

A background image showing a close-up of electrical components, including a white plastic outlet and a metal terminal block, with a blue and white color scheme.

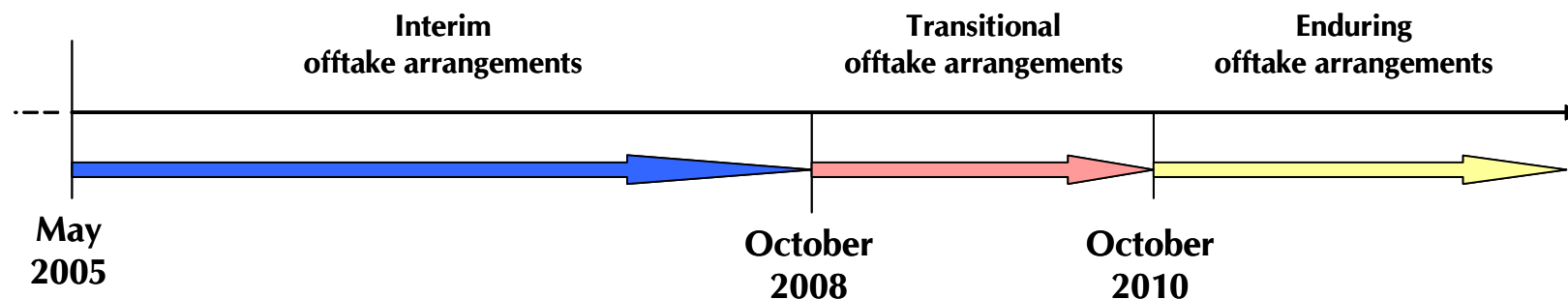
Overview of TPCR Initial Proposals – Offtake arrangements

EOWG 11

- Overview
- Enduring arrangements
 - Strawman of arrangements
 - Revenue drivers and baselines
 - Incentives
- Transitional arrangements
 - Revenue drivers and baselines
 - Incentives
- Way forward

Overview

- TPCR Initial Proposals published 26 June 2006
- Outlines initial proposals on:
 - transitional regime; and
 - enduring regime.
- Overview in Chapter 11 & detail in Appendix 16.
- Draft IA in Appendix 17



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Enduring offtake arrangements

- Key principle is the extent of user commitment:
 - All users – GDNs and TCCs (both existing and new) required to indicate their future usage of the NTS
 - Commitment should be sufficiently far in advance to advise NTS investment planning
 - Signals made by users backed by an appropriate level of financial commitment
- These proposals should:
 - improve investment signals;
 - provide greater clarity over commitment required to secure capacity; and
 - increase transparency of offtake arrangements
- Third TPCR Consultation identified a model with nodal baselines, nodal product and substitution obligation on NGG NTS

Strawman of arrangements

- Strawman outlined in more detail in Third TPCR Consultation
- Proposed that both “flat” and “flexibility” products should be offered to all NTS users
- Additional feature: “expanding” flexibility product
- Third TPCR Consultation stated preference for “expanding flexibility” product and for combined product
- Results of NGG NTS’ analysis not conclusive on conversion factor. NGG NTS still considering definition of NTS exit capacity products

User commitment and 1 in 20 obligation

- Still consider that compliance with NGG NTS's 1 in 20 obligation could be achieved by investing in line with user commitments signalling peak aggregate demand
- This would provide clarity of responsibility between NTS users and NGG NTS
- Causality for investment would be unambiguous with users incentivised to provide long term investment signals

Enduring period baselines (1)

Baseline derivation



- Should be specified by node
- Act as both revenue driver “trigger” and define the obligation to release capacity by NGG NTS
- Separate baselines should not be specified for interruptible capacity

Baseline scope



- Baselines to be static across control period
- NGG NTS only remunerated for investments with appropriate level of user commitment

Substitution obligation



- Should ensure that NGG NTS maximises use of spare capacity
- NGG NTS will consult and develop a methodology
- Reallocation of baselines subject to Ofgem approval
- Extended to oblige NGG NTS to increase exit baselines if exit capacity generated as a result of entry investment and vice versa

Enduring period baselines (2)

