

Enduring NTS Offtake Arrangements

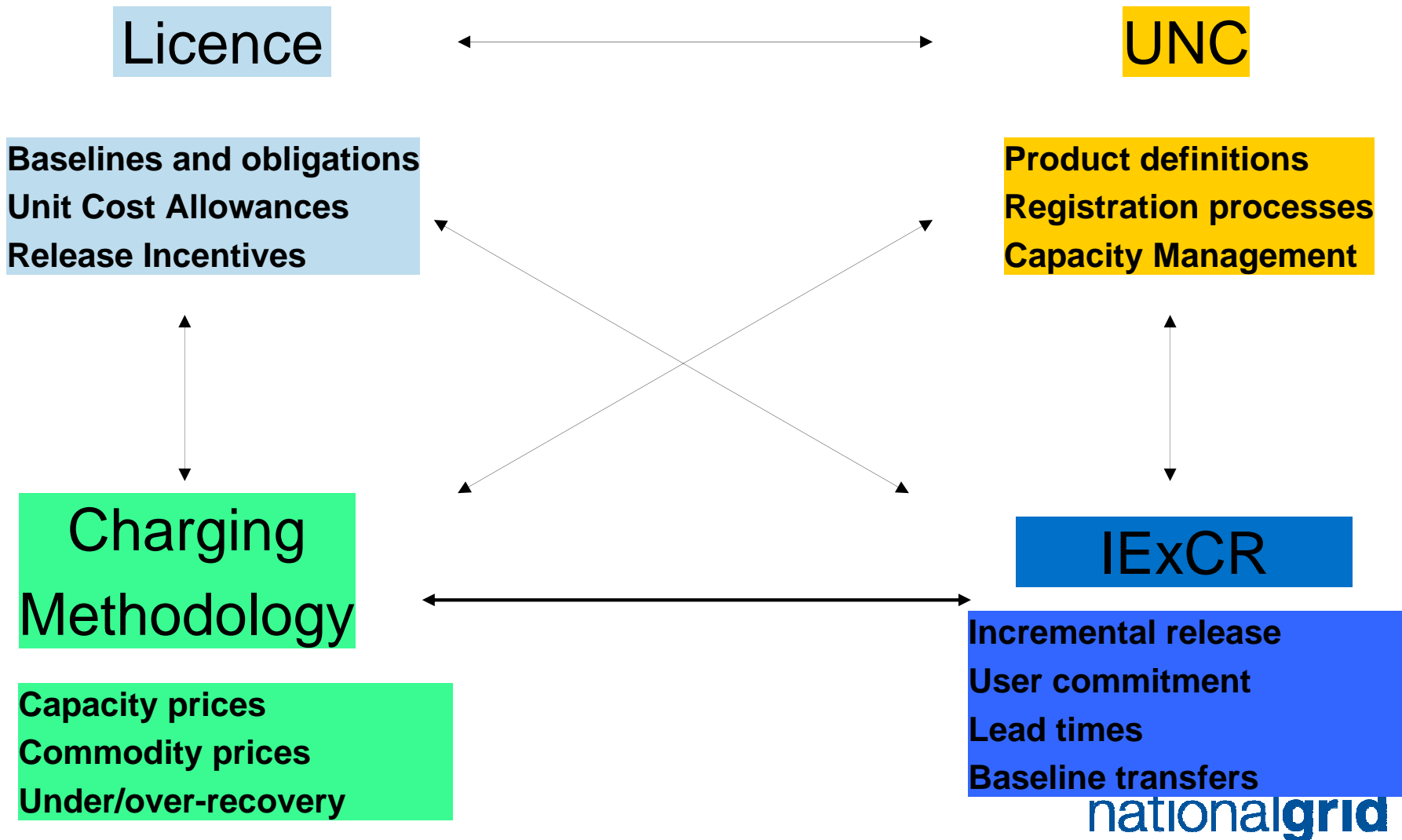
EOWG

23rd August 2006

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- ◆ Commercial/Regulatory Framework
- ◆ Capacity Products
- ◆ Registration mechanisms
 - ◆ Flat capacity
 - ◆ Flex capacity
- ◆ Constraint Management
- ◆ Liabilities
- ◆ Charging Arrangements
- ◆ Way Forward

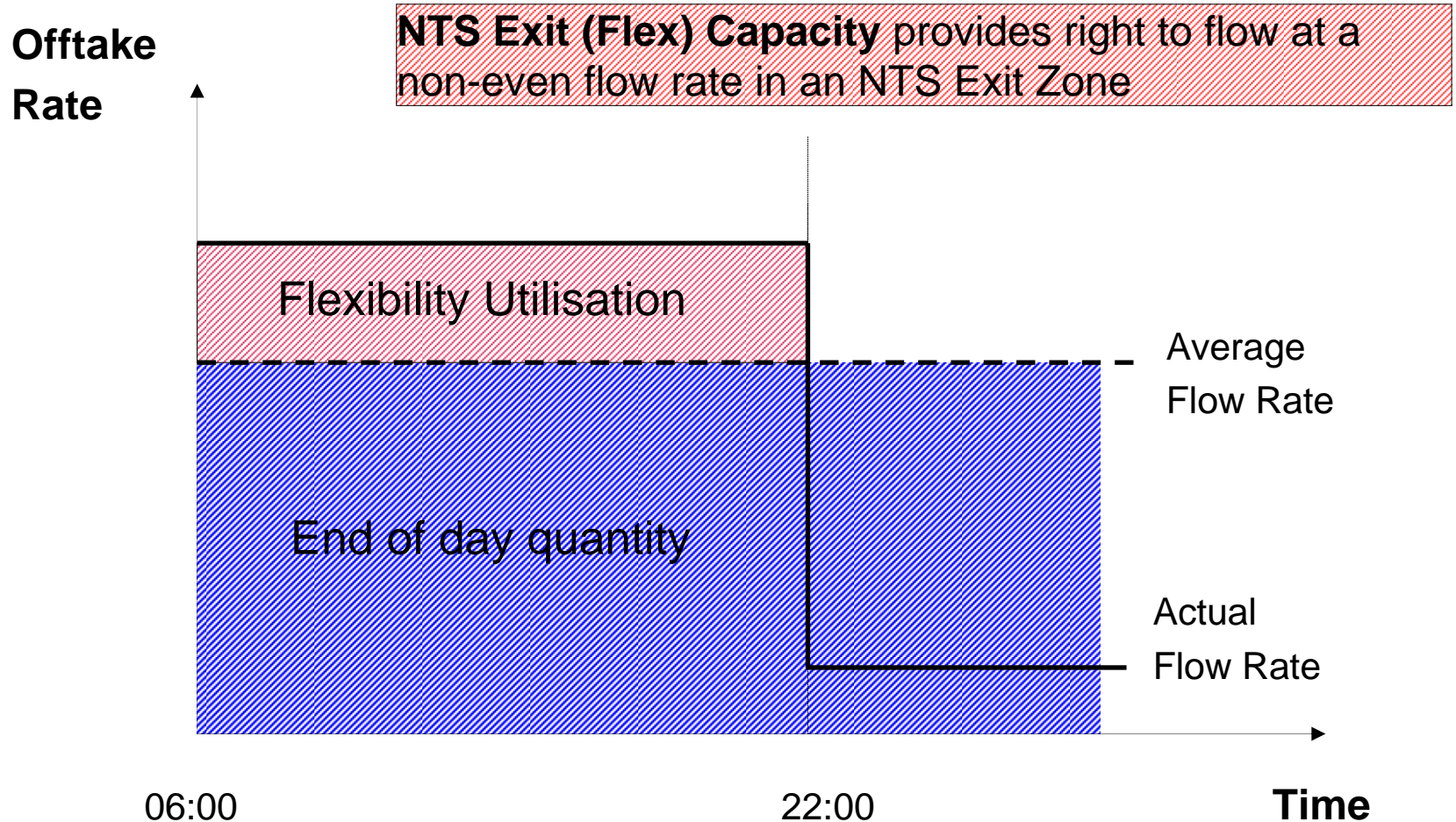
Commercial/Regulatory Framework -Enduring Regime Model



