

CONCLUSIONS REPORT TO THE AUTHORITY

Modification Proposals to the Gas Transmission Transportation Charging Methodology

**NTS GCM 02 :
DN Pensions Deficit Charge**

02 January 2007

Table of Contents

1. NATIONAL GRID'S INITIAL PROPOSALS.....	1
2. SUMMARY OF RESPONSES.....	2
3. CONSULTATION RESPONSES.....	2
4. SUMMARY – FINAL PROPOSALS.....	3
APPENDIX A – INDICATIVE PENSION ALLOWANCES AND AMENDMENTS TO NTS TO REVENUES.....	4

1. National Grid's Initial Proposals

On 24th November 2006, National Grid NTS commenced a 28 day consultation on a proposed amendment to the Gas Transmission Transportation Charging Methodology (the "Charging Methodology") with regard to the introduction of a DN Pensions Deficit Charge to be levied on all Distribution Networks Operators (DNOs). The proposal sought to introduce the proposed charge from April 2007 for the duration of the next Transmission Price Control Period (April 2007 – March 2012). Specifically, National Grid NTS proposed that:

- a DN Pensions Deficit Charge is introduced from April 2007 that will be levied on DNOs;
- the Charge will be levied on a monthly basis, and set at a level to allow recovery of the annual fixed allowances during any formula year (thus avoiding any "carry over" of revenue amounts);
- the level of the annual charge for each DNO will be in accordance with the DN allowances set out in National Grid's NTS GT Licence, divided into 12 monthly amounts, and hence will remain fixed for the term of the next price control;
- in the event that the timing of the TPCR outcome does not allow charges to become effective from 1 April 2007, for the first year the monthly charges will be determined from the annual allowances divided by the remaining number of months in the formula year.

2. Summary of Responses

Industry Body	Respondent	Short Code	View
Transporter	National Grid UK Distribution	UKD	Supports
Shipper	British Gas Trading	BGT	