Promoting choice and value for all gas and electricity customers

Transmission Price Control Review: Initial Proposals

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Overview:

This document sets out our initial proposals for the transmission price controls that will apply from 1 April 2007. It represents a key milestone in the Transmission Price Control Review (TPCR) as it sets out our initial thinking on the allowances that we intend to provide to fund efficient expenditure of the transmission licensees over the period 2007 - 2012.

We present our initial findings from our historic and forecast cost assessments of the transmission companies, which, together with our initial financial assumptions, allow us to calculate revenue allowances for each company. We have also set out further information and more detailed proposals in relation to the design of the price controls

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Context

Transmission networks play a key role in facilitating the competitive electricity and gas markets in Great Britain. Timely investment in the networks is essential to ensure their efficient operation.
There have been a number of changes in the external environment since the current transmission price controls were set and there is significant uncertainty concerning the future development of the networks. This uncertainty arises, in particular, from:

- changing patterns of gas supply resulting from the decline of UK gas production and its replacement by imports;
- changes in the electricity generation mix, largely relating to the development of renewable generation; and
- changes in wider energy policy, especially concerning environmental issues.

Against this background, the objectives of the review will be to develop incentives for investment in gas and electricity infrastructure, to promote efficient and timely investment in our transmission networks and to allocate risk appropriately.

Associated Documents

- TPCR Initial Proposals, June 2006
- Access Reform in Electricity Transmission: Working group report and next steps, May 2006 (Ref No. 83/06a)
- A framework for considering reforms to how generators gain access to the GB electricity transmission system: A report by the Access Reform Options Development Group April 2006, May 2006 (Ref No. 83/06b)
- TPCR 2007-2012: Third Consultation, March 2006 (Ref No. 51/06)
- TPCR 2007-2012: Third Consultation, Supplementary Appendices, March 2006 (Ref No. 51/06b)
- TPCR Capital Expenditure Projections 2007-2012 (open letter), 1 February 2006 (Ref No. 21/06)
- TPCR Second Consultation, December 2005 (Ref No. 277/05)
- TPCR Initial Consultation, July 2005 (Ref No. 172/05)

Responses to the Ofgem consultation documents can also be found on the Ofgem website (www.ofgem.gov.uk).

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Appendix 16 - Offtake revenue drivers and baselines for NGG NTS

Introduction

Overview

1.1. This Appendix outlines our initial proposals on the incentive framework for NGG NTS as gas transmission licensee over the next TPCR period with respect to the offtake of gas from the National Transmission System (NTS).

1.2. As part of the sale of four of the gas distribution networks (GDNs), we implemented incentives on NGG NTS for the period to 30 September 2008 (the "interim" period). Offtake arrangements are now also in place for the period from 1 October 2008 to 30 September 2010 (the "transitional" period). However NTS incentives have not yet been determined for this period.

1.3. We continue to propose that enduring offtake reform should take effect from 1 October 2007 and apply to the allocation of NTS offtake rights to NTS users from 1 October 2010 onwards given investment lead times of circa 3 years (the "enduring" period).

1.4. This Appendix therefore outlines our initial proposals for the incentive framework for NGG NTS for both the transitional and enduring offtake arrangements.

1.5. A summary of respondents' views on the Third TPCR Consultation is provided in Appendix 15.

Views invited

1.6. We would welcome views on any of the issues discussed in this Appendix and have provided a list of specific questions upon which we would particularly welcome views at the end of the two main sections of this Appendix.

The transitional regime

Introduction

1.7. In this section we consider the incentive arrangements that would apply to NGG NTS in the transitional offtake period.

1.8. As stated in the Third TPCR Consultation, we believe that, as a general principle, the transitional incentives should represent a continuation of the interim incentives already specified for the period May 2005 to October 2008. However, we believe that it remains appropriate to consider:

- whether the existing interim NTS incentives are appropriate for the transitional period, and
- whether there are any elements of the proposed enduring incentives framework that it would be appropriate to bring forward into the transitional period.

1.9. This section of this Appendix sets out our initial proposals on the appropriate price control design in the context of gas transmission offtake during the transitional period, and is structured under the following headings:

- baselines
- revenue drivers, and
- transitional incentives.

Baselines

1.10. Our initial proposals for baselines in the transitional period are consistent with the proposals that we set out in the Third TPCR Consultation.

1.11. As noted in the Third TPCR Consultation, in the absence of a full user commitment model, NGG NTS will not have an obligation to offer baseline capacity levels for sale in the transitional period. However, we continue to believe that it is necessary to set baselines for the transitional period to act as a delineation between the funding of the existing NTS asset base and the remuneration of incremental investment.

1.12. Preliminary baseline numbers were provided in the Third TPCR Consultation. Following consideration of comments received by industry participants, NGG NTS has provided us with updated baseline numbers for the transitional period. These numbers constitute our initial proposals for transitional baselines, and have been included in Annex 1.

1.13. Our initial proposal is that baselines should not be specified for interruptible capacity (so that additional revenues are clearly linked to the provision of additional firm capacity) and should be at the same level (i.e. practical maximum physical capacity) and degree of spatial aggregation (i.e. nodal) as under the enduring regime[1].

1.14. We continue to consider that it would not be appropriate to specify separate baselines for the GDN flexibility product in this period as flexibility requirements are

[1] We explain why our preferred model includes nodal baselines that represent practical maximum physical capacity in the context of the enduring regime in the next section.

not expected to trigger investment within the transitional period and flexibility is not acknowledged as a separate product within the framework applicable to TCCs. In the event that significant investment is required to meet GDN flexibility requirements, this should become apparent before finalisation of our proposals for the forthcoming price control period. Should NGG NTS determine that investment is required, we will need to consider the appropriate means of remunerating that investment.

Revenue drivers

1.15. Consistent with our views outlined in the Third TPCR Consultation, and following consideration of respondents' views, our initial proposals are that:

- revenue drivers for the transitional period will be specified as part of the TPCR
- incremental revenue will be contingent upon delivery of capacity, and
- the same basis for remunerating incremental investment should be applied throughout the next price control period.

1.16. As noted below, in the context of enduring arrangements we are proposing revenue drivers triggered upon the date that NGG NTS has contracted to deliver that capacity rather than the date it is physically delivered. For the transitional period we are proposing the same approach.

1.17. Whilst the transitional arrangements already require user commitments through the ARCA process, they do not represent a full user commitment model for non-specific, load related reinforcement. As such, in the transitional regime, it will be necessary for incremental revenue to be triggered absent an explicit user commitment / ARCA in some circumstances in order to recognise non-specific, load related reinforcement consistent with NGG NTS's assessment of its 1 in 20 obligation. Given the absence of a full user commitment model, we consider it appropriate for Ofgem to have some oversight of the case for such investments before they are remunerated through the application of revenue drivers. Therefore, our initial view is that a licence obligation should be placed on NGG NTS to submit to the Authority, for approval, an annual report (once for each year of the transitional period) outlining:

- all investments proposed or underway absent an explicit user commitment
- all investments delivered absent an explicit user commitment, and
- the rationale for such investments.

1.18. An initial assessment of potential revenue drivers is provided for the enduring period later in this Appendix. It is our current proposal that the same revenue drivers should apply in the transitional period.

