

Treatment of Entry/Exit capacity revenues under RIIO-T1 & NTS Charging Methodology impacts



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Richard Hounslea, National Grid NTS

Overview

- **NTS Exit Capacity Charges**
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 - **RIO-T1 Licence Entry Capacity Terms**
 - **Key changes required for RIO-T1**
 - **Entry Capacity Charge setting**
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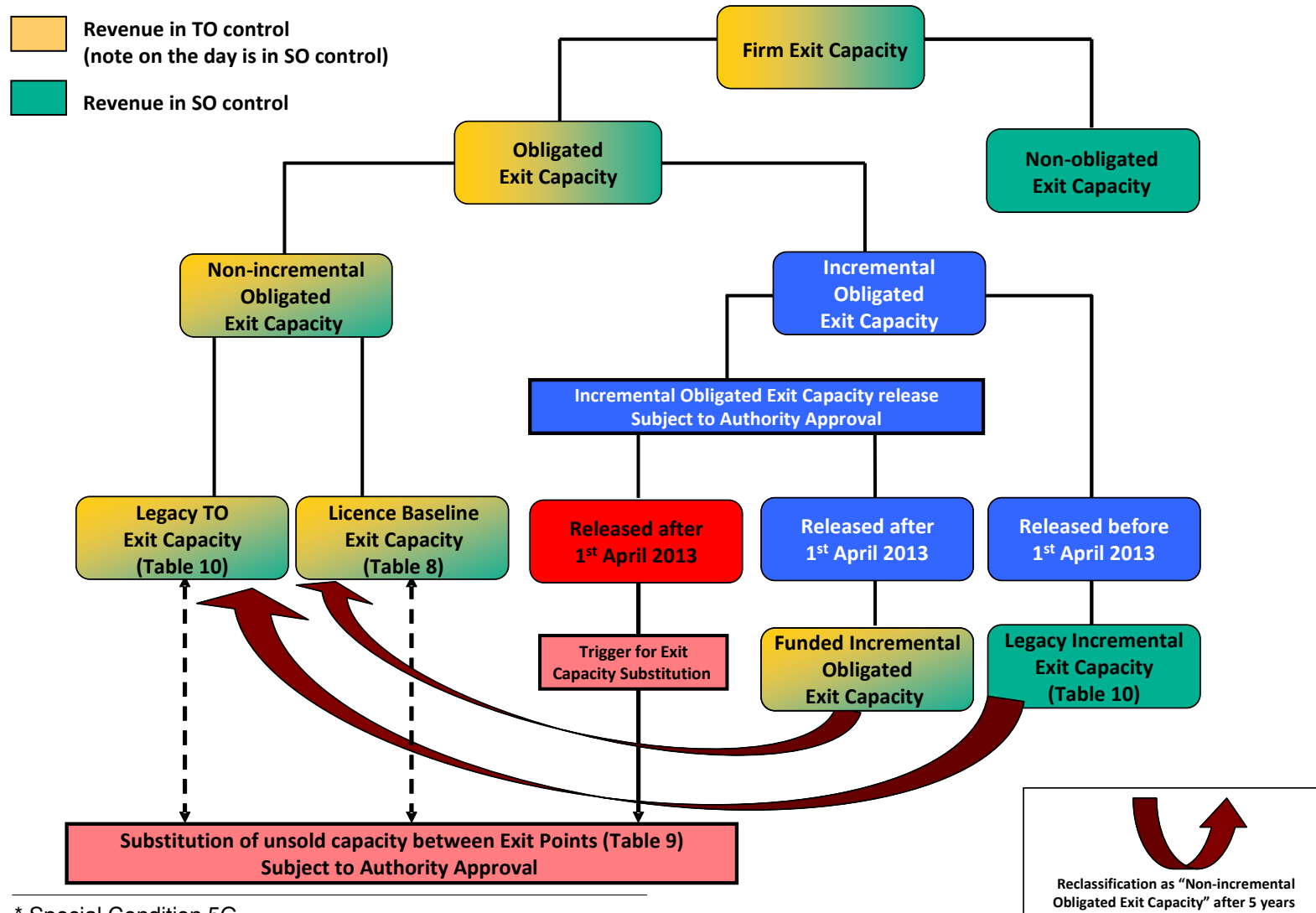
NTS Exit Capacity Charges

