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Dear Colin,

Response on behalf of National Grid Gas Distribution to Final Discussion Paper: NTS GCD10 – Potential one-off change to NTS (TO) Exit (Flat) Capacity charges for April 2013

National Grid Gas Distribution welcomes the opportunity to respond to this discussion paper. Our response addresses each of the consultation questions in turn, as follows:

1. Do you support the use of a one-off April charge change effective from April 2013?

National Grid Gas distribution is supportive of a one-off change to NTS (TO) Exit (Flat) Capacity charges effective from April 2013. Whilst Ofgem's proposed changes to the Gas Distribution licence conditions for the RIIO GD1 control will mean that GDNs will not be immediately impacted by any step-change in these charges as NTS moves to the new RIIO T1 control, as the pass-through of such costs by GDNs will be lagged by two years, we are nevertheless of the view that an April 2013 change would be beneficial, for two reasons:

- a) an initial change in April 2013 would be likely to reduce the level of underlying volatility in these charges that can be attributed to timing issues; and
- b) we believe that an April 2013 change would also be a useful way of surfacing the issues that would need to be addressed in order to move to an ongoing April price change for these charges; which we believe may be ultimately beneficial to gas transporters and customers as it would eliminate the periodicity conflict that presently serves to generate the significant year-to-year volatility in these charges.

2. Do you agree that a one-off April 2013 charge change should only be used if the outcome of the RIIO-T1 price control presents a significant step change in allowed revenues?

National Grid Gas distribution considers that, as an initial change in April 2013 would be likely to reduce the level of volatility in these charges attributable to timing issues; such a change is equally valid whether or not the outcome of the RIIO-T1 price control presents an immediate significant step change in allowed revenues. However, we would also reiterate our view that an enduring move to an April price change for these charges may be ultimately beneficial to gas transporters and customers, for the reason stated above.

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3. Would a one-off April change have an adverse impact on any of your business processes?

National Grid Gas distribution would not be adversely impacted by a one-off April change to these charges.

4. Are there any other items in relation to the use of a one-off change that you believe to be relevant that should be taken into account or warrant further consideration?

Whilst National Grid Gas distribution is supportive of a one-off change to NTS (TO) Exit (Flat) Capacity charges effective from April 2013, we are also strongly of the view that the most significant contributor to year-to-year charging volatility in this area is the existing periodicity conflict between the NTS charging year and the Formula Year. The resulting unfavourable interaction with underlying variations in the profile of TO MAR is predisposed to produce a very jagged year-to-year profile of NTS Exit charges.

From a GDN perspective, this volatility has the effect of obscuring any meaningful price signals necessary to optimise the longer-term booking of NTS Exit capacity, which is primarily made 3 years ahead, utilising the forward indicative charges available at that point. If these indicative charges vary greatly from year to year - as NGG Transmission's estimates of future gas year target revenues suggest they would on the current timing basis - then this clearly undermines their value for determining economic and efficient decisions by GDNs.

For the reasons stated, National Grid Gas distribution thus believes that an April 2013 change to NTS (TO) Exit (Flat) Capacity charges should also be used as an opportunity for the industry to assess, and begin to seek options to address, any issues that would be presented by an ongoing April price change for these charges, and that a transition to an enduring arrangement should be considered as soon as reasonably practicable.

If you have any questions or require clarification on anything provided here, please contact me.

Yours sincerely

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Gas Distribution Commercial

By Email