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20 February 2009

Dear Eddie,

Scotia Gas Networks Response to NTS Re-Consultation NTS GCM 05:
NTS Exit (Flat) Capacity and Exit Reform

Thank you for providing Scotia Gas Networks (SGN) with the opportunity to comment on the questions raised in the above Consultation Document. Then response below is based on the "Areas for Consultation" section (Section 7).

Areas for Consultation
National Grid invited views on whether the proposed changes to their gas transmission transportation charging methodology achieve NGG's relevant GT Licence objectives, specifically:

A consistent approach to setting actual, indicative and auction reserve prices for NTS Exit (Flat) Capacity is taken.
SGN agrees that a consistent approach should be adopted for the setting of actual, indicative and auction reserve prices for NTS Exit (Flat) Capacity.

Nodal NTS Exit (Flat) Capacity prices are generated.
SGN recognises that Nodal NTS Exit (Flat) Capacity pricing is consistent with the provisions of Mod 195AV. However, to allow the DN Output Capacity Incentive for 20012/13 to be calculated in compliance with the DN Licences NTS NG will need to publish in their 2009/10 Transmission Charges Statement the indicative Exit Capacity charges for 2012/13 by Exit Zone.

Interruption Credits are removed.
SGN agrees with this change to the transmission charging methodology as it is consistent with the removal of interruption credits under mod 195AV. It would also be consistent with the changes in the distribution charging methodology following UNC Mod 90.

The prevailing methodology for NTS Exit Capacity Prices will be used for the purposes of determining Annual/Prevailing NTS Exit (Flat) Capacity prices and reserve prices for daily firm NTS Exit (Flat) Capacity auctions based on a single year network model, exit baselines plus incremental capacity and supply forecast for the relevant Gas Year.
The prevailing methodology referred to is the use of the NTS Transportation Model, the use of which was consulted on in NTS GCM 01. SGN supported the use of the Transportation

Model in that consultation and still does. The question of the use of a single year network model and supply/demand forecast for the relevant Gas Year was also consulted on in NTS GCM 01. The alternative was the use of a ten year supply and demand model using the current gas year's base case data and network model as had been the case with the Transcost model.

SGN supported the use of the single year network model and supply/demand forecasts for the relevant Gas Year. The determination of capacity charges using a one-year model rather than a model relying on ten-year forecasts should be more accurate and therefore the results should be more cost-reflective. The removal of the ten year averaging will allow NGNTS to provide more specific temporal and locational pricing signals which should enable Users to make more informed investment decisions.

Notwithstanding the above, SGN do have a concern that the one year model might lead to greater volatility of prices because of the removal of the 10 year averaging in the Transcost methodology.

The expansion factor, the unit cost (£/GWHkm)of adding capacity, will be determined in year N in relation for setting all exit prices for year N+4.
The expansion factor is a useful indication of potential charges to new entrants, however SGN do not agree that the indicative charges should be used for the User Commitment, these should be calculated from the current NTS Exit Capacity price. This will allow Users to understand the value of their commitment prior to making a formal application and give greater certainty that the value would not be greater than the actual values incurred from the effective date.

The annuitisation factor used (currently 0.10272)will be that calculated from the allowed rate of return, operating expenditure allowance and the assumed asset life (currently 45 years) implied by the NTS Licence, at the time of setting prices.
SGN agrees with this approach as it is consistent with the approach used in SGN.

The NTS (Flat) commodity charge rate would be determined from a combination of SO & TO charges:

- **A new SO Exit (Flat) commodity charge will map onto and replace the current SO Exit commodity charge and**
- **A new additional TO Exit (Flat) Commodity charge will be required to offset under recovery arising due to any shortfall between NTS Exit (Flat) Capacity charges and TO Exit allowed revenue.**

SGN does not object to these proposals. The use of baseline capacity to calculate the level of the Exit Capacity charges should help to make these charges more stable.

These arrangements are implemented with effect from 1 April 2009.
SGN agrees with this proposal.

Yours sincerely,

Mike Bedford
Director of Regulatory Finance