Pricing Proposals for DN Interruption Reform

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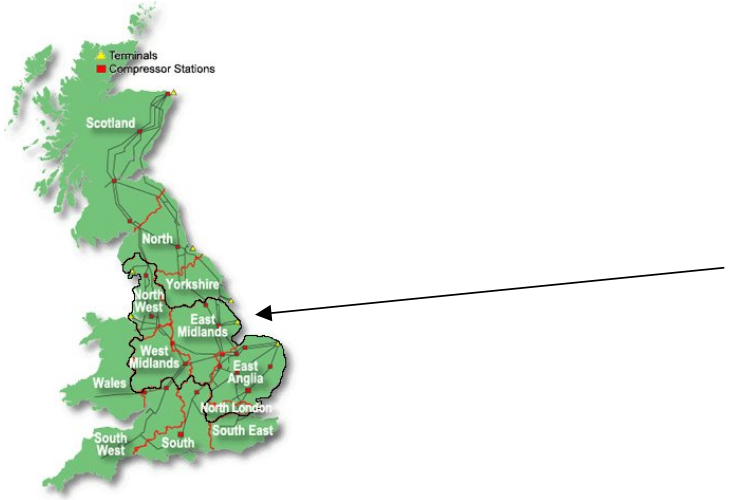
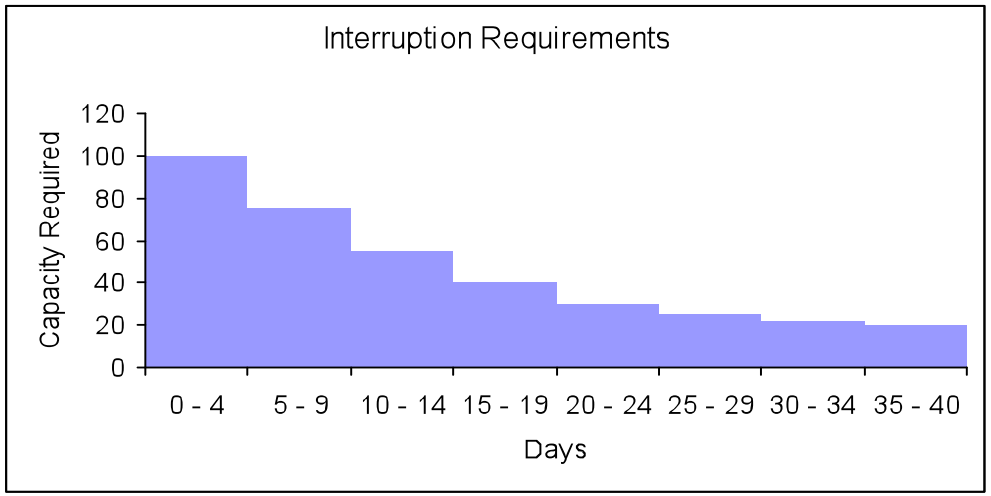
Assumptions

- Interruption rights will be sold at a zonal level reflecting the varying network constraints
- The pricing method should enable DNs and Users to make interruption decisions based on a market-derived valuation of interruption
- The price of interruption rights will be used to determine when it is more economic to invest within the network
- The DN regulatory incentive mechanism will be designed such that
  - DNs are protected from extreme prices in NSLs scenarios
  - DNs can make an appropriate trade-off between invesment or purchasing interruption rights

DN Interruption Requirements





- DN will identify each zone where a constraint exists and determine interruption requirement
- Zonal (NSL) versus generic interruption

