Overview of Transportation Charging Arrangements

8th July 2013

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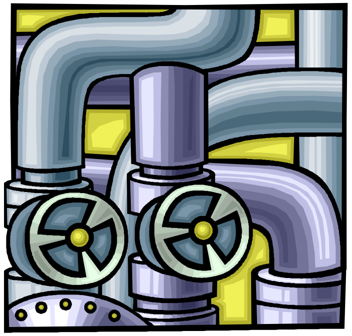
Agenda

- Charging Principles
  - Allowed TO and SO Revenues
  - Types of charge levied
- Using the Transportation Model & Capacity charges
- Review of some of the trends for Auctions and Capacity charging
- Review of trends for Commodity charges
- Summary

Charging Principles
NTS Allowed Revenue (TO and SO)



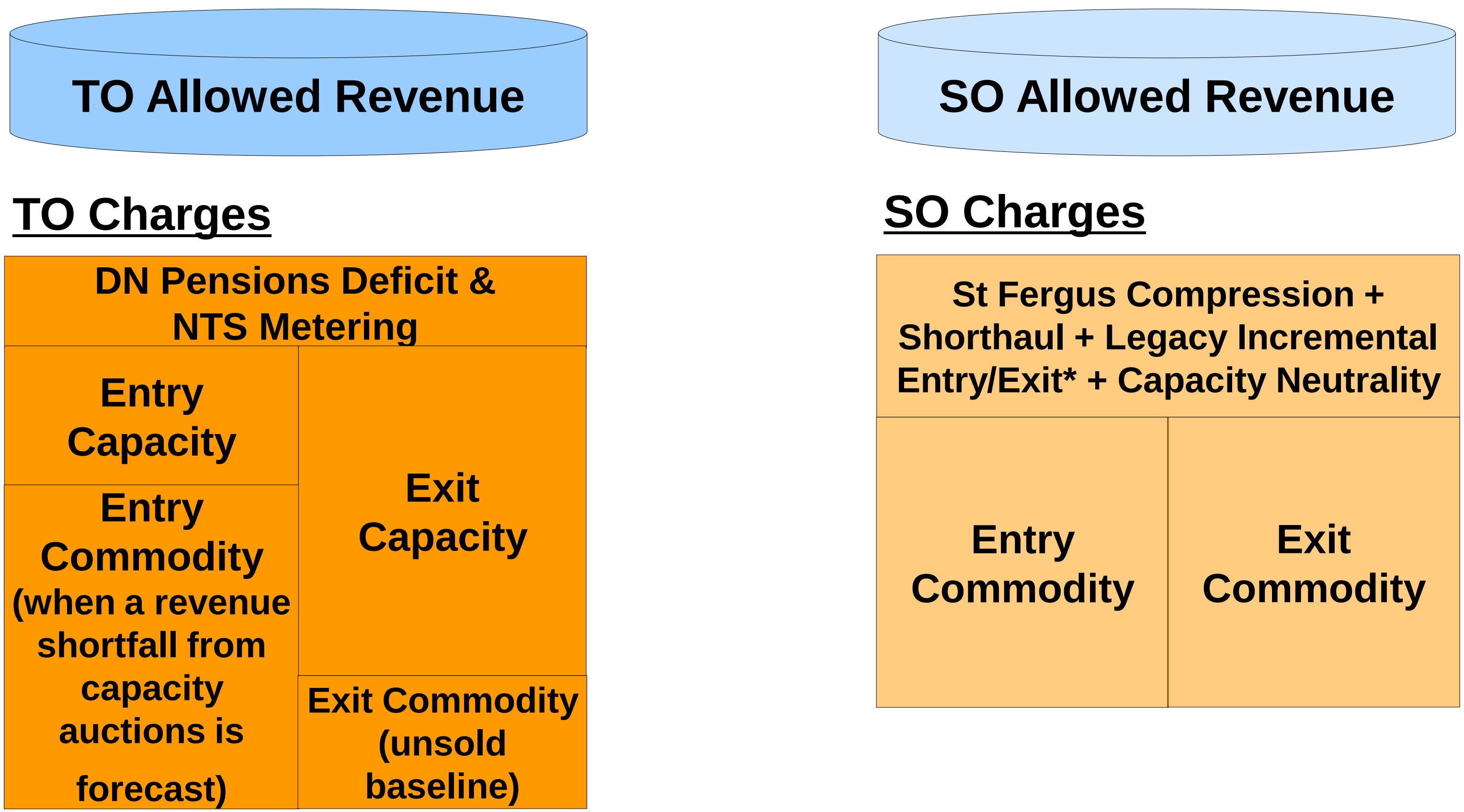
- Transmission Owner (TO)
  - Allowed earnings from depreciation, return and opex relating to regulatory asset value (RAV) of the NTS
    - Non-incremental Obligated & Funded Incremental Obligated Entry/Exit Capacity*
  - Includes some pass through costs
    - Licence fees
    - Rates