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Capacity Products



NTS Exit (Flat) Capacity provides right to offtake daily quantity of gas with implied rights to flow at uniform rate at an NTS Exit Point

Products

☐ Types of capacity

- NTS Exit (Flat) Capacity



☐ Bundles

- ✓ Prevailing rights (3 years+)
- ✓ Annual (1-3 years)
- ✓ Daily (day ahead and on the day)
- ✓ Daily Interruptible (day ahead)

- NTS Exit (Flex) Capacity



- ✓ Annual (1-5 years)
- ✓ Daily (day ahead and on the day)

NTS Exit Capacity - Overrun quantity

- ◆ User will only incur a flat or flex overrun charge at an NTS Exit Point or Zone on any day if:
 - ◆ there is an "Aggregate NTS Exit Overrun"
 - ◆ i.e. aggregate end of day flows exceeds aggregate flat holdings or aggregate flex utilised exceeds aggregate flex holdings ; AND
 - ◆ it has resulted in an individual User overrun
 - ◆ i.e. user end of day flow exceeds its flat holdings or user flex use exceeds its flex holdings
- ◆ In event that sum of each "User's Individual NTS Exit (Flat/Flex) Overrun" is greater than "Aggregate NTS Exit (Flat/Flex) Overrun", then each User's overrun amount will be scaled down such that sum of each "User's NTS Exit (Flat/Flex) Overrun" is equal to the "Aggregate NTS (Flat/Flex) Exit Overrun"

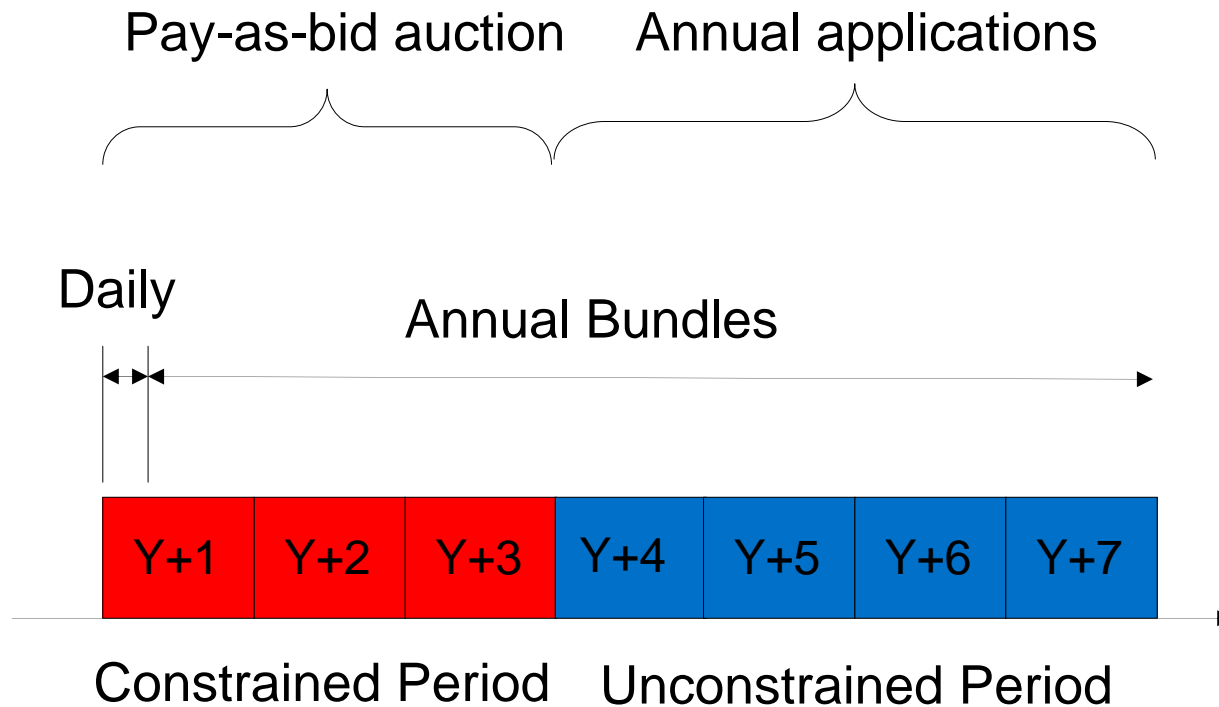
NTS Exit Capacity - Overrun charge

- ◆ A User's NTS Exit Capacity flat/flex overrun charge will be determined as the "User's NTS Exit (Flat/Flex) Capacity Overrun" amount multiplied by the highest of:
 - ◆ 8 times the highest price paid by Users at the NTS Exit Point/ Zone for any class of firm NTS Exit (Flat/Flex) Capacity for that day
 - ◆ 8 times the highest reserve price at the NTS Exit Point or zone for any capacity auctions (NB. This is to cover scenario where no capacity is booked at an NTS Exit Point/Zone, but Users still flows)
 - ◆ 1.1 times the highest price paid by National Grid for NTS Exit (Flat/Flex) Capacity for any NTS Exit Point/Zone for that day for capacity buy back through any constraint management action

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NTS Exit (Flat) Capacity Release



