

Condition 4

Long Term Fixed Priced Products

26 May 2005

Background

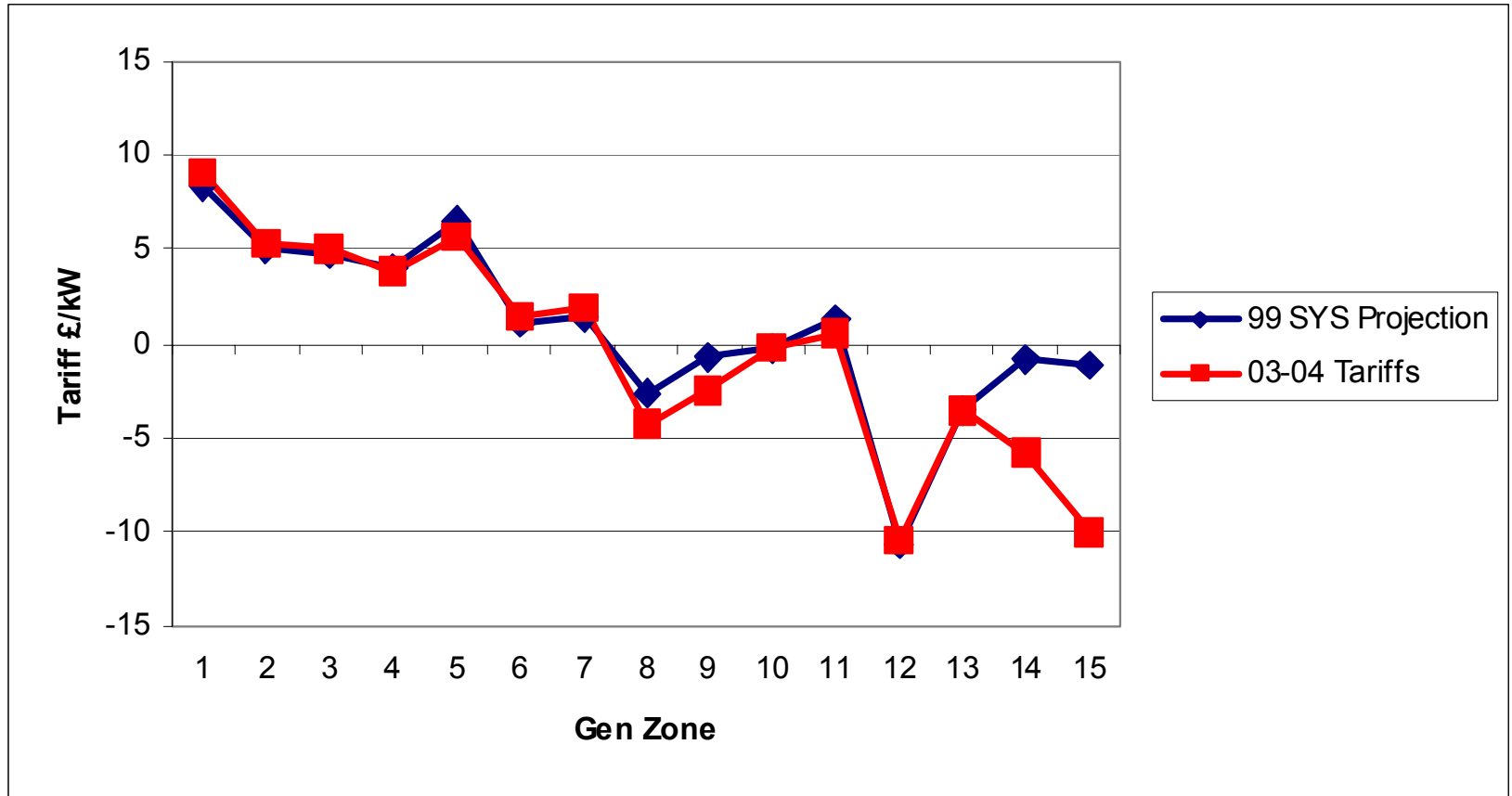
- **Condition 4:**
- To invite views and to consult on methods of enabling transmission users to choose to contract for rights to use the transmission system with TNUoS charges fixed at a specified level for periods of more than one year
- To bring forward a proposal to modify the use of system charging methodology in this regard consistent with implementation in April 2007.

Review previous work on Long Term Charges

- England & Wales Charging Review 2003
- In March 2003, NGC presented analysis on long term tariffs
- Produced 'long term' tariffs for 2003/04 based on 1999 SYS data
- Comparison with actual tariffs showed
 - Large differences in southern zones – generation
 - Additional revenue recovery volatility of ~£60-70m per annum over and above annual Kt volatility

