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Re: NTS GCM 12: Retrospective Negative TO Entry Commodity Charge & Separate Management of K

Dear Eddie,

Thank you for the opportunity to comment on the proposed modification to the Gas Transmission Transportation Charging Methodology. This response is on behalf of the Centrica Group excluding Centrica Storage Ltd. There is no confidential information contained within this response.

British Gas Trading (BGT) believes that in the event of excess revenue over recovery, there needs to be a mechanism to return the revenue to the relevant holders of entry capacity in a fair and transparent manner. In addition, if there remains a revenue over recovery that cannot be returned due to it not meeting particular trigger mechanisms, then the 'K' should be applied so as to avoid any cross subsidisation and asymmetry.

K Management

BGT supports the proposal for the separation of the TOKt licence term (K) between entry and exit. This will avoid the problem of asymmetry and cross subsidisation. BGT is also in agreement with Appendix B in terms of how the different interest rates are applied to the over or under recovery amounts, so as to ensure the sum of the two parts equals the Licence K calculation.

Retrospective Negative TO Entry Commodity Charge (Credit)

BGT is not in full agreement with how the negative TO Entry Commodity Charge credit would be applied, in particular that *only* those entry allocations that would attract the TO Entry Commodity charge would attract the credit. BGT also feels that the credit amounts should be subject to interest and perhaps other mechanisms for applying the credit should be explored.

It is our understanding that the Optional Commodity charge serves as an alternative to both the entry/exit NTS SO Commodity charge *and* the NTS TO Commodity charge. It is also the case that those entry points that use this tariff can and do contribute to TO revenue over recovery. To exclude the Optional Commodity entry flows from the credit would be discriminatory and hinder effective competition between gas suppliers.

For example, if the TO Entry Commodity charge is zero and there are no buybacks, yet there is a revenue over recovery, the GCM12 methodology could still apply. Under this scenario those sites that use the Optional Commodity charge have contributed to the revenue over recovery as these sites have booked and paid for entry capacity. It is clearly discriminatory not to include these site entry flows in the credit allowance as they have contributed to the entry revenue over recovery. Simply because these sites normally do not pay the TO Entry Commodity charge is not a good enough justification to exclude these entry flows from the credit.

The same holds true even if the TO Entry Commodity charge is positive and there is a revenue over recovery. After applying GCM09, those parties who pay the TO Entry Commodity charge would receive a rebate under GCM10 if there remained a residual over recovery. If there is still a residual over recovery after GCM10 is applied, GCM12 would be applicable (if residual over recovery is over £1m). At this point the entry flows from the Optional Commodity charge sites have contributed to the revenue over recovery for the reason described above. Hence, even when the TO Entry Commodity charge is positive, the entry flows from the Optional Commodity charge sites could have contributed to a revenue over recovery through their TO entry capacity payments.

BGT would also like to question why interest is not paid or applicable on the over recovery amount that is to be credited back via GCM12. Any over recovery which goes into K is subject to interest yet the credit via GCM12 is not. Both amounts are calculated after the end of the formula year and both amounts (in this argument) represent revenue over recovery. If for example, the residual revenue over recovery is £990K after GCM09 and GCM10, this amount would go into K and be subject to interest. If however, the residual over recovery amount is £1.01m this amount would be credited via GCM12 and not be subject to interest payments. BGT fails to see the distinction between these two over recovery amounts in the examples and why only one of them should attract an interest payment. BGT would ask that NG provide a clear explanation as to why the over recovery amount applicable under GCM12 does not attract an interest payment, especially when comparing it to K.

It would be useful for GCM12 credit levels to be monitored so that potential interest amounts could be logged, reported and effectively dealt with at the next Price Control Review.

In order for the credit amounts to be returned on a consistent and fair basis, revenue over recovery credits could use another mechanism. Credits could be applied on a price weighted entry capacity allocation basis by entry terminal. For instance, if a party contributed x% of total terminal entry capacity revenue in the over-recovery period then it should receive x% of the rebate. After GCM09 and GCM10 are applied, and residual over recovery would be due to entry capacity revenue and hence should be returned proportionately.

In conclusion, BGT supports the implementation of the separation of K but opposes the implementation of a retrospective negative TO Entry Commodity credit while the Optional Commodity entry flows are excluded in the calculation of the credit. Further explanation as to why the over recovery under GCM12 is not subject to interest payments also needs to be provided, as well as exploring other options for the application of the credit. Due to the current framework of this consultation and while these questions still remain, BGT does not support the implementation of GCM12 and suggests that further development of the methodology is required.

Should you have any questions regarding the comments in this response please do not hesitate to contact me.

Yours sincerely,

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