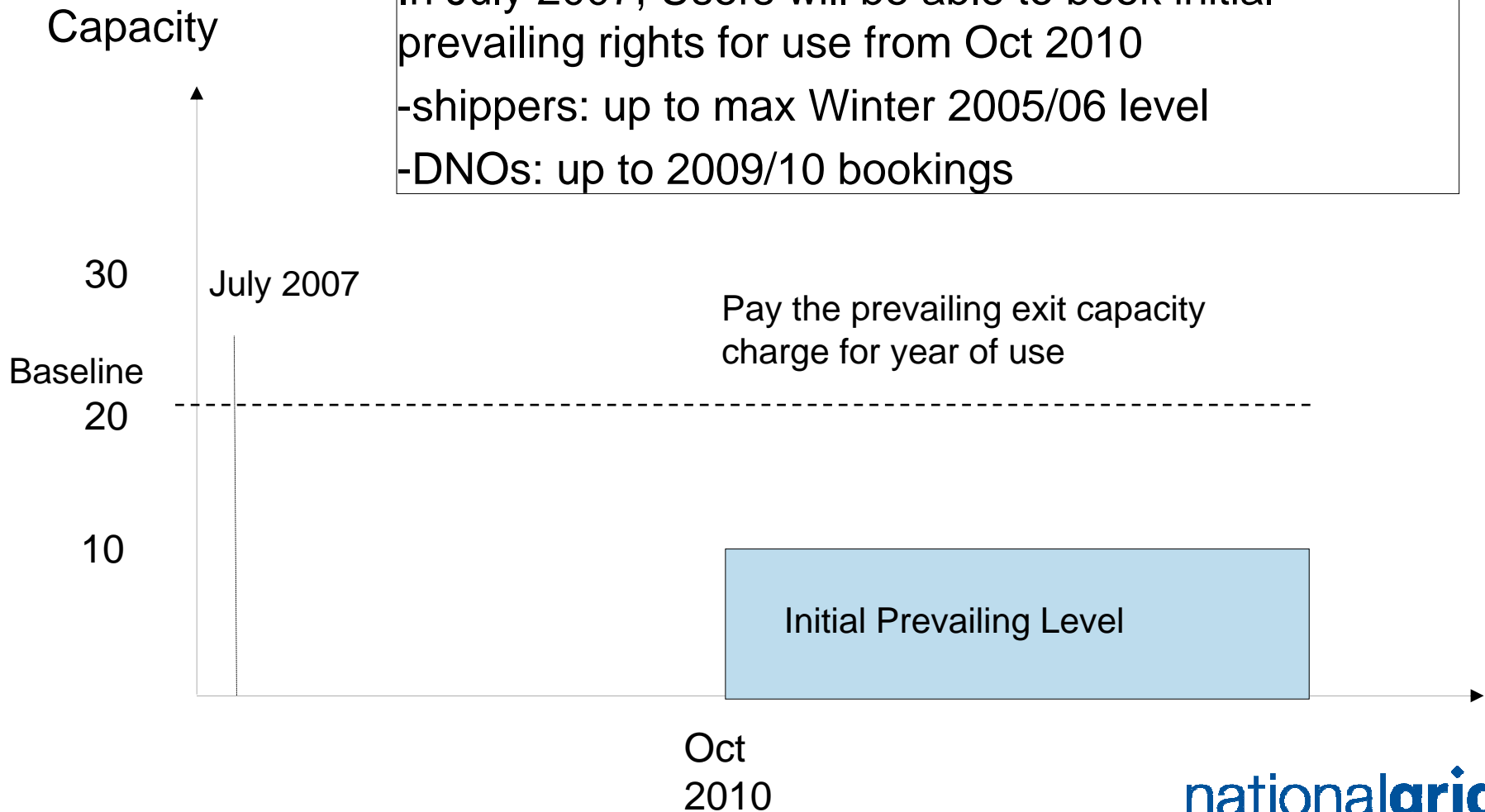
Investments: Unconstrained Period

“Prevailing Flat Capacity” - Initialisation

In July 2007, Users will be able to book initial prevailing rights for use from Oct 2010

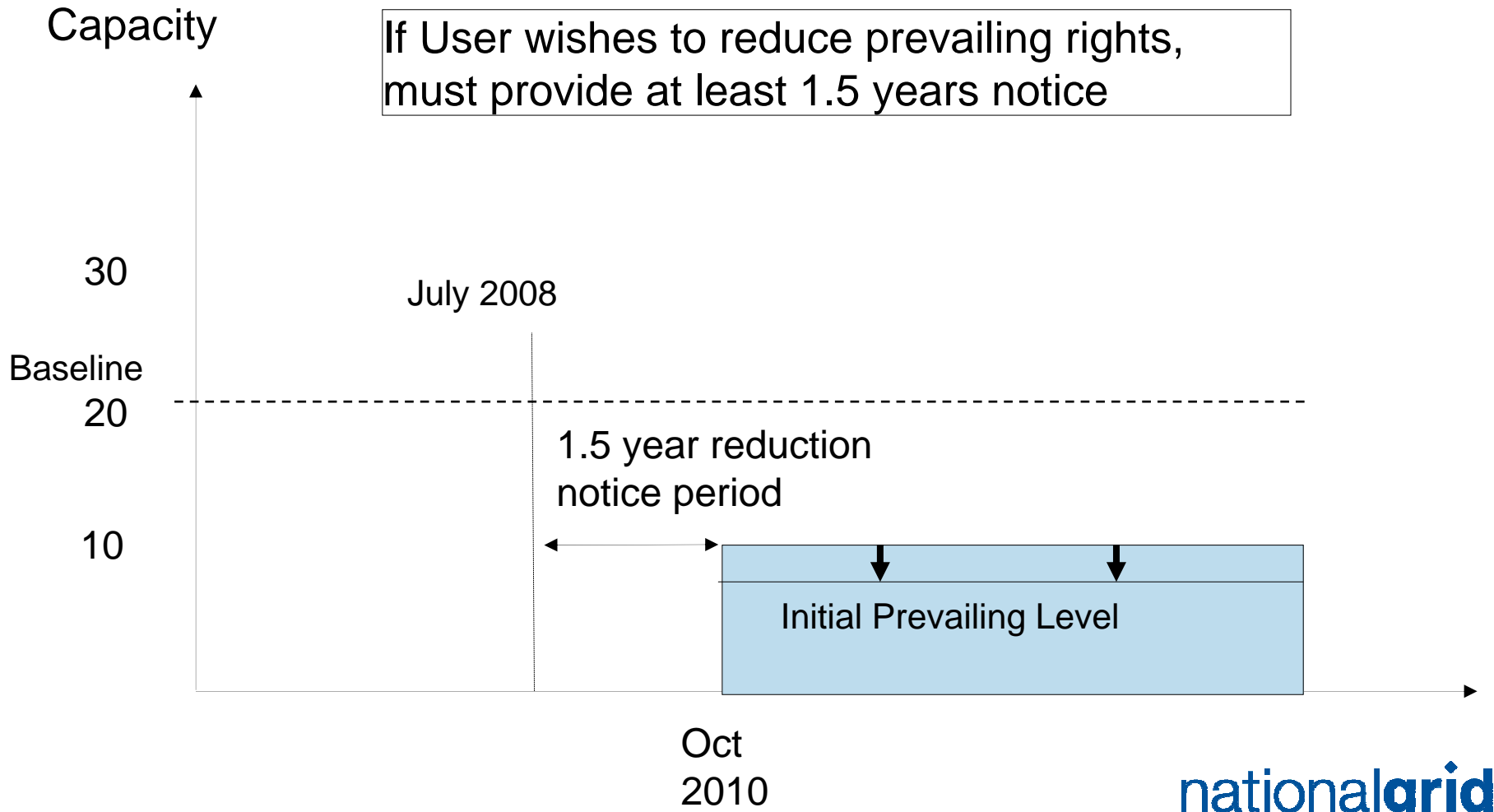
-shippers: up to max Winter 2005/06 level