- Set to recover 50% of TO allowed revenue set by Price Control¹
- Administered capacity charges
 - Charging base is derived from baseline capacity² at each exit point
- Charges are locational
 - Vary by each exit point
 - Relate to Long Run Marginal Costs (LRMCs) calculated by Transportation Model
 - LRMCs are adjusted to recover target exit revenue from baseline capacity levels
- An under-recovery from firm exit capacity are recovered through TO exit commodity charges

¹ After deductions for DN Pensions Deficit & NTS Metering charges

² Special Condition C8E, Table 2, “NTS baseline exit flat capacity”

RIO-T1 Licence Exit Capacity Terms



* Special Condition 5G

Key changes under RIIO-T1

From 1st April 2013

- Revenue from Non-incremental Obligated Entry/Exit Capacity & Funded Incremental Obligated Entry/Exit Capacity is treated as TO revenue within the Price Control formulae stated in the Licence³.
- Revenue from Legacy Incremental Entry/Exit Capacity is treated as SO revenue within the Price Control formulae stated in the Licence⁴.

³ Special Condition 2A of the Licence.

⁴ Special Condition 3A of the Licence.

Key changes required for RIIO-T1 Exit Capacity Charge setting

- Majority of changes are to UNC TPD Y 2.5.3 “TO Revenue Recovery Adjustment”
 - Other minor changes throughout Section Y to maintain consistency
- Charging base for NTS exit capacity charges will be;
 1. Non-incremental Obligated Exit Capacity
 - Licence Baseline Exit Capacity⁵
 - Legacy TO Exit Capacity⁶
 - Adjusted for Exit Capacity Substitution⁷
 2. Plus Funded Incremental Obligated Exit Capacity...at each exit point
- SO Capacity Revenue calculation is exit point price x quantity of Legacy Incremental Exit Capacity⁸

⁵ Special Condition 5G, Table 8

⁶ Special Condition 5G, Table 10 after the “Applicable Date”

⁷ Special Condition 5G, Table 9

⁸ Special Condition 5G, Table 10 before the “Applicable Date”

Exit Capacity Charge Modelling (Exit Tariff Model)

Exit point pays capacity charges (treated as SO revenue). Any remaining revenue allowance not recovered through capacity charges will be recovered through SO Commodity charges.

After the 5 year SO incentive period the incremental capacity is added to TO charging base. Capacity charge revenues treated as TO.

TPCR-4	T	T+1	T+2	T+3	T+4	T+5
Revenue (TO)	X	X	X	X	X	✓
Revenue (SO)	✓	✓	✓	✓	✓	X
Incremental Capacity in TO Charging Base?	X	X	X	X	X	✓

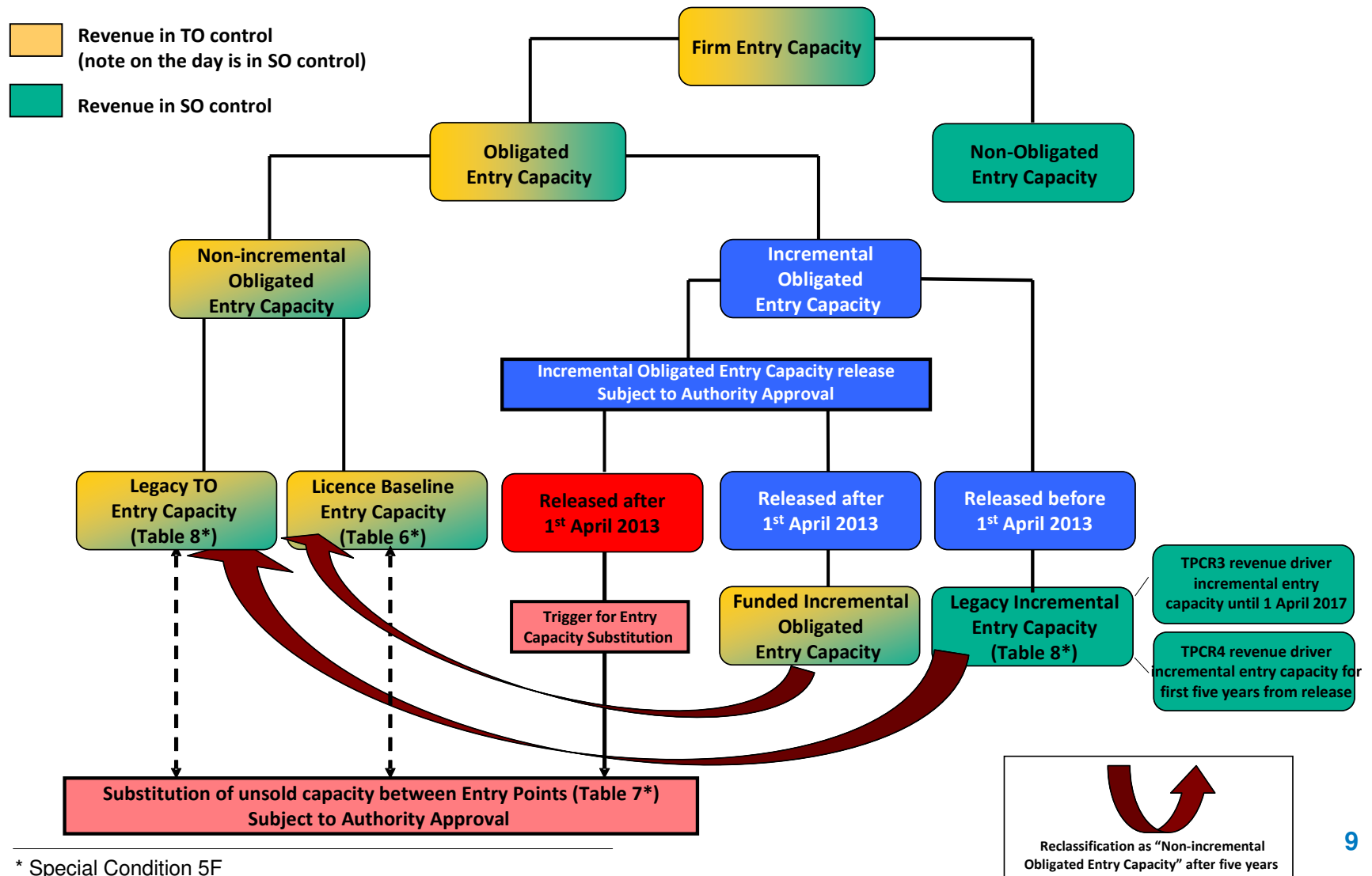
RiIO-T1	T-2	T-1	T
Revenue (TO)	✓	✓	✓
Revenue (SO)	X	X	X
Incremental Capacity in TO Charging Base?	X	X	✓

TOTEX allowance begins 2 years in advance of capacity release. Allowance would be recovered from the community via increased TO exit capacity charges & adjustments to TO exit commodity charges up to year t. At year t the new Funded Incremental Obligated Exit Capacity would be included in the charging base and charges would begin to be collected from the exit point.

NTS Entry Capacity Charges

- 'Aim' to recover 50% of TO allowed revenue set by Price Control
- No adjustment for allowed revenue
 - Reflects Long Run Marginal Costs (LRMCs) calculated by Transportation Model
- Charges are locational
 - Vary by each exit point
- Revenue shortfall recovered through TO Entry Commodity Charge

RIO-T1 Licence Entry Capacity Terms



* Special Condition 5F

Key changes required for RIIO-T1 Entry Capacity Charge setting

- Majority of changes are to terminology used in UNC TPD Y 2.5.4 “The Tariff Model for Determination of NTS Entry Capacity Charges”
 - Changes only to the capacity terms which make up the obligated entry capacity level used to generate LRMC based entry reserve prices
 - Unlike Exit, there is no adjustment for allowed revenue therefore no charging base effects
 - Other minor changes throughout Section Y to maintain consistency
- For existing entry points which have a zero baseline capacity level (as defined in the Licence), but where Legacy Incremental Entry Capacity⁹ or Funded Incremental Obligated Entry Capacity has been sold in a previous auctions, the level of Legacy Incremental Entry Capacity or Funded Incremental Obligated Entry Capacity release within the Gas Year in question is used as the obligated entry capacity level.¹⁰
- For new NTS Entry Points, where no Legacy Incremental Entry Capacity or Funded Incremental Obligated Entry Capacity has been sold the entry capacity reserve price is set at the transportation model derived annuitized long run marginal cost for the relevant entry point with that entry point flowing at the obligated level.
- SO Capacity Revenue calculation is entry point price x quantity of Legacy Incremental Entry Capacity

⁹ Special Condition 5F, Table 8 up to “Applicable date”

¹⁰ This equates to Non-incremental Obligated Entry Capacity plus Funded Incremental Obligated Entry Capacity plus Legacy Incremental Entry Capacity

Next Steps

- The Modification is not urgent
- The Modification is required to fully align the NTS Charging Methodology with RIIO-T1
- National Grid intends to submit the Modification to the UNC Modification Panel on 20th June 2013