- System Operator (SO)
  - Allowed earnings from SO costs & incentive schemes
  - Includes
    - NTS Shrinkage Adjustment & Operating Margins
    - Internal Costs
    - Legacy Incremental* & Non-obligated Entry/Exit Capacity
    - Incentive Performance
    - Capacity Neutrality (cost pass through)

*** From 1st April 2013 as part of RIIO-T1.***

Charging Principles: Allowed Revenue & Transportation Charges

- TO allowed revenue to be recovered mainly from capacity charges
- SO allowed revenue to be recovered mainly from commodity charges
- Effective 50:50 split between Entry and Exit charges



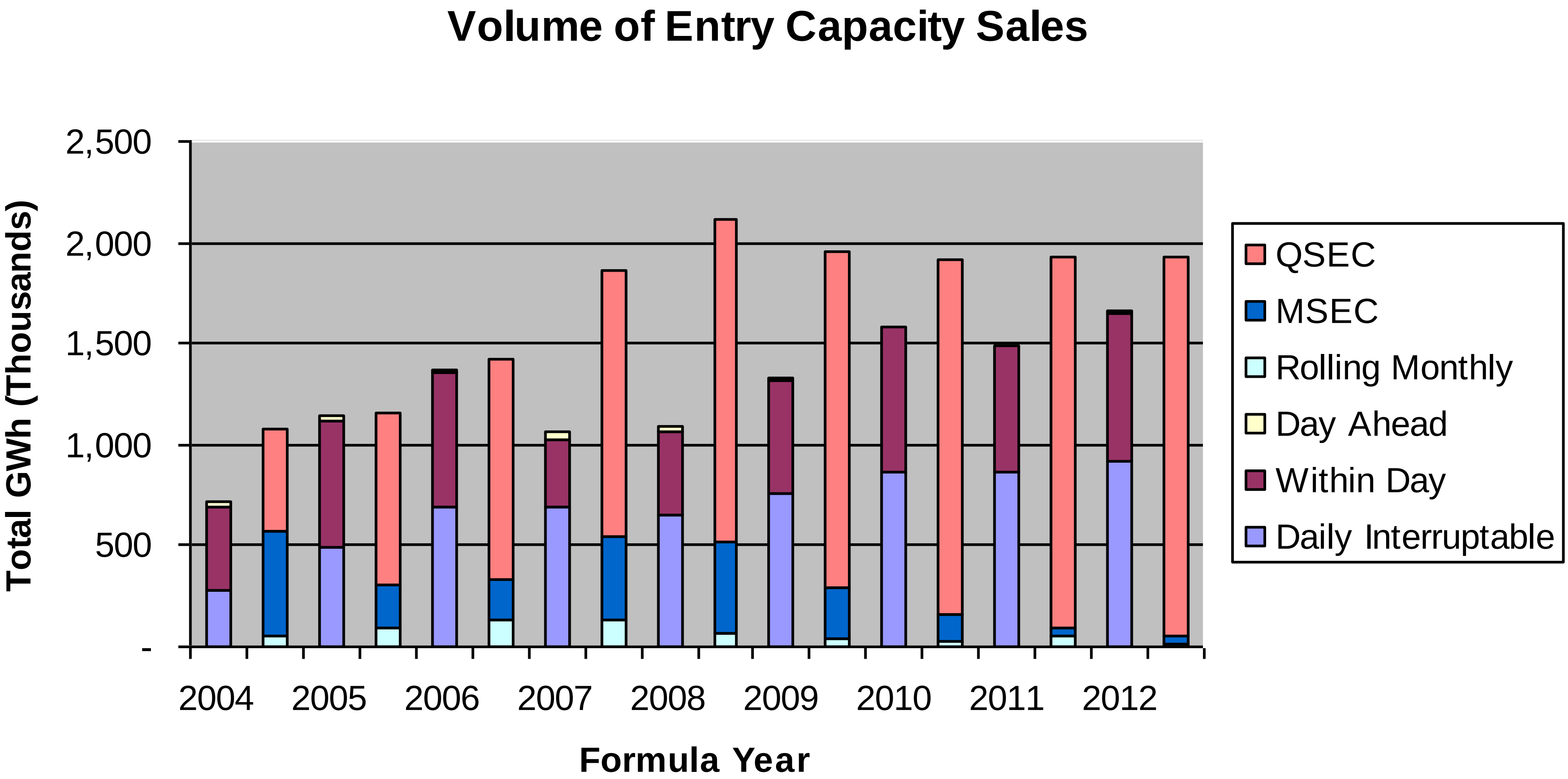
Using the Transportation Model
NTS Entry Capacity Charging