-DNOs: up to 2009/10 bookings



“Prevailing Flat Capacity” - Reduction

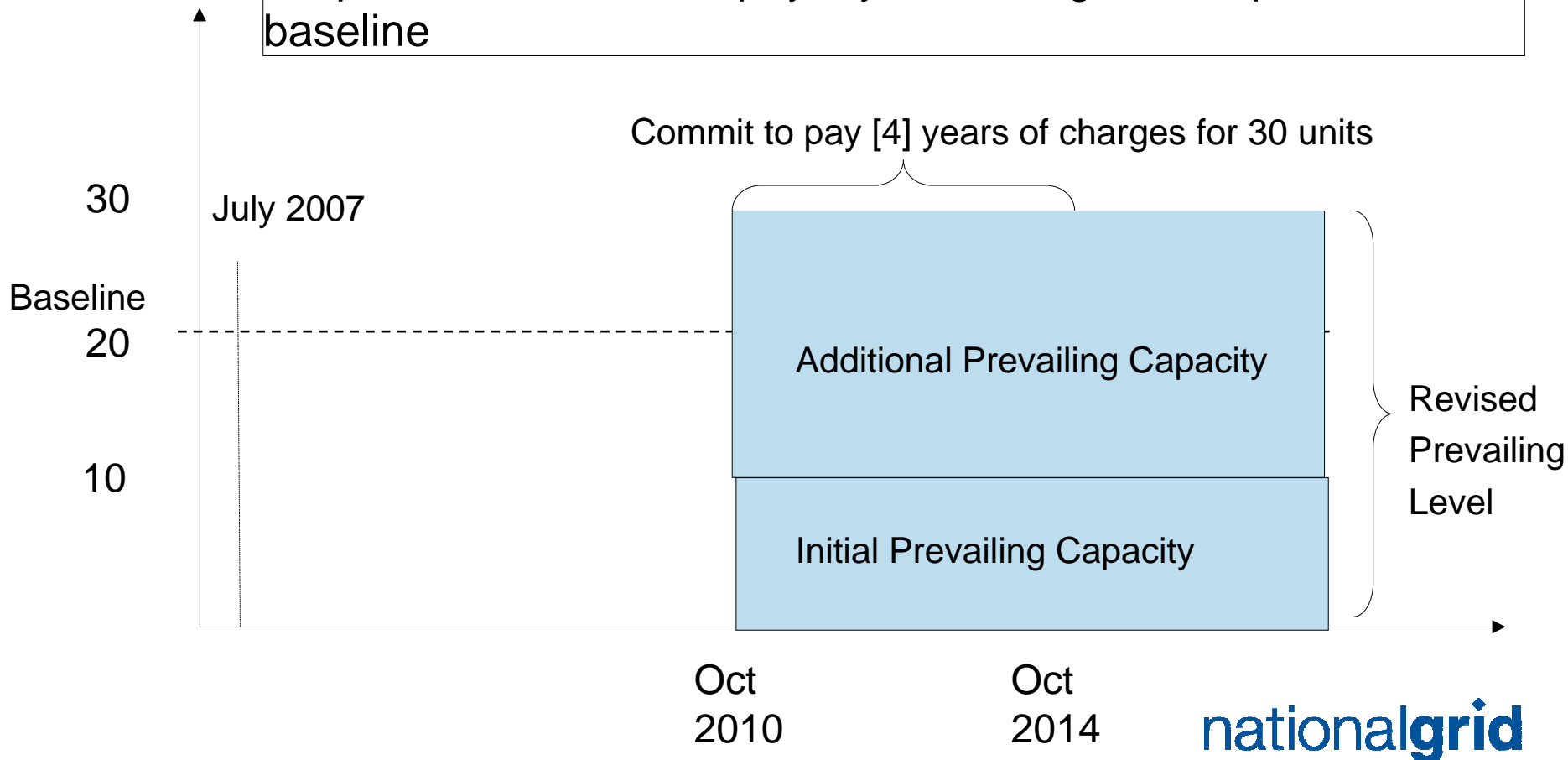
If User wishes to reduce prevailing rights, must provide at least 1.5 years notice



Investments: Unconstrained Period

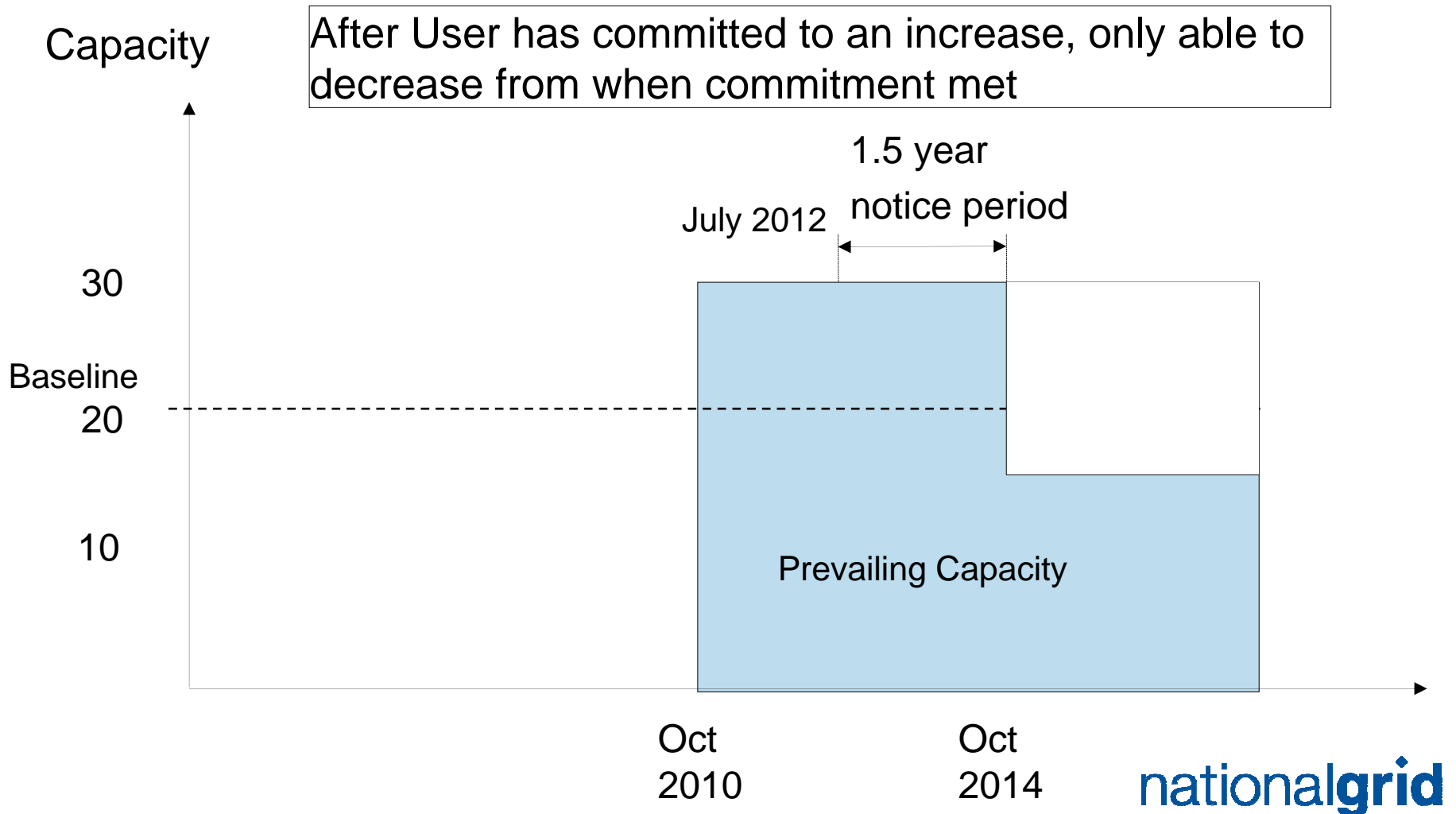
“Prevailing Flat Capacity” - Increase

In July 2007, Users will also be able to request additional prevailing rights for use from Oct 2010
Require commitment to pay 4 years charges, irrespective of baseline



Investments: Unconstrained Period

“Prevailing Flat Capacity” - Decrease



Investment Process

- Incremental “Prevailing Flat Capacity”

Users able to apply in July to signal additional “prevailing” requirements for 3 years ahead



Each User commits to pay for [4] years of charges, irrespective of baseline (but may only reduce thereafter subsequent to [1.5] years notice period)



If aggregate of user requirements at a node above baseline then National Grid NTS consider need for investment



National Grid NTS considers whether transfer of unsold capacity from other nodes would avoid investment and request permanent baseline reductions via application to release incremental capacity



