

SO Capacity Incentives & Charging

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Issue

- ◆ Questions have been asked regarding
 - ◆ How the SO Commodity charge is set in regard to SO Capacity Incentive revenue?
 - ◆ How Incremental Capacity Revenue is treated?
 - ◆ How target revenue is calculated for the Transportation Model?
- ◆ We need to consider if the Licence treatment and Charging Methodology are consistent in regard to incremental capacity revenue

Treatment of Incremental Revenue & SO Commodity Charge Setting

- ◆ The NTS incremental capacity incentive arrangements will lead to increased SO (maximum) allowed revenue when incremental capacity is released
- ◆ The Licence states that capacity revenue associated with the sale of incremental NTS capacity will be treated as SO revenue.
- ◆ SO allowed revenue, other than incremental capacity revenue is collected from the SO commodity charge.

Incremental revenue from commodity charge = Incremental allowed revenue - Incremental capacity revenue collected

Transportation Model Target Revenue

- ◆ Calculate NTS TO Exit baseline capacity Revenue
 - ◆ charges should be set such that
= 50% of TO allowed revenue less DN pensions charge revenue.
- ◆ Transportation Model Target Exit Revenue
= TO Exit firm (baseline) target revenue + SO Exit capacity revenue.

We calculate this target revenue iteratively such that the firm baseline prices recover the firm target revenue and incremental exit prices are derived from this process

Summary

- ◆ We believe that the charging methodology is consistent with the treatment of incremental capacity revenue as SO revenue however we believe that there are clarifications within the exit calculation description that should be made
 - ◆ i.e. that incremental capacity revenue is SO revenue and therefore that Exit capacity charges are not necessarily TO Charges.
- ◆ Going forward we will look to clarify how the exit capacity calculation is carried out in the 1st April 2008 release of the charging methodology