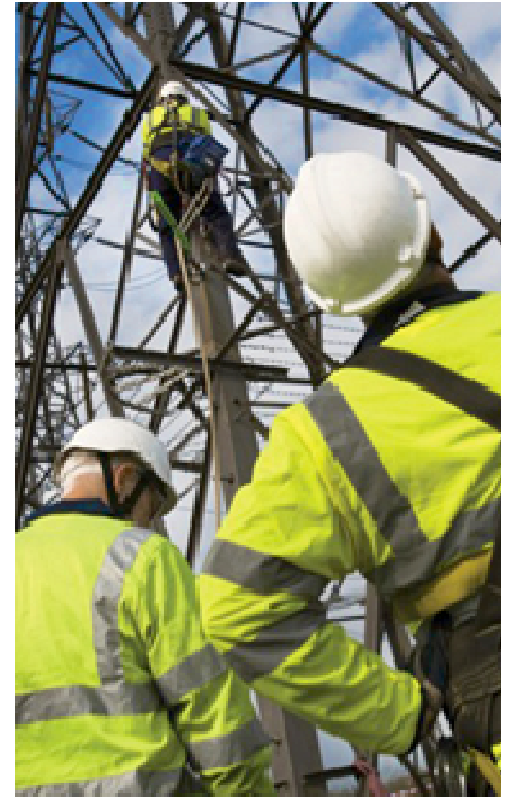


Entry Charging Issues

9th September 2009



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Issue: 2009 TO Entry Revenue

- ◆ The key issue for the review of entry charging arrangements at this time is the significant increase in the TO entry commodity charge

Auction	2009/10 Formula Year Revenue (£M)
QSEC Auctions	97.1
AMSEC 2008	9.6
AMSEC 2009	5.3
RMSEC & TT 2009*	0.8
DADSEC*	1.4
DRSEC	0.2
Total auction revenue (A)	114.5
TO Entry Target Revenue (B)	293.4
TO Commodity Target Revenue (A-B)	178.9

39% Capacity - 61% Commodity Revenue Split

* **Forecast**

Contributing Factors to High TO Entry Commodity

1. Time of Procurement & Price Paid

- ◆ Prevailing prices based on Transportation Model but QSEC's prices based on UCAs prior to 2007

2. Maximum Capacity Bought

- ◆ Are shippers buying capacity up to the TYS forecast peak supply rate?

3. Annual Profile of Capacity Bought (Peak v Average)

- ◆ Less capacity bought in summer compared to winter

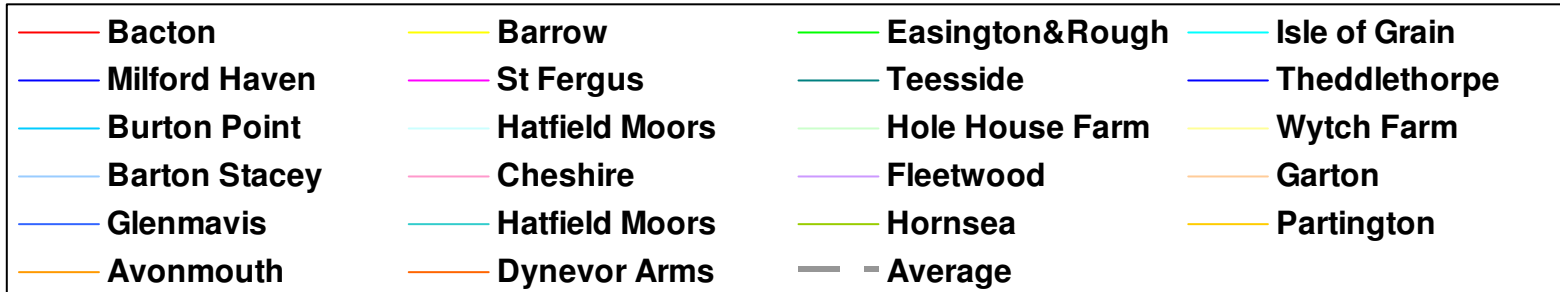
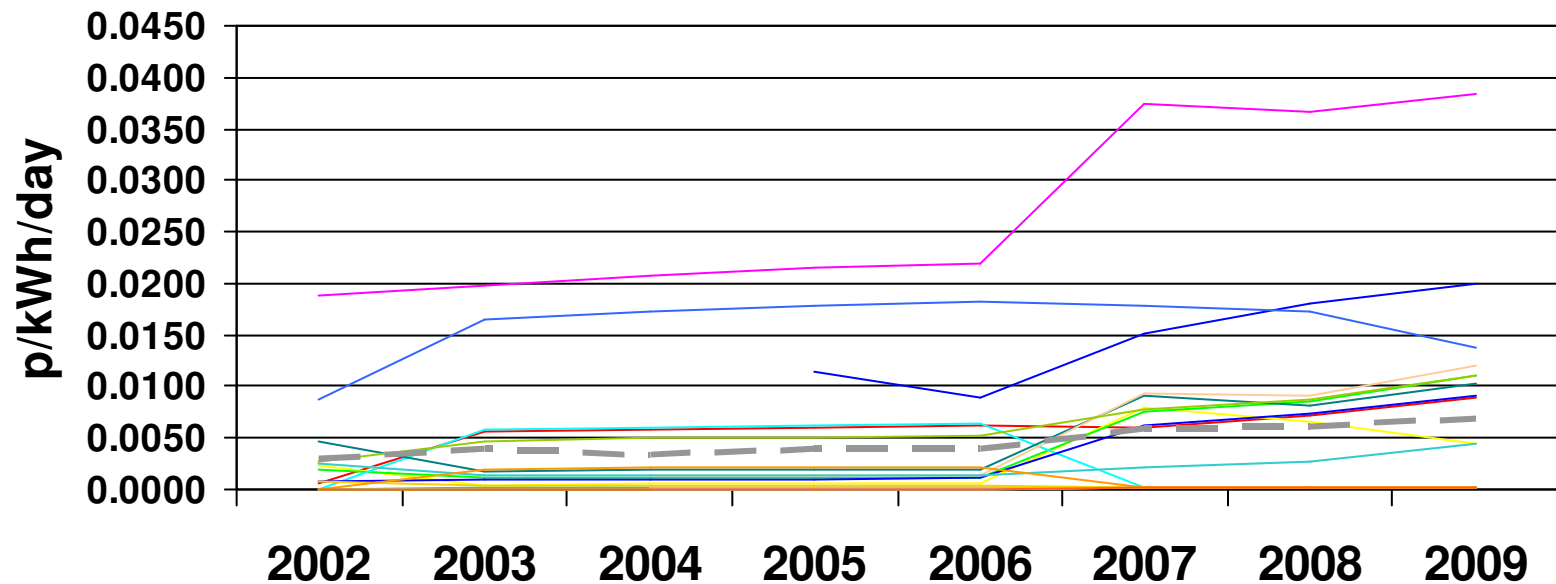
Implied Revenue from 2009/10 Entry Reserve Prices

