



NTS offtake arrangements

Discussion of options

Outline of presentation

1. Outline of options

- Option 1 – NGT proposal
- Option 2 – DN booking
- Option 3 – Shipper and DN booking
- Option 4 – Shipper booking

2. Other issues

1. Outline of options

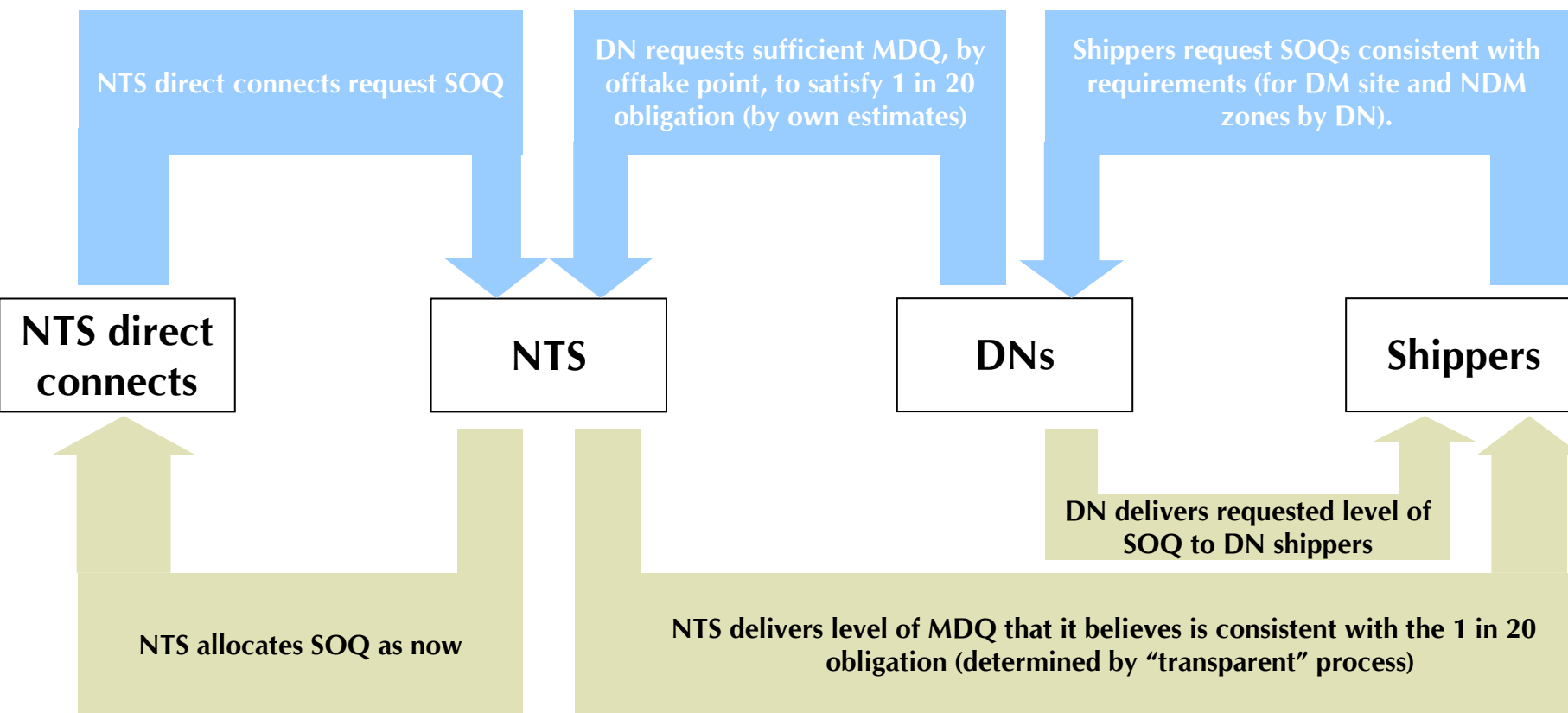
- Option 1 – NGT proposal
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2. Other issues

