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NTS GCM05 Re-Consultation: NTS Exit (Flat) Capacity & Exit Reform

Dear Eddie,

RWE npower welcomes the opportunity to comment on the above re-consultation and does so on behalf of all its licensed gas businesses.

As previously stated, we are broadly supportive on Nationals Grid's proposals as they are consistent with the principles incorporated into the NTS Charging Methodology following the adoption of the transportation model, brought about through Ofgem's approval of GCM01.

We would however make the following points relating to certain aspects of the revised proposals.

1) Following Ofgem's approval of Modification Proposal 195AV, which requires National Grid to release zero reserve priced nodal off peak exit capacity up to each NTS Exit Point's maximum daily offtake capability (on all but high demand days), it would now seem appropriate to base NTS Exit (Flat) Capacity charges on the baselines specified in National Grid's licence rather than on Enduring and Annual Capacity bookings (as originally proposed). The combination of lower SO Commodity Charges (brought about by the removal of NTS Charges foregone) and the greater certainty of off peak availability could well increase the attractiveness of off-peak exit capacity compared to firm exit capacity. This could see a reduced uptake of Enduring/ Annual/Daily NTS Exit (Flat) Capacity and perennial increases in firm charges, so setting NTS Exit (Flat) Capacity prices based on baselines breaks this linkage and should make prices more stable, albeit at the likely expense of under recovery in allowed TO Exit revenue. Whilst baselines currently seem to represent the most appropriate basis for determining exit capacity charges this should be kept under review, particularly in light of the fact that baselines may be fundamentally changed in the next NTS price control (as they were at entry) or as a consequence of National Grid complying with its Exit revision methodology statement.

2) Whilst we recognise that under recovery (and for that matter over recovery) of allowed TO Exit revenue is an issue which needs to be addressed, we do not think this is a priority bearing in mind it is unlikely to materialise to any significant extent until formula year 2012/13 and GCM12 will ensure any exit under recovery in the interim is smeared back collectively to Shipper Users.

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Unsurprisingly National Grid seem keen to address exit under recovery post exit reform by replicating the arrangements at entry, introducing a new NTS Exit (Flat) TO Commodity charge payable by Shipper Users in conjunction with the current SO NTS Exit Commodity Charge. While this may ultimately be an appropriate solution, making such a decision now prevents consideration of other ways such an under recovery could be smeared back to Users (e.g. though capacity smear back or positive off-peak reserve prices). These might be more appropriate bearing in mind the fact that although DNO Users will not pay commodity charges they may contribute towards an under recovery occurring by reducing their firm capacity bookings below baselines in response to the current flat capacity incentive targets that exist in their licence.

3) We assume that any incremental capacity signalled above baseline will not be included in the overall level of baseline exit capacity on which exit capacity charges are based until the fifth anniversary of its release, as until that time it counts towards SO allowed revenue. If this is the case this should be clearly spelt out in the revised charging methodology. The charging methodology should also specify whether such arrangements apply when incremental capacity is satisfied by way of exit capacity substitution.

4) The first bullet point in paragraph 4.23 refers to indicative prices being required for the initial application period for Enduring Annual NTS Exit (Flat) Capacity in gas year N-4. However Users can also apply for enduring capacity in the July 2009 window for gas years N-5 and N-6 and so these later years should also be referred to in this bullet point. We assume that indicative prices for gas years N-5 and N-6 will be calculated using the same gas year network model as those indicative prices for gas year N-4 (and so will be identical), but this should be made clear in the proposal.

5) It is not clear from the second bullet point in paragraph 4.23 whether prices for annual capacity in gas years N-2 and N-3, published prior to an application window in gas year N, will be indicative or actual. We assume the former, as this is consistent with how enduring prices are charged and should be most cost reflective, but the proposal needs to make this clear.

6) Currently National Grid release transportation models around July each year for gas years N-1, N-2 and N-3. We assume in future that National Grid will, at the same time as they issue indicative prices, now release transportation models out to gas year N-4 (or gas year N-6 if our assumptions in point 4 above are incorrect). This needs to be made clear in the proposal.

7) With the continued absence of any information from DNs on how they intend to pass on the costs of NTS exit capacity to their LDZ connected customers, we continue to harbour concerns about the prospect of material impacts on shipper/supplier registration billing systems should DNs move away from charging LDZ customers based on their LDZ Exit Zone. We trust that DNs will be in a position to assuage these concerns very shortly.

Yours sincerely,

Steve Rose*
Economic Regulation

* sent by e-mail therefore unsigned