Transitional incentives

1.19. In the Third TPCR Consultation document we indicated that it would be appropriate to simplify the incentives that apply to NGG NTS for the transitional

period relative to those that currently apply within the interim offtake period which ends on 30 September 2008.

1.20. The following incentive schemes were defined for NGG NTS in relation to transmission offtake for the interim period:

- charges foregone and exit investment incentive
- constrained LNG incentive, and
- buy back and greater than fifteen day interruptions incentive.

1.21. Each of these incentive schemes is considered in turn below in relation to its potential applicability during the transitional period.

Charges foregone and exit investment incentive

1.22. In the Third TPCR Consultation we proposed that the charges foregone and exit investment incentive should not continue for the transitional period. This is a sliding scale incentive scheme, with the target determined as the aggregate of a target for charges foregone (i.e. the deemed cost of procuring interruption from customers through the "interruptible discount") and a target for incremental investment costs. The effect of this incentive is to reward NGG NTS for releasing additional exit capacity in response to demand and to reward it for efficiently managing the costs of interruption at NTS offtake points.

1.23. Consistent with our position in the Third TPCR Consultation, our initial proposal is that the charges foregone and exit investment incentive should not apply in the transitional period.

1.24. In reaching this position, following consideration of respondents' views, we have been mindful of the following factors:

- the incentive is currently subject to quite restrictive caps and collars of £1m, which mean that the incentive placed upon NGG NTS is relatively small
- as discussed in the next section, an equivalent incentive is not proposed as part of the enduring regime, and
- given that it is the intention to implement changes to the incentive regime such that they take effect on 1 April 2007, investment decisions would, by this time have already been taken for the transitional period.

1.25. We are also still proposing that this incentive should be removed for the remainder of the interim period that overlaps with the next price control period (ie the 18 month period from 1 April 2007 to 30 September 2008). This, taking into account the factors listed above, would allow us to simplify the licence drafting for the next price control period.

1.26. We would welcome further views from respondents on the proposed treatment of this incentive in the next price control period up to 30 September 2010.

Constrained LNG incentive

1.27. In the Third TPCR Consultation we proposed that the constrained LNG incentive that currently applies to NGG NTS should be retained in its current form with the incentive target value being updated. This incentive is intended to ensure that NGG NTS uses LNG facilities efficiently when managing network constraints. Due to NGG NTS's ownership of the constrained LNG storage facilities (through National Grid LNG), the scheme is separate from the exit investment scheme with no caps and collars and 100% sharing factors. This structure eliminates the scope for distorting behaviour between the regulated gas transmission business and the LNG businesses that are wholly owned by NG.

Table 16.1: NGG's performance to date under the CLNG incentive

	2002/3	2003/4	2004/5	2005/6	2006/7
CLNG incentive target	£5.9m	£6.2m	£6.6m	£6.6m	£6.6m
Actual performance	£6.6m	£2.3m	£1.2m	£1.8m	£3.1m*
Retained benefit	-£0.7m	£3.9m	£5.4m	£4.8m	£3.5m

*Forecast expenditure.

1.28. Table 16.1 shows NGG NTS's performance to date under the CLNG incentive.

1.29. Targets for this incentive have already been specified for the remainder of the interim period, these being £2.6m for 2007/8 and £2.1m for 2008/9[2].

1.30. Our initial proposals are to retain the constrained LNG incentive in its current form with 100% sharing factors and no cap or collar for the remainder of the next price control. As noted in the Third TPCR Consultation, given the proposed removal of the charges foregone and exit investment incentive, it may be possible to simplify the licence drafting associated with this incentive. For example, given that the incentive has no cap and collar and a 100% sharing factor, it may be possible to include CLNG costs directly in the formula indicating NGG NTS's SO allowed revenue.

1.31. The proposed CLNG incentive targets for the period 2009/10-2011/12 are outlined in Table 16.2 below. As noted before, targets for the interim period have already been specified. Pending the receipt of further information on forecast CLNG costs from NGG NTS, it is our initial proposal that the incentive target should remain at the 2008/9 level of £2.1m for the remainder of the next price control period.

[2] National Grid Transco - Potential sale of gas distribution businesses. Final proposals for interim incentives and formal consultation under Section 23 of the Gas Act 1986, Ofgem, April 129/05, page 43.

Table 16.2: Targets for CLNG incentive

	2007/8	2008/9	2009/10	2010/11	2011/12
Target	£2.6m*	£2.1m*	£2.1m	£2.1m	£2.1m

*Targets for 2007/8 and 2008/9 have already been specified.

1.32. We would welcome views from respondents on the proposed treatment of this incentive for the transitional and enduring periods. We would also welcome views from respondents on the proposed level of the target for the last three years of the next price control period i.e. 2009/10, 2010/11 and 2011/12.

Buy back and greater than fifteen day interruptions incentive

1.33. A buy back and greater than 15 day interruptions incentive currently applies to NGG NTS. This is a sliding scale incentive (with a cap and collar) that establishes a target for the costs of interrupting sites greater than 15 days each year and a target for buy back costs. Under current arrangements, additional rebates are given to those sites that are interrupted for greater than 15 days each year. If the costs of these rebates and any capacity buy backs undertaken by NGG NTS exceed the target that is set then NGG NTS bears a share of these costs.

1.34. In the Third TPCR Consultation we proposed to continue with the greater than fifteen day interruptions incentive, given that the interruptions regime is likely to remain unchanged for the transitional period. We also proposed that no buy back related costs should be allowed as part of the price control settlement for the transitional period. We considered this was appropriate:

- given the degree of discretion NGG NTS has with regard to the delivery of incremental capacity under the transitional period, and
- on the basis that existing UNC arrangements give NGG NTS the right to reduce offtake capacity to NTS users for maintenance purposes without buying back rights.

1.35. For our Initial Proposals we continue to consider that no buy back related costs should be allowed as part of the price control settlement for the transitional period.

1.36. We note that NGG NTS has requested to retain such an incentive for potential UNC liabilities that may be incurred in the event of unplanned outages or planned outages that exceed the number of maintenance days allowed. However, it should be noted that such liabilities have historically been at or close to zero. Further, we would note that in the event of a significant event beyond NGG NTS's control, the income adjusting event provisions could be applied. We would welcome respondents' views on this proposal.

1.37. For our Initial Proposals we continue to consider that the greater than 15 day incentive should be retained for the transitional period. NGG NTS has not responded to our requests to provide forward looking data on expected greater than 15 days costs. Pending further information in this regard, and given that costs in recent

years have been zero, it is our initial proposal that the incentive target should be zero for 2009/10 and the first 6 months of formula year 2010/11 as shown in Table 16.3.

1.38. Our initial proposal is that the current sharing factors should continue to apply to the fifteen day incentive. However, given the proposed target of zero, discussed above, it would not be meaningful for there to be a cap or for the collar to have the same magnitude as the target. As such we propose a cap of zero and a collar of -£2m. The proposed parameters are outlined in Table 16.4 below.

1.39. It should be noted that parameters for the combined buy back and greater than 15 day incentive have already been specified up to and including 30 September 2008. In particular, the collar was set at -£7m. However, we consider it appropriate to change the collar for the rest of the price control period with respect to the greater than 15 day incentive, as the collars for the interim period were calculated in relation to NGG NTS's potential exposure under the buy back incentive, which would not apply for the rest of the price control period.