Option 1: NGT proposal

- Key features:
 - Based on the current internal planning process
 - DN requests level of MDQ for all NTS offtake points on basis of 1 in 20 obligation
 - MDQ allocated by NTS, based on “transparent” process, consistent with its 1 in 20 (firm for 3 years, and indicative for years 4 and 5)
 - NTS also allocates “secondary rights” of diurnal storage and high/low pressures (consistent with allocated level of MDQ)

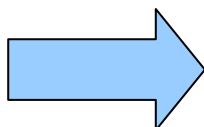
Option 1: NGT proposal



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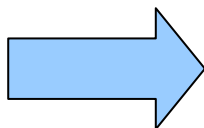
Issues:

Robustness



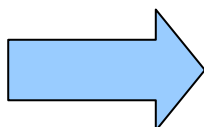
- At present, DNs and NTS have identical commercial objectives
- Codified internal processes may not be robust enough to withstand new commercial tensions

Potential for discrimination



- Possibility of discrimination between:
- IDNs and RDNs
 - DNs and other NTS exit points

Risk of stranded costs



- No charging for NEC delivered, so no incentive for DNs to limit NEC requests
- May be an incentive for DNs to overstate true capacity requirements

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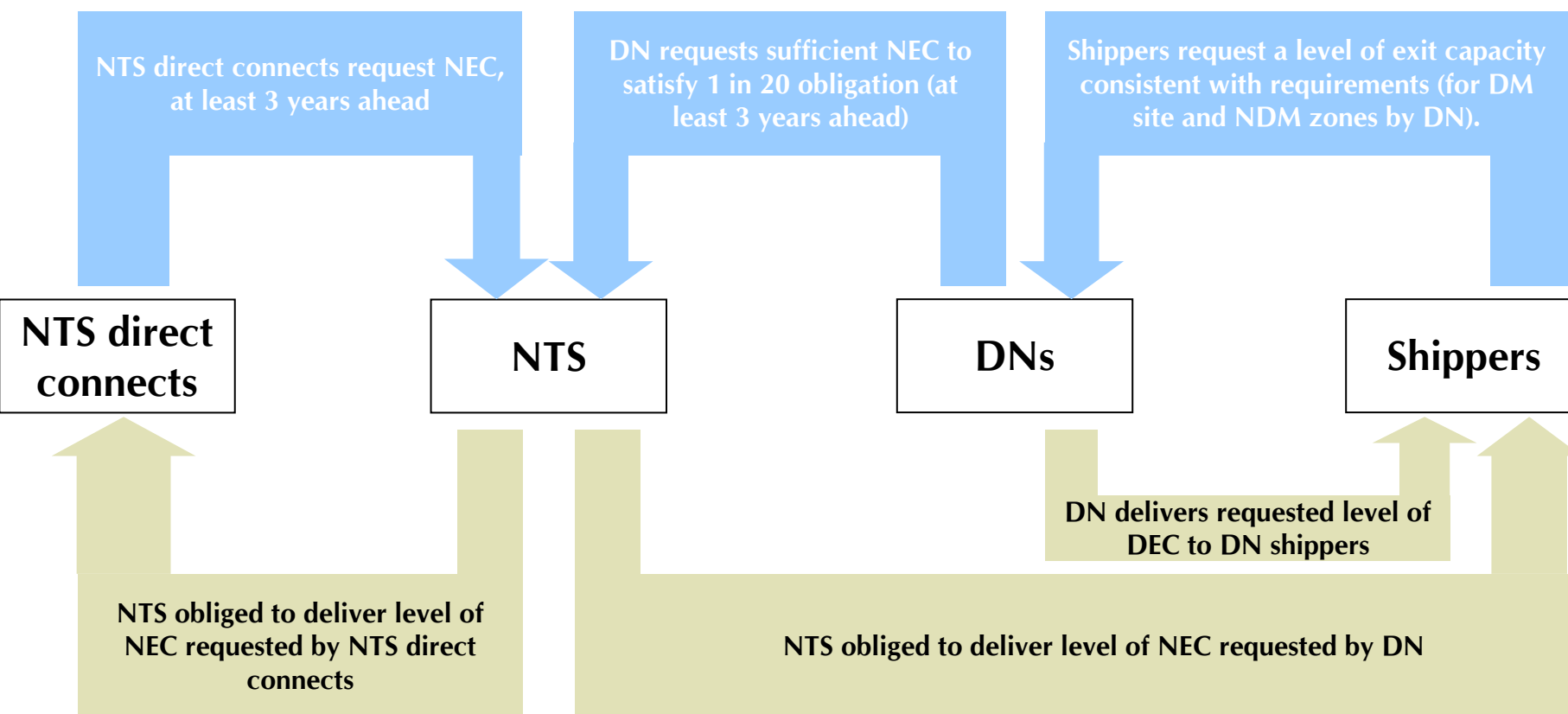
2. Other issues

