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Dear Ian,

### **Open Letter – Proposal to change NTS Exit Capacity charges**

Over recent months National Grid Gas Plc, in its role as Gas Transporter Licence holder in respect of the NTS ("National Grid"), has been in discussions with and subsequently issued a consultation to, the industry regarding NTS Exit Capacity charge volatility which is primarily driven by:

- changes in allowed revenues; and
- the misalignment of formula and charge setting years

This letter sets out the background, the issue and National Grid's proposals to address NTS Exit Capacity charge volatility, based on the consultation responses received.

National Grid normally sets NTS Exit Capacity charges to be effective from 1 October to 30 September in any given year<sup>1</sup>. National Grid's NTS allowed revenues are set on a formula year basis (1 April to 31 March). The misalignment between the charge setting period and the formula year has been identified as a significant contributing factor to the volatility of NTS Exit Capacity charges. Any step change in allowed revenues amplifies the volatility in NTS Exit Capacity charges as National Grid needs to set charges to match allowed revenues for any given formula year and needs to compensate during the second half of each financial year for any initial under or over recovery during the first six months of each financial year.

Through industry discussions at the NTS Charging Methodology Forum ("NTS CMF") in July and September 2012 it was agreed that National Grid would issue an NTS Gas Charging Discussion document on the potential use of a one off April 2013 NTS Exit Capacity charge change to address NTS Exit Capacity charge volatility. This was considered the only viable solution that provided the ability to address the potential volatility in NTS Exit Capacity charges for the start of RIIO-T1 from 1 April 2013.

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<sup>1</sup> In accordance with Standard Special Condition A4, paragraph 2(a)(ii)



National Grid issued its Gas Charging Discussion Document<sup>2</sup> ("NTS GCD 10") on 24<sup>th</sup> October 2012 to further gauge industry opinion on the potential implementation of a one off April 2013 change to NTS Exit Capacity charges.

The resulting NTS GCD10R Report and all industry responses to NTS GCD 10 are available on National Grid's website<sup>3</sup> along with the original charging discussion document.

The majority of respondents (7 out of 9) support a one off April 2013 change and based on the responses received, National Grid believes it would be appropriate to implement a one off April 2013 change to NTS Exit Capacity charges. Whilst an April change would help towards reducing charging volatility, National Grid intends to engage further with the industry to fully consider the impacts of a permanent move to April NTS Exit Capacity charge setting as a means of addressing NTS Exit Capacity charging stability for the longer term.

However, to comply with Standard Special Condition A4 ("SSC A4") (Charging - General) paragraph 2(a)(ii) of National Grid's Gas Transporter Licence in respect of the NTS (the "Licence"), National Grid shall use its reasonable endeavours:

"not to make any changes to charges or reserve prices in relation to NTS exit capacity and NTS exit flow flexibility more frequently than once in each formula year and for such changes to take place on 1 October in each formula year or at such other time as the Authority may by notice in writing direct".

Therefore an Authority direction is required to enable National Grid to make changes to the NTS Exit Capacity charges on 1 April 2013. National Grid is also required to provide not less than 2 months' notice of proposals to change charges prior to their implementation in accordance with Uniform Network Code, section B1.8.2.

Paragraph 2(d) of SSC A4 requires National Grid to give the Authority notice of any proposals it is considering to change NTS Exit Capacity charges, together with a reasonable estimate of the effect of the proposals should they be implemented. National Grid is currently assessing the impact on charges to be effective on 1 April 2013 based on the RIIO-T1 final proposals.

Once this work is complete a further letter will be sent to Ofgem in early January 2013 seeking a direction from the Authority, under SSC A4 paragraph 2(a)(ii) of the Licence, to permit a one off April 2013 change to NTS Exit Capacity charges. The January 2013 notice will detail the April 2013 NTS Exit Capacity charges that we would propose to be effective based on the RIIO-T1 final proposals.

In order to provide industry stakeholders with as much notice as possible of any anticipated change we would therefore be grateful if, at the earliest opportunity, Ofgem could inform us whether a direction could be issued prior to 1 February 2013<sup>4</sup>, pursuant to paragraph 2(a)(ii) of SSC A4, permitting National Grid to change its charges on 1 April 2013.

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<sup>2</sup> [NTS GCD 10 – Potential one-off change to NTS \(TO\) Exit \(Flat\) Capacity charges for April 2013](#)

<sup>3</sup> <http://www.nationalgrid.com/uk/Gas/Charges/consultations/Current+Discussion+Papers/>

<sup>4</sup> In order to give at least 2 months' notice for 1 April 2013

**nationalgrid**

If you have any queries regarding the calculation of NTS Exit Capacity charges or require any additional information to facilitate this request for change, please do not hesitate to contact Steve Fisher on 01926 65 3428 or Colin Williams on 01926 65 5916.

Yours sincerely,



**Mike Calviou**  
**Director, Transmission Network Service**

cc: Bogdan Kowalewicz - Ofgem