Financial model of NI gas trading arrangements

16th October 2014

Purposes of the model

- To calculate forecast and year end prices for:
  - Entry commodity
  - Entry capacity (annual, quarterly, monthly, daily, within-day, interruptible products)
  - Exit commodity
  - Exit capacity (annual, interruptible products)
- To produce the outputs necessary for shipper invoices
- To model the reconciliation process
- To test the impact of changes in volumes

Structure of model

- Designed according to best practice
- Incorporates four existing UR spreadsheet models
- Both monthly and annual data produced
- Standard inputs/calculations/outputs structure
- Tested internally with both dummy and actual data
- Capacity for 20 shippers and four TSOs (three current TSOs and "West" TSO)
- Planned to include separate entry capacity prices for Moffat and Gormanston entry points

Calculation of reserve prices

- Tariffs calculated separately for capacity and commodity products using forecast/allowed revenues
- For each group of products:

  Price = Revenue / Volume
- For capacity products, model calculates annual price, then other product prices using seasonal and product weightings
- Weightings:
  - For entry capacity products, model includes seasonal and product weightings for six products
  - For exit capacity products, model includes seasonal and product weights for two products
  - No seasonal weightings for commodity products

Auctions

- Auction prices for entry and exit capacity included in model as input data

- Where auction price exceeds calculated forecast ("reserve") price, auction price is used

- Where auction price is less than reserve price, reserve price is used

- Overrecovery in revenue dealt with in reconciliation process

Reconciliation process

- Assumed reconciliation works broadly as now:
  - all over-/under-recovery of revenue is returned/passed through in a single ('bullet') reconciliation payment; but
  - reconciliation payments apportioned to TSOs according to revenue requirement
- Over-/under-recovery of revenue due to auctions included in bullet reconciliation payment