Table 16.3: Targets for the greater than 15 day interruption incentive

	2007/8	**2008/9 until 30/09/08**	**2008/9 from 1/10/08**	**2009/10**	**2010/11****
Target	£1.73m*	£1.68m*	£0m	£0m	£0m

*Targets for 2007/8 and 2008/9 (until 30 September 2008) have already been specified.
** Applicable for the period 1 April 2010 to 30 September 2010 only.

Table 16.4: Parameters for the greater than 15 day interruption incentive

		Cap and collar		**Sharing factors**	
		Cap	**Collar**	**Upside**	**Downside**
Buy back and greater than 15 day interruption incentive	Applicable from 1 April 2007 to 30 September 2008	As per target total	-£7m	75%	50%
Greater than 15 day interruption incentive	Applicable from 1 October 2008 to 30 September 2010	0	-£2m	75%	50%

Questions:

Question A16.1 - Do you agree with our Initial proposals for the transitional period with respect to:

a. Baseline levels?
b. Revenue drivers?
c. NGG NTS incentives?

The enduring regime

The importance of user commitment models

1.40. In the Third TPCR Consultation we outlined the importance of a long term user commitment model for offtake and identified the key benefits of such a model. In particular, we identified how a user commitment model would work in practice. In principle, we considered this model would involve:

- all NTS users (both existing and new users) being required to indicate their future usage of the NTS to NGG NTS
- signals of future usage provided sufficiently far in advance to allow NGG NTS to make an informed assessment of the appropriate level of NTS investments that are required (consistent with the level of user commitment), and
- signals made by users - both new and existing - backed by an appropriate level of financial commitment.

1.41. Among the key benefits identified, we noted that a user commitment model would improve investment signals and consequently reduce the risk of stranded assets[3] emerging on the network, promote security of supply and increase the transparency of offtake arrangements.

1.42. In the Third TPCR Consultation, we also identified that a model with nodal baselines, a nodal product and an obligation on NGG NTS to substitute capacity between nodes to meet demand at other nodes would be most appropriate for further development.

Draft impact assessment

1.43. In Appendix 17 we present a draft Impact Assessment (IA) of the proposals outlined in the Third TPCR Consultation. This draft IA has assessed the potential cost to customers of enduring offtake reform and implementation of associated NGG NTS incentives.

[3] Stranded assets are defined, in this instance, to be assets that have been paid for by the generality of customers that are not used (for all or part of the asset's life), or not used to their full capacity.

1.44. It is our initial, conservative, assessment that the potential net benefits to customers could range from £20m to £67m in present value terms as shown in Table 16.5 below.

Table 16.5: Potential net present value of benefits to customers of reform

£ million (2006 prices) 6% discount rate	**High case**	**Base case**	**Low case**
Net benefits to customers	66.5	45.9	19.5

1.45. Indeed, if a social discount rate of 3.5% is applied, this range increases to £27m to £89m.

1.46. We believe that this estimate is conservative because:

- respondents have indicated that estimates are often "worst case" in nature and that some, relatively minor adjustments to the arrangements proposed could lead to a material reduction in implementation costs
- a variety of the methods have been considered to extrapolate respondents' cost submissions to include the costs of non-respondents and the most conservative approach has been used to inform the "low case" net benefits, and
- we have quantified only the three main benefit categories, with a number of other benefits assessed on only a qualitative basis.

1.47. This represents only a draft IA, and we plan to perform at least one further impact assessment. It is our intention that the next such assessment should be informed by more detailed drafting by NGG NTS of potential business rules or UNC text. However, we would welcome comments from respondents on the analysis presented in Appendix 17.

Enduring offtake arrangements

1.48. In the Third TPCR Consultation we provided our initial views on the key aspects of the strawman model presented by NGG NTS at the Enduring Offtake Working Group (EOWG). In commenting on this model, we recognised that the model to be adopted will need to be developed and consulted upon through UNC processes and that Ofgem cannot fetter the discretion of the Authority with respect to any proposals that are raised.

1.49. The main characteristics of the strawman[4] are:

- a common capacity allocation process for both NTS exit (flat) capacity and NTS exit (flex) capacity with long term allocations covering investment lead times and short term allocations covering the periods where investment is not possible
- a "prevailing rights" approach to capacity allocation where users wishing simply to maintain their existing or "prevailing" capacity holdings are required to provide a financial commitment for a specified number of years (2 years in the NGG NTS strawman model)
- where users wish to increase their prevailing holding, all users would be required to provide a sustained commitment (4 years in the NGG NTS strawman)
- NGG NTS would have the ability to release unsold baseline capacity in the short term as well as any additional capacity it may elect to offer for sale on a discretionary basis. In addition NGG NTS would release a daily "use it or lose it" interruptible product and would have discretion regarding the release of any additional volumes of interruptible capacity.

1.50. These aspects were discussed further in Appendix 12 of the Third TPCR Consultation and it is our understanding that, in general, NGG NTS has not revised its proposals with respect to these issues in the intervening period. However, one issue that has been the subject of further EOWG discussions has been product definition. We provide an overview of these discussions below.

Product definition

1.51. An issue that has been the subject of recent debate at the EOWG is the definition of the offtake capacity products offered by NGG NTS in the enduring offtake arrangements.

1.52. The strawman presented by NGG NTS, in advance of the publication of the Third TPCR Consultation, proposed that both "flat" and "flexibility" products should be offered to all NTS users. NTS exit (flat) capacity is defined as being the daily right to offtake a quantity of gas, at a constant flow rate through the day. In contrast, the "flexibility" product would give users the right to offtake from the NTS at varying offtake rates over the day. This product is defined as being equal to the cumulative volume of gas taken in excess of the constant daily rate, over the period 6am to 10pm (which is the time at which the stock of gas held by GDNs is typically at its lowest, and therefore the system is likely to be at most stress).

1.53. An additional feature of the flexibility product proposed in the NGG NTS strawman was that, at times at which the full purchased level of NTS exit (flat) capacity is not being used (i.e. on off-peak throughput days), unused flat capacity rights may be "converted" into additional NTS exit (flex) capacity rights. Under this definition, rights to flexibility therefore "expand" as daily throughput decreases.

4 The strawmen discussed at EOWG and the relevant EOWG presentations have been published on Ofgem's website (http://www.ofgem.gov.uk/ofgem/work/index.jsp?section=/areasofwork/transpcr). In addition, a more detailed description of the strawman was included in the Third TPCR Consultation.

1.54. In the Third TPCR Consultation, we stated that all NTS users should be offered the same set of offtake capacity products on the same terms with users signalling their requirements for "flat" and "flexible" NTS offtake capacity. We stated that the "expanding flexibility" product seemed an appropriate way in which to define rights for offtake flexibility. However, we noted that this definition of flexibility required the specification of a robust conversion factor (through which unused flat capacity rights may be converted into flexibility rights). Furthermore, we stated that a combined, "expanding" product would have benefits relative to a two product model in terms of simplicity (both from a user perspective and also in relation to the determination of appropriate charges, baselines and revenue drivers).

1.55. Following the publication of the Third TPCR Consultation, NGG NTS has completed some network analysis which aimed to gain a greater understanding of the relationship between flat and flexible capacity. The results of this analysis were presented to the EOWG for discussion and did not provide conclusive results regarding an appropriate conversion factor. These results are published on the Ofgem web-site[5]. As such, NGG NTS is still considering the appropriate definition of NTS exit capacity products at this time.