Option 2: DN booking model

Overview:

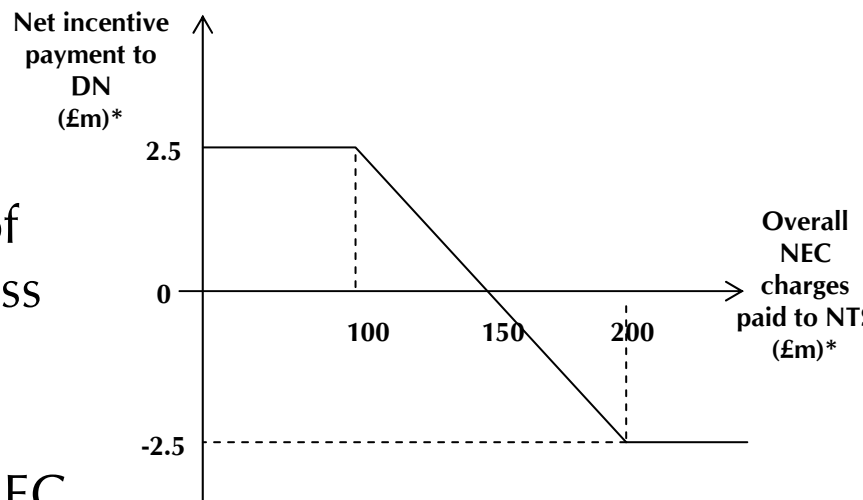
- Central role for DN in determining NTS exit capacity (NEC) requests
- 1 in 20 obligation retained by DN
- DNs and NTS direct connects are treated in non-discriminatory manner by the NTS
- Shippers submit exit capacity requests to the DN (for DM sites and NDM zones, per DN)
- DN requests a quantity of NEC consistent with own view of 1 in 20 obligation
- DN incentivised to request correct quantity of NEC

Option 2: Process for reserving capacity



Option 2: Incentivisation of DN

- DN is subject to an incentive regime:
 - Discourages DN from a natural tendency to over request NEC
 - DN incentivised on actual level of NEC charges (hence makes net loss from incentive scheme for higher requested levels of NEC)
 - Note that long-term charges for NEC are visible (consistent with LRMC methodology)