- TO revenue from Obligated NTS Entry capacity sales count towards the 50% target TO Allowed Revenue
- NTS Entry Capacity charges are locational
- Reserve prices reflect the Long Run Marginal Cost (LRMC) of providing capacity
  - Discounts to the reserve prices apply to some products
- NTS Entry Capacity charges are <u>not</u> adjusted for allowed revenue
  - Any anticipated revenue shortfall is collected via the TO entry commodity charge
  - Any over recovery is redistributed via other mechanisms

Using the Transportation Model
NTS Exit Capacity Charging

- NTS Exit Capacity Prices set to recover 50% of allowed TO revenue
- NTS Exit Capacity Charges are locational
  - Vary by each exit point
  - Relate to Long Run Marginal Costs (LRMCs) calculated by Transportation Model
  - LRMCs are adjusted to recover target exit revenue from baseline capacity
- Annual administered charges except for day ahead off-peak capacity which is auctioned at zero reserve price
  - Any anticipated revenue under or over recovery is managed through the setting of the TO Exit commodity charge

Trends in Capacity Sales (Volumes)



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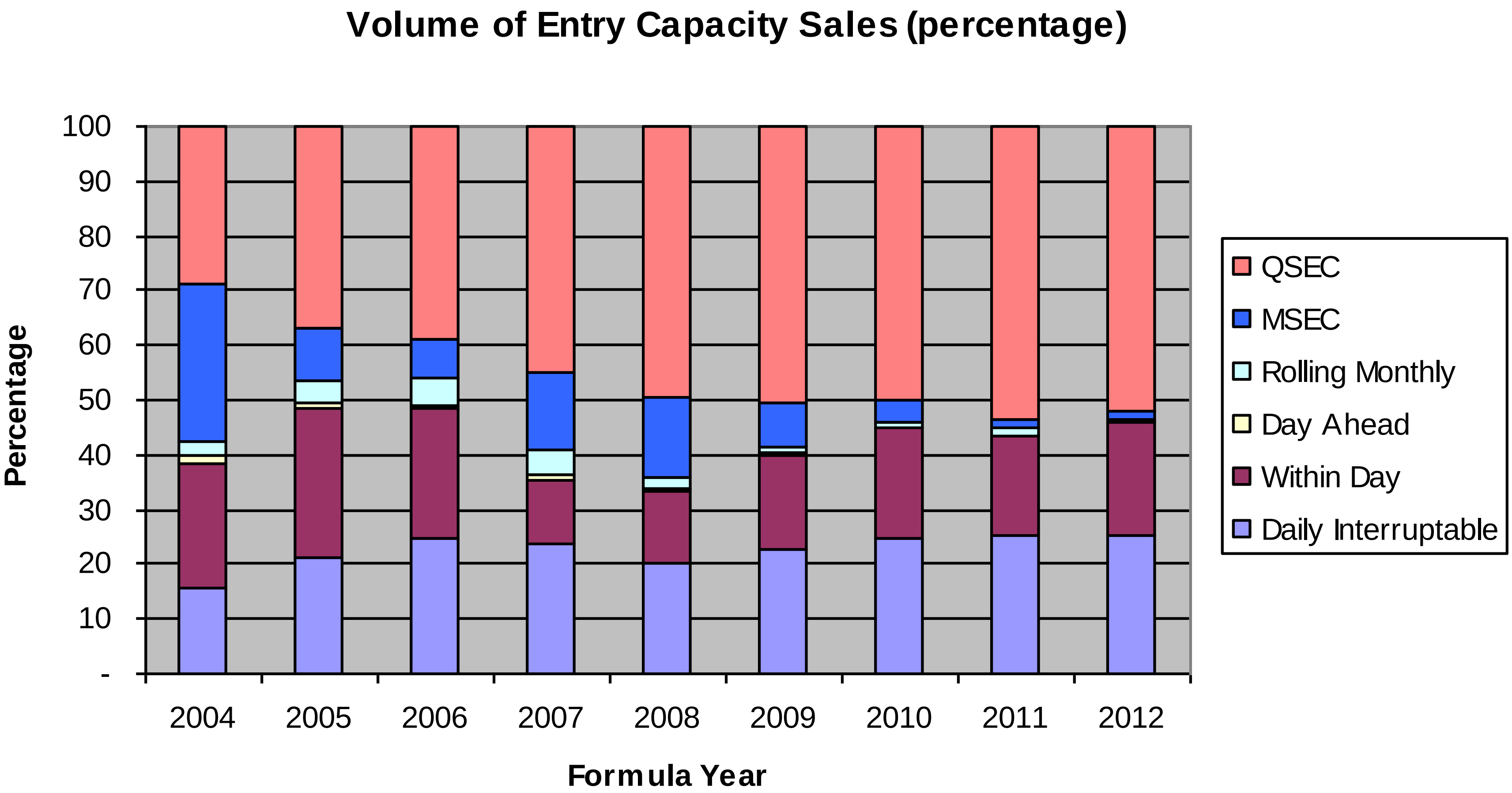
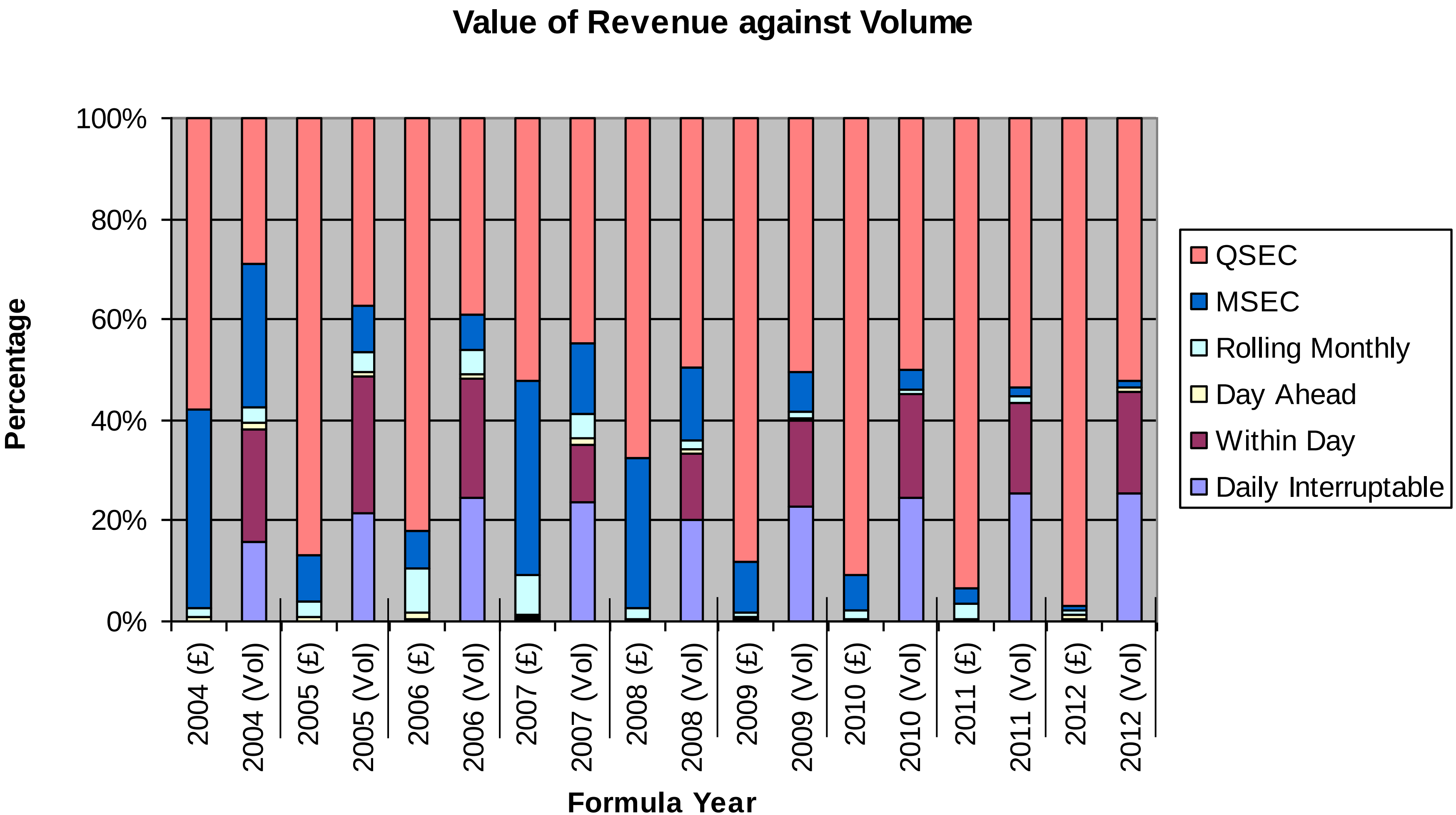
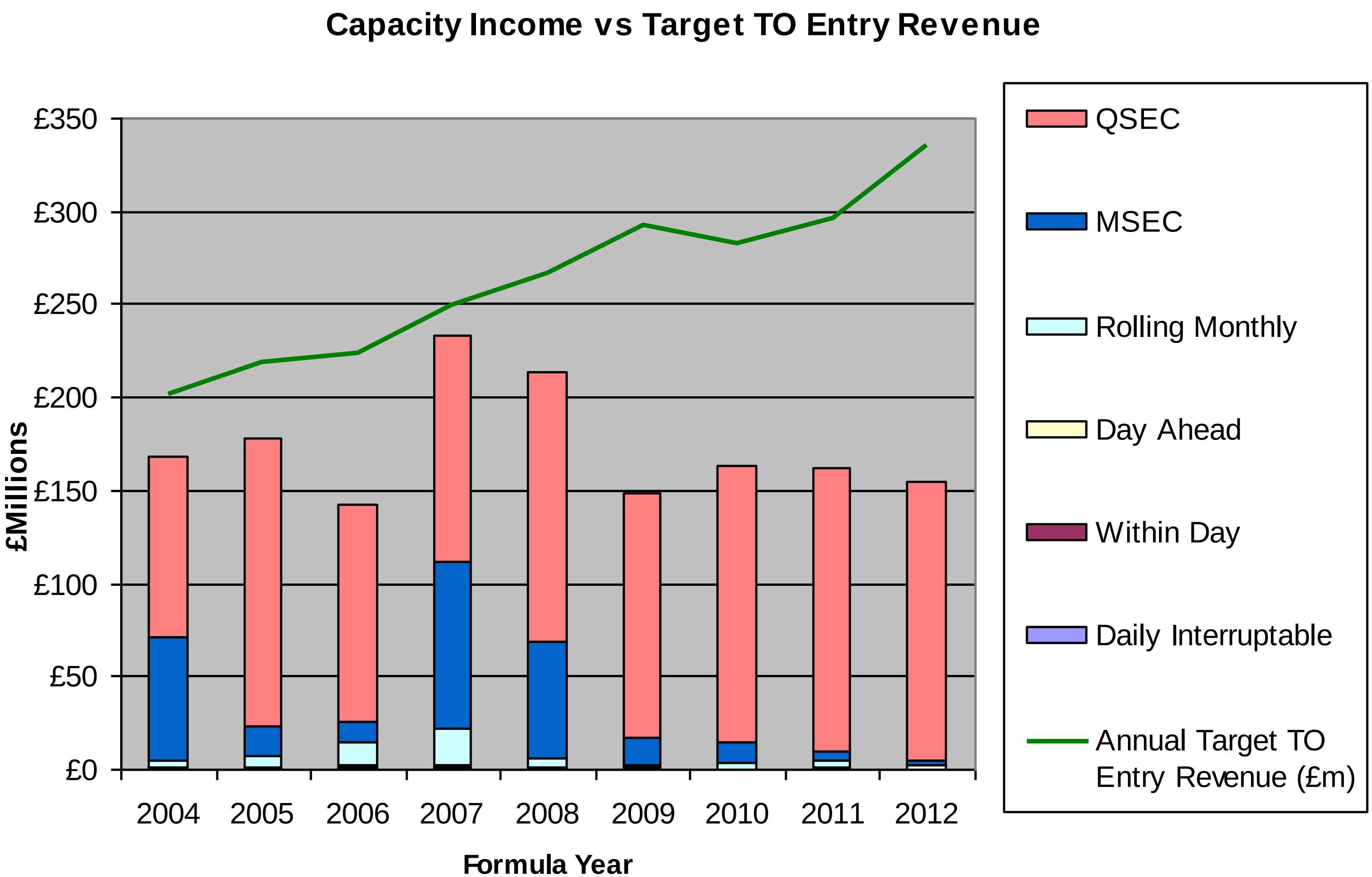
Trends in Capacity Sales (Volumes)