Enduring incentives

Interaction of user commitment models with 1 in 20 obligation

1.56. In the Third TPCR Consultation, we considered the interaction between a full user commitment framework and NGG NTS's 1 in 20 obligation.

1.57. Following consideration of respondents' views, we still consider that, within a full user commitment framework, it would only be appropriate for additional NTS capacity to be provided if NTS users (including GDNs) have signalled that such capacity would be of value to them.

1.58. Our initial proposal is therefore that NGG NTS would only be remunerated for incremental investment to the extent that there is an associated user commitment. We are still of the view that compliance with NGG NTS's 1 in 20 obligation could be achieved by investing in line with user commitments which signal peak aggregate daily demand. We consider that this would provide greater clarity of responsibility between NTS users and NGG NTS. In addition, as noted in the Third TPCR Consultation, causality for investment would be unambiguous with users being incentivised to provide long term investment signals.

1.59. The mechanisms proposed for remunerating incremental investment are discussed further below.

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[5] http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/15093_ngg.pdf?wtfrom=/ofgem/work/index.jsp&section=/areasofwork/transpcr

1.60. Consistent with our position outlined in the Third TPCR Consultation, we consider it is neither necessary nor appropriate to modify Standard Special Condition A9 as it is not our intention to change the 1 in 20 obligation with which compliance is required.

Baseline derivation

1.61. Our initial proposal is that baselines should be determined on a nodal basis and perform a dual function both as a high level separation between TO revenue allowances and remuneration of incremental capacity as well as defining obligations for capacity release upon NGG NTS. Consistent with our proposals for the transitional regime, we are proposing that baselines should not be specified for interruptible capacity (so that additional revenues are clearly linked to the provision of additional firm capacity).

1.62. In the following section, we consider:

- the scope of the baselines determined, and
- the methodology that should be applied to determine the appropriate level of nodal baselines.

Baseline scope and substitution obligations

1.63. As stated above, we still consider that NGG NTS should only be remunerated for incremental investment to the extent that there is an associated user commitment. As such, we propose that investments that do not have an associated user commitment should not be funded as part of the TO price control allowance. In practice this will mean that the baselines to be determined for the enduring period would reflect existing capacity levels and remain flat throughout the price control period.

1.64. We remain of the view that it is appropriate to place a form of substitution obligation on NGG NTS. Such an obligation would require NGG NTS to consider substituting capacity between nodes to meet demand at other nodes signalled through long term allocations. We consider that this obligation should ensure that NGG NTS maximises the use of spare capacity in its existing network before undertaking investment in additional capacity.

1.65. It is our initial proposal that after each long term capacity allocation NGG NTS will review demands for capacity relative to the current baseline levels:

- if there is an offtake point where demand exceeds the baseline level of capacity and there is a 'reasonably substitutable' entry or offtake point with unsold baseline capacity, then NGG NTS will develop a proposal to transfer capacity between the relevant points at an exchange rate calculated by NGG NTS

- NGG NTS will consult and develop a methodology for identifying and proposing appropriate substitutions in these circumstances, and the methodology will be subject to Ofgem approval, and
- NGG NTS will submit a report to Ofgem following each long term capacity allocation setting out how it proposed to re-allocate baseline capacity. Any reallocation of baselines will be subject to Ofgem approval. Once approved, the baselines will be changed with effect from the delivery date of the capacity bought in the relevant long term auction (normally three years in advance).

1.66. There will need to be modifications to NGG NTS's licence to give effect to this framework and we will progress any such licence changes in the light of responses to this consultation. For example, we would need to specify objectives for the methodology which might include an objective to explore fully 'reasonable substitution' opportunities, and an objective to propose increasing baselines levels where additional offtake capacity is created through the release of any incremental entry capacity in excess of baseline levels, or vice versa.

1.67. These modified baselines would then apply both in terms of the application of revenue drivers and capacity release obligations. As such, NGG NTS would only receive additional remuneration for additional capacity provided once substitution opportunities had been explored in accordance with its obligations.

1.68. If a "prevailing rights" model were implemented, then NTS users who had a prevailing right could not have such capacity "substituted" away to another node as long as they continued to make the rolling financial commitment required to secure such prevailing rights. It is only unsold capacity that could be subject to the application of the substitution mechanism proposed.

Baseline level

1.69. Following consideration of respondents' views, we remain of the view that a practical maximum physical capacity approach is appropriate to determine the level of nodal baselines as this, relative to other methodologies, best reflects the actual physical capability of the system and therefore recognises (at least on an approximate basis) that capacity in excess of baselines is likely to incur incremental investment costs that require funding, and capacity below such levels is not.

1.70. Given that NGG NTS has yet to develop a final proposal for product definition during the enduring period it has not been possible to provide baseline numbers for the enduring period. However, it is our initial proposal that such baseline numbers should be consistent with the nodal baselines specified for the transitional period (and provided in Annex 1), with adjustments to:

- reflect the proposed product definitions for the enduring period, and
- adjust upwards the nodal baselines for five sites in the constrained south west quadrant that have historically been interruptible.

1.71. In the indicative, transitional baseline numbers presented in the Third TPCR Consultation, a number of currently interruptible sites located in the south west were assigned a zero baseline, to enable maximisation of the allocation of capability to customers that are currently firm. Following consideration of respondents' views and further consideration of this issue, our initial proposal is to provide all interruptible sites with a baseline equivalent to their current allowance, as reflected by their System Offtake Quantities (SOQs), therefore accommodating all interruptible load on the network.

1.72. This adjustment reflects our view that the SOQs of these sites could be delivered on most days without the need for investment. To the extent that there remained days when NGG NTS could not physically deliver capacity at these points it would need to enter into long term contracts for interruption. As such, the proposed adjustment would ensure that:

- NGG NTS has an obligation to offer for sale firm capacity baselines at these sites, and
- NGG NTS has a revenue driver which only accrues with respect to these nodes in the event that users at these nodes demand capacity over and above current SOQs and where NGG NTS has complied with its substitution obligation.

1.73. To reflect the fact that the baselines have been adjusted upwards, above the practical maximum physical level for these nodes, it is our initial proposal to include an additional revenue allowance in the SO allowed revenue, which will aim to provide remuneration for efficiently incurred contracting costs at these five sites. NGG NTS has not been able to provide information to Ofgem on the level of such costs and as such we are unable to specify our initial proposals on such an allowance in this document. Subject to respondents' views to this consultation on this mechanism, we will specify a revenue allowance for these sites in our next document.

Revenue drivers

1.74. We continue to consider that pre-specified revenue drivers are the appropriate basis for remunerating incremental capacity delivered above baseline levels, in order to:

- incentivise capital efficiencies on the part of NGG NTS
- reduce the need for regulatory intervention during a price control period, and
- provide some remuneration of capital expenditure within the price control period.

1.75. It is our initial proposal that revenue drivers should be contingent upon an appropriate user commitment and therefore that revenue drivers should apply to all load related capital expenditure in the next price control period.