- ◆ Entry Capacity Prices set in the summer of 2009 for
 - ◆ September 2009 QSEC
 - ◆ RMTTSEC & DSEC prices from 1st October 2009
 - ◆ AMSEC Prices February 2010
- ◆ The following table indicates the level of revenue that would have occurred if all entry capacity (Capability for storage otherwise TYS Forecast) had been procured for each day at these prices.

Gas Year	2009/10	2010/11	2011/12
Implied Entry Capacity Revenue	£434.76	£446.05	£432.51
TO (Non-incremental) Implied Revenue	£335.79	£346.73	£332.44
TO (Non-incremental) Implied revenue (Non-storage)	£314.81	£326.01	£312.30
Target Entry TO Allowed Revenue	£293.4	£271.3	£277.1

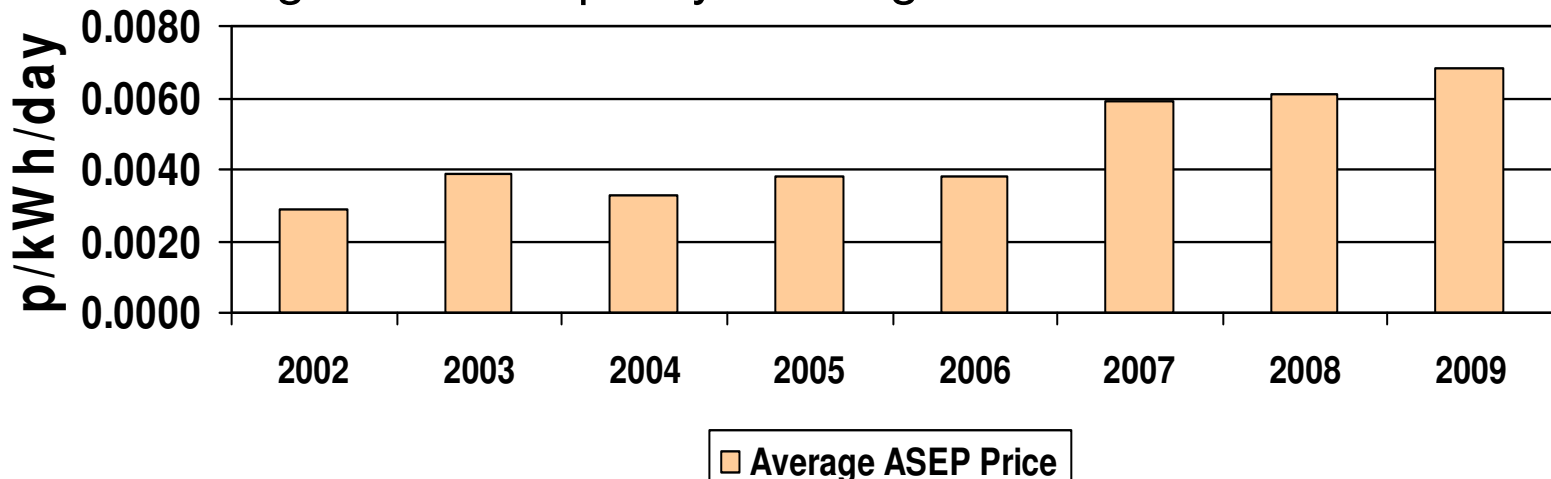
Conclusion: Prevailing prices are sufficient if capacity procured for 12 months.