Allocations and transfers published by October

ARCAs

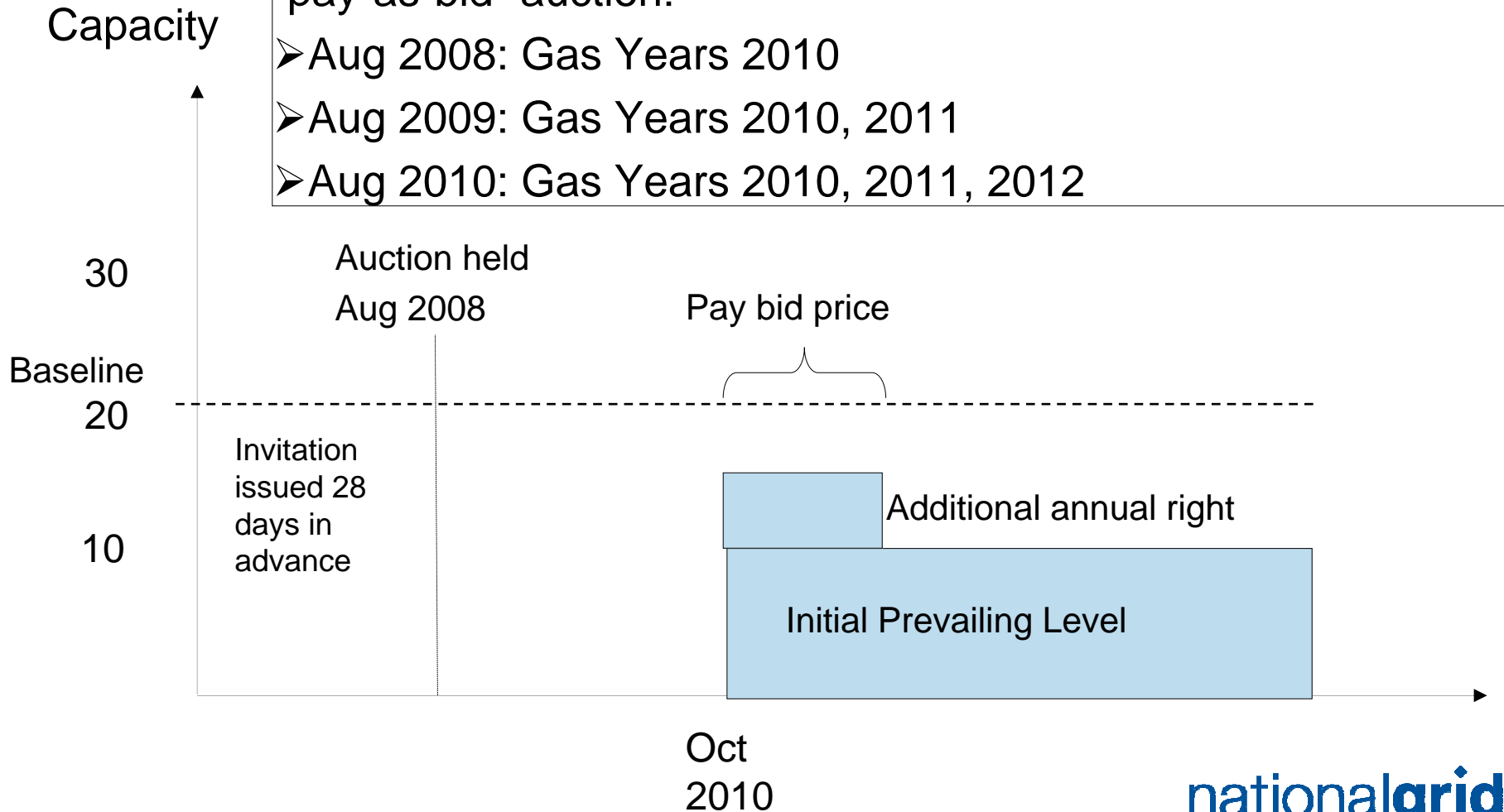
- ◆ Allows non-UNC parties to reserve Prevailing NTS Exit (Flat) Capacity
- ◆ Counter party commits to pay [4] years of exit capacity charges on any amount of reserved capacity not booked by Users under UNC
- ◆ National Grid NTS commitment to allow users to book reserved capacity

Constrained Period

Flat capacity – Increase (annual)

Users able to book annual rights up to unsold baseline through “pay-as-bid” auction:

- Aug 2008: Gas Years 2010
- Aug 2009: Gas Years 2010, 2011
- Aug 2010: Gas Years 2010, 2011, 2012



Constrained Period

Flat capacity – Increase (annual)

- ◆ 2 bid days, every third business day
 - ◆ 50% of available volume offered on first day
 - ◆ Remaining on second day
- ◆ Window open between 08.00 and 17.00 on working days
- ◆ Allocation will take place after each bid window
- ◆ Price bid must be greater than or equal to reserve price
- ◆ If User has a credit sanction in place, bid rejected
- ◆ No more than 10 bids per User per NTS Exit point per period

Constrained Period

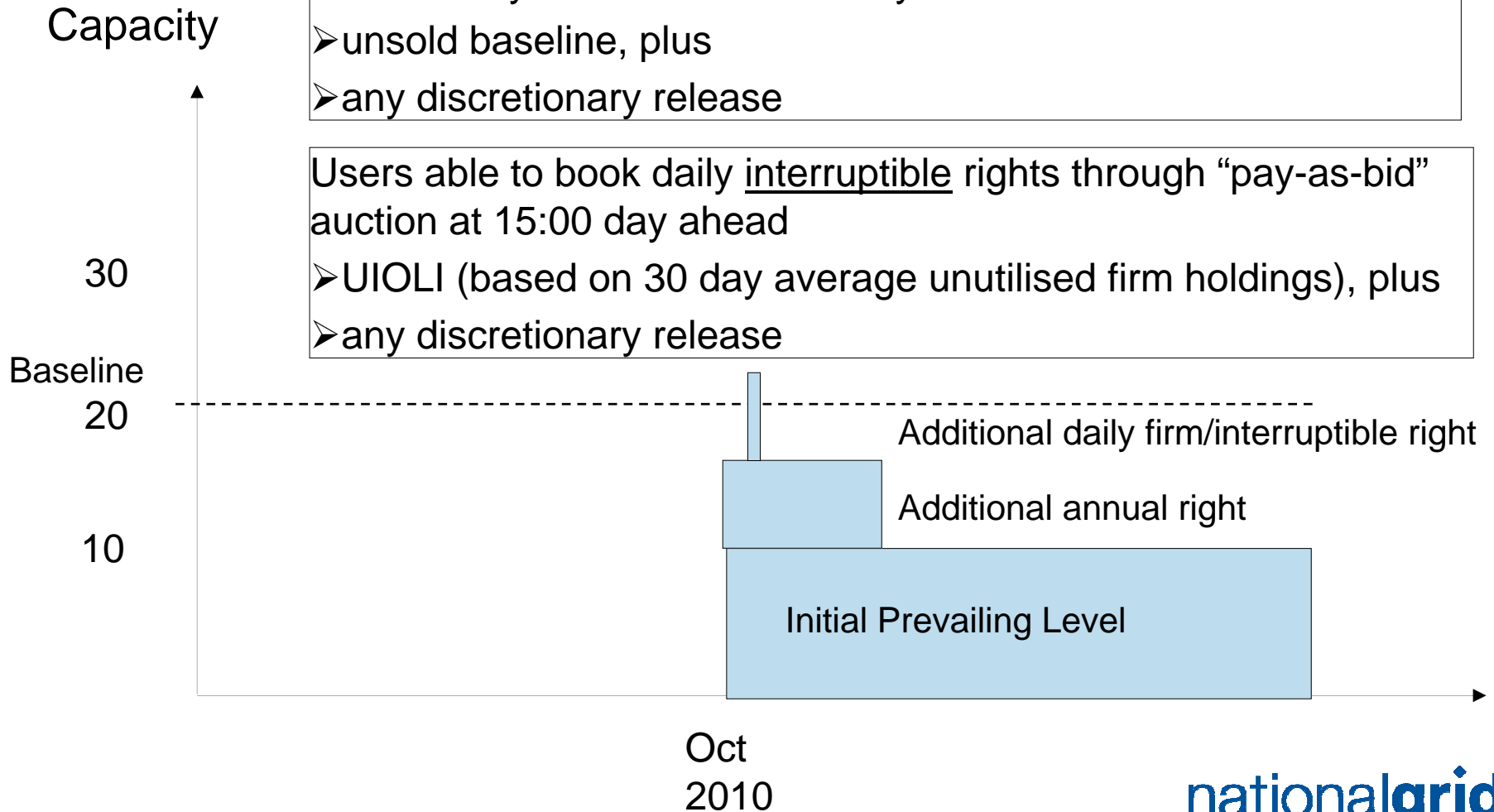
Flat capacity – Increase (daily)