1.76. As noted above, following consideration of respondents' views to the Third TPCR Consultation and further consideration of the issues, we believe that revenue should accrue on the date on which NGG NTS has contracted to deliver capacity rather than on the physical date of delivery as:

- this is consistent with the approach adopted at entry, and
- it will incentivise NGG NTS to make efficient trade-offs and consider means of contractual delivery other than investment such as contracting solutions and the use of constrained LNG.

1.77. Therefore, to the extent that NGG NTS is unable to physically deliver against the rights it has sold, it would need to buy back this capacity from users from the contractual delivery date. Furthermore, it is our initial proposal that the early delivery of capacity could be rewarded through the incentive proposed for the release of non-obligated capacity, which is discussed further below.

1.78. In determining revenue drivers, we have aimed to strike an appropriate balance between precision and simplicity. It is our initial proposal that it is appropriate to:

- specify zonal revenue drivers for small capacity increments required as a result of general demand growth on the assumption that cost variability across a group of nodes in a similar geographic location is roughly the same
- specify project specific revenue drivers in relation to those large projects which are currently anticipated, such as Marchwood power station, on the assumption that a single, nodal revenue driver will, because of the non-linearity of investment costs, be unable to reflect the variability in unit costs associated with both very large and very small projects, and
- modify the licence in respect of unanticipated projects above a certain size threshold or with respect to new exit points.

1.79. With respect to the determination of zonal revenue drivers, it is our initial proposal that such revenue drivers should apply to all capacity increments that are less than 15Gwh/day in size, with unanticipated projects above this threshold being considered on a case by case basis with subsequent modification of NGG NTS's licence in this regard. This threshold has been determined following analysis of unit costs for different sized projects.

1.80. Table 16.6 below details our initial assessment of the efficient levels of capital expenditure for each of the five anticipated large projects identified by NGG NTS in its FBPQ. This level of capital expenditure has been informed by the work of our consultants.

Table 16.6: Initial proposal for allowed capital expenditure (£m, 2005/6 prices)

	Total capex
Langage power station Phase 1 (40 GWh/day)	51
Langage power station Phase 2 (18 GWh/day)	31
Marchwood power station (45 GWh/day)	40
Pembroke power station (87 GWh/day)	48
Grain power station (55 GWh/day)	81

1.81. In the case of both Pembroke and Grain power stations, we have taken our capex consultants' assessment of the efficient cost of pipe-line investment and then applied a factor of 80%. This factor has been applied consistent with our view that, in the case of both of these power stations, that it may be more efficient to enter into contracting solutions rather than to reinforce the network to cater for all supply scenarios. For example, we note that pipe-line reinforcement is only needed with respect to Pembroke and Grain power stations in the event that gas does not flow at the Milford Haven and Grain entry points respectively. We would welcome views on these proposed levels of allowed capital expenditure.

1.82. Given the proposed application of revenue drivers, the large projects listed above will only be remunerated in the event that the capacity associated with them is accompanied by a user commitment with the revenue driver being triggered on the date that NGG NTS is contractually required to provide the capacity. Furthermore, it is assumed that the remuneration received will proxy the following:

- the depreciation that would accrue on this investment
- the return on capital, and
- the associated operating costs.

1.83. We have therefore applied an annuitisation factor of 0.0991[6] to our initial proposal for allowed capital expenditure above to derive the project specific revenue drivers shown in Table 16.7 below.

Table 16.7: Initial proposal for project specific revenue drivers (£m, 2005/6 prices)

	Revenue driver
Langage power station Phase 1 (40 GWh/day)	5.0
Langage power station Phase 2 (18 GWh/day)	3.1
Marchwood power station (45 GWh/day)	4.0
Pembroke power station (87 GWh/day)	4.8
Grain power station (55 GWh/day)	8.1

1.84. Following further consideration, we believe that it is not appropriate to specify zonal revenue drivers for areas outside of the constrained, south west quadrant as NGG NTS does not anticipate the need for incremental, load related investments anywhere other than the south west quadrant in the next price control period. In the event that there is exit investment in these areas that falls below the threshold specified, the income adjusting event provisions could be applied.

[6] This annuitisation factor has been derived assuming (1) a pre-tax rate of return on 6% (2) associated operating costs equivalent to 1% of investment costs (3) asset lives of 45 years, (4) 20% of investment costs incurred in t-2 and 80% in t-1 and (5) revenue drivers applicable for a 5 year period.

1.85. Following the consideration of NGG NTS's FBPQ submission and the analysis of our capex consultants, it is our view that an appropriate revenue driver applicable to nodes in the south west quadrant would be £0.54m per Gwh/day (assuming that the investments concerned generate a capacity increment of 20.5GWh/day. Again, an annuitisation factor of 0.0991 has been applied in the derivation of this number.

1.86. In relation to the specification of new revenue drivers as a result of unanticipated projects, these will be determined by Ofgem, as required, on a transparent and timely basis. We aim to determine a common set of principles for the determination of such revenue drivers to facilitate this process.

1.87. We do not consider it appropriate to index revenue drivers with respect to the price of steel, as we consider that such indexation would introduce unnecessary complexity. Further, we consider that NGG NTS is best placed to manage construction contracting risk and as such indexation is not appropriate.

1.88. We continue to consider that the proposed revenue drivers negate the need for an NTS exit investment incentive as they will, in and of themselves, incentivise capital efficiency.

Entry / exit interactions

1.89. As discussed above, it is necessary to consider the interaction between gas exit and gas entry in determining appropriate revenue drivers and baselines. It is our initial proposal that the substitution obligation placed upon NGG NTS should be extended to oblige NGG NTS to increase exit baselines in the event that exit capacity is generated as a result of entry investments undertaken and vice versa.

Proposals for buy-back incentive

1.90. We continue to consider that investment related buyback costs should be treated as excluded revenue and subject to an administered cap of the buyback price on a similar basis to the entry proposals. Furthermore, we note that it may be appropriate to provide NGG NTS some flexibility over investment lead times by allowing them to apply to the Authority for lead time extensions (subject to any UNC modification in this regard).

1.91. Consistent with the approach proposed at entry, we consider that a cap on the total exposure associated with any individual, investment related, buyback action at exit is appropriate. As stated in Chapter 11, it is our initial proposal that the administered price cap should default to zero five years after the contractual delivery date, assuming no capacity has been delivered.

1.92. In the Third TPCR Consultation, we outlined our initial view that the costs of buybacks in the event of planned and unplanned outages (including maintenance related buybacks) should be subject to a sliding scale incentive. However, following

consideration of respondents' views and further discussions of the EOWG, there is no proposal to change the existing UNC arrangements for maintenance at offtake points.

1.93. Under the existing UNC regime, NGG NTS is subject to minimal buy back exposure, as planned, maintenance related outages do not require buy back actions if undertaken within an agreed number of "maintenance days". Any planned outages that exceed the allowed number of days or any unplanned outages are subject to administered compensation arrangements. Under these arrangements, NGG NTS exposure has historically been at or close to zero. Further, we would note that in the event of a significant event beyond NGG NTS's control, the income adjusting event provisions could be applied. As such, we believe that such costs should be borne in full by NGG NTS and that an operational buy back incentive does not need to be set at this time.

Treatment of non-obligated and interruptible capacity

1.94. It is our view that NGG NTS should be incentivised in relation to the release of non-obligated and interruptible capacity.