Baseline level



- Still consider that practical max phys is appropriate
- No baseline numbers for enduring period (awaiting NGG NTS's final proposal for product definition)
- Baseline should be consistent with transitional level, with adjustments to:
 - reflect product definition
 - adjust upwards nodal baselines for five interruptible sites in SWQ
- SOQs of these interruptible sites could be delivered on most days without need for investment
- Intend to include additional revenue allowance to remunerate for efficient contracting costs (awaiting info from NGG NTS)

Revenue drivers (1)

- Should be contingent upon user commitment and should apply to all load related capital expenditure
- Should accrue on contractual (rather than physical) delivery of capacity as:
 - consistent with approach at entry
 - incentivises NGG NTS to make efficient trade-offs
- Propose to:
 - specify zonal revenue drivers for small capacity increments
 - specify project specific revenue drivers in relation to large, anticipated projects
 - modify the licence in relation to large unanticipated projects or new exit points
- 80% factor applied to Pembroke and Grain power stations: may be more efficient to enter into contracting solutions rather than to reinforce the network

Revenue drivers (2)

- Proposed revenue drivers:

	Revenue driver (£m)
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 (55GWh/day)	8.1

- Zonal revenue drivers for increments below 15 GWh/day in size
- Not appropriate to specify zonal revenue drivers outside SWQ
- SWQ revenue driver: £0.54m per GWh/day.

Incentives

Buy backs



- Investment related buybacks treated as excluded revenue subject to administered cap on buyback price (defaulting to zero after five years)
- Existing UNC arrangements for maintenance

Other issues



Non obligated and interruptible capacity

- Revenue from sale of non-obligated capacity subject to a sliding scale incentive, with 50% sharing factor and cap
- Obligation continues up to and including the gas day
- Interruptible on UIOLI and discretionary basis
- Principles for discretionary release to be defined.

Payment flows

- Movement to Option 2A payment flows model proposed in enduring offtake implementation timescales

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Transitional revenue drivers and baselines

Baselines



- Propose that baselines in transitional period will be used only as “trigger” point for incremental investment revenue
- Based on practical maximum physical capability of network
- No baselines proposed for interruptible capacity
- No baselines for flexibility proposed for this period

Revenue drivers



- Propose incremental revenue triggered on contractual delivery, rather than physical delivery
- Consistent with enduring proposals, as far as possible
- Given not full user commitment model some revenue may be triggered absent a user commitment

Transitional incentives

- Interim NTS incentives have three elements:
 - charges foregone / exit investment incentive;
 - constrained LNG incentive; and
 - Buy back / greater than 15 day interruptions incentive.

Charges foregone / exit investment:

- Propose removing this incentive (also for remainder of interim period)
- Currently restricted to £1m cap
- Not proposed for enduring period
- Inconsistent with investment planning timescales

Transitional incentives

Constrained LNG:

- Propose retaining this incentive, and 100% sharing factors, with no cap or collar
- Also propose including in enduring period
- Targets for interim period already specified
- Incentive target at 2008/9 level for remainder of TPCR period (pending receipt of further information from NGG NTS)

	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

Transitional incentives

Buy back / greater than 15 day interruptions incentive (1) :

- Incentive currently has 75% upside / 50% downside sharing factors, with a target equal to expected level of greater than 15 day interruption cost
- Propose to exclude all buy-backs from this incentive
- NGG NTS will have right to reduce offtake capacity for maintenance purposes in transitional period. Also, UNC liabilities for planned or unplanned outages exceeding allowed maintenance days historically close to zero
- Propose retaining greater than 15 day interruption on same basis as currently specified
- Targets for interim period already specified. Propose zero target for transitional period

Transitional incentives

Buy back / greater than 15 day interruptions incentive (2) :

- Proposed targets:

	2007/8	2008/9	2009/10	2010/11	2011/12**
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

- Proposed parameters

		Cap and collar		Sharing factors	
		Cap	Collar	Upside	Downside
Buyback and > 15 day interruption incentive	Applicable from 1 April 2007 to 30 September 2008	As per target total	£7m	75%	50%
> 15 day interruption incentive	Applicable from 1 October 2008 to 30 September 2010	0	£2m	75%	50%

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Way forward

- Responses deadline: 24 July 2006
 - Helpful to indicate:
 - Whether response is confidential, and
 - In what capacity you are responding eg, licensee, shipper, GDN etc
- Keen to receive comments on Draft IA. Intend to issue at least another IA as part of TPCR process
- EOWG to continue in the next months
- Updated Proposals due for publication in September