Users able to book daily firm rights through “pay-as-bid” auction at 15:00 day ahead and within day

- unsold baseline, plus
- any discretionary release

Users able to book daily interruptible rights through “pay-as-bid” auction at 15:00 day ahead

- UIOLI (based on 30 day average unutilised firm holdings), plus
- any discretionary release



Daily Auction Process – Firm and Interruptible

- ◆ For any gas day, bid window open between D-7 06.00 and D-1 22.00
- ◆ Users able to place up to 10 bids per NTS Exit Point per day
- ◆ National Grid NTS will allocate and notify Users within 1 hour of each auction
- ◆ Not later than 1 hour after each User has been notified of their allocation, National Grid NTS will publish auction results aggregated at NTS Exit Point level

NTS Exit (Flat) Capacity

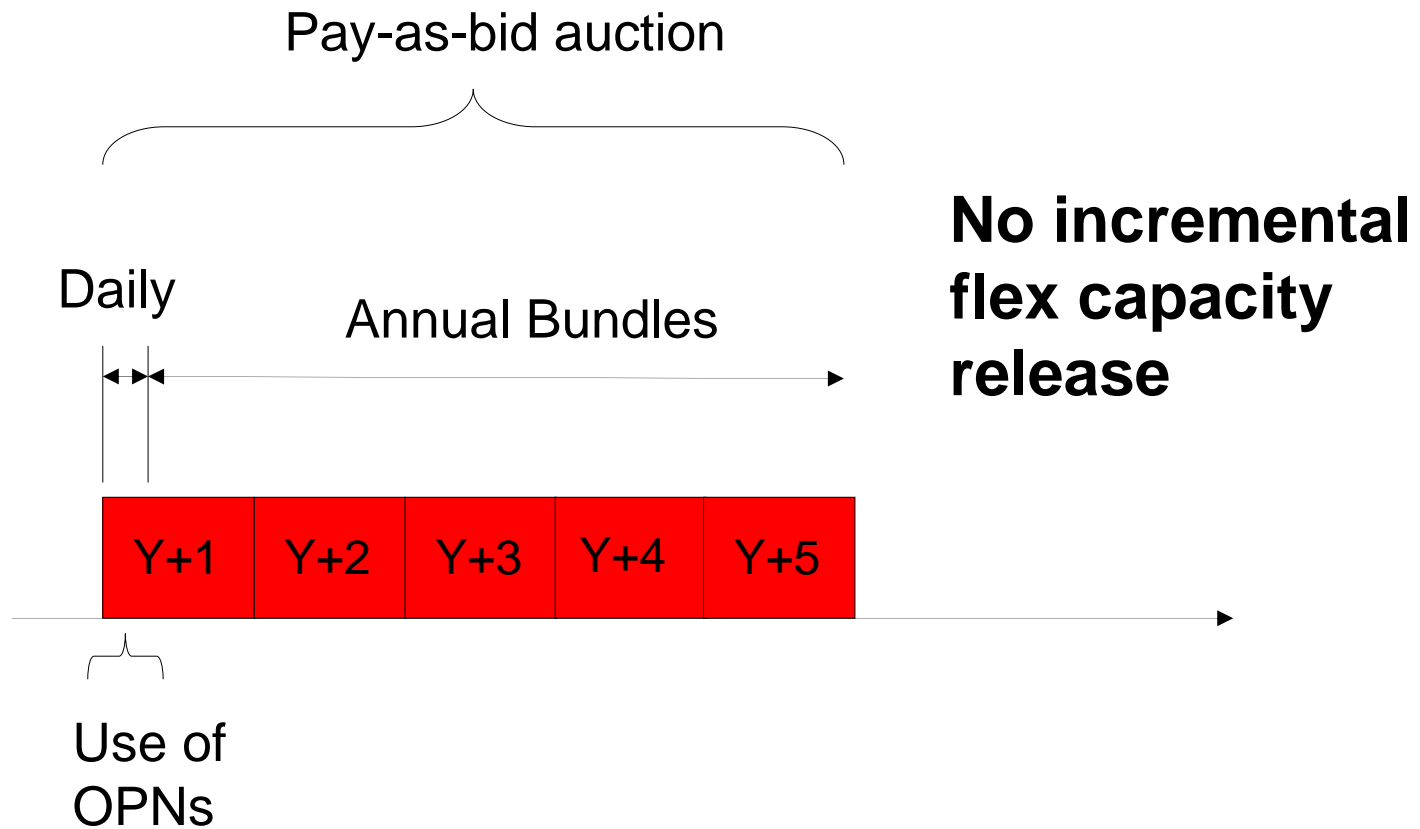
– Transfers and Assignment

- ◆ National Grid NTS will facilitate secondary transfers (trading) of capacity for any gas day(s) after last annual auction at an NTS Exit Point up to 04:00 on gas day
 - ◆ i.e. User able to transfer (trade) any quantity of capacity at NTS Exit Point to another User at same NTS Exit Point, but primary holder remains liable for capacity charges
- ◆ National Grid NTS will facilitate primary transfer (assignment) of a User's total amount of capacity holding to another User at an NTS Exit Point with 5 days notice
 - ◆ User able to assign its total amount of capacity holdings at an NTS Exit Point to another User at the same NTS Exit Point, subject to credit checks, including the liability to pay for capacity charges

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NTS Exit (Flex) Capacity Release