1.95. It is our initial proposal that revenue generated from the sale of non-obligated and interruptible capacity should be subject to a separate sliding scale incentive. We propose a zero target for this incentive, with all revenues from non-obligated capacity and interruptible capacity subject to a 50% sharing factor and a defined cap such that the potential cost to customers is limited.

1.96. It is our initial view that, in line with arrangements at entry, the obligation to release baseline capacity should continue up to and including the gas day. As such, non-obligated capacity would be capacity released above baseline for which a sustained demand signal had not been received.

1.97. It is currently assumed that the release of interruptible capacity will be on a use it or lose it (UIOLI) basis with the scope for additional discretionary release by NGG NTS. We believe that such discretionary release should be in accordance with transparent principles enshrined within a publicly available document such as NGG NTS's Incremental Exit Capacity Release Methodology Statement (IExCR).

1.98. Before finalising the details of this incentive, it will be necessary to gain a greater understanding of the principles for such discretionary release and the way in which non-obligated and interruptible capacity are likely to be priced. As such, these proposals represent our initial view, and we do not believe that it would be appropriate to specify an incentive cap at this time.

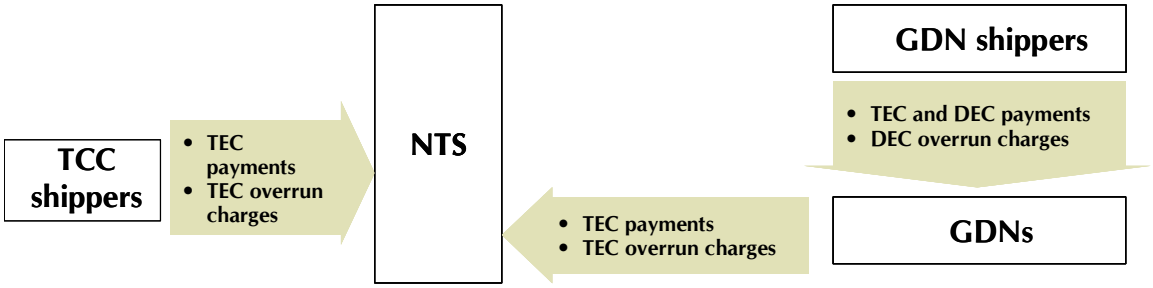
Payment flows

1.99. In the Third TPCR Consultation, we outlined our initial view that the implementation of an "Option 2A" payment flows model should coincide with the introduction of the transitional or the enduring offtake arrangements.

1.100. In our Final Proposals consultation on transitional incentives for GDNs, we noted that the NTS and GDN-GT licences, as currently drafted, envisaged that the mechanism for payment flows would move to an Option 2A approach on 1 October 2008 (or such later date that the Authority otherwise directs in writing).

1.101. The "Option 2A" model was described in more detail in the Third TPCR Consultation. Figure 16.1 below illustrates the payment flows under such an approach.

Figure 16.1: Option 2A payment flows



Key: TEC: Transmission Exit Capacity, DEC: Distribution Exit Capacity

1.102. Following consideration of respondents' views to date, and consistent with our initial view expressed in the Third TPCR Consultation, we are proposing to delay the implementation of the Option 2A payment flows model until 1 October 2010 to coincide with the introduction of the enduring offtake arrangements and, specifically, changes to the charging framework itself as part of these reforms. This would allow any changes to the charging systems required to be coordinated and managed efficiently.

Questions:

Question A16.2 - Do you agree with our initial proposals for baselines in the enduring period including the adjustments proposed?

Question A16.3 - Do you agree with our initial proposals regarding the introduction of a substitution obligation on NGG NTS?

Question A16.4 - Do you agree with the indicative revenue drivers proposed?

Question A16.5 - Do you agree that our proposals for addressing entry / exit interactions are appropriate?

Question A16.6 - Do you agree with our proposals with respect to buy backs of offtake capacity?

Question A16.7 - Do you agree with our initial proposals for financial incentives on NGG NTS with respect to the release of non-obligated and interruptible capacity?

Way forward

1.103. We welcome views from respondents on all aspects of this consultation.

1.104. We plan to publish a further consultation document in September 2006, which will further develop our proposals in relation to gas offtake following consideration of respondents' views and present our Updated Proposals.

1.105. It is our intention that the next impact assessment should be informed by more detailed drafting of potential business rules or UNC text published by NGG NTS.

1.106. The informal consultation conducted through meetings of the EOWG has been extremely helpful in developing thinking regarding the way in which a user commitment model could be specified and applied in practice. At this stage we propose to continue with meetings of the EOWG.

Annex 1: Indicative baseline numbers

Overview

1.107. This Annex provides indicative baseline data for both GDN and other "transmission connected customer" (TCC) offtake points for the transitional period.

1.108. The baseline data included in this Annex has been provided by NGG NTS, following some minor revisions to the baseline numbers presented in the Third TPCR Consultation, and is provided on an indicative basis.

1.109. The intent of this Appendix is to provide respondents with a preliminary view of the allocation of baselines to each NTS offtake point that would result under a practical maximum physical capacity approach to baseline determination in the transitional period.

1.110. Given that NGG NTS has yet to develop a final proposal for product definition during the enduring period it has not been possible to provide baseline numbers for the enduring period. However, we detail our initial proposals with respect to enduring baselines at the end of this Annex.

1.111. It is noted that the baseline data provided in Table 16.1.1 below is based on the same NGG NTS modelling assumptions as those set out in the Third TPCR Consultation.

1.112. Any differences between these indicative baselines and those presented in Ofgem's Initial Thoughts document on enduring offtake[7], published in February 2005, were addressed by NGG NTS in a presentation to EOWG 9. This presentation is provided on the Ofgem web-site.

Data table

1.113. The table presented below contains:

- GDN baseline data for flat capacity
- TCC data for NTS exit capacity, and
- 1 in 20 data

[7] National Grid Transco - Potential sale of gas distribution network businesses: Initial thoughts on enduring incentive schemes supporting the offtake arrangements, Ofgem, February 2005, 31/05

GDN baseline data for flat capacity

1.114. This data represents the "flat" capacity capability of the network for the duration of the transitional period (ie, for the period from 1 April 2007 to 30 September 2010). Following discussions with relevant GDNs, NGG NTS has revised the proposed baseline numbers relative to those presented in the Third TPCR Consultation. These revisions reflect a reallocation of the physical capability of the network across GDN offtakes in line with GDNs' latest March 2006 Offtake Capacity Statement (OCS) requests.

1.115. We consider that these baselines should be similar to those prepared for the enduring period (given that these will be prepared according to the same methodology). Note that separate "flexibility" baselines for GDNs are not specified for this period, however will be prepared for the enduring period once the product definitions for the enduring period have been determined.

TCC data for NTS exit capacity

1.116. The data presented for TCCs represents baselines for the same period (1 April 2007 to 30 September 2010) for NTS exit capacity (i.e. the combined NTS offtake capacity product provided to TCCs, as currently defined in the UNC). Note that these remain unchanged relative to those published in the Third TPCR Consultation for all offtakes except Weston Point (Castle Kelner and Rocksavage), where NGG NTS has re-evaluated the baselines achievable.

1.117. For the enduring period, baselines will have the same level, but will need to be revised to reflect the new definition of the flexibility product proposed by NGG NTS once this has been determined. Depending upon NGG NTS proposals, this could result in either a single set of baseline numbers or separate baselines for "flat" and "flexible" capacity. We propose to publish such data as soon as is possible.

