Scotia Gas Networks
St Lawrence House
Station Approach
Horley
Surrey, RH6 9HJ

Jemma Spencer
Regulatory Frameworks
National Grid
National Grid House
Gallows Hill
Warwick CV34 6DA

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Dear Jemma,

Response to National Grid NTS Consultation Paper GCM 13 [Updated 19 Dec 2008]:

Modification Proposals to the Gas Transmission Transportation Charging Methodology

Proposal
GCM13 seeks to tackle the problem of instability in exit capacity charges caused by the fact that the charges are set from October to September, aligned with the gas year, while the allowed revenue is based on the formula year, April to March. This can lead to the problem where charges set in October of a formula year to recover the allowed revenue for that year are too high or too low for the following formula year, but cannot be changed until the following October. The change then has to be greater than would have been required had it been made in April, leading to further over- or under-recovery in the following formula year. This can lead to a "see-saw" effect in the level of charges.

This is a problem which the DNs also faced when their charges could only be changed in October. However now that the DN charges are moving to an April change date from April 2009 it no longer applies to the DNs.

NG proposes four options for dealing with the problem:

Option 1 – Do Nothing

Option 2 – Apply exit charges from April to March of formula year t

Option 3 – A potential one-off exit charge change in April 2009, recalculating exit charges using updated supply, demand, network and target exit revenue data.

Option 4 - A potential one-off exit charge change in April (any April), recalculating exit charges without using updated supply and demand data.

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NG themselves support Option 4, and through GCM13 are proposing a change to the Charging Methodology to facilitate Option 4. NG say they would “envisage consulting the industry” before making an April price change.

SGN’s Views
Option 1 – Of the options presented SGN supports Option 1 – Do Nothing.

Option 2 – SGN considers that, in view of the fact that Exit Reform is based on NTS exit capacity being released on a gas year basis, this is not an appropriate time to make a permanent change to the charging arrangements. However longer-term this does need to be considered. There is now a misalignment of charge changing dates between the DNs and the NTS. The DNs now change their charges in April and the NTS changes its exit capacity charges in October. This misalignment needs to be considered before the implementation of Exit Reform when the DNs start paying the exit capacity charges.

Options 3 and 4 –SGN does not support either of these options because they appear to give NG carte blanche to introduce an April price change without having to meet any pre-conditions or to consult with the industry. They do say they would “envisage consulting the industry” before making an April price change but this does leave the decision to consult or not entirely at their discretion, which to SGN does not seem to provide adequate safeguards for the industry.

SGN believes that any proposal for an April price change should be consulted on when NG consider it to be required. SGN also consider that the question of whether the change should be based on a full updating of supply and demand data or simply be a single percentage change applied to all exit charges should be part of the consultation at the time.

In summary, while we are supporting Option 1 – Do Nothing, we recognise that this is not a sustainable option longer term and would like to see the issues raised in our comments with respect to Option 2 taken forward.

Yours sincerely

Mike Bedford
Director of Regulatory Finance
Scotia Gas Networks