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Dear Paul,

Response to Gas Transmission Transportation Charging Methodology Discussion Paper NTS GCD01: Introduction of NTS Exit (Flat) Capacity Charges under the Enduring Offtake Arrangements

This response is on behalf of National Grid's distribution business. This response should be considered in conjunction with the response to NTS' consultation on Exit Capacity Release Methodology for the Enduring Arrangements, given the interaction of these proposals in contributing in part to defining the overall scheme of NTS exit arrangements.

The response is structured in line with the questions for consultation set out in section 4 of the consultation document.

Q1. We support the use of a Transportation model rather than Transcost for determining LRMCs. Based upon the information provided within the consultation document and at the TCMF, we consider that that the Transportation model will provide a better estimate of the long-run marginal costs and will provide LRMCs, and hence exit capacity prices, which are more stable from year to year than Transcost is likely to. DNs and other users of exit capacity are generally concerned with making medium to long-term decisions regarding the level of NTS exit capacity required and other medium to long-term investments, such as the proposed purchase of DN Interruption rights or DN pipeline investment. We consider that the use of a Transportation model, as outlined, rather than Transcost will lead to more efficient longer-term decision making by Users.

Q2. From the details provided to date, we understand that the proposed Transportation model would, by design, exclude spare capacity and include a backhaul element. We support the general Transportation model approach but have not seen any comparable results including and excluding the backhaul benefit. We would like to see further details of the Transportation model output under these different options in order to evaluate this option.

Q3. We understand that the Transportation Model us based upon a single year's analysis. We consider that the issue of whether NTS Exit (Flat) Capacity prices are determined from a single year's analysis or from an average of a number of years depends to some extent on the degree of instability in the exit prices if based on a single year's analysis. Whilst we understand that the Transportation model LRMC estimates are more stable than those of Transcost from year to year, there could still be considerable variability from year to year caused by changes to the Supply/demand forecast and network model across years. We consider that it would be beneficial to see the exit capacity estimates based upon a single year for the next 5 years and those based upon an average of ,say, 5 years Transportation model analysis for each of the 5 years to better inform this decision.

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Q4. We support the use of a 50:50 forecast revenue split between entry and exit in determining the entry and exit LRMCs from the Transportation model. However, the means by which this would be achieved is unclear and we would welcome further details of this.

However, it is proposed that the Tariff model, by which LRMCs are converted into entry and exit prices, will not adjust prices to recover allowed TO revenue. Based upon information provided at the TCMF of 16 November, it seems likely that there could be a considerable difference between the level of revenue recovered by unadjusted exit charges and 50% of the price control TO revenue, and that this difference would potentially be made up by a TO exit commodity charge. We consider that it is better where possible to recover TO-related revenue by capacity charges rather than commodity charges, since the TO revenue relates primarily to transportation assets, and thus would support scaling of the TO exit charges so as to recover 50% of the forecast TO price control revenue for the relevant year. We consider that this would be more cost-reflective than a combination of TO exit capacity and exit commodity charges. We would however welcome further information on the likely level of difference between the unscaled exit charge revenue recovery and projected TO allowed revenue, as requested at the recent TCMF.

Q5, Q6, Q7. We do not favour the Transcost-based approach.

Q8. We agree with the use of nodal level prices for the enduring proposals.

Q9. We agree with the use of the annuitisation factor set out in the NTS Licence.

Q10. We consider that the issue of whether there should be capping of year-on-year changes to NTS exit capacity prices depends upon the extent of variation that there is likely to be with uncapped prices. Again, further information would be beneficial to deciding upon this issue.

Q11. We note that the proposed Exit capacity Release Methodology Statement does not cover the release of daily interruptible NTS exit (flat) capacity. We would welcome further details of the arrangements for the release of such capacity prior to determining the appropriate reserve price.

If you have any queries, or would like to discuss this response, please do not hesitate to contact me.

Yours sincerely,

Steve Armstrong