1 in 20 data

1.118. The table below also provides "1 in 20" baseline data to provide some context for the practical maximum physical capacity numbers presented. These figures are the 1 in 20 demand forecasts for 2007/08 gas year, consistent with demand forecasts for that year as published within the Ten Year Statement. The demand forecasts for the GDNs are allocated to their offtakes consistent with their allocations of flat capacity under the UNC (i.e. Offtake Capacity Statements). Note that these remain unchanged relative to those published in the Third TPCR Consultation.

Table 16.1.1: Indicative baseline data for the transitional period

Offtake point	Type of offtake	1 in 20 demand (07/08)	Transitional baseline (GWh/day)
Bacton	GDN (EA)	3.29	3.66
Brisley	GDN (EA)	2.81	3.10
Great Wilbraham	GDN (EA)	32.10	35.59
Matching Green	GDN (EA)	81.38	63.22
Peterborough Eye/Tee	GDN (EA)	24.95	27.55
Roudham Heath	GDN (EA)	11.53	14.70
Royston	GDN (EA)	2.17	2.40
Whitwell	GDN (EA)	141.20	182.49
West Winch	GDN (EA)	8.47	9.59
Yelverton	GDN (EA)	71.92	84.44
Alrewas	GDN (EM)	90.60	92.15
Blaby	GDN (EM)	14.47	15.84
Blyborough	GDN (EM)	79.84	85.42
Caldecott	GDN (EM)	11.06	11.08
Thornton Curtis (DN)	GDN (EM)	106.14	106.64
Drointon	GDN (EM)	104.88	107.51
Gosberton	GDN (EM)	15.60	15.19
Kirkstead	GDN (EM)	1.11	1.21
Market Harborough	GDN (EM)	8.67	9.48
Silk Willoughby	GDN (EM)	3.23	3.53
Sutton Bridge	GDN (EM)	1.05	1.15
Tur Langton	GDN (EM)	50.37	83.18
Walesby	GDN (EM)	0.85	0.93
Asselby	GDN (NE)	3.04	3.34
Baldersby	GDN (NE)	1.22	1.34
Burley Bank	GDN (NE)	18.48	20.31
Ganstead	GDN (NE)	21.29	23.15
Pannal	GDN (NE)	135.74	148.41
Paull	GDN (NE)	34.88	38.14
Pickering	GDN (NE)	8.40	9.38
Rawcliffe	GDN (NE)	3.11	3.42
Towton	GDN (NE)	73.22	81.13
Bishop Auckland	GDN (NO)	64.15	69.26
Coldstream	GDN (NO)	1.79	1.93
Corbridge	GDN (NO)	0.07	0.07
Cowpen Bewley	GDN (NO)	50.07	53.71
Elton	GDN (NO)	38.97	42.02
Guyzance	GDN (NO)	1.85	2.00
Humbleton	GDN (NO)	0.14	0.15
Keld	GDN (NO)	1.59	1.70
Little Burdon	GDN (NO)	7.83	8.45
Melkinthorpe	GDN (NO)	0.32	0.34

Offtake point	Type of offtake	1 in 20 demand (07/08)	Transitional baseline (GWh/day)
Saltwick Pressure Controlled	GDN (NO)	8.57	9.22
Saltwick Volumetric Controlled	GDN (NO)	57.80	69.26
Thrintoft	GDN (NO)	5.38	5.81
Towlaw	GDN (NO)	0.52	0.55
Wetheral	GDN (NO)	24.88	26.86
Horndon	GDN (NT)	38.41	46.41
Luxborough Lane	GDN (NT)	148.20	165.30
Peters Green	GDN (NT)	155.02	156.61
Peters Green South Mimms	GDN (NT)	164.67	195.23
Winkfield	GDN (NT)	21.05	13.04
Audley	GDN (NW)	7.55	8.20
Blackrod	GDN (NW)	97.67	103.19
Ecclestone	GDN (NW)	19.27	21.14
Holmes Chapel	GDN (NW)	19.17	20.83
Lupton	GDN (NW)	14.94	16.23
Malpas	GDN (NW)	0.45	0.49
Mickle Trafford	GDN (NW)	27.42	29.58
Partington	GDN (NW)	89.56	96.29
Samlesbury	GDN (NW)	116.24	127.61
Warburton	GDN (NW)	139.10	153.95
Weston Point	GDN (NW)	28.32	30.64
Aberdeen	GDN (SC)	21.35	38.44
Armadale	GDN (SC)	2.23	3.01
Balgray	GDN (SC)	11.55	11.22
Bathgate	GDN (SC)	22.51	23.53
Broxburn	GDN (SC)	59.78	65.06
Careston	GDN (SC)	3.09	3.00
Drum	GDN (SC)	74.26	77.71
St Fergus	GDN (SC)	0.89	0.86
Glenmavis	GDN (SC)	139.32	145.79
Hume	GDN (SC)	0.79	1.22
Kinknockie	GDN (SC)	2.38	2.32
Langholm	GDN (SC)	0.14	0.15
Lockerbie	GDN (SC)	5.44	5.70
Netherhowcleugh	GDN (SC)	0.18	0.20
Pitcairngreen	GDN (SC)	1.62	1.56
Soutra	GDN (SC)	8.21	8.94
Stranraer	GDN (SC)	0.49	0.68
Farningham	GDN (SE)	124.15	135.12
Shorne	GDN (SE)	61.84	67.06
Tatsfield	GDN (SE)	254.37	276.46

Offtake point	Type of offtake	1 in 20 demand (07/08)	Transitional baseline (GWh/day)
Winkfield	GDN (SE)	99.22	106.26
Braishfield A	GDN (SO)	94.95	99.23
Braishfield B	GDN (SO)	43.18	46.65
Hardwick	GDN (SO)	112.45	118.68
Ipsden 2	GDN (SO)	13.50	14.25
Ipsden	GDN (SO)	11.81	12.39
Mappowder	GDN (SO)	45.73	47.68
Winkfield	GDN (SO)	76.76	79.91
Aylesbeare	GDN (SW)	22.78	22.75
Cirencester	GDN (SW)	9.16	9.18
Easton Grey	GDN (SW)	31.26	30.89
Evesham	GDN (SW)	6.59	6.58
Fiddington	GDN (SW)	26.79	26.64
Ilchester	GDN (SW)	32.55	33.07
Kenn	GDN (SW)	70.97	70.91
Littleton Drew	GDN (SW)	2.85	2.84
Pucklechurch	GDN (SW)	27.54	28.38
Ross	GDN (SW)	4.28	4.28
Seabank (DN)	GDN (SW)	58.68	57.62
Alrewas	GDN (WM)	121.87	133.32
Aspley	GDN (WM)	72.08	78.86
Audley	GDN (WM)	19.94	21.83
Austrey	GDN (WM)	78.70	86.09
Leamington	GDN (WM)	3.91	4.26
Lower Quinton	GDN (WM)	27.75	29.91
Milwich	GDN (WM)	22.22	24.30
Ross	GDN (WM)	15.10	16.52
Rugby	GDN (WM)	72.84	80.08
Shustoke	GDN (WM)	40.92	44.76
Stratford-upon-Avon	GDN (WM)	4.28	4.68
Maelor	GDN (WN)	51.88	57.56
Dowlais	GDN (WS)	91.73	113.11
Dyffryn Clydach	GDN (WS)	41.48	47.92
Gilwern	GDN (WS)	60.57	46.67
Abson (Seabank Power Station phase I)	TCC (Firm)	27.84	27.80
Ferny Knoll (AM Paper)	TCC (Firm)	1.08	1.10
Bacton (Great Yarmouth)	TCC (Firm)	20.04	20.00
Billingham ICI (Terra Billingham)	TCC (Firm)	43.55	43.60
Blackness (BP Grangemouth)	TCC (Firm)	13.87	27.30
Caldecott (Corby Power Station)	TCC (Firm)	21.12	21.10