QSEC Obligated Entry Price History



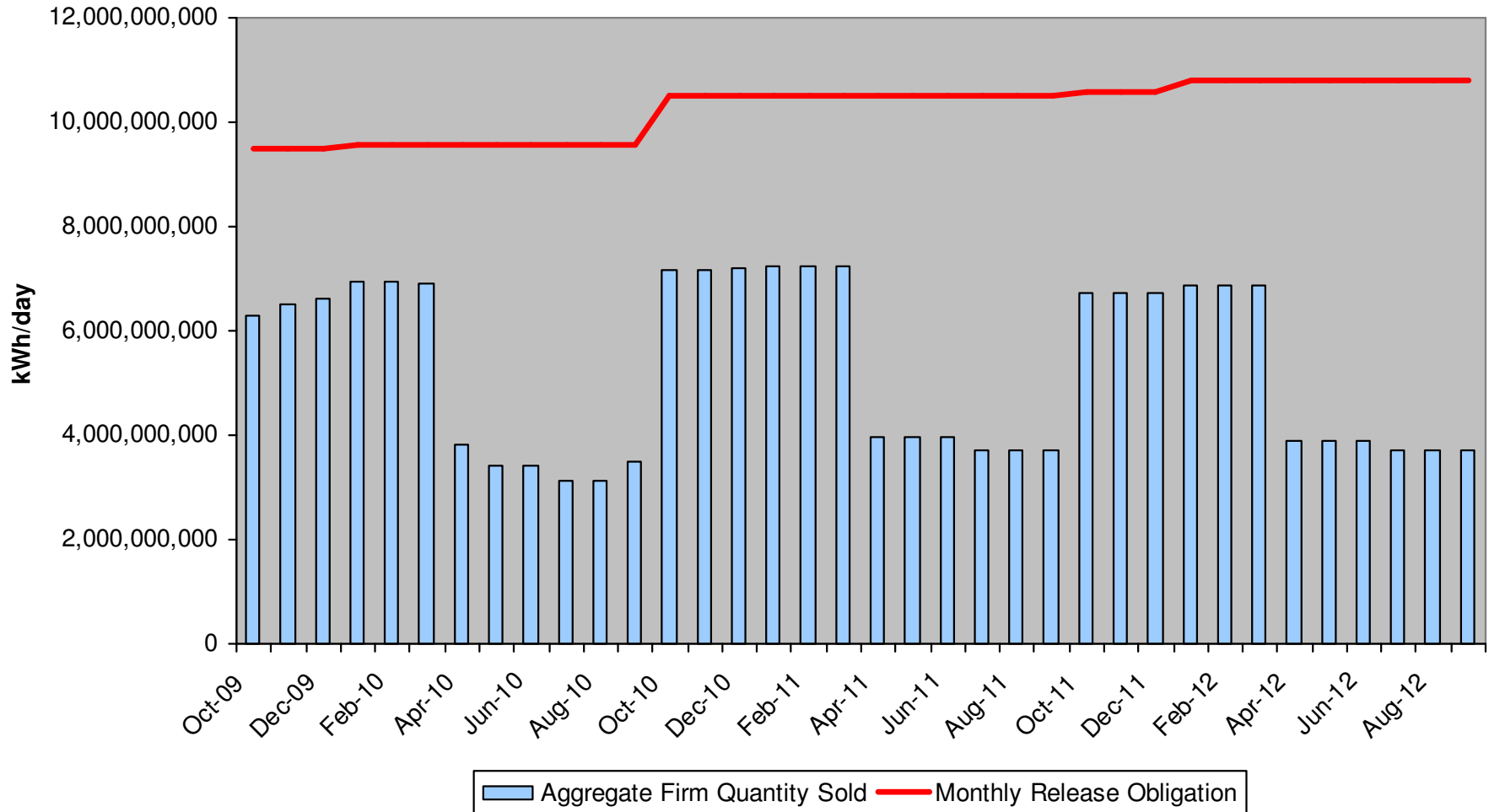
Historical Entry Prices

- ◆ Prices have risen since the introduction of the Transportation Model for setting NTS entry capacity prices from 1st October 2007
- ◆ will take time to have an impact as a significant quantity of capacity was procured prior to 2007.
- ◆ might be undermined by the zero priced on the day auctions leading to lower capacity booking in QSECs and AMSECs.



Conclusion: UCA based prices contributing to under recovery. QSEC fixed prices less of an impact.

NTS Entry Capacity Sold

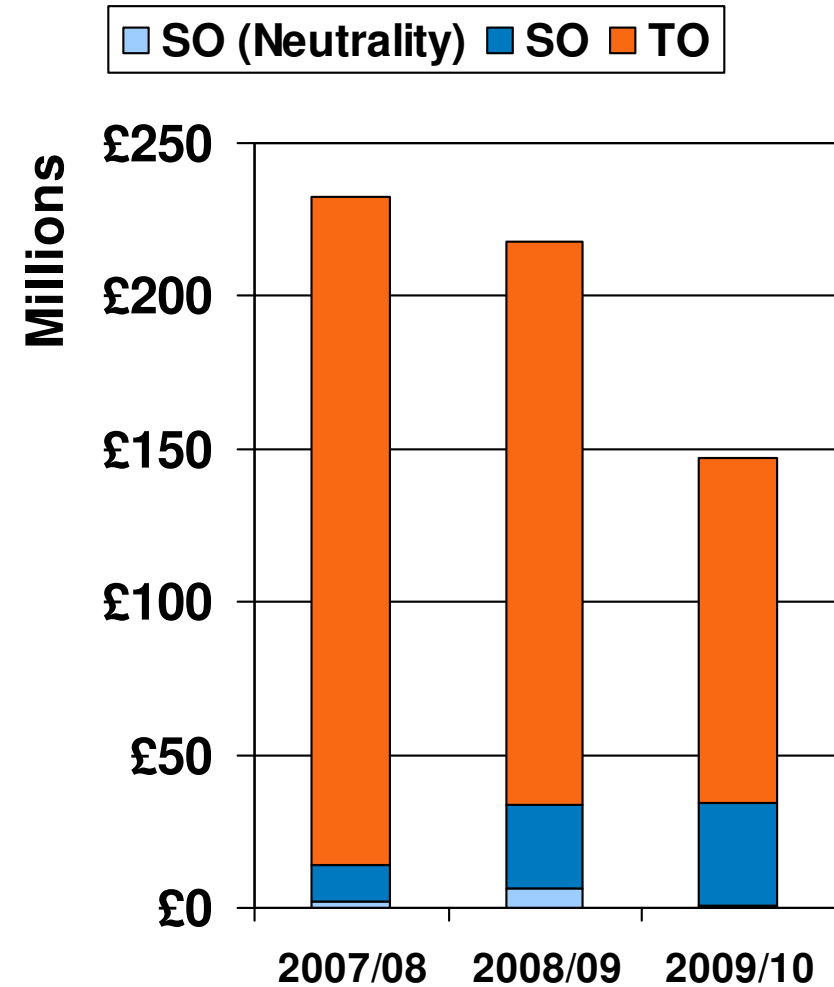
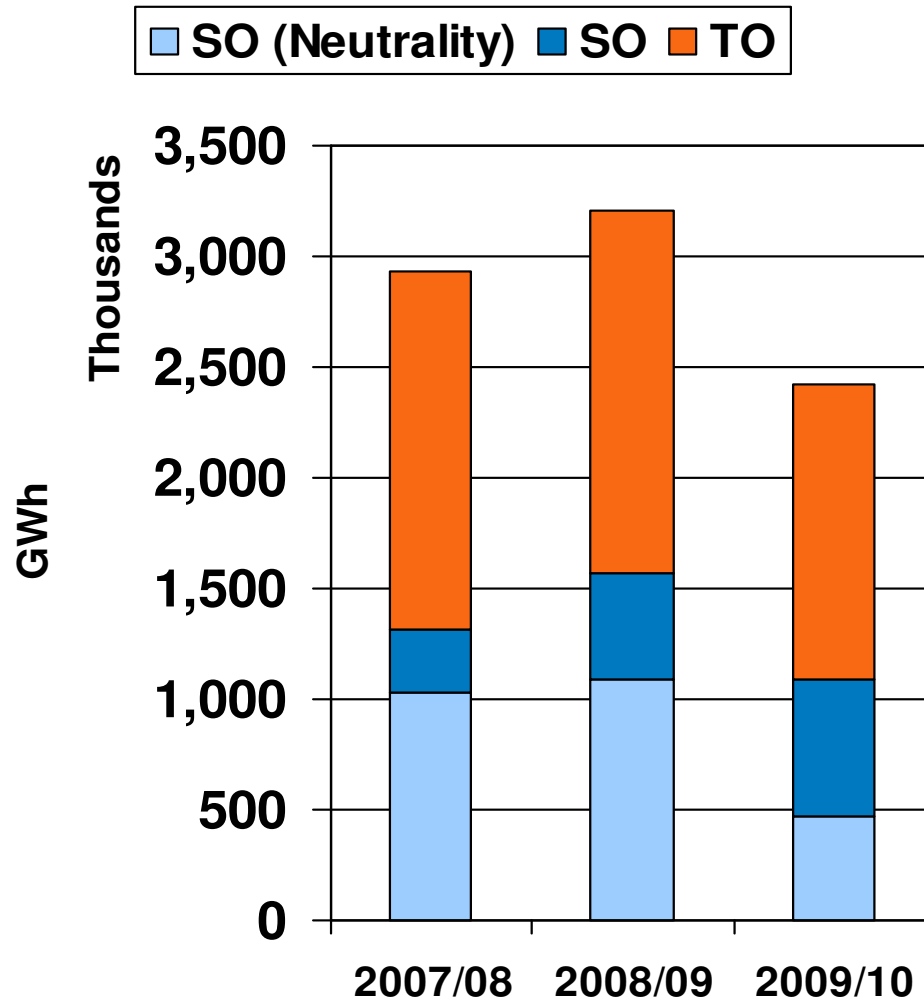