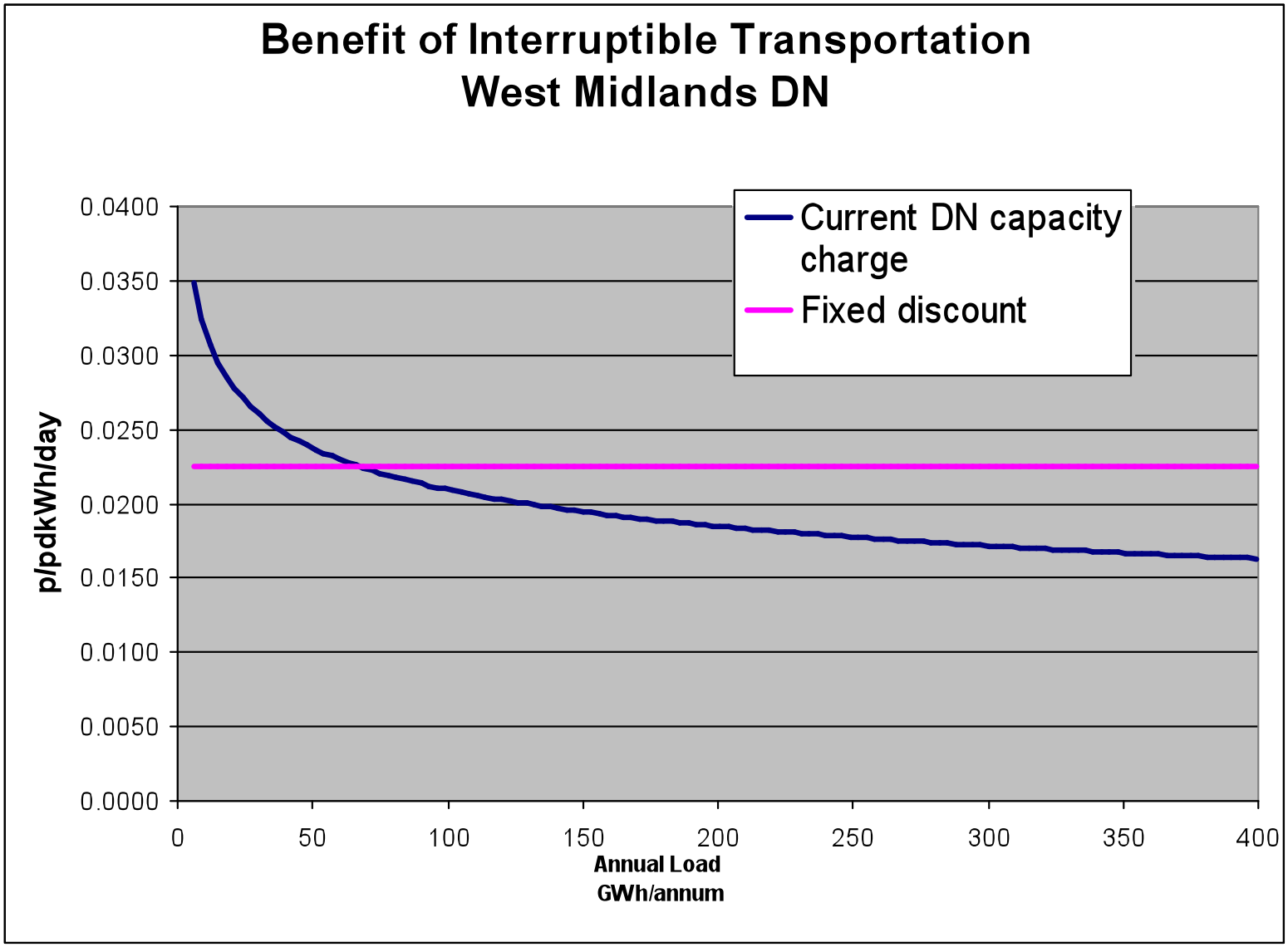
Criteria for choosing between methods of sale

- The arrangements should enable DNs to make an efficient trade-off between purchasing interruption rights and network investment
- The arrangements should ideally provide greater flexibility to shippers & consumers in terms of the interruption services available
- Given the potentially varying level of competition for services in different zones, a method which offers some protection from extreme outcomes may be preferable
- The method should ideally provide a stable signal from one auction to the next
- The cost and complexity of the sale method should be proportionate to the benefits arising from the sale of interruption rights

