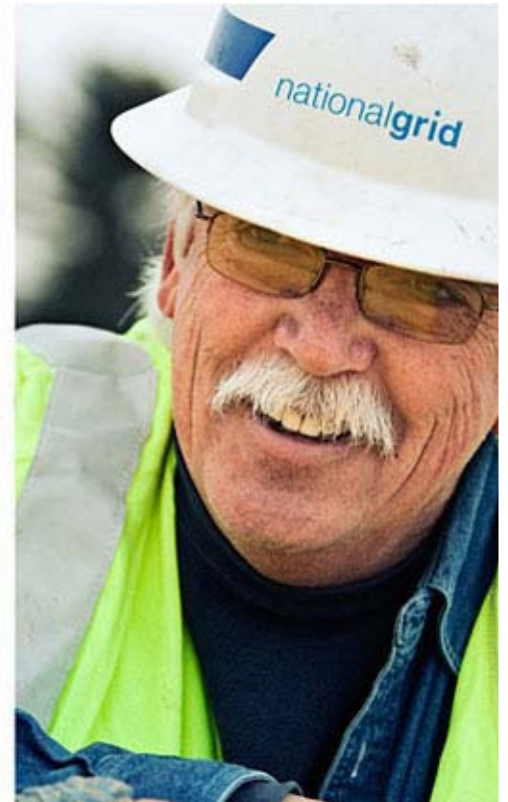


# Entry Revenue Over Recovery Mechanisms

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# Introduction

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- ◆ We have been requested by Ofgem to include a review of over-recovery mechanisms as part of the Entry Charging Review
- ◆ The following presentation provides an over-view of the entry mechanisms and asks the question;

***“Are the entry revenue over-recovery arrangements appropriate going forward if daily capacity discounts are removed and forecast entry capacity revenue increases and/or becomes more variable?”***

# Mechanisms

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1. Buy-back Offset (PC65 / GCM09)
  - ◆ Based 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”)
2. TO Entry Commodity Rebate (GCM10)
  - ◆ Rebate all or a proportion of TO commodity charges paid.
3. TO Entry Commodity Credit (GCM11/12)
  - ◆ Effectively a rebate of SO Entry Commodity Charge
  - ◆ For Licence reporting purposes this is treated as a TO Entry Commodity Credit which partially offsets the SO Entry Commodity charge

# 1. Buy-Back Offset

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- ◆ Offset buy-back costs levied through capacity neutrality
  - ◆ Mechanism
    1. Over recovery amount calculated
    2. Credits would only be paid if total TO over recovery was in excess of 4% or 6% over two years (NTS Licence obligation).
    3. Rebate Calculated to offset monthly buy-back costs levied on Shippers via the capacity neutrality mechanism
    4. Rebate paid monthly throughout the formula year
      - ◆ The full over recovery amount available in the first month that over-recovery is identified rather than dividing by the number of remaining months
    5. Additional credits would be paid at the end of the formula year to offset the buy-back costs from the start of the formula year against which credits had not already been paid.

## 2. TO Entry Commodity Rebate

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- ◆ 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

### 3. TO Entry Commodity Credit

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- ◆ TO Entry Commodity Credit – Effectively a retrospective negative charge
- ◆ Mechanism
  1. Remaining over recovery amount calculated after any buy-back offset payments and TO Entry Commodity Rebate
  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. Over recovery amount prorated based on SO Entry Commodity Charges to calculate Shipper credits
    - ◆ This would effectively represent a negative TO Commodity charges having applied over the period offsetting the SO Entry Commodity charges
  4. Those flows that do not attract Entry Commodity would be excluded (Storage & Short-haul)
  5. Credit paid in April/May following formula year

# TO Entry Over-Recovery Examples (1)

Mechanism	Step	Example 1		
Buy-back Offset (GCM09)	Over recovery	£15m		
	Buy-back Costs	£20m		
	Credit	£15m		
	Residual	£0m		
TO Entry Commodity Rebate (GCM10)	TO Entry Commodity collected	£40m		
	Ratio	0%		
	Rebate	£0		
	Residual	£0		
TO Entry Commodity Credit (GCM12)	SO Entry Commodity collected	£150		
	Ratio	0%		
	Credit	£0		

# TO Entry Over-Recovery Examples (2)

Mechanism	Step	Example 1	Example 2	
Buy-back Offset (GCM09)	Over recovery	£15m	£15m	
	Buy-back Costs	£20m	£5m	
	Credit	£15m	£5m	
	Residual	£0m	£10m	
TO Entry Commodity Rebate (GCM10)	TO Entry Commodity collected	£40m	£40m	
	Ratio	0%	25%	
	Rebate	£0	£10m	
	Residual	£0	£0	
TO Entry Commodity Credit (GCM12)	SO Entry Commodity collected	£150	£150	
	Ratio	0%	0%	
	Credit	£0	£0	



# TO Entry Over-Recovery Examples (3)

Mechanism	Step	Example 1	Example 2	Example 3
Buy-back Offset (GCM09)	Over recovery	£15m	£15m	£60m
	Buy-back Costs	£20m	£5m	£5m
	Credit	£15m	£5m	£5m
	Residual	£0m	£10m	£55m
TO Entry Commodity Rebate (GCM10)	TO Entry Commodity collected	£40m	£40m	£40m
	Ratio	0%	25%	100%
	Rebate	£0	£10m	£40m
	Residual	£0	£0	£15m
TO Entry Commodity Credit (GCM12)	SO Entry Commodity collected	£150	£150	£150
	Ratio	0%	0%	10%
	Credit	£0	£0	£15m

# Going Forward

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- ◆ Are the entry revenue over-recovery arrangements appropriate going forward if daily capacity discounts are removed and forecast entry capacity revenue increases and/or becomes more variable?