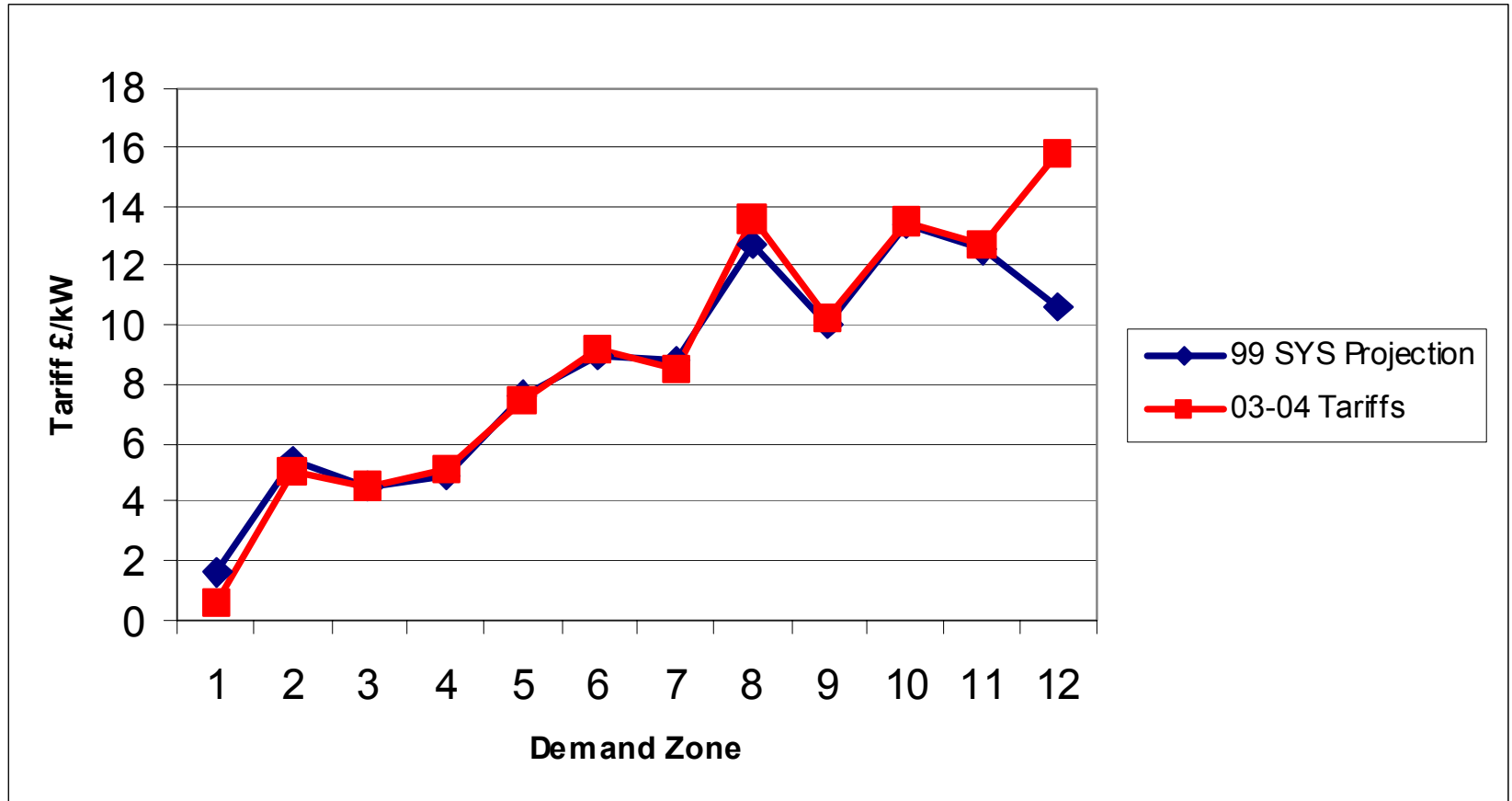
'2003/04' Generation tariff based on 1999 SYS

Actual 03/04 tariffs v. 4 year projection



'2003/04' demand tariff based on 1999 SYS

Actual 03/04 tariffs v. 4 year projection



Long Term Charges (LTCs)

Key Issues

- Cost reflectivity of tariffs over time
- If Users opt for different lengths of contract, who picks up risk of tariff under/over recovery due to forecast errors?
 - National Grid?
 - Users with shorter term contracts?
 - Reconciliation charge to all users?
 - Should long term user pay a premium?
- What is “long term” - 2 years, 5 years? What period are users interested in?

Short Consultation – April 2003

- Short Consultation via a questionnaire issue in April 2003 to assess key issues
 - Asked User to indicate extent of their interests in long term tariffs
 - Consider options of NGC issuing long term price forecasts in SYS to inform users
 - Consider desired period of charges and allocation of risks
- There were 14 responses to the consultation 6 were not interested in LTC, whilst 8 indicated some interest (dependent on the design)

NGC's 2003 conclusions on Long Term Charges

- Mixed views were received from consultation
- Those in favour see benefits in stability and predictability, however, stipulation of conditions seem at odds with concept of LTC
- Those against are unwilling to 'share' the risk of under/over recovery of revenue volatility
- A relatively simple regime could be designed without the need for fundamental contract changes
- Limited scope for application of LTC's given the implementation of BETTA
- Issue of LTC's should be considered further following BETTA

Discussion Areas

- Certainty of background?
- Who takes risk?
- Credit requirements?
- Security for new transmission reinforcements?
- Other?