NTS Exit (Flex) Capacity Release

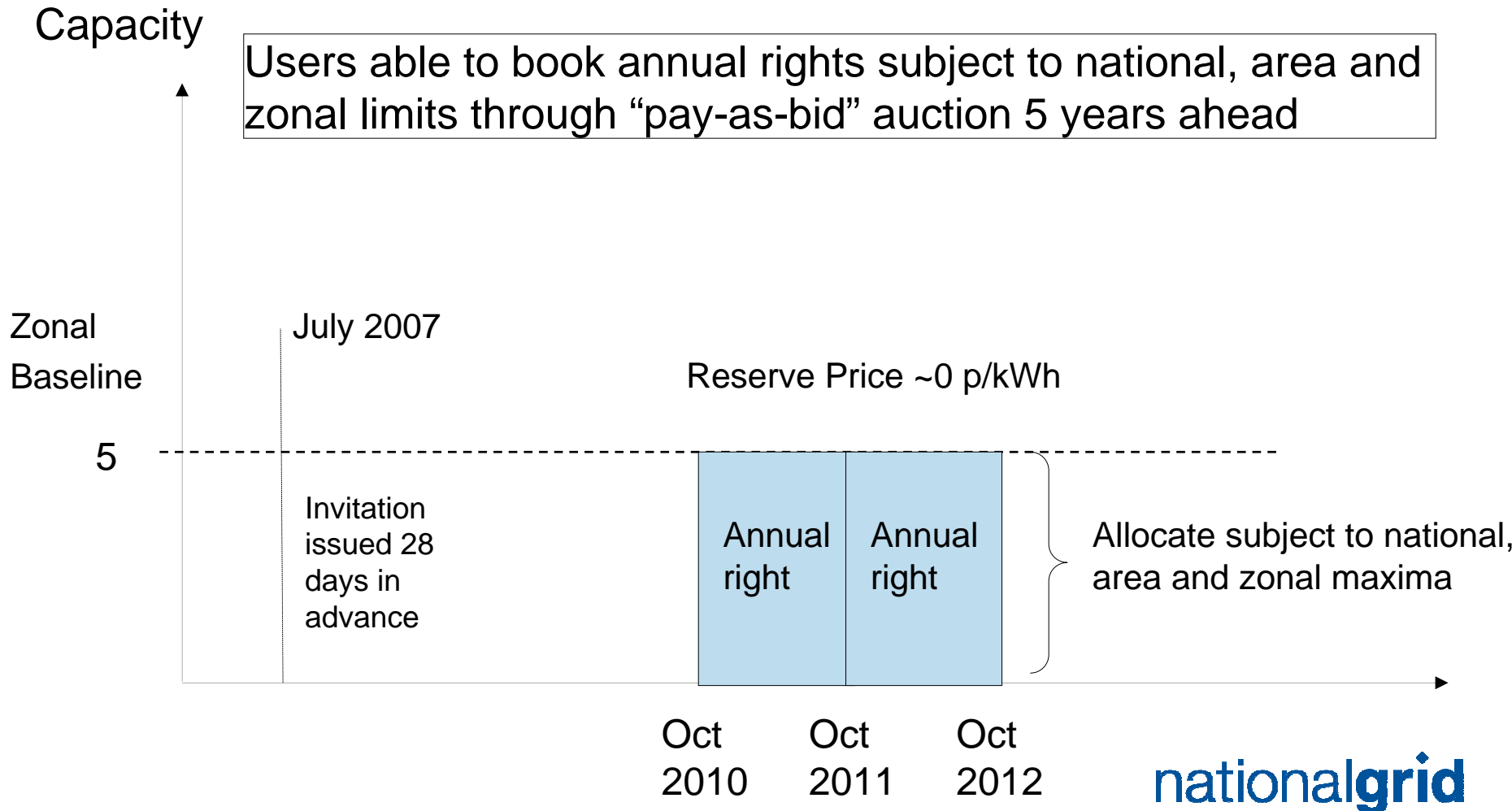
– Long/Medium term

Area	Zone	Zonal maxima	Area maxima	National Maximum
North	0	3.58	9.00	22
	1	4.60		
	2	0.40		
	3	3.19		
	4	5.95		
Central	5	1.54	8.00	
	6	0.64		
	11	2.67		
	12	2.21		
	15	1.46		
West	7	2.02	5.00	
	14	1.62		
East	8	2.03	8.00	
	9	3.01		
	10	1.29		
	13	3.26		
	16	1.21		

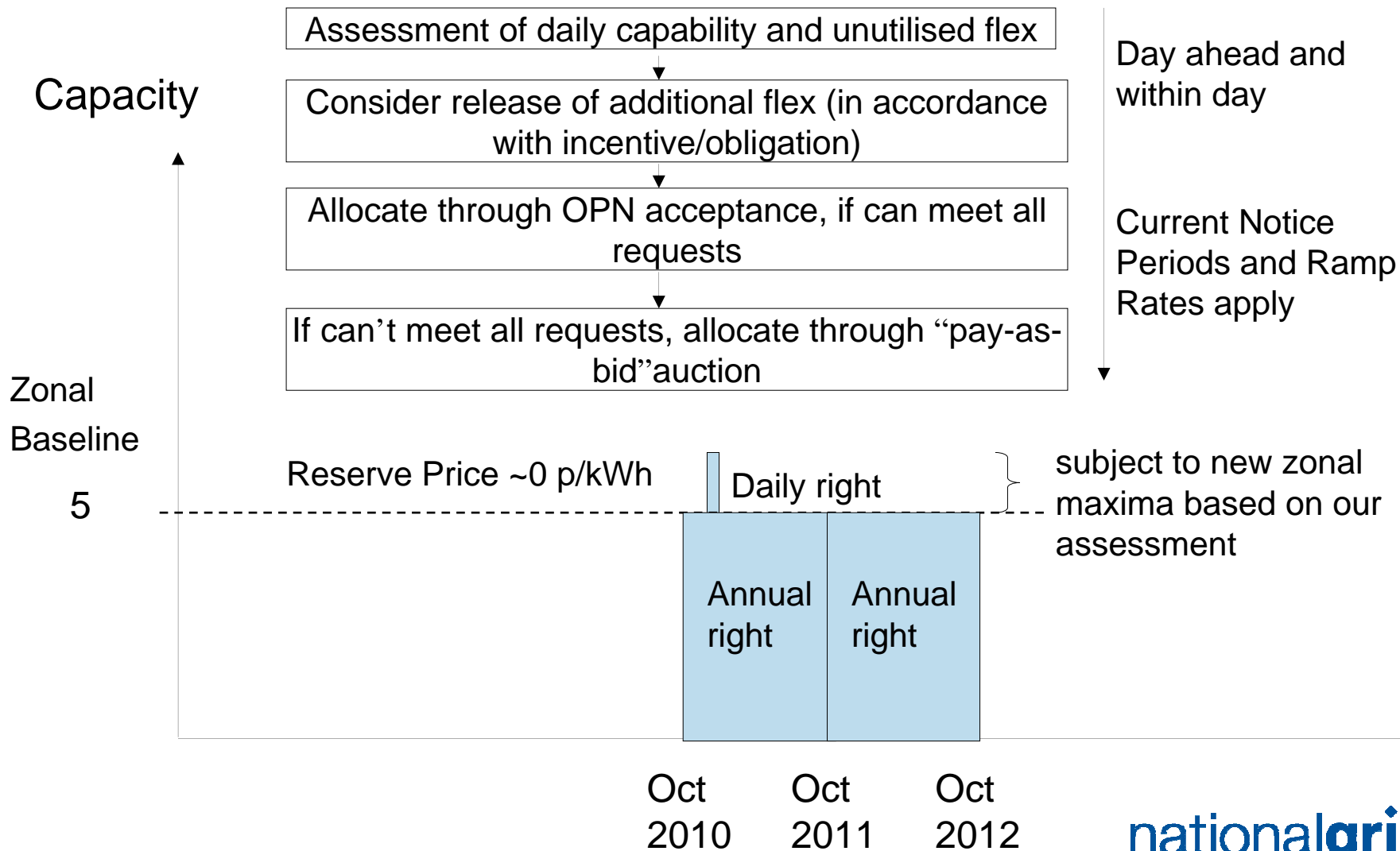
Flex release limited through annual sales to national, area and zonal limits

Above quantities for 2010/11 and 2011/12

Flex Capacity – Increase (annual)