Offtake point	Type of offtake	1 in 20 demand (07/08)	Transitional baseline (GWh/day)
Deeside	TCC (Firm)	0.00	28.50
Didcot B	TCC (Firm)	50.48	50.50
Eastoft (Keadby)	TCC (Firm)	36.07	36.10
Epping Green (Enfield Energy, aka Brimsdown)	TCC (Firm)	18.42	18.40
Goole (Guardian Glass)	TCC (Firm)	1.62	1.60
Gowkhall (Longannet)	TCC (Firm)	43.33	43.30
Moffat (Irish Interconnector)	TCC (Firm)	223.60	433.40
Shellstar (aka Kemira, not Kemira CHP)	TCC (Firm)	11.59	14.00
Middle Stoke (Damhead Creek, aka Kingsnorth Power Station)	TCC (Firm)	40.95	41.00
Rosehill (Saltend Power Station)	TCC (Firm)	57.85	57.80
Ryehouse	TCC (Firm)	38.67	38.70
Saddle Bow (Kings Lynn)	TCC (Firm)	17.98	18.00
Saltend BPHP (BP Saltend HP)	TCC (Firm)	9.10	9.10
Sandy Lane (Blackburn CHP, aka Sappi Paper Mill)	TCC (Firm)	4.55	4.60
Seabank (Seabank Power Station phase II)	TCC (Firm)	19.07	19.10
Harwarden (Shotton, aka Shotton Paper)	TCC (Firm)	11.59	11.60
Shotwick (Bridgewater Paper)	TCC (Firm)	5.52	5.50
Wragg Marsh (Spalding)	TCC (Firm)	42.03	42.00
St. Fergus (Peterhead)	TCC (Firm)	108.33	108.30
St. Neots (Little Barford)	TCC (Firm)	35.21	35.20
Stallingborough	TCC (Firm)	28.17	28.20
Stallingborough	TCC (Firm)	38.35	38.40
Stanford Le Hope (Coryton)	TCC (Firm)	36.62	36.60
Staythorpe PH1	TCC (Firm)	38.24	38.20
Staythorpe PH2	TCC (Firm)	38.24	38.20
Sutton Bridge	TCC (Firm)	37.48	37.50
Teesside (BASF, aka BASF Teesside)	TCC (Firm)	9.75	9.70
Teesside Hydrogen	TCC (Firm)	6.61	6.60
Terra Nitrogen (aka ICI/Terra Severnside)	TCC (Firm)	0.65	0.70
Thornton Curtis (Humber Refinery, aka Immingham)	TCC (Firm)	46.91	46.90

Offtake point	Type of offtake	1 in 20 demand (07/08)	Transitional baseline (GWh/day)
Thornton Curtis (Killingholme A)	TCC (Firm)	36.29	36.30
Tonna (Baglan Bay)	TCC (Firm)	26.76	26.80
Weston Point (Castner Kelner, aka ICI Runcorn)	TCC (Firm)	4.55	11.70
Weston Point (Rocksavage)	TCC (Firm)	36.18	38.19
Pickmere (Winnington Power, aka Brunner Mond)	TCC (Firm)	15.38	15.40
Zeneca (ICI Avecia, aka 'Zenica')	TCC (Firm)	0.11	0.10
Blyborough (Brigg)	TCC (Int)	0.00	16.90
Burton Point (Connahs Quay)	TCC (Int)	0.00	73.20
Blyborough (Cottam)	TCC (Int)	0.00	17.60
Didcot A	TCC (Int)	0.00	0.00
Enron Billingham	TCC (Int)	0.00	121.50
Hollingsgreen (Hays Chemicals)	TCC (Int)	0.00	3.30
Barking (Horndon)	TCC (Int)	0.00	58.60
Eastoft (Keadby Blackstart)	TCC (Int)	0.00	2.40
Thornton Curtis (Killingholm B)	TCC (Int)	0.00	45.00
Medway (aka Isle of Grain Power Station, NOT Grain Power)	TCC (Int)	0.00	38.10
Peterborough (Peterborough Power Station)	TCC (Int)	0.00	23.30
Roosecote (Roosecote Power Station)	TCC (Int)	0.00	14.70
Shellstar (aka Kemira, not Kemira CHP)	TCC (Int)	0.00	2.30
Sellafield Power Station	TCC (Int)	0.00	12.30
Hatfield Moor Max Refill	TCC (Storage)	0.00	30.00
Hole House Max Refill	TCC (Storage)	0.00	120.00
Partington Max Refill	TCC (Storage)	0.00	2.40
Glenmavis Max Refill	TCC (Storage)	0.00	1.60
Barton Stacey Max Refill	TCC (Storage)	0.00	0.00
Avonmouth Max Refill	TCC (Storage)	0.00	0.00
Dynevor Max Refill	TCC (Storage)	0.00	2.60
Garton Max Refill	TCC (Storage)	0.00	211.00
Hornsea Max Refill	TCC (Storage)	0.00	22.00
Rough Max Refill	TCC (Storage)	0.00	160.00

Offtake point	Type of offtake	1 in 20 demand (07/08)	Transitional baseline (GWh/day)
Bacton (IUK)	TCC (IC)	0.00	623.58
Bacton (BBL)	TCC (IC)	0.00	0.00

Enduring baselines

1.119. It is our initial proposal that enduring baseline numbers should be consistent with the nodal baselines specified for the transitional period (and provided in Table 16.1.1 above), with adjustments to:

- reflect the proposed product definitions for the enduring period, and
- adjust upwards the nodal baselines for the five sites in the constrained south west quadrant that have historically been interruptible.

1.120. As described above, in the transitional baseline numbers presented in Table 16.1.1, a number of currently interruptible sites located in the south west are assigned a zero baseline, to enable maximisation of the allocation of capability to firm customers. Following consideration of respondents' views and further consideration of this issue, our initial proposal is that, in the enduring period, to provide all interruptible sites with a baseline equivalent to their current allowance, as reflected by their System Offtake Quantities (SOQs), therefore accommodating all interruptible load on the network.

1.121. The rationale for these adjustments and the proposed mechanism for remunerating NGG NTS are discussed further in the main Appendix to which this Annex relates.

1.122. The current SOQs for the sites concerned are provided in Table 16.1.2 below.

Table 16.1.2: Current SOQs of the five interruptible sites in the south west quadrant

Site	*Current SOQ (GWh/day)*
Didcot A	*87.29*
Abson (Seabank Power Station)	*36.59*
Terra Nitrogen (aka ICI/Terra Severnside)	*13.10*
Barton Stacey	*100.94*
Avonmouth	*2.30*