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26<sup>th</sup> November, 2010

**Re: Discussion Document GCD 09: NTS Enduring Exit Capacity Charge Setting**

Dear Richard,

Thank you for the opportunity to comment on this document. Gaslink makes this response in its capacity as the Transmission System Operator of the network downstream of Moffat.

**Response overview**

We are pleased that National Grid recognises and is addressing the exit price setting issues which have arisen as a result of introduction of the reformed exit regime. In our view, the regime is not providing capacity demand signals as intended and the baselines and enduring capacity holdings are not representative expected peak day flows (certainly in the case of Moffat). We are not surprised, therefore, that use of baseline and booking data within the pricing methodology has lead to the issues identified in the consultation document concerning excessive demand/ connected load assumptions and price variability.

As a general rule we believe that the demand and supply data used for exit capacity price setting purposes should represent, as closely as possible, the reasonable expectation of peak day flows, as this will be consistent with the overall objective that charges should reflect the costs imposed on the system. For the Moffat exit point, demand data based on forecast flows best meet this criterion.

It is important to address these pricing issues ahead of the 2011 application window, as the indicative prices drive user commitment levels and can therefore influence booking behaviour in the window.

We set out below our more detailed response to the various issues raised in the document.

**Moffat demand forecasts figures**

We agree with National Grid's initial view (paragraph 5.16) that forecast demands are a viable data source for Moffat flow modelling purposes. We also agree that demand forecast

data used for price setting should be clear, consistent and transparent (paragraph 5.26). However, we would question the Moffat forecast demand figures of 381 GWh (forecast peak of any year to 2024) and 292 GWh (historic peak) quoted in the consultation document, as these are significantly in excess of reasonable Moffat peak day forecasts for the relevant years (2012/13 and 2013/14). For example, figures published in National Grid's Ten Year Statement<sup>1</sup> and the CER/NIAUR Joint Capacity Statement<sup>2</sup> are significantly lower.

#### **Other demand data sources**

We do not believe that the other options for demand data sources set out in the consultation document are appropriate for Moffat, as they would result in inflated peak day flow assumptions. As the consultation document acknowledges (paragraphs 5.20, 5.27 and 5.28) capacity bookings for Moffat (and other multi-shipper sites) under the reformed exit regime are unrealistically high – in our view this rules out approaches based on bookings or baseline plus incremental capacity. Likewise, we believe that figures based on capability of either the NTS or the downstream facilities would result in excessive flow assumptions.

#### **Appropriate Supply data sources**

On the supply side, we believe that the Ten Year Statement is the appropriate source of supply flow data for exit capacity price setting and further, we believe it would be appropriate to average supply data from a number of Ten Year Statements to dampen exit price volatility. We think that the alternative, use of baseline or obligated entry capacity data, would not properly reflect expected entry flows.

#### **Timing**

We support a target implementation date of 1 May 2011 so that indicative prices based on the revised methodology are used for the 2011 application window.

#### **Further analysis**

We believe that any future consultation should address the question of how demand forecasts to be used for flow modeling at various types of exit point should be established. We would also like to see analysis of the price impacts of proposed approaches using realistic demand forecasts for Moffat, such as those set out in the Ten Year Statement or the Joint Capacity Statement – the figure of 381 GWh used in GCD09 is not in our view appropriate.

#### **Price variability – user commitment implications**

The recent variability of indicative prices has highlighted an issue concerning user commitment which we also believe needs to be addressed. Our understanding is that nominally, user commitment requires that the full level of capacity held following an incremental application is maintained for four years. However, this assumes that the indicative price at the time of the application is the same as the actual price set just prior to the start date for capacity usage. Where the actual charge is greater than the indicative charge

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<sup>1</sup> 2009 National Grid Ten Year Statement: Forecast 1 in 20 Peak Day Firm Demand for Exports via Moffat: 257 GWh in 2012/13 and 276 GWh in 2013/14

<sup>2</sup> Joint Capacity Statement 2010, the Commission for Energy Regulation and the Northern Ireland Authority for Utility Regulation, 26 July 2010: Moffat supply at 1-in-50 Winter Peak-day Demand (all supply scenarios): 211.8 GWh in 2012/13 and 213.9 GWh in 2013/14

the effective user commitment period is reduced – for example if the charge doubles the user commitment period reduces to two years so that the level of financial commitment is maintained.

Following this logic, and using a 154 fold price increase (as indicated for Moffat) one would expect the user commitment period to reduce to a period of 4 years divided by 154 (i.e. less than 10 days) but apparently there are rules which preclude within year enduring capacity reductions. Our understanding is that there would be a full year commitment to the capacity at the higher price, which for the Moffat example is almost 40 times greater in financial terms than the 4 year user commitment at the lower indicative price. We believe that the user commitment rules require amendment to address this issue.

I hope you find these comments helpful. Please do not hesitate to contact me if you would like to discuss any aspect further.

Yours sincerely,



Celine Hayes

Market Arrangements Manager