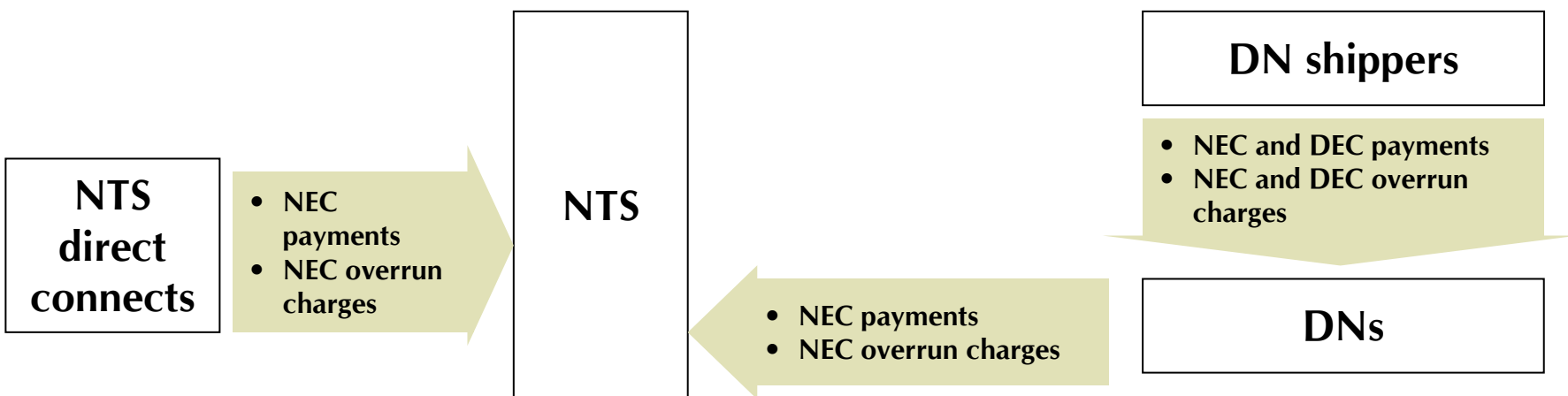


*Numbers for illustration only

Option 2: Payment flows

Variant A:

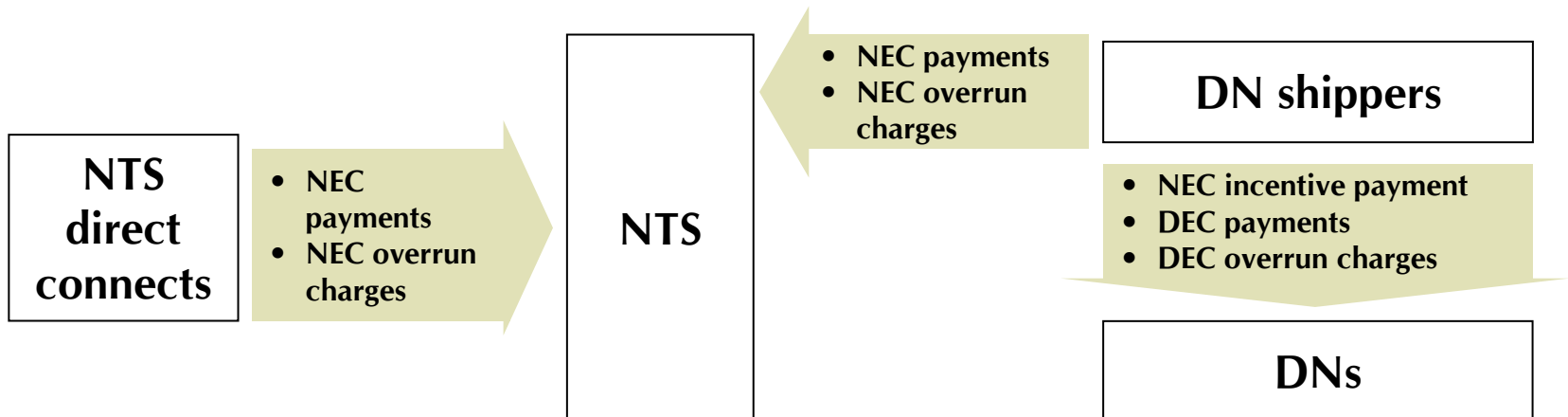
- DN acts as agent for all NEC-related payments
- All NEC payments pass through DN
- No direct contact between DN shippers and NTS



Option 2: Payment flows

■ Variant B:

- DN shippers pay NEC payments directly to the NTS, as well as NEC overrun charges
- DN shippers pay DN an incentive payment based on actual NEC requested, plus DEC payments and DEC overrun charges



