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Dear Richard,

RE – NTS GCD09: NTS Enduring Exit Capacity Charge Setting

British Gas Trading welcomes the opportunity to respond to the questions set out in this discussion document. This response is on behalf of the Centrica Group of companies excluding Centrica Storage.

We believe that there is a conflict between setting cost-reflective charges and stabilising charges from one pricing period to the next; the difficulty in predicting demand and supply patterns on a future 1 in 20 peak day comes through in the document.

It is interesting to consider that exit capacity charges should also indicate where capacity is scarce or plentiful and that in certain locations these signals have recently varied to a significant extent. So how helpful are these signals? Will they have a material impact on shippers' decisions on where to offtake gas or are points of offtake essentially independent of the charges? Exactly what are the costs being recovered and do they adequately correlate with what we might mean by "capacity"?

The gas transmission system, as it is, has been designed on the basis of historical assumptions and forecasts and is expected to meet future forecast 1 in 20 peak day demands (otherwise further investment may be required by National Grid). So, if there were to be no further investment in the system by National Grid to meet future peak demand why should capacity charges be allowed to vary so much? Arguably, shifts in demand and, perhaps more importantly, supply can be more efficiently managed through a re-configuration of compression, linepack and other system operation measures which might point to a requirement for more variable and location-specific commodity charges.

In setting exit capacity charges National Grid will attempt to predict peak demand and where the gas will come from to satisfy that demand. Clearly, there could be an infinite number of scenarios but it may be worth considering how charges would be impacted if National Grid we to consider, say, half a dozen most plausible scenarios – each scenario might result in a quite different set of charges but each might be possible; if each scenario was almost equally as likely to arise as another then an argument might be made for some form of averaging of the charges over the different scenarios. Such an approach might have the benefit of helping to stabilise charges from one charging period to the next whilst still providing locational signals.

In short, to base charges on one possible future peak day scenario is always going to be difficult and give rise to price volatility as the basic assumptions change. Since there might be a range of plausible peak day scenarios (each of which has some probability occurring) then by considering this range and calculating charges on some form of average basis there should be scope for reducing price volatility.

Whilst the above thoughts might be worth considering, we turn now to the specific questions you ask in the discussion document:

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 the Transportation Model?

DN Offtakes
DC Offtakes
Storage Offtakes
Bi-directional interconnectors
Exit only interconnectors (Moffat)

We consider forecast demand to be the most appropriate choice for DN and DC offtakes and for Exit only interconnectors. A demand of zero is likely to best fit with likely stoage and bi-directional interconnector flows but in the case of the latter it will be necessary to closely monitor flow direction as this may change in the future.

Arguably, every exit point assumed to have a zero demand ought to have a minimum/zero exit capacity charge.

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

We consider the data identified in Q1 to be appropriate.

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

Obligated Entry Capacity
Ten Year Statement

Of the two options above, we believe that data from the Ten Year Statement would better reflect likely supply patterns; we do not believe that obligated entry capacity would necessarily correlate well with peak supply flows unless Q1 and Q4 bookings were generally very close to baseline levels.

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

We see merit in this approach – please refer to our introductory comments.

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?

We are not convinced that this will be beneficial in terms of providing a set of adequately cost-reflective charges.

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

We have not identified any other sources of data.

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

Our strong preference would be to allow sufficient time for a thorough assessment of alternative approaches in order to address the concerns. Also, it is unclear at this time what influence or impact Ofgem's Project TransmiT might have on exit charging, and charging in general so it is strongly advisable to allow more time for any revision of the methodology. In particular, we believe that the location of new CCGT power stations, and utilisation of existing ones, could possibly be influenced by changes to electricity transmission charges and that there may be consequential impacts on the dynamics of the gas transmission system. It might also be instructive to wait and see how NTS exit capacity bookings "settle down" following the July 2011 capacity reduction window.

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

We would be very interested in a further exploration of the averaging approach.

Yours sincerely,

Graham Jack
Commercial Manager