA based demand management contracts**

from downstream transporters, shippers and consumers would be appreciated by NTS supply/demand team

Information/insights to

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Recent operational experience

.... tie-in of trans-Pennine link

... high St Fergus inputs and high interconnector exports

... has effectively created a North-South constraint

... commercial actions have been taken

... capacity buy-back prices have reached 9.99 p/kWh

... overall costs have exceeded £28m

.... will be discussed at Operational Forum on Wednesday 12th July

Other interesting Modification Proposals

- ◆ 006 “near real time” information release
 - ◆ Proposal directed for implementation
 - ◆ Systems implementation planned for 3rd October 2006
 - ◆ Pre-implementation workshop in September
 - ◆ Confidentiality issue with Gassco being progressed
- ◆ 0086 “Introduction of gas demand management reserve arrangements”
 - ◆ Mod panel has not recommended implementation
 - ◆ National Grid NTS opposed
 - ◆ Undeveloped proposal
 - ◆ Ill conceived

New Gas Incentives

Ofgem has proposed incentives to improve:

- ◆ NTS Gas demand forecasting accuracy
 - ◆ Performance measure based on the accuracy of day ahead 1400 UNC gas demand forecast
- ◆ NTS Market info website performance
 - ◆ Performance measures based on:
 - ◆ The availability of the National Grid Web information web pages (24/7)
 - ◆ The timeliness of publication of information reports on the website, for example NTSAFF, NTSAPF, SISR03 etc

In both cases, performance improvement delivered through IS changes, training and process/analytical changes.

Timescales

- ◆ Initial proposals published 26th May 2006 (4 week consult)
- ◆ Ofgem has proposed
 - ◆ Scheme implementation in September 06
 - ◆ Scheme duration Oct 06 – Mar 07 inclusive
 - ◆ Any incentive income/payments to be recovered through SO commodity charge
- ◆ Final proposals expected mid July (6 week consultation)
- ◆ Significant IS investment by NGG to be carried out in line with these timescales.

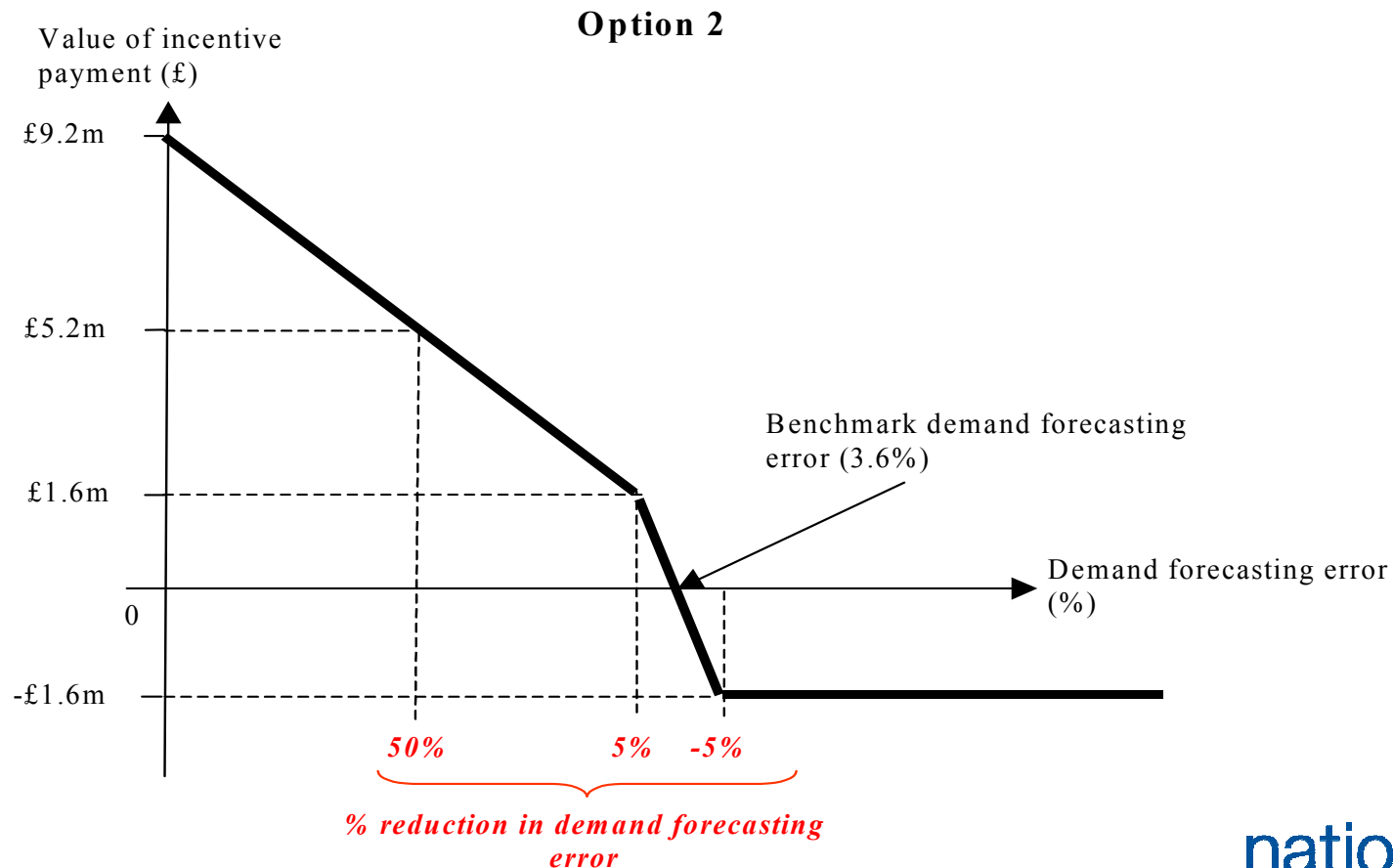
Summary of Initial Proposals

	Option	Upside payment for achieving target	Target improvement	Cap	Collar	Performance to hit cap	Decline resulting in collar
Demand Forecast Incentive	1	£0.8m	5%	£4.6m	£0m	100%	N/A
	2	£1.6m	5%	£9.2m	-£1.6m	100%	5%
Market Info Incentive	1	£1m	27%	£1.5m	£0m	100%	N/A
	2	£2m	27%	£3m	-£2m	100%	27%

- ◆ Ofgem proposed two options for each incentive
- ◆ National Grid to invest to improve performance and would only recover investment monies if performance improvements
- ◆ Capped payment is only 'notional' as requires perfect performance (not realistic, particularly a 'perfect' demand forecast)

Example – Demand Forecast Incentive

- ◆ Upside/downside DF incentive:



Demand Side Response

No clear definition of Demand Side Response

Demand Response is the difference between what might have been expected and what actually happened.

National Grid NTS will seek to indicate the basis for any demand side response “incorporated within the day ahead forecast”