Conclusion: Significant annual profiling

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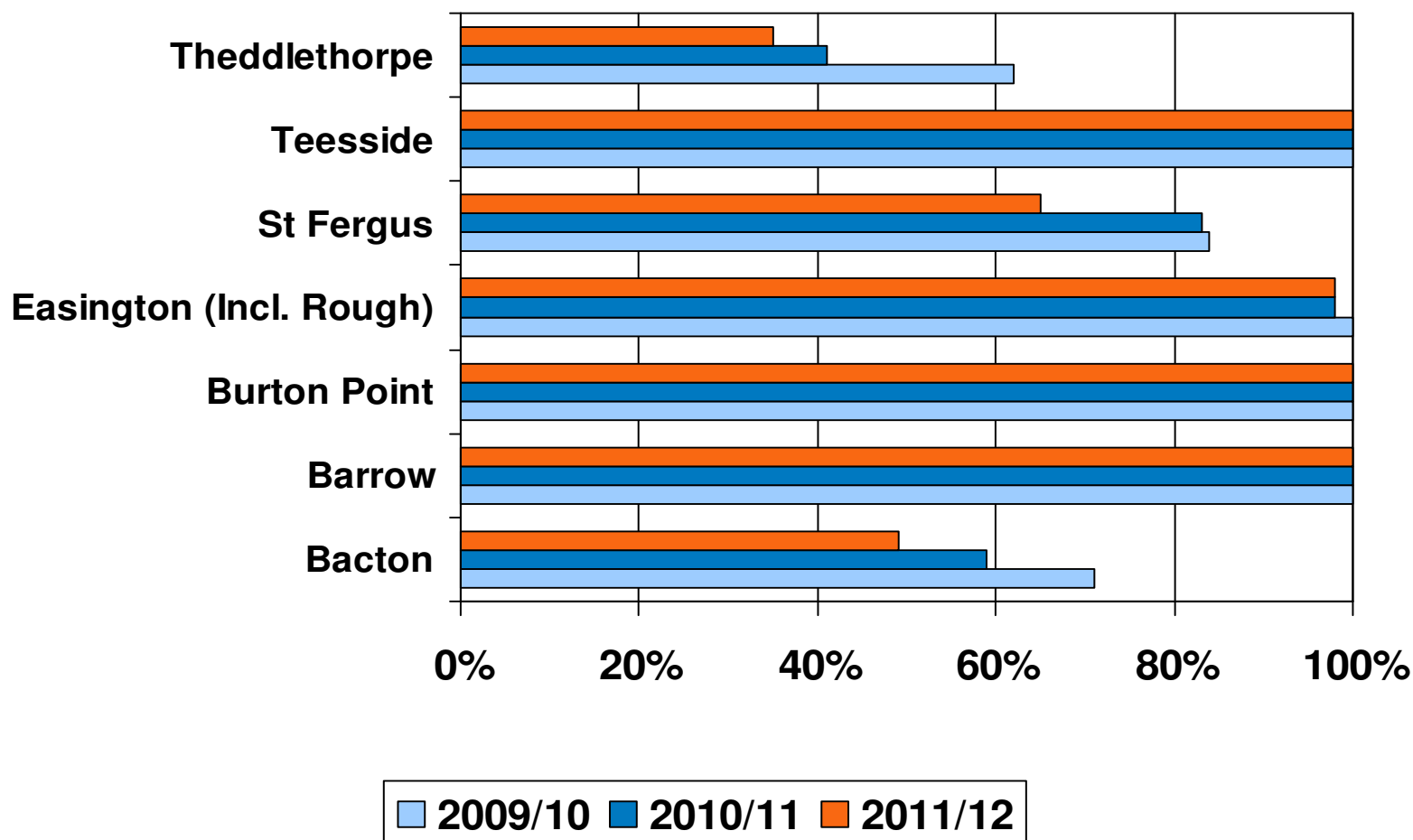
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Capacity & Revenue by Revenue Type



