



**National Grid Gas (NTS) Transmission Charging Methodology Discussion
Document GCD07 – Optional NTS Commodity Tariff
AEP¹ Response**

The Association has been actively involved in discussions on this issue during 2009 and welcomes the opportunity to comment on this discussion document. We provide initial comments against the questions posed below.

Methodology – Cost assignment

Q1. Do respondents consider the cost assignment under methodology option one or option two, to be most consistent with the relevant objectives? Do the methodologies;

- o Reflect the costs incurred by the licensee?*
- o Take account of developments in the transportation business?*
- o Facilitate effective competition?*

The Association considers it is appropriate to review this tariff methodology to take account of developments in the transportation business. Since this tariff structure was established the TO and SO elements of the price control have been separated and also new EU legislation has come into force which will prohibit network charges being calculated on the basis on contract paths. (Article 13.1 Regulation 715/2009). Since this charge is primarily an SO charge then option two would seem to be more consistent with the relevant objectives.

Q2. Do respondents have any views on the appropriateness of the costs and parameters used in the derivation of the tariff under option one? Specifically;

- o The connection cost approach?*
- o The annuitisation period; 10 years, 45 years or other?*
- o The load factor?*

We consider if this approach is favoured then an annuitisation period of 45 years should be used consistent with other NTS pipelines. Also a load factor consistent with that likely to be used for assessment of an alternative pipeline rather than system load factor would seem appropriate.

¹The Association of Electricity Producers (AEP) represents large, medium and small companies accounting for more than 95 per cent of the UK generating capacity, together with a number of businesses that provide equipment and services to the generating industry. Between them, the members embrace all of the generating technologies used commercially in the UK, from coal, gas and nuclear power, to a wide range of renewable energies.

It would also be appropriate for more detail to be provided on the steel price index to be used so parties can predict the volatility in the charge.

Q3. Do respondents have any views on the appropriateness of the costs and parameters used in the derivation of the tariff under option two? Specifically;

o Whether the minimum cost should be based on a connection cost approach or a proportion of the SO costs related to short-haul?

o Whether the SO costs associated with short-haul (34% for the indicative charges) should be set on an annual basis or fixed, based on a long term trend?

We do not understand the rationale for including the connection cost as part of this charge, since it is our understanding that is usually paid as a lump sum by the connecting party. If a minimum charge is desirable then this should be made explicit rather than justified on the basis of a connection charge.

If the SO cost approach is adopted we consider more consideration is required to determine whether the charges should be set annually or on a longer term trend say averaging historic 3 or 5 years worth of data. The information presented at the October TCMF meeting seemed to show that the percentage of total SO costs could vary quite significantly year on year. We are not sure whether such volatility and uncertainty is appropriate in this case. It would also be sensible to project costs forward and consider whether there is any impact of the removal of deemed interruption costs or whether new costs form part of the SO commodity charge once exit reform has been implemented.

Issues common to either option

Q4: Do respondents have any views on the application of the methodology?

Specific comments on the following are requested:

o Distance from the exit point to the ASEP – in the case of ASEPs with more than one SEP is it appropriate to measure the distance to the nearest SEP?

Yes

o Load factor – is it appropriate to use a system load factor or an exit point load factor?

For option two the system load factor may be more appropriate.

o Minimum charge – should there remain a minimum charge? If so, what level should this be set at? Should this be related to the exit point capacity (EPC)?

There probably should be a minimum charge but it is difficult to see how this can be determined in a cost reflective way.

o Annual updating of charge – should the charge be updated in parallel with other transportation tariffs?

See comments in response to Q4, further thought needs to be given to this.

o Application to multiple exit points from a single entry point – do respondents agree that the present default allocation rule should apply when the input allocations are below the output allocations?

Yes

o Application at storage exit points – do respondents agree that the ‘short-haul’ tariff should not be applicable at storage exit points?

Agree

o Do respondents agree that the charge should only be applicable to the exit points that are connected between an ASEP and the next downstream compressor?

This rule is consistent with excluding compression costs for the tariff we therefore support it. In addition NG has advised that introducing this rule would not make any parties that currently use the optional tariff ineligible.

Implementation

Q5: Do respondents support either an implementation date of 1st October 2010 or an alternate implementation date?

We support this implementation date

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