

A decorative graphic consisting of a solid blue horizontal band with a white, flame-like shape cut out from its center, positioned above the main title.

UNC Modification 0667 – Business Rules

Solution



- » Mod 0667 Solution includes the following;
 1. Inserting the NPV test into UNC
 2. Creation of an Incremental Capacity Premium concept
 3. Requirement for capacity to be signalled in a minimum of 4 separate years
 4. Clarification that capacity can be reprofiled ahead of the second NPV test prior to allocation at the end of Phase 2
 5. Initially setting the Estimated Project Cost at the value used for the first NPV test and then subsequently index for the second NPV test

1) Inserting the NPV Test into UNC

- » The NPV test needs to be inserted into UNC TPD Section B.
- » The following formula is used to determine whether the NPV test has been passed:

$$\frac{NPV}{Project\ Cost} \geq 0.5$$

Where

- *NPV* means the output from the NPV test which is estimated present value of the revenue signals
- *Project Cost* is the estimated NTS project cost

2) Calculation of the Incremental Capacity Premium

- » Creation of a new concept – Incremental Capacity Premium
- » The Incremental Capacity Premium will be applied should the NPV test fail (i.e. revenues from the sale of incremental capacity will not achieve 50% of Estimated Project Value) using the following formula;

$$\frac{NPV}{Project\ Cost} < 0.5$$

- » It is calculated to be the value required to pass the NPV test using the following formula;

$$Incremental\ Capacity\ Premium = \frac{Residual\ Cost}{Cap_{total}}$$

Where

- *Residual Cost* is the residual cost to be achieved from the Incremental Capacity Premium
 - *Cap_{total}* is the total quantity of capacity signalled within the NPV test (including any unsold), expressed in kWh
- » For the avoidance of doubt all revenues associated with the Incremental Capacity Premium (including any current unsold baseline it is applied to) contribute towards NPV test. For current unsold capacity the difference between the applicable payable price and reserve price will be used for the NPV calculation.

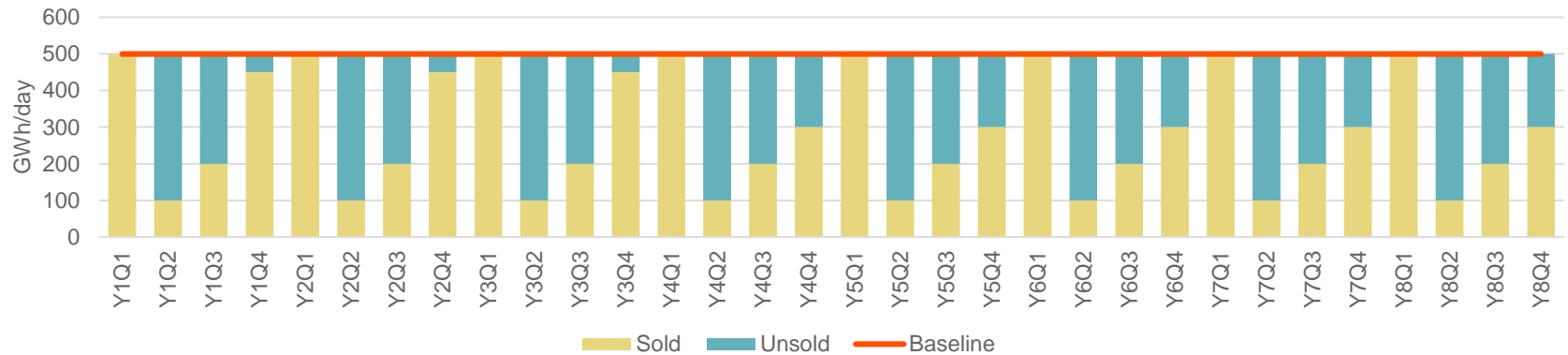
3) Incremental signals required in a minimum of 4 separate years



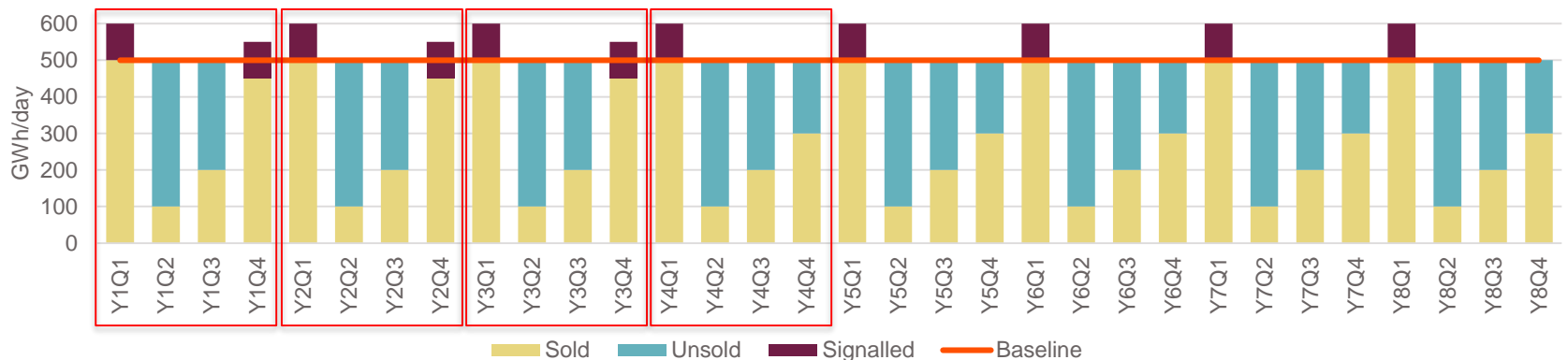
- » A minimum requirement of Incremental Capacity to be signalled in 4 separate years over the 8 year PARCA period
 - For the avoidance of doubt this can be a minimum of 1 quarter each in a minimum of 4 separate years

Example

1. Hypothetical scenario which shows a profile of sold and unsold capacity at a NTS Entry Point



2. In order for a capacity profile to be valid the signalled incremental capacity must be over a minimum 4 separate years



4) Clarification of ability to reprofile ahead of second NPV test



- » Clarification needs to be added to ensure PARCA applicants are able to alter their capacity profile ahead of the second NPV test required for allocation
 - For the avoidance of doubt this includes the recalculation of the Incremental Capacity Premium, if applicable.

5) Setting of the estimated project cost at the first NPV test

- » The estimated project cost to be initially set at the value used for the first NPV test (prior to reservation at the end of PARCA Phase 1) in line with the prevailing methodology
- » At the time of the second NPV Test (prior to allocation at the end of PARCA Phase 2) the project value will be adjusted in line with the Consumer Price Index as per the following formula;

$$Project\ Cost_{adj} = Project\ Cost_{phase\ 1} \times CPI_{adj}$$

where

- $Project\ Cost_{phase\ 1}$ is the estimated project cost which was fixed at the time of the first NPV test
- CPI_{adj} means the index used for adjustment. It is calculated using the following formula;

$$CPI_{adj} = \frac{CPI_{phase\ 2}}{CPI_{phase\ 1}}$$

where

- $CPI_{phase\ 1}$ is the arithmetic average of the Consumer Price Index published for the 12 months prior to the first NPV test being passed
- $CPI_{phase\ 2}$ means the arithmetic average of the Consumer Price Index published for the 12 months prior to the second NPV test being completed



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