

Further Update on Consultation Paper NTS GCM 13: April NTS Exit Capacity Price Changes

National Grid issued consultation paper NTS GCM 13 – April NTS Exit Capacity Price Changes – on 31 October 2008, followed by a clarification note on 24 November 2008. Following discussions at the Gas TCMF on 04 December 2008 regarding the recent AQ Review Process, the Industry requested that National Grid issue a further clarification note. In light of this request the closing date for the submission of responses has been extended to 16 January 2009.

GCM13

- The GCM13 charging proposal was raised because National Grid foresaw volatility in future NTS exit prices and, based on industry feedback about charge volatility; we looked for ways that this could be dampened i.e. a price change in Exit Prices from 1st April 2009.
- Updating Exit Prices without updating supply data, as proposed through GCM13, should be more appropriate than using the prevailing methodology i.e. updating all data including supply data.
- Updating prices using the revised GCM13 methodology would result in a constant adjustment to prices (other than where the minimum price applied) whereas the prevailing methodology would result in some prices increasing and some decreasing as a result of the revised supply data.

The AQ Review Process

- The AQ Review Process is an annual series of events that culminates in the calculation of the annual quantity for all NDM and DM meter points.
- The NDM SOQs, which fall out of the AQ Process, are the quantities on which capacity is charged.
- The outcome of the AQ Review is not known in time to feed into the Exit Capacity Price setting process for prices effective from 01 October each year.
- Following the recent annual AQ Review, SOQs have fallen, reducing NTS exit charge revenue from 1st October 2008 and hence also reducing charge revenue from 1st April 2009. As a result, National Grid no longer considers an Exit Price reduction from 1st April 2009 to be required.
- National Grid is considering the need for potential Charging Methodology changes to mitigate the risks of future under- or over-recovery as a result of the AQ Review Process.
- Modification Proposal 0209 is investigating the possibility of a Rolling AQ Process. More information can be found by clicking on the following link:

<http://www.gasgovernance.com/NR/rdonlyres/AD32D1B7-DCF0-4AAF-833C-17B7D924A679/29389/ModificationProposal0209v20.pdf>

Way Forward

- Against this background, there is little immediate benefit of a price change in April 2009. That said, there could be instances before or at the next price control review where a limited April price change would reduce future volatility and therefore there is still merit in GCM13.

- The GCM13 charging consultation period has been extended to 16th January 2009.
- The GCM13 document will be updated to reflect this revised date and this clarification.
- Through GCM13, views are invited
 - in regard to the appropriateness of 1st April price changes in any formula year as a means of removing price volatility should such volatility be identified, and
 - the appropriateness of updating NTS exit prices without updating supply data.

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