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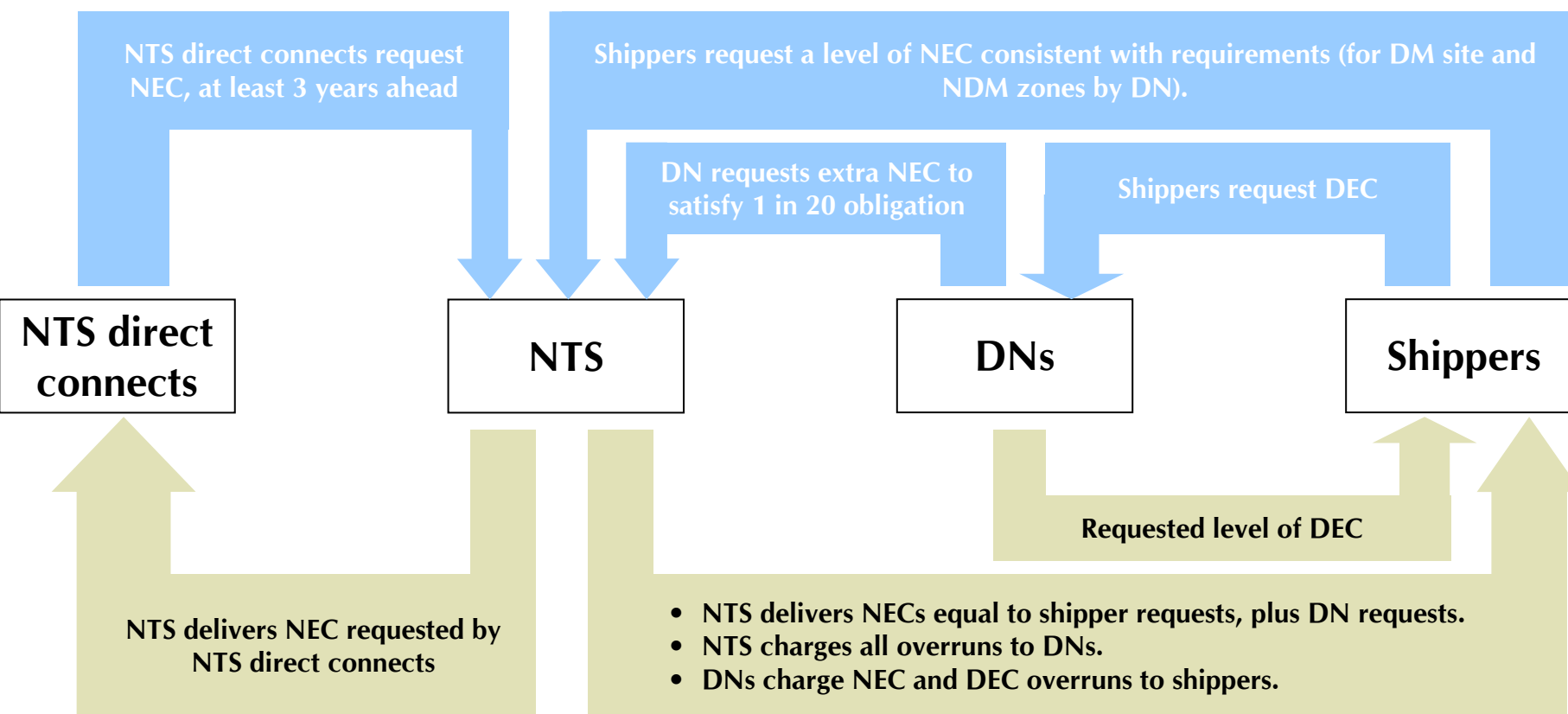
2. Other issues

Option 3: Shipper and DN booking

Overview:

- Central role for shippers in determining NEC requirements
- DN shippers determine NEC requirements based on customers needs (for DM sites and NDM zones, per DN)
- DN shippers (and NTS direct connects) submit NEC requirements directly to the NTS
- 1 in 20 obligation retained by DN
- If necessary, DN requests an additional quantity of NEC to ensure the overall network meets the 1 in 20 obligation

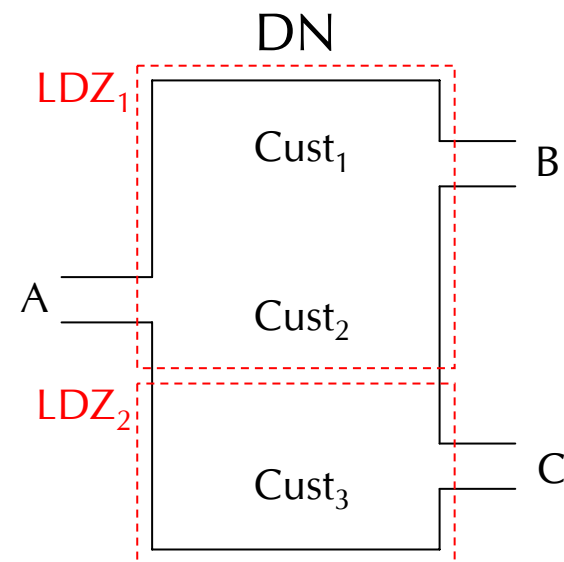
Option 3: Process for reserving capacity



Option 3: Key features of option

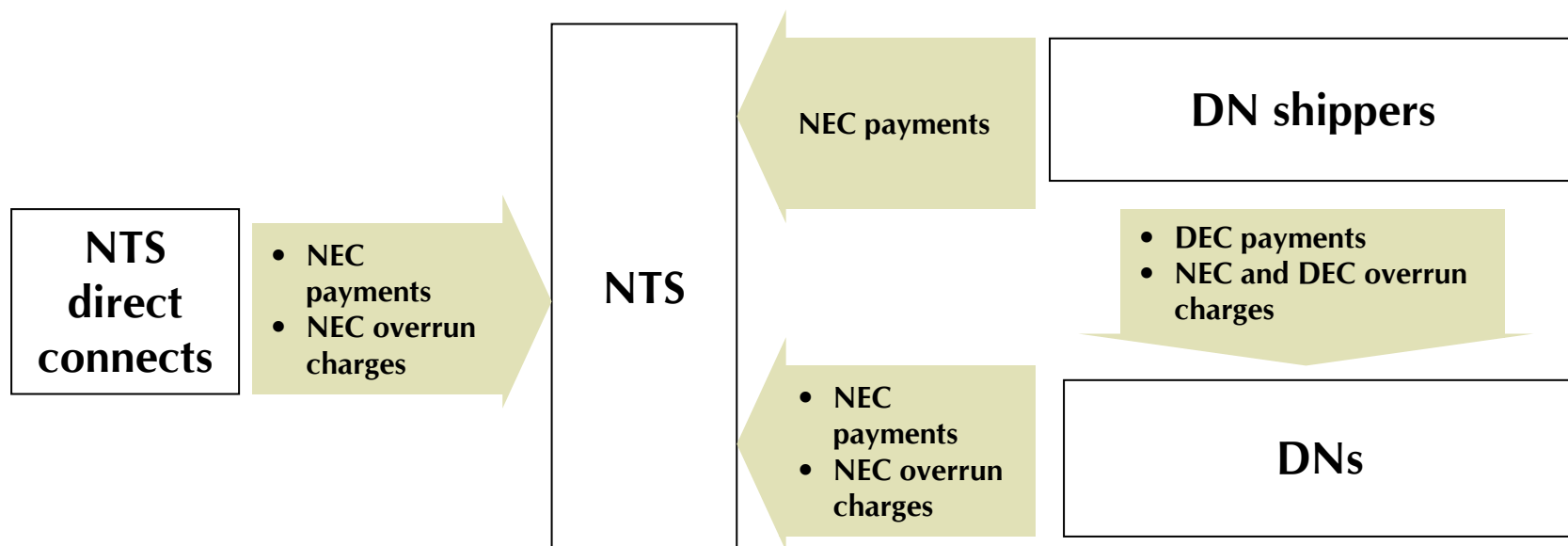
■ Features:

- DN shippers (and NTS direct connects) request NEC, from NTS, for up to 5 years ahead.
- DN shippers submit requests on site specific basis for DMs and zonally for NDMs
- DN makes additional request for NEC, to ensure 1 in 20 obligation is met
- NTS provides NEC equal to sum of DN shipper and DN requests



Option 3: Payment flows

- NEC and DEC payment flows:



Incentive arrangements apply to DN, similar to Option 2

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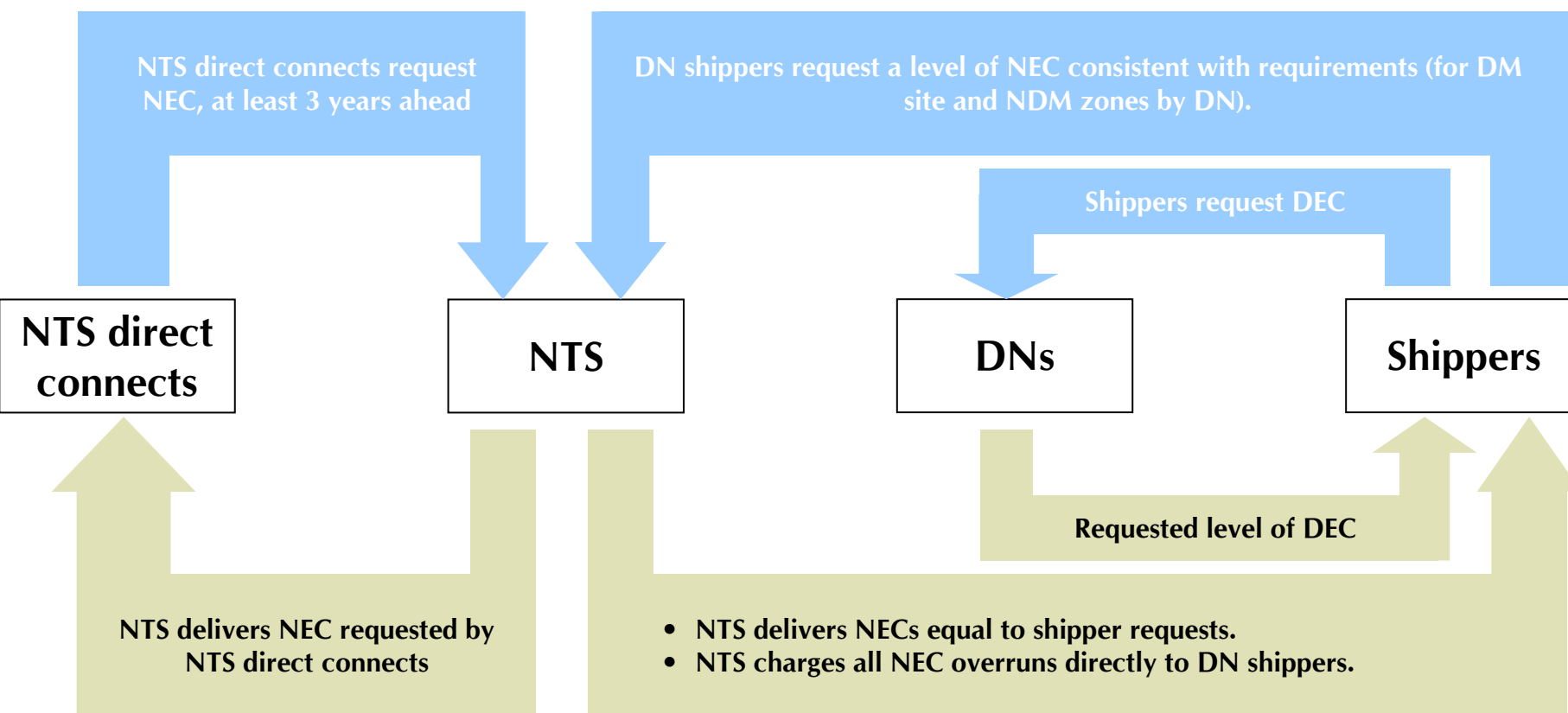
2. Other issues

