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**Comments on Consultation Document NTS GCM 05:
Modification Proposals to the Gas Transmission Transportation Charging Methodology
- 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 long awaited Consultation Document.

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 for all Mod proposals other than 116A which requires no changes.

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 agrees that Nodal NTS Exit (Flat) Capacity prices should be generated. However SGN requests that the DN Exit Points are published by DN rather than simply in one alphabetical list including DN and DC Exit Points.

Interruption Credits are removed.

SGN agrees with this change to the transmission charging methodology as it is consistent with the changes in the distribution charging methodology following UNC Mod 90. However the distribution charging methodology changes as from October 2011, while the transmission charging methodology changes from October 2012. Does this difference in timing cause any problems?

The prevailing methodology for NTS Exit Capacity Prices will be used for the purposes of determining Enduring/Prevailing NTS Exit (Flat) Capacity prices and reserve prices for annual (UNC 0116 variants excluding UNC 0116A only) and daily firm NTS Exit (Flat) Capacity auctions based on a single year network model and supply/demand forecast for the relevant Gas Year.

The prevailing methodology referred to is the use of the Transportation Model of the NTS, 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 forecast for the relevant Gas Year as this was consistent with the use of the Transportation Model. The determination of capacity charges using a one-year model will have advantages in reducing the reliance that Transcost had on ten-year forecasts. By not forecasting so far ahead the Supply/Demand forecast and the network model 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.

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.

One potential disadvantage of the single year forecasting from a DN point of view is that charges for Prevailing Exit (Flat) Capacity will be set for the forthcoming gas year based on the supply/demand forecast and network model for that year. It therefore appears that DNs will have to apply for Prevailing Exit (Flat) Capacity in the summer of gas year N-4 for gas year N based only on indicative charges for that capacity. It is not until the summer of gas year N-1 that the DNs will know the actual charges for Prevailing Exit (Flat) Capacity that they have booked. With the removal of the capping on year-to-year changes in the level of charges following Consultation Document NTS GCM 01 this could apparently mean significant changes in the level of the charges at some exit points between DNs committing to the capacity and actually having to pay the charges. SGN did not support the removal of the capping.

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.

SGN agrees with this approach, but if the expansion factor can be determined 4 years in advance of the determination of the charges then could not the other factors also be determined 4 years in advance so that the DNs would be able to book capacity on the basis of firm charges.

The annuitisation factor used will be that calculated from the allowed rate of return implied by the NTS Licence, at the time of setting prices, and a forty year asset life (currently 0.10272).

SGN agrees with this approach, assuming forty years is the standard asset life for transmission assets (it is 45 years for distribution assets).

These arrangements are implemented with effect from the date of implementation of the relevant UNC Mod Proposal.

SGN agrees with this proposal

**Comments on Consultation Document NTS GCM 12:
Retrospective Negative TO Entry Commodity Charge and Separate Management of K**

This document sets out a proposal to amend the Transmission Charging Methodology by introducing a Retrospective Negative TO Entry Commodity Charge to manage any residual TO over recovery from the entry auctions after the application of the buy-back offset mechanism and the TO Entry Commodity Rebate mechanism (GCM10). To avoid this proposed mechanism leading to any cross subsidy of entry users by exit users, presumably by over recovery arising from exit charges being credited back to entry users, the paper also proposes the introduction of the separate management of the entry and the exit components of TOKt.

As a DN, SGN is not concerned with the mechanisms for managing entry over-recovery, but is concerned that exit users should not be disadvantaged.

Questions for Consultation

1. Separate K Management for Entry and Exit – The Licence defined TOKt term would be split into separate Entry and Exit K components for the purposes of setting charges

SGN supports this proposal on the basis that it will prevent any cross-subsidy of Entry users by Exit users. SGN considers that rules proposed to divide the total TOKt into entry and exit components are appropriate.

If you have any questions on the above responses please do not hesitate to contact me.

Yours faithfully,

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