

A background image showing a close-up of electrical components, including a white plastic outlet with a yellow plug and a metal terminal block with wires, all set against a blue-tinted background.

Interim incentives licence conditions: response to feedback received

DISG – 5 April 2005

Interim incentives licence conditions

- Key points of feedback
 - Derivation of DN interruption cost targets
 - Consistency with existing interruption targets
 - Derivation of interruption targets 2007 - 2009
- Change in DN allocations of offtake rights
- Other changes
- Next steps

Derivation of DN interruption cost targets

- Cost performance target specified for NTS exit capacity and flow flexibility for each DN:

$$\left\{ \begin{array}{c} \text{Allocated} \\ \text{volume} \end{array} \right\} \times \left\{ \begin{array}{c} \text{Outturn} \\ \text{price} \end{array} \right\} + \left\{ \begin{array}{c} \text{Expected cost of} \\ \text{interruption (> 15} \\ \text{days) of DN} \\ \text{connectees} \end{array} \right\}$$

- Targets for *aggregate* LDZ interruption cost exist in licence for 2005 – 2007: How should these targets be disaggregated by DN?

Derivation of DN interruption cost targets

- Licence target disaggregated by DN in proportion to combined SOQ of NSL and TNIs in each DN

DN	% total DN NSL/TNI SOQ volume
East of England	52%
North of England	14%
London	3%
North West	5%
Scotland	8%
South of England	7%
Wales and West	12%
West Midlands	0%

Data source: Transco (2003/4)

Consistency with existing licence targets

- DN interruption targets for 2005 – 2007 should equal LDZ licence targets in aggregate
- Disaggregation in each year consistent with methodology outlined in previous slide
- Rounding error identified at last DISG corrected in latest licence drafting

DN	2005/06	2006/07
Scotland	0.12	0.13
North of England	0.22	0.23
North West	0.08	0.08
East of England	0.82	0.87
London	0.05	0.06
West Midlands	0.00	0.00
Wales and West	0.19	0.20
South of England	0.11	0.12
Total	1.59	1.68
<i>Licence total LDZ target</i>	1.59	1.68

Derivation of interruption targets (2007-09)

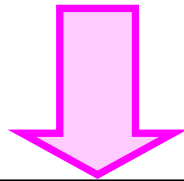
- Interruption targets 2007/08 and 2008/09 calculated by applying forecast growth in interruptible demand by LDZ to 2006/07 target data
- Growth forecasts consistent with firm demand growth data in Transco's current ten year statement

DN	2007/08	2008/09
Scotland	0.13	0.13
North of England	0.23	0.24
North West	0.09	0.09
East of England	0.89	0.96
London	0.06	0.06
West Midlands	0.00	0.00
Wales and West	0.21	0.21
South of England	0.12	0.12
Total	1.73	1.82

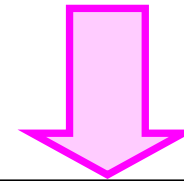
- Targets in latest licence drafting calculated from updated 2006/07 targets

Change in DN allocations of offtake rights

Transco identified errors in base allocation of offtake rights to Scotland and Southern DNs



Scotland DN allocation of (flat) capacity and (flexibility) capacity



South of England DN allocation of (flexibility) capacity

Note: North of England Offtake Capacity Statement has also changed in respect of pressures

Change in DN allocations of offtake rights

		NTS offtake (flat) capacity – new allocation				NTS offtake (flat) capacity – previous allocation			
DN	LDZ exit zone	2005	2006	2007	2008	2005	2006	2007	2008
SC	SC1	53.47	58.73	59.73	60.67	52.67	54.70	55.56	56.41
SC	SC2	67.08	69.19	72.71	74.18	65.36	68.38	71.83	73.26
SC	SC4	237.59	242.77	245.32	249.53	233.88	242.61	245.15	249.05

		NTS offtake (flexibility) capacity – new allocation				NTS offtake (flexibility) capacity – previous allocation			
DN	LDZ exit zone	2005	2006	2007	2008	2005	2006	2007	2008
SC	SC1	4.88	6.30	6.00	5.71	4.82	3.40	3.63	3.83
SC	SC2	7.46	7.71	8.09	8.24	7.26	7.60	7.97	8.12
SC	SC4	12.21	12.93	13.57	14.32	12.00	12.91	13.55	14.30
SofE	SO1	8.43	7.49	5.66	3.17	7.95	8.36	3.05	0.00
SofE	SO2	5.06	7.50	6.45	7.59	-1.21	-0.09	2.29	4.04

Other changes (1)

After reviewing respondents' views received to date, other changes have been made:

- E2A & C8A:
 - clarification that definitions in E2A/C8A apply to E2A/C8A and E2B/C8B
 - remove “that” from definition of “firm entry capacity”
- E2A:
 - introduction of definition of curtailment day
 - Replace “LDZ capacity” with “Distribution Network capacity”: means LDZ capacity (having the meaning given to that term in the network code) within the relevant Distribution Network
- C8B:
 - 14(5)(d) – insert “z” at end of definition of Σ_z
 - 14(12) – ExCBBICP – change 14(12)(b) to 14(12)(c)
 - 14(12) – ExCBBIIT – change 14(12)(c) to 14(12)(b)

Other changes (2)

- C10 & E4: tweaks to para 3 such that flows better (“derive” → “derived”, “represent” → “representing”)
- C14 & E6: clarification that terms shall have the meaning given to those terms in E2A / E2B and C8A / C8B respectively
- C15(4) & C18(4): change brackets to commas
- C18: use “initial volume allocation” instead of “base allocation” and define as “means for an NTS exit point (having the meaning given to that term in the network code), either the aggregate quantity of NTS exit capacity that gas shippers are registered as holding pursuant to the network code on 1st May 2005 or the aggregate quantity of NTS exit capacity or the aggregate quantity of NTS exit flow flexibility as set out in the Offtake Capacity Statements (having the meaning given to that term in the network code) as at 30th September 2005”

Next steps

At the next DISG meeting (19 April) Ofgem will:

- present further licence drafting changes
- present other significant licence changes proposed as part of the May S23 process

A large, central version of the ofgem logo, with the word "ofgem" in white lowercase letters on an orange rounded rectangle. The background of the slide features a faded image of electrical components, including a three-pin plug and a fuse box, with a blue color scheme.

Promoting choice and value for all
gas and electricity customers