Flex Capacity – Increase (daily)



NTS Exit (Flex) Capacity

– Transfers and Assignment

- ◆ National Grid NTS will facilitate secondary transfers (trading) of capacity for any gas day(s) after last annual auction:
 - ◆ at an NTS Exit Zone up to 04:00 on gas day i.e. User able to transfer (trade) flex capacity at NTS Exit Zone to another User at same NTS Exit Zone, or
 - ◆ between NTS Exit Zones up to 12:00 day ahead i.e. User able to transfer (trade) flex capacity at NTS Exit Zone to another User or itself at another NTS Exit Zone (subject to specific limitations)
- ◆ but primary holder remains liable for capacity charges
- ◆ National Grid NTS will facilitate primary transfer (assignment) of a User's total amount of capacity holding to another User at an NTS Exit Zone with 5 days notice
 - ◆ User able to assign its total amount of capacity holdings at an NTS Exit Zone to another User at the same NTS Exit Zone, subject to credit checks, including the liability to pay for capacity charges

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NTS Exit (Flat) Capacity

Type	Comment
Scale back of interruptible flat holdings	This will be at zero cost (at National Grid NTS discretion)
“Flow swapping” agreements	This may replace the current arrangements whereby flow can be swapped between NTS/LDZ offtakes while maintaining the aggregate end of day flow into an LDZ
Options and forward contracts	Buy back of NTS Exit (Flat) Capacity via bi-lateral contracts between National Grid NTS and Users
Daily buy back auctions	Buy back of NTS Exit (Flat) Capacity via daily auctions ahead of and on the gas day undertaken as required by National Grid NTS

NTS Exit (Flex) Capacity

Type	Comment
“Flow swapping” agreements	This may replace and extend the current arrangements whereby flow can be swapped between NTS/LDZ offtakes while maintaining the aggregate end of day flow into an LDZ to enable temporal flow switching
Options and forward contracts	Buy back of NTS Exit (Flexibility) Capacity via bi-lateral contracts between National Grid NTS and Users
Daily buy back auctions	Buy back of NTS Exit (Flexibility) Capacity via daily auctions held ahead of the gas day undertaken as required by National Grid NTS
Within Day Reductions	Flow Rate reductions over a specific period of time. Specific details provided by National Grid NTS, Users then place offers, if offer(s) accepted User’s Flexibility holdings reduced.

Within day linepack depletion

“Cumulative flow reduction of x GWh over y hours” in a zone

Users would be advised of

- the quantity requirement
- the necessary timing
- the geographical location of the requirement

Users (if any) would then offer service and an offer stack would be constructed

	Offer Size	unit price	
User 3	.2	£20	↓ Bid acceptance down the stack until requirement satisfied
User 1	.4	£30	
User 3	.1	£50	
User 1	.1	£60	
User 3	.1	£80	
User 1	.1	£9	
User 1	.2	£125	

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National Grid NTS Liabilities

Types	Proposal
Non-compliant gas	As now
Failure to make gas available for offtake	As now, but with compensation payable on flat and flex products separately Retention of maintenance days May be separate arrangement for late delivery of investments through TPCR
Pressure commitments	Commitments for 2009/10 (set this summer) rolled over Both National Grid and DNOs able to request permanent or finite reduction: <ul style="list-style-type: none">➤ Must be accepted unless would jeopardise safe and efficient operation of the other party's network➤ Overriding obligation to co-operate in establishment of pressures that will "optimise the safe and efficient operation of NTS and LDZ"

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Prevailing NTS Exit (Flat) Capacity Charges

- ◆ Published by August for charges in following Gas Year
- ◆ Long Run Marginal Costs currently determined using Transcost and 10 year forecast of supply/demand
- ◆ Tariffs scaled to seek to recover 50% of Allowed TO Revenue

Gas TCMF : National Grid NTS considering move to one year supply/demand forecast and use of a Transportation Model

NTS Exit (Flat) Capacity Charging Principles – Based on current charging arrangements

Types	Proposal
Prevailing NTS Exit (Flat) Capacity	Pay prevailing charge for year of use (as under current regime)
Annual NTS Exit (Flat) Capacity	Pay bid price, subject to reserve price equal to prevailing charge for following Gas Year
Daily NTS Exit (Flat) Capacity	Pay bid price, subject to reserve price equal to prevailing charge for the Gas Year
Daily Interruptible NTS Exit (Flat) Capacity	Pay bid price, subject to reserve price equal to 0.0001 p/kWh

NTS Exit (Flat) Capacity Charging Principles – Under potential new charging arrangements

Types	Proposal
Prevailing NTS Exit (Flat) Capacity	<p>Pay prevailing charge for year of use (as under current regime)</p> <p><i>Indicative charges published to inform user applications</i></p>
Annual NTS Exit (Flat) Capacity	<p>Pay bid price, subject to reserve price equal to:</p> <ul style="list-style-type: none"> ➤ for Gas Year Y+1 – prevailing charge ➤ for Gas Year Y+2 and Y+3 - <i>predicted prevailing charges for Y+2 and Y+3</i> <p><i>Aim to be no cheaper than prevailing rights</i></p>
Daily NTS Exit (Flat) Capacity	<p>Pay bid price, subject to reserve price equal to prevailing charge for the Gas Year</p>
Daily Interruptible NTS Exit (Flat) Capacity	<p>Pay bid price, subject to reserve price equal to 0.0001 p/kWh</p>

NTS Exit (Flex) Capacity Charging Principles

Types	Proposal
Annual NTS Exit (Flex) Capacity	Pay bid price, subject to reserve price equal to 0.001 p/kWh, consistent with principles that no specific investments for flexibility capacity
Daily NTS Exit (Flex) Capacity	

SO Commodity Charging Principles

Types	Proposal
End of day gas flows	As under current regime – standard SO Commodity rate on all exit flows, but reduced to offset SO Costs attributable to flexibility utilisation
Flexibility utilisation	New SO Flex Commodity Charge to encourage efficient use of NTS Exit (Flexibility) Capacity -set at [5%] of standard SO Commodity rate

Exit Capacity Neutrality

Costs

Capacity Management actions

Revenue

Daily sales

Overrun charges

**Exit
Capacity
Neutrality**

Base on one national arrangement or per each NTS Exit Area?

Smearing

Net amount credited/debited to Users based on proportion of aggregate flat capacity holdings

Credit

- ◆ National Grid NTS will determine and assign to each User (in a manner which mirrors the current Code Credit rules) a Credit Limit and will keep User informed of its credit limit
- ◆ National Grid NTS will also carry out a monthly credit check taking into account payments due from next 12 months worth of NTS Exit Capacity (and Entry Capacity)
- ◆ Any credit sanction in place will only be removed whenever User's indebtedness reduced to less than 85% of its credit limit

Proposed Way forward

Milestone	Date
National Grid NTS issue detailed UNC Business Rules	31 st Aug
Transmission Workstream discussions	5 th and 12 th Sept
Submission of UNC Proposal to Mod Panel	12 th Sept
Mod Panel decision (National Grid NTS to request proposal issued for consultation)	21 st Sept
Consultations: <ul style="list-style-type: none">➤ UNC Modification Proposal consultation➤ Charging proposals➤ IExCR Methodology Statement	Oct 2006
Applications for: <ul style="list-style-type: none">➤ additional prevailing flat capacity from Oct 2010➤ annual flexibility capacity for Gas Years 2010/11 and 2011/12	July 2007

Please let us know if you have any questions on enduring regime proposals: Email

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