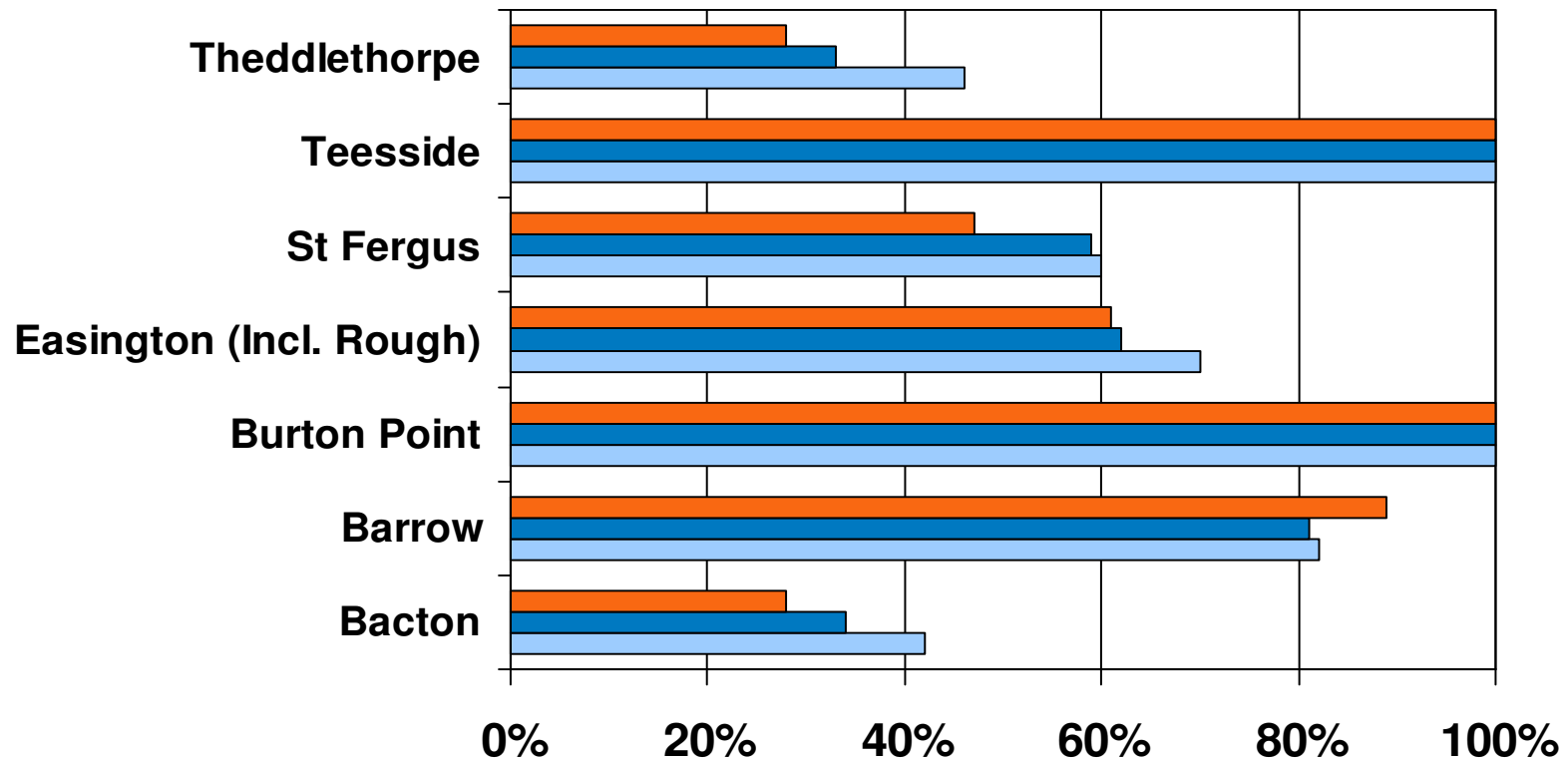
Conclusion: SO (Neutrality) which includes WDDSEC & DISEC represents significant Capacity but minimal Revenue

Peak Capacity (Maximum) Sold as a Percentage of TYS Forecast Peak Supply



Conclusion: This suggests that sufficient peak capacity has already been sold at all beach ASEPs other than St Fergus, Bacton and Theddlethorpe

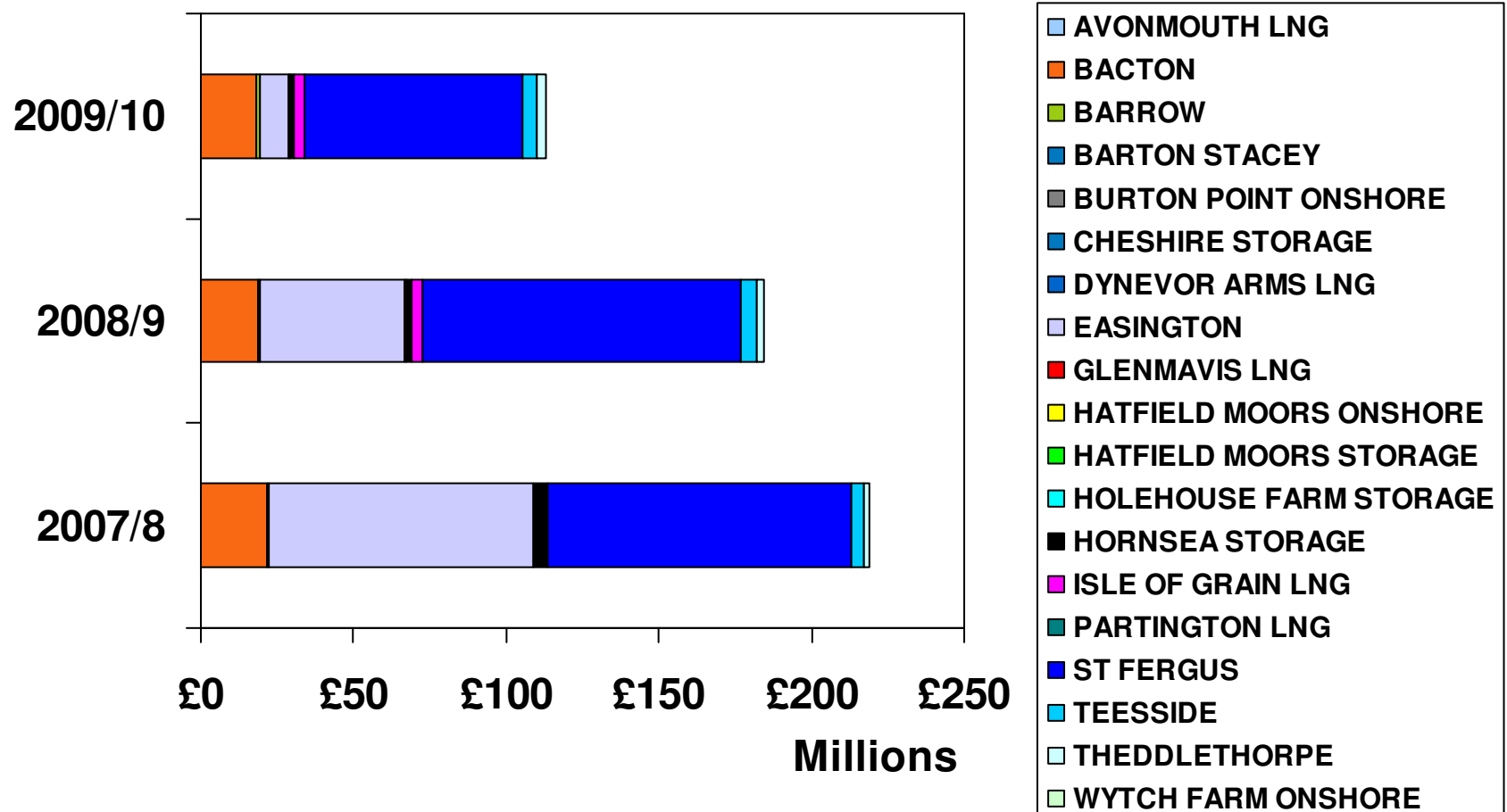
Annual Capacity (Average) Sold as a Percentage of TYS Forecast Peak Supply



