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19 March 2009

Dear Jemma,

## **Response to Gas Transmission Transportation Charging Methodology Discussion Document NTS GCD06: Supply and Demand Balancing Rules in the Transportation Model**

This response is on behalf of National Grid's gas distribution business. Considering each of the questions for discussion in section 6 of the document, our comments are:

1. We agree that the operation of Rule Three for balancing supply with demand is transparent once supply and demand quantities have been determined. As the paper notes, the planning approach used by National Grid in planning the NTS has now moved away from using a strict merit order for generating supply and demand matches. In the absence of further information on the actual approach now adopted for NTS planning purposes, we are unable to say whether the use of Rule Three is cost reflective or not.

2. and 3. We do not consider that any of the alternative options to be more transparent than the Rule Three approach. For the reason stated above, we are unable to comment on the relative cost reflectivity of the approaches.

4. Averaging supply data from a number of 10 Year Statements should give more stable entry and exit prices from year to year since the impact of the latest 10 Year Statement information will be diminished. However, placing less reliance on the latest 10 Year Statement information would seem likely to make the resulting entry and exit charges less cost-reflective since the information used will vary considerably from that utilised for actual NTS planning purposes as most recently undertaken. The paper does not present any clear information or analysis on how the stability and cost reflectivity of the charges could vary as different amounts of 10YS historical data is utilised in deriving the charges. This information would be useful so as to inform a decision on an appropriate balance between stability and cost-reflectivity. It may be that, whilst an approach utilising historical 10YS data might appear to be automatically less cost-reflective than one utilising the latest information, if the former approach provides more robust, stable price signals then it may be more usefully cost reflective than the latter approach.

5. and 6. No response.

7. We would like to see further information on the stability of individual exit charges under any different approaches considered. Although the current discussion paper provides information on the average and maximum exit price range, and the overall standard deviation, this level of information does not highlight the potential variability at individual offtake points.

In addition, if further information was provided on the actual approach utilised in planning the transmission system we would be better placed to give a view on the cost-reflectivity of different potential supply-demand approaches for charge-setting purposes.

Yours sincerely,  
(by email)  
Steve Armstrong