National Grid Gas (NTS) Transmission Charging Methodology Discussion Document GCD08 – NTS Entry Charging Review
AEP[1] Response

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

In addition Ofgem requested views on the benefits of reducing the TO commodity charge and how this is consistent with the relevant objectives.

AEP notes that the variability in the TO commodity charge arises from the auctioning of entry capacity as a way of recovering fixed allowed revenues, therefore it is inevitable that the charge will be volatile. It may also be the case in the future that changes to other aspects of the regime, possibly prompted by EU legislation, lead to the return of an over-recovery situation.

However AEP considers that reducing the TO commodity charge would reduce the amount of revenue being collected through non-cost reflective commodity charges, these charges are not directly set via an auction and therefore should be cost reflective, which is not the case. It could also be argued that reducing the TO commodity charge could help to avoid the potential for cross-subsidies between long term and short term capacity holders and firm and interruptible capacity holders. Such cross subsidies could also have detrimental effects on competition and suppress incentives to secure long term capacity which may be at odds with the aspect of the EU Gas Regulation that suggests tariffs should take into account the need for system integrity and improvement and provide incentives for investment. Alongside this we are also mindful that the availability of some short term products at relatively low costs can promote security of supply and enable effective management of supply portfolios.

It would also be the case that any reduction in commodity charges would be achieved by an increase in revenues being recovered through capacity charges which we believe is a more appropriate way of recovering fixed costs.

[1]The 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.

Q1. Whether the objectives of the review are appropriate, namely to identify any charging methodology and/or UNC modifications required to;
a. Continue to recover allowed revenue while achieving the NTS Licence and EU relevant charging objectives.
b. Maximise the proportion of NTS TO target entry revenue recovered through entry capacity charges.
c. Appropriately incentivise long term booking of NTS Entry Capacity.
d. Appropriately differentiate by price between the NTS Entry Capacity products made available.
e. Incentivise Security of Supply.

We believe the objectives are appropriate but are multifaceted and interrelated and may not all be achievable simultaneously. The review should be mindful of the impact on the availability and cost of short term products and impact on the attractiveness of the short haul tariff, which if diminished could lead to by-pass of the NTS.

Q2. Whether a phased implementation approach, as suggested by the ECRG, is appropriate, with;
a. Phase 1 comprising removal of entry capacity discounts and
b. limiting the release of interruptible capacity to when firm capacity has sold out or is close to selling out.
c. Phase 2 covering further changes in light of experience of phase 1 including the potential re-introduction of price multipliers for daily and monthly capacity.

AEP would support a phased approach with sufficient time between stages to fully assess the impact the change has had, we anticipate this may be more than a year rather than a few months. We consider that any reforms should be mindful of progress on EU framework guidelines for capacity allocation and tarification and comitology proposals for congestion management. These could impact the UK arrangements in 2011. Whilst some of these changes may only apply at congested interconnection points, consideration would need to be given as to whether all entry points should have similar products and charging principles or whether potentially different rules could apply at interconnection points and other points. This may be particularly relevant in relation to price multipliers, since ERGEG's current proposals do not favour these.

Q3. Should the 50-50 entry-exit TO revenue split within the Charging methodology be retained or should an increased proportion be allocated to exit with a reduced proportion for entry?

AEP cannot see a robust case for changing this revenue split. Any increase in the exit proportion would simply increase costs to customers without improving cost reflectivity of the charges.

Q4. Should the TO Entry Commodity charge continue to apply uniformly to all entry gas flow allocations excluding storage and "short-haul"?

Yes – we understand the concept of charging different TO commodity rates depending on whether gas flows against long or short term capacity, but think this would be complex to implement and would not actually address the original under-recovery issue.

Q5. Should the prevailing quarterly, monthly and daily entry capacity products, auction timings, and auction frequencies be changed or reviewed?

It may be appropriate for there to be more opportunities to secure daily capacity if a regime was implemented that limited the release of interruptible capacity to when daily firm had sold out or nearly so. In addition these parameters may need to be reviewed in the future for consistency with EU legislation.

Q6. Removal of Discounts
a. Should the discounts that apply to day-ahead (DADSEC) firm daily entry capacity be removed?
b. Should the discounts that apply to within-day (WDDSEC) firm daily entry capacity be removed?
c. Should a revised calculation for day-ahead (DADSEC) and within-day (WDDSEC) firm daily entry capacity apply such that both prices (p/kWh/day) are equal to the rolling monthly auction reserve prices?
d. Should the zero reserve price that applies to daily Interruptible entry capacity (DISEC) be retained?

AEP believes that the discounts for firm capacity products should be removed, therefore setting the price for daily firm capacity, whether that is within day or dayahead at the reserve price for the monthly product.
With respect to the daily interruptible reserve price, this is less clear and may be addressed by revising the circumstances in which daily interruptible capacity is released. It may not be prudent to change the price and quantity at the same time.

Q7. UNC Changes
a. Should the calculation of the Daily Interruptible NTS Entry Capacity quantity released be reviewed?

Yes

b. Should Daily Interruptible NTS Entry Capacity at each ASEP be limited to when the firm entry capacity at the ASEP has sold out or is close to selling out?

This is an option, but will need to be compliant with EU legislation.

c. Should the revenue from the sale of within-day obligated NTS Entry Capacity continue to be redistributed via the entry capacity neutrality mechanism?

No

Q8. Licence Changes
a. Should the Licence clearing obligation be removed?

Yes – many of the assumptions that led to this being incorporated in NG's licence have with the benefit of hindsight not worked out as anticipated.

b. Should the revenue from the sale of within-day obligated NTS entry capacity continue to be treated as SO revenue or should it be treated as TO

We consider that revenue from obligated capacity should be considered as TO rather than SO revenue, and that this would help to address the under-recovery of revenue.

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