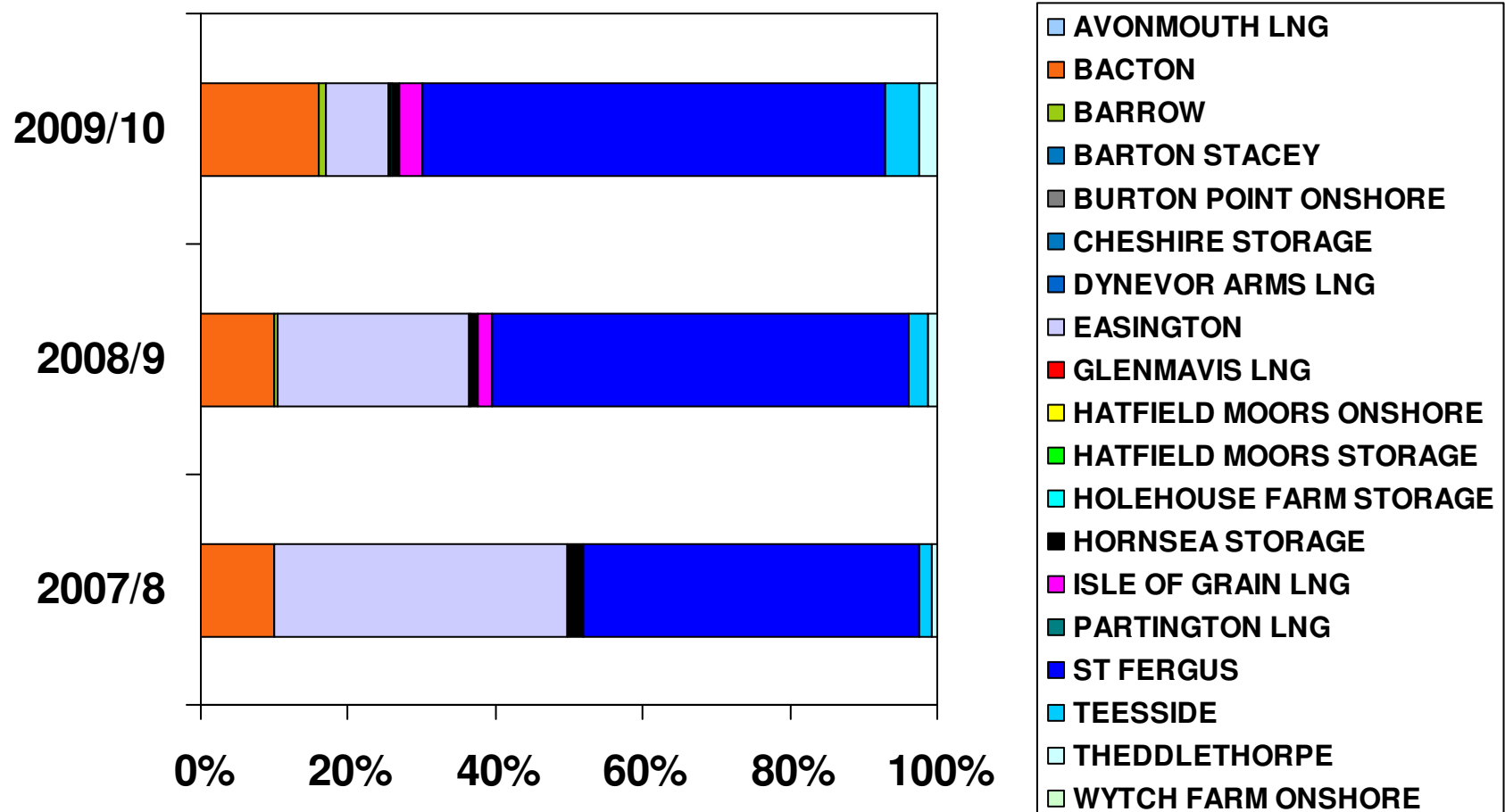
2009/10 2010/11 2011/12

Conclusion: This suggests that sufficient peak capacity has already been sold at beach ASEPs throughout the year for Teesside and Burton Point Only.

