

# GCM10: TO Entry Commodity Rebate Mechanism

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Gas TCMF

6<sup>th</sup> November 2007

# Issue

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- ◆ The TO Entry Commodity charge rate has been set at zero as a result of the revenue implied by the 2007 AMSEC auction.
- ◆ Revenue resulting from the RMSEC auctions and Entry Capacity Trade & Transfer processes (£13.4m) will result in TO over recovery.
- ◆ GCM09 has been implemented to improve the TO over-recovery “buy-back off-set” mechanism however there is a risk that
  - ◆ The mechanism is not triggered, or
  - ◆ buy-back costs are less than the over recovery amount
    - ◆ If Buy-back costs are less than over recovery then this process will still leave a residual over-recovery amount which would feed in to K for the following formula year

# Further Over Recovery Mechanisms

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- ◆ GCM09 was proposed as an incremental change to improve current process
  - ◆ Build on the concept of returning NTS TO Entry Capacity Revenue to NTS Entry Capacity holders without influencing bidding behaviour
  - ◆ Further credits based on capacity holdings might influence capacity bidding behaviour
    - ◆ (“buy cheap capacity to benefit from over-recovery”)
- ◆ A negative TO commodity charge has been proposed (and vetoed) in the past
  - ◆ Applying this approach in parallel with the buy-back offset mechanism would involve forecasting both monthly over recovery and buy-back costs
  - ◆ Required notice periods would make a negative TO commodity ineffective in managing over recovery identified in February/March.
  - ◆ Could be overcome by applying retrospectively

# Proposed GCM10 Additional Mechanism

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- ◆ TO Entry Commodity Rebate
  - ◆ Partial or full rebate of TO Entry Commodity charges Mechanism
    1. Remaining over recovery amount calculated after taking into account any payments resulting from the buy-back offset mechanisms triggered
    2. Credits would only be paid if the residual over recovery was in excess of £1m (this equates to the minimum TO Entry Commodity price of 0.0001 p/kWh)
    3. Ratio of remaining over recovery amount and TO Revenue paid calculated
      - ◆ Cap ratio at 100% i.e. only rebate TO Entry Commodity revenue received
    4. Rebate of TO Entry Commodity charges paid based on ratio
    5. Rebate paid in April/May following formula year

# GCM10 Example

## Example Data

Residual from “buy-back Offset”  
TO Entry Commodity Collected  
Rebate ratio

£12.35m  
£46.80m  
26.39%

	UDQI (TWh) [excluding storage & short-haul]	TO Entry Commodity Rate (p/kWh)	TO Entry Revenue	Rebate
April	40	0.0120	£4.80m	£1.27m
May	50	0.0120	£6.00m	£1.58m
June	60	0.0120	£7.20m	£1.90m
July	70	0.0120	£8.40m	£2.22m
Aug	80	0.0120	£9.60m	£2.53m
Sept	90	0.0120	£10.80m	£2.85m
Oct	100	0	£0.00	£0.00
Nov	110	0	£0.00	£0.00
Dec	120	0	£0.00	£0.00
Jan	130	0	£0.00	£0.00
Feb	120	0	£0.00	£0.00
Mar	110	0	£0.00	£0.00
Total	1080	0	£46.80m	£12.35m

Each Shipper will receive a proportion of the rebate based on its proportion of the relevant UDQI in each month. This is equivalent to each shipper receiving a rebate equal to the calculated ratio multiplied by its TO Entry Commodity charges.

**nationalgrid**

# Charging Methodology Proposal GCM10

## Timeline

Milestone	Date
Charging Methodology Proposal issued	23 <sup>rd</sup> October 2007
Consultation Ends	20 <sup>th</sup> November 2007
Consultation Conclusions Report inc. Final Proposals	January 2008
Ofgem veto period (Assumes no Impact Assessment)	28 Days
Implementation	1 <sup>st</sup> March 2008
<i>Ofgem veto period (Assumes Impact Assessment raised)</i>	<i>Up to 3 months</i>
<i>Implementation</i>	<i>31<sup>st</sup> March 2008</i>