NTS GCD09 Discussion Document – Modification Proposal to the Gas Transmission Transportation Charging Methodology – NTS Enduring Exit Capacity Charge Setting
AEP[1] Comments

The Association welcomes the opportunity to comment on this consultation. We make some general comments followed by our views in response to the specific questions below.

The Association understands the three issues that have led to this discussion document being issued but has some concerns that it does not addresses some of the more fundamental issues nor provides sufficient information with which to provide an informed view.

The issues are clearly interrelated and in the main part arise from the implementation of GCM05 which in turn was required to address charging issues related to the implementation of the enduring exit regime via mod 195AV. Two important features are the use of baseline plus incremental capacity for the flow parameters (except at bi-directional points) that determine the LRMC values and the move to nodal rather than zonal charge setting for DN offtakes. The use of baseline plus incremental was thought to facilitate competition between shippers and suppliers since the data is published and users would be able to model charges themselves, leading to more informed decisions. The use of baselines was also thought to improve cost reflectivity, as was the move to nodal charges.

These decisions and principles seemed robust at the time but seem to have led to DN bookings not being consistent with the original baselines, giving rise to DN baseline plus incremental being significantly above bookings and forecast demand at a time when DN demand is not expected to grow significantly. This in turn with similar but smaller effects at Moffatt and DC offtakes has caused issue three – baselines no longer being reflective of connected load which has resulted in issues one and two; theoretical demand potentially exceeding supplies and price variability at certain points in the network.

In order to consider a way forward we think it is appropriate to consider the principles established by GCM05 to reflect on whether they remain robust, to consider other

[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.

options and developments and to ensure any changes remain consistent with NG licence objectives and EU gas Regulations.

Cost reflectivity is considered the primary objective of the charging methodology, this generally means that the charges should be reflective of the costs that NG has incurred in providing the network. It could therefore be argued that the charges should relate to network capability and baseline plus incremental seems a reasonable proxy for this, since this is the capacity level that NG has to make available. If this is correct then any move away from this may lead to less cost reflective charges and should not be undertaken lightly. We are aware that the use of baseline plus incremental creates a large demand number that NG has argued it cannot guarantee to provide, but similarly at certain points in the network spare capacity exists that is not reflected in baselines. This would seem to support a review of baselines to make them more reflective of system capability but would need to be accompanied with more transparency over the technical capacity of the network which AEP has long argued is necessary for compliance with EU legislation. However even a review of baselines may be unnecessary.

The issue of whether baselines are reflective of connected load or even whether they should be, may be a transient issue. When exit substitution is implemented this will overtime reduce baselines where these exceed bookings such that issues one, two and three may no longer be significant. We would therefore caution against short term changes which may turn out to be unnecessary or have other longer term unforeseen consequences.

<u>Demand Data</u>

Q1. For each offtake type, which data source do respondents consider to be the most appropriate source of demand data for modelling flows within the *Transport* section of Transportation Model?

o DN offtakes
o DC offtakes
o Storage offtakes
o Bi-directional Interconnectors
o Exit only Interconnectors (Moffat)

The Association would be concerned about supporting any changes to the current arrangements without a more holistic understanding the issues to be addressed a full range of options and possible short and longer term consequences of any changes.

We consider it remains appropriate to continue to set flow to zero for storage offtakes and bi-directional interconnectors since these are expected to be entering gas at the time of peak.

We feel a robust case is yet to be made for applying different types of flow data to the three other types of offtake and consider that any proposal would have to demonstrate that it is not unduly discriminatory. However given the availability of forecast technical capacity data at the Moffatt entry point to the Irish System there may be a case for using a different value which would be reinforced when bundled products need to be made available at this point. The current high level of baseline plus incremental seems to be a manifest of implementation of the enduring regime rather than a genuine requirement for capacity well in excess of that which can be entering into the Irish system.

With regard to DC and DN offtakes both have baselines, based on data at a point in time, and bookings which may be at or below the baseline level with some offtakes signalling for incremental capacity. Given that DNs have meshed networks they have been able to move bookings around in response to price signals whilst DCs are less able to do this. However DNs can book annual or daily capacity at any offtake up to the baseline in a similar manner to shippers at DC offtake points. In addition DNs can request to swap flows between offtakes, whereas DC shippers cannot do this. On this basis we feel the case is yet to be made for using different data for flows at these offtake types.

The document seems to lean toward the use of forecast data at DN offtakes but GCM05 was implemented to move from forecast data to baselines data to improve cost reflectivity. However it could be argued that forecast data for the peak day better represents connected load at peak than baseline plus incremental, but would this really be more cost reflective of the network in place? The use of forecast data also reduces transparency of process and Users ability to model charges. We consider there need to be further debate over whether network capability or connected load is important in determining cost reflective charges.

However if forecast demand were to be used for DN offtakes and / or DC offtakes further thought would need to be given as to how this is allocated between DN offtakes and DC offtakes, for instance would all DC offtake be pro-rated according to bookings as seems to be proposed for DN offtakes in Appendix A.

Q2: Do respondents consider alternative sources of demand data to be more appropriate?

<u>Supply Data</u>

Q3: For Beach/UKCS, which data source do respondents consider to be most appropriate to use for exit capacity charge setting purposes?

o Obligated Entry Capacity
o Ten Year Statement

The Association recognises that small fluctuations in supply forecasts can on occasion cause large fluctuations in exit charges even in cases where the supply fluctuations are

reported to be 'in the noise' so some change to improve stability in charges may be appropriate whilst recognising the difficulties in determining where gas will enter the system on a peak day and to take account of the evolving nature of supplies to the UK.

It would be helpful if the data in Appendix D showed the differences in prices within the same year rather than year on year changes which largely reflect a change in allowed revenue.

Q4: Do respondents consider averaging supply data from a number of Ten Year Statements to be an appropriate approach to dampening exit price volatility?

This may be help reduce volatility, but more analysis is required to fully appreciate this. If my understanding of this proposal is correct then 2006-2009 average supply data would be used for 2012/13 charges whilst 2007-2010 average data would be used for 2013/14 charges. The analysis presented in Appendix E uses 2006-2009 data for both years charges and therefore appears to show mainly the variation in allowed revenue.

Q5: Do respondents consider using data from the Ten Year Statement at the time of the first (Y+4) Enduring Annual NTS Exit (Flat) Capacity application for the relevant gas year to be appropriate?

The Association considers further thought needs to be given to this approach, particularly with respect to cost-reflectivity. Should this reflect the network at the time of any investment decision by NG or should the charges relate to the network at the time of gas flow. This approach may also risk elements of the TYS forecast which turned out to be at significant variance with outturn, the commissioning of a new ASEP, for example, persisting in the charging methodology.

Q6: Do respondents consider alternative sources of supply data to be more appropriate?

The Association also considers the approach to supply / demand balancing established by GCM16 should also be considered.

<u>General</u>

Q7: Do respondents support either a target implementation date of 1st May 2011 (ahead of the next exit application window) or an alternate implementation date?

Given the comments above this implementation timescale may be premature.

Q8: What further analysis would respondents like to be included with any future consultation?

Whilst the data provided are helpful in assisting shippers and customers assess the impact of changes on an individual site or portfolio basis it is difficult to determine the impact across different types of sites or users. It would be helpful if NG could provide a breakdown of revenue recovery from different offtake types for each scenario / year, in absolute or percentage terms. Clearly assumptions would need to be made to achieve this but bookings at baseline or 'expected' bookings could provide two scenarios.

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