TO Entry Revenue by Terminal

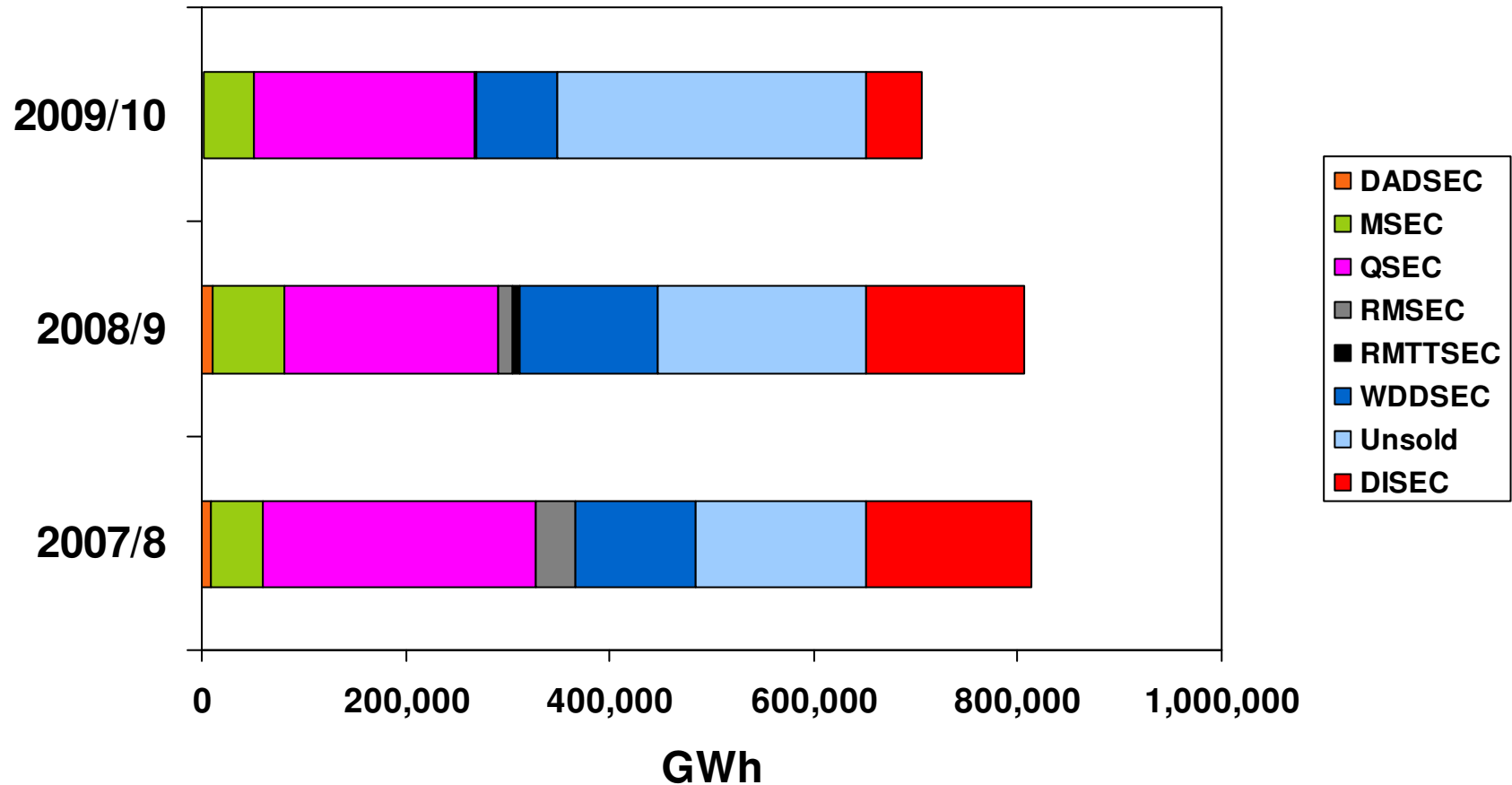


TO Entry Revenue by Terminal

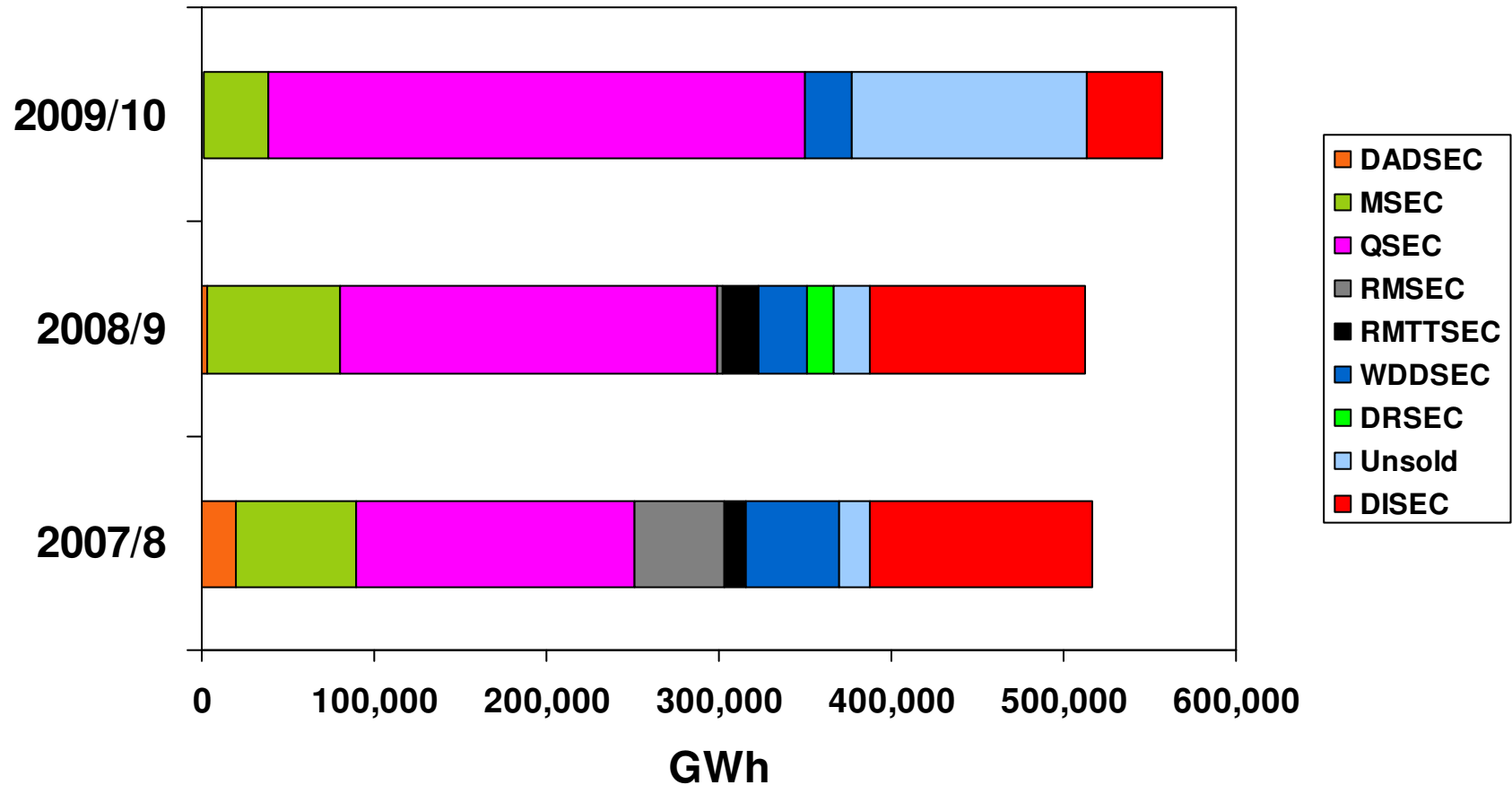


Conclusion: Bacton, Easington & St Fergus represent the majority of revenue

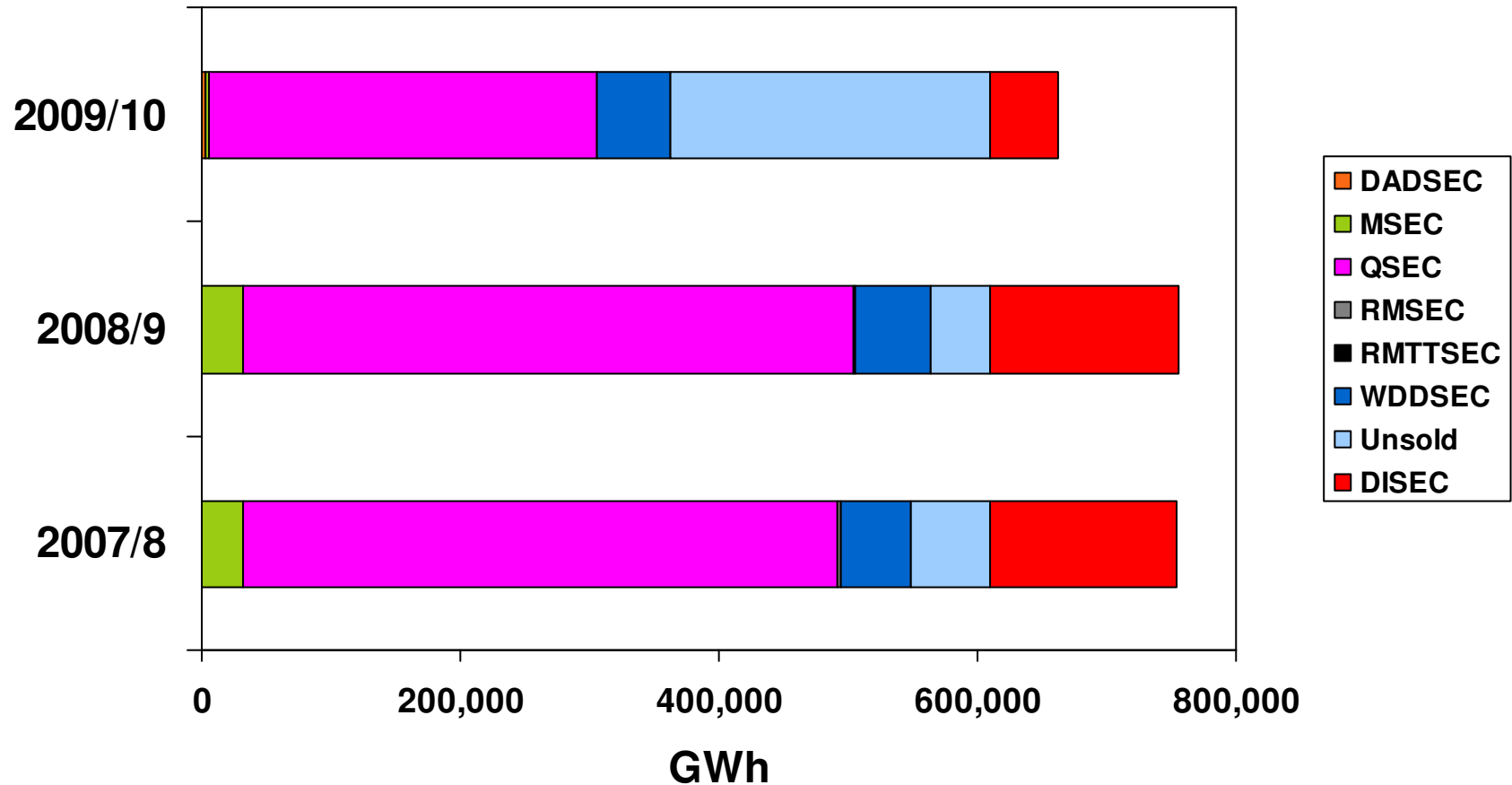
Bacton Entry Capacity by Auction



Easington Entry Capacity by Auction



St Fergus Entry Capacity by Auction



Contributing Factors to High TO Entry Commodity

1. Time of Procurement & Price Paid

- ◆ Prevailing prices based on Transportation Model but QSEC's prices based on UCAs prior to 2007

2. Maximum Capacity Bought

- ◆ Shippers are not buying capacity (*Firm ahead of the day ~ TO*) up to the TYS forecast peak supply rate.

3. Annual Profile of Capacity Bought (Peak v Average)

- ◆ Significantly less capacity bought in summer compared to winter

Options Going Forward...

Options	Detail
Accept commoditization	Potentially remove/reduce auction reserve prices further?
Entry-Exit split	Reduce the entry TO target revenue proportion?
Adjust Entry Reserve Prices	<p>Remove Entry Discounts (Potentially including interruptible)? Increase and/or index Prices?</p> <ul style="list-style-type: none"> ◆ Adjust prices to collect allowed revenue? ◆ Adjust prices to take into account system load factor? ◆ Seasonal pricing? ◆ Conditional pricing dependent on capacity already sold?
Review Entry Capacity Products	<p>Introduce annual product?</p> <p>Reduce number of auctions and or products?</p> <p>Interruptible capacity; reduce quantity and/or Remove zero price?</p>
Review Commodity changes	Vary applicable commodity charge dependent on capacity bought and/or location?