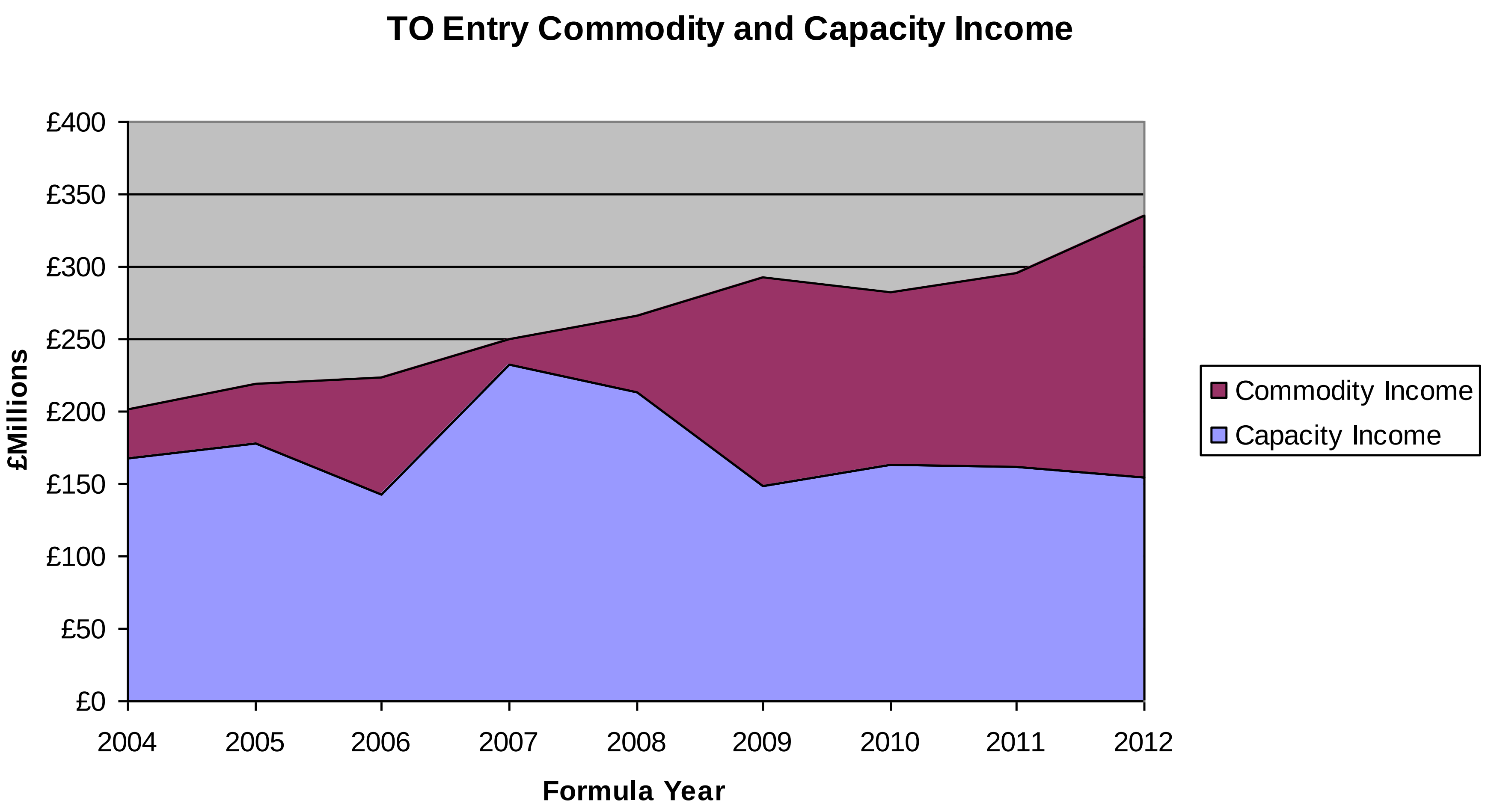
Trends in Capacity Sales Volumes: Volumes and Revenues compared