Pricing Assumptions

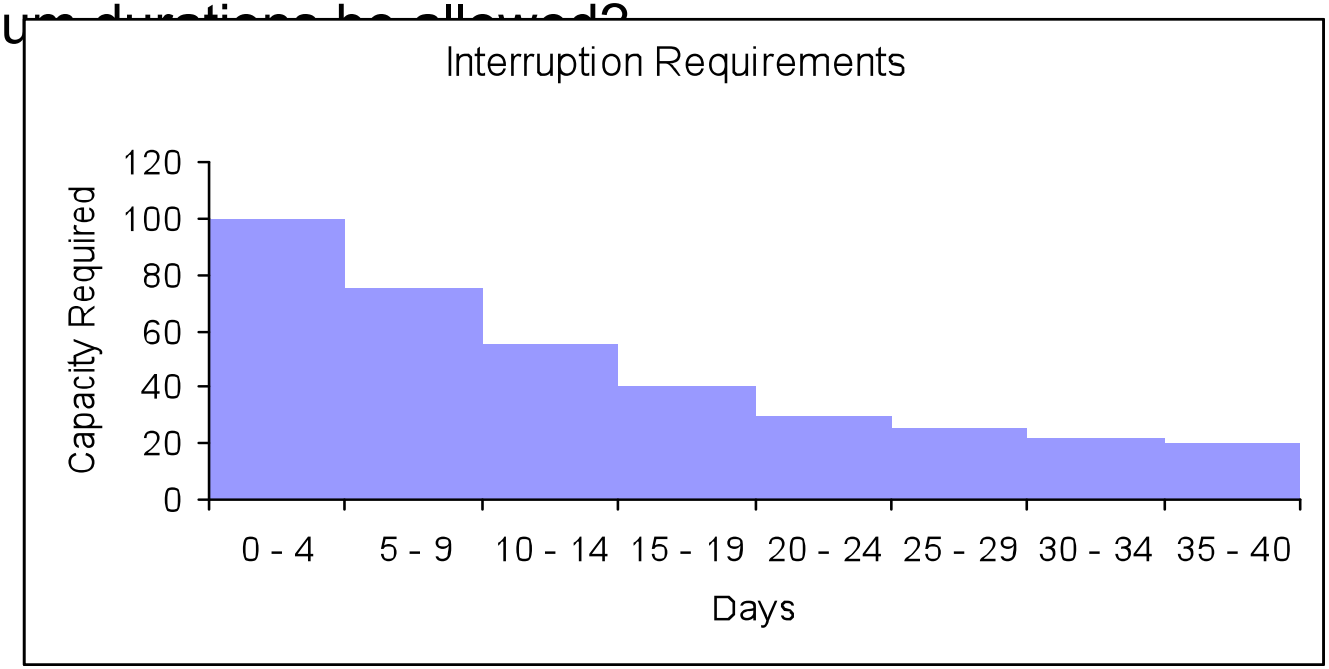
- The amount paid will be a fee dependent on the volume and number of days of interruption, payable to the shipper for sites in its portfolio
- The amount paid will not be a rebate or reduction on their transportation charges
- There will be one methodology for all interruption contracts across all of the networks
- The methodology may be separate from the transportation charging methodology

Impact of move to Flat Rate Benefit



Issues for any pricing method

- Should there be separate set prices or bids for the different maximum durations of interruption eg. For up to 5 days, up to 10 days etc?
- The granularity of rights offered needs to be determined?
- Alternatively, should the shipper be free to specify the maximum duration for any bid per site? Or should multiple bids for different maximum durations be allowed?



Issues for any pricing method (2)

- Should the offered prices or bids be based on varying option & exercise splits or on a single split?
- Examples:
  - 100% option
  - 50% option and 50% exercise
  - structured mix of choices: 100/0, 72/25, 50/50 etc
  - separate option and exercise values

Pricing Options Considered

- Administered prices
- Auction
- Hybrid approach

Administered Prices

- **DN determines the price of interruption rights, based on either**
  - set proportion of the alternative annuitised unit reinforcement cost to make loads firm
  - estimated price to achieve level of interruption rights required
- **DN would invite shippers to tender for quantity of interruption based on price offered**
- **DN would select sites to be interrupted. If there were not enough sites offering interruption, DN would conclude that the price was not sufficient to compensate the site for being interruptible and the DN would invest in the network.**

Positives	Negatives
• Simple for shippers / consumers • Network determines the cost of interruption. May avoid extreme prices in NSLs scenario • Provides some stability and certainty in the market • Simplifies information sharing process • Prices could be adjusted over time to better match interruption offered and required	•Does not allow shippers to indicate their value of interruption rights •Provide very limited price signal •Unlikely to lead to matching of quantity offered and required •May lead to arbitrary selection where more rights are offered than required

Auction

- DN invites bids from shippers. The bids could be on an option and exercise basis.
- DN would then identify the most cost effective bids and then compare this to the cost of reinforcement required to make the sites in the zones firm.
- DN would then accept or reject the bids and invest as appropriate.

Positives	Negatives
• Market Driven, full price signals • Easy to select criteria for DN	• More complex and costly for shippers and consumers • Limited competition in some zones may impact prices offered • May result in very high prices from NSL loads, especially in a monopoly situation • Shippers have no guidance on range of likely bids

Hybrid - Auction with guide prices

- DN offers interruptible rights at a range of prices.
- The shippers would be invited to bid based on these guide prices.
- DN would then identify the most cost effective bids and then compare this to the cost of reinforcement required to make the sites in the zones firm.
- The DN would then accept or reject the bids or invest as appropriate.

Positives	Negatives
• Provides restricted market scenario to determine the value of interruption • Provides range to simplify bidding for shippers • May prevent very high prices from NSL monopoly situations • Helps to structure auction, could be used as a transitional method • Helps to rationalise decision making process for shippers	•Guides may bias market •Additional cost and complexity of auction

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