Option 4: Shipper booking

Overview:

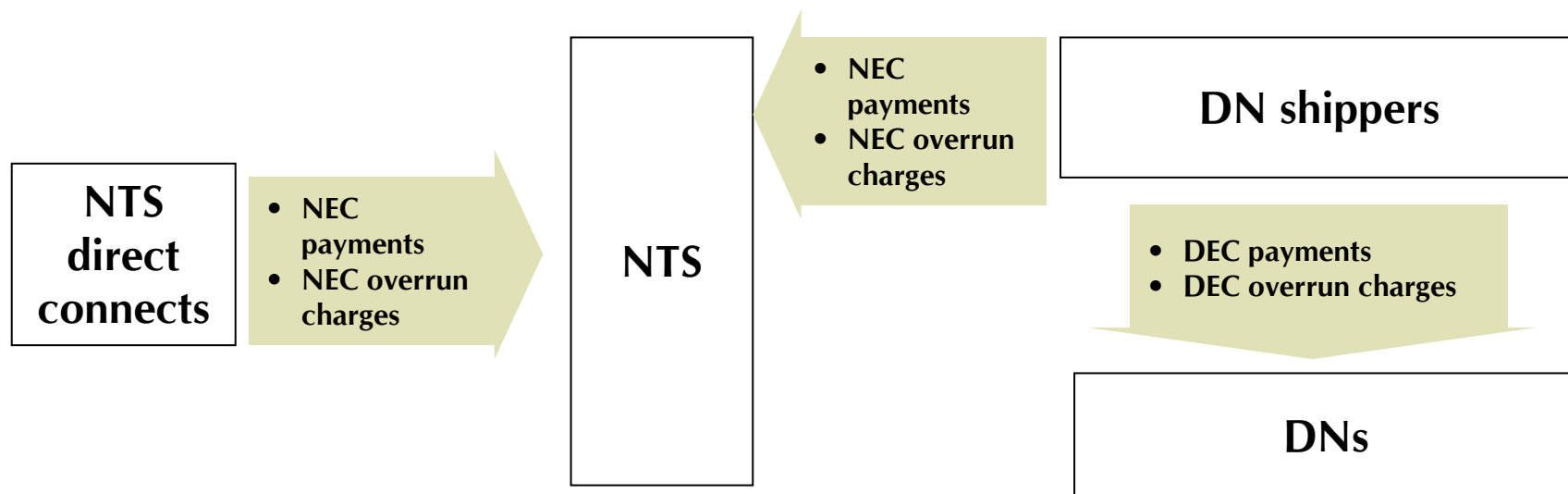
- Central role for shippers in determining NEC
- 1 in 20 obligation on DNs removed
- Shippers determine NEC requirements and request directly from NTS
- Shippers make capacity requests based on customers needs (for DM sites and NDM zones, per DN)
- NEC provided to DN shippers (and NTS direct connects), consistent with requests

Option 4: Process for reserving capacity



Option 4: Payment flows

- NEC and DEC payment flows:



No incentive arrangements on DNs required

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Other issues

- Allocation of capacity in short term
 - Unconstrained, with buy-back by network operator?
 - Constrained capacity allocation (on non-discriminatory basis)?
- Diurnal storage
 - a product traded between networks
 - charged / allocated through similar options to those outlined above?
 - how is pricing determined?
 - how is non-discrimination ensured?
- Pricing of operational elements of capacity provision for all NTS offtake points (e.g. deviations from ramp rates etc.)



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