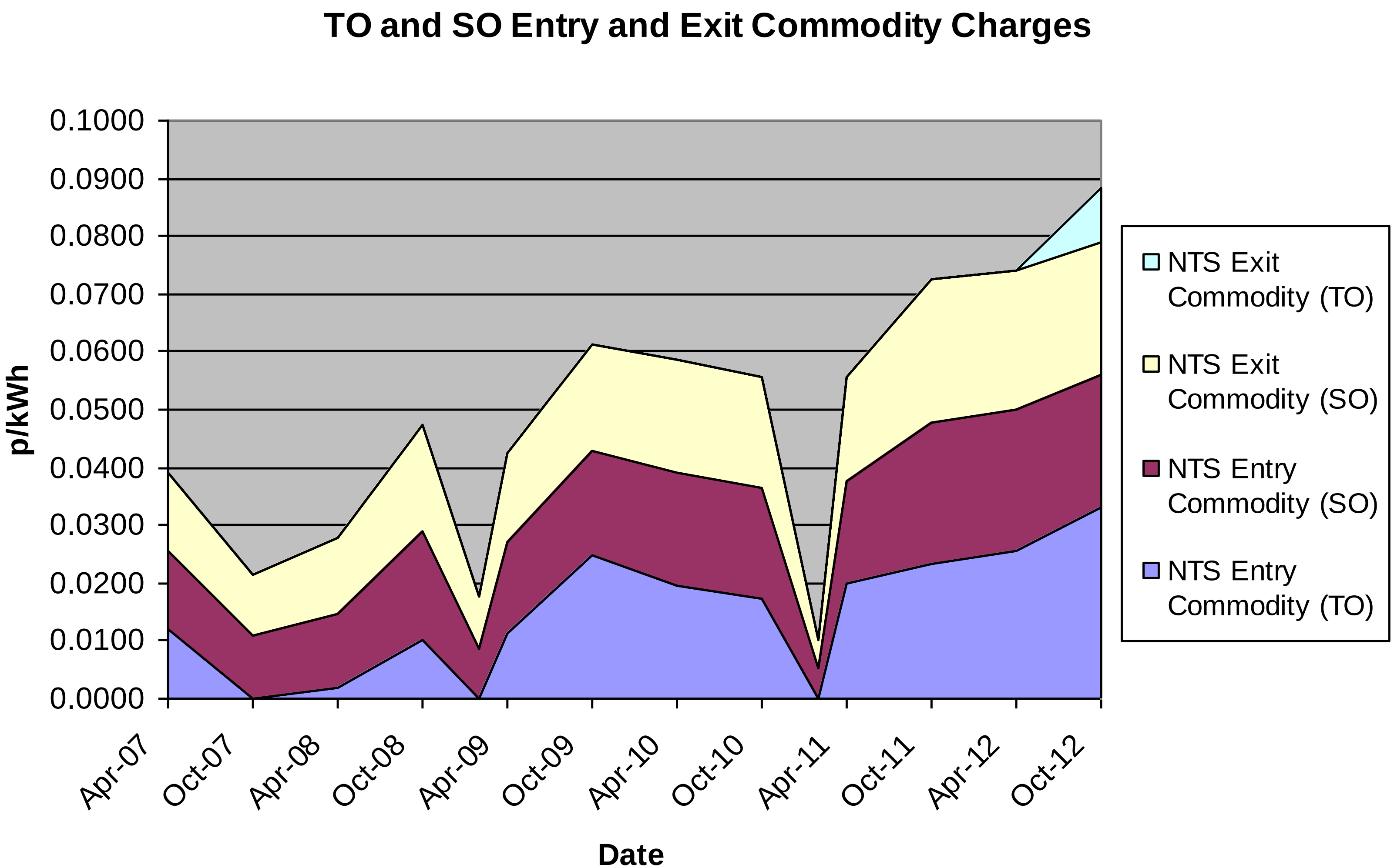
Capacity Income compared to Target TO Entry Allowed Revenue



TO Entry Capacity and Commodity Income history



Trends in Total Commodity Charges



Summary

- Since 2008/09 proportion of revenue from long term Entry Capacity bookings has reduced resulting in higher proportions of Revenue to be recovered from TO Commodity charges
  - In general there has been a trend of rising commodity charges year on year
  - Including the TO Exit Commodity charge introduced from October 2012
- Revenues from Short Term Capacity products account for small proportion of Revenue