

# GCM10 Draft Final Proposals: TO Entry Commodity Rebate Mechanism

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Gas TCMF

3<sup>rd</sup> December 2007

# Terms of the Original GCM10 Proposal

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- ◆ TO Entry Commodity Rebate
  - ◆ Partial or full rebate of TO Entry Commodity charges Mechanism
    1. Remaining over recovery amount calculated after taking into account any payments resulting from the buy-back offset mechanisms triggered
    2. Credits would only be paid if the residual over recovery was in excess of £1m (this equates to the minimum TO Entry Commodity price of 0.0001 p/kWh)
    3. Ratio of remaining over recovery amount and TO Revenue paid calculated
      - ◆ Cap ratio at 100% i.e. only rebate TO Entry Commodity revenue received
    4. Rebate of TO Entry Commodity charges paid based on ratio
    5. Rebate paid in April/May following formula year

# Charging Methodology Proposal GCM10

## Timeline

Milestone	Date
Charging Methodology Proposal issued	23 <sup>rd</sup> October 2007
Consultation Ends	20 <sup>th</sup> November 2007
Consultation Conclusions Report inc. Final Proposals	January 2008
Ofgem veto period (Assumes no Impact Assessment)	28 Days
Implementation	1 <sup>st</sup> March 2008
<i>Ofgem veto period (Assumes Impact Assessment raised)</i>	<i>Up to 3 months</i>
<i>Implementation</i>	<i>31<sup>st</sup> March 2008</i>

# Industry Views

Respondent	Abbr.	View
Scottish and Southern Energy plc	SSE	Support
E.ON UK plc	EON	Support
RWE npower	RWE	Support
Statoil UK	STUK	Support
BG Gas Services Limited	BG	Support
Exxonmobil	EXM	Support
Shell Gas Direct Ltd	SGD	Support
EDF Energy plc.	EDF	Not in support
British Gas Trading	BGT	Not in support

# Support – Relevant Objectives

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- ◆ “In improving the efficiency of the TO Entry Commodity process, the likelihood of over recovery is reduced and hence the aggregate charges would more closely reflect the costs incurred within the formula year.”
- ◆ “important that costs and revenues are targeted and allocated as accurately as possible as, in broad terms, this would normally be argued to be good for competition”
- ◆ “an improvement on the existing arrangements, by introducing more clarity and transparency around over-recovery.”

# Support - Mechanism

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- ◆ “represents a positive additional step towards addressing the acknowledged weaknesses in the current arrangements”
- ◆ ”welcome any measures which seek to avoid the over-recovery amount being transferred into the calculation of “K” for the next formula year. We believe it is extremely important that all over-recovery should be redistributed within the same formula year.”
- ◆ “The rebate mechanism will ensure that the level of TO Entry Commodity charge levied on a shippers business more accurately reflects the level of recovery achieved by the Transporter through the entry capacity auction process.”

# Objections – Entry/Exit

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## ◆ Objection

- ◆ “proposal only deals with over recoveries and not under recoveries and so could be viewed as discriminatory”
- ◆ “suggests that whilst it not acceptable to smear any over recoveries between entry and exit, it is acceptable to smear any under recoveries”

## ◆ Response

- ◆ Currently there is a significantly greater risk of high magnitude Entry over-recovery compared to Entry under-recovery or exit under/over recovery i.e. we are trying to reduce the level of discrimination
- ◆ National Grid do not see this as a reason not to progress as the proposals reduce the disparity between the likelihood of over recovery of entry, and exit revenue
- ◆ Consider proposals to better manage K

# TO Over/Under Risk Mitigation

Risk	Mitigation
TO Exit Under-recovery	Administered prices (100% Capacity hence no weather risk)
TO Exit Over-recovery	
TO Entry Under-recovery	Reserve prices and TO Entry Commodity charge
TO Entry Over-recovery	Buy-back offset mechanism (Not fully effective if $\text{over-recovery} > \text{buy-back costs}$ )

# Objections - Notice

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## ◆ Objection

- ◆ “licence condition to provide 150 days notice of indicative charges and 2 months notice of final charges ”
- ◆ “by accepting the principle that any over recovery of revenue can be refunded with little or no notice, the industry would also be accepting that any under recovery of revenue could be collected with little or no notice.”

## ◆ Response

- ◆ GCM10 proposes a rebate and therefore does not represent a charge
- ◆ Rebates were introduced via PC65
- ◆ We believe that charges could not be set retrospectively only rebates.
- ◆ We have no intention of proposing retrospective charging.

# Objections – Application

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- ◆ Objections

- ◆ “failed to take into account entry capacity for gas which enters the system but uses the NTS Optional Commodity Charge”
- ◆ “failed to recognise that the over-recovery has resulted from auctions relating to the whole formula year and not only the months for which a TO commodity charge has been applied”

- ◆ Response

- ◆ GCM10 proposes a rebate of charges paid given hindsight of auctions.
- ◆ National Grid believes that it is not appropriate for flows that avoid under-recovery charges (e.g. short-haul) to benefit from over-recovery payments as this would be discriminatory
- ◆ If these flows were to attract TO Entry Commodity charges in the future then they would receive a rebate under the GCM10 proposal
- ◆ A Zero TO Entry Commodity rate already set for the winter period

# Objections – Interest

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- ◆ Objection

- ◆ “payment of interest should occur in relation to money which has been held by National Grid”

- ◆ Response

- ◆ The current implied revenue over-recovery of £12m would not actually occur until March although we may make over-recovery payments through GCM09 before that date. Given that the over recovery rebates proposed through GCM10 and 11 would be linked to the March invoice we would at no point in 2007/8 have received more than our allowed revenue were either to be implemented.
- ◆ There is no mechanism within the licence to cater for within year interest

# Objections - Threshold

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## ◆ Objection

- ◆ “support the first two trigger mechanisms but do not support the third trigger which allows credits to be paid only when the residual over recovery is in excess of £1m. Whilst we believe that it is sensible to have a threshold below which payments would not be made, we believe this limit is too high and we would therefore ask National Grid to reconsider this point.”

## ◆ Response

- ◆ We did not want to propose an arbitrary number for the threshold.
- ◆ The £1m threshold was based on the lowest level of granularity for the TO Entry Commodity Charge 0.0001 p/kWh over the year i.e. annual throughput \*0.0001 p/kWh ~ £1M
- ◆ Given that there is a cost associated with operating the process, we believe the threshold is appropriate
- ◆ NB the full over recovery amount would be redistributed and not the amount above the threshold.

# Final GCM10 Proposal

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- ◆ A number of objections to the GCM10 proposal have been raised through the consultation process
- ◆ National Grid believes that these objections have highlighted areas of the charging methodology that warrant further review
  - ◆ Management of K for charging purposes
  - ◆ Short-haul (Optional) Commodity arrangements
- ◆ National Grid does not believe that these objections suggest that GCM10 does not achieve the relevant objectives
- ◆ No changes are proposed to the terms of the original GCM10 proposal

# Timing Issues

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- ◆ National Grid proposes to delay the release of the consultation report until early January 2008 (after the holiday period) based on our view that
  - ◆ An impact assessment is unlikely.
  - ◆ The duration of any Impact Assessment (if required) would not necessarily prevent a 31<sup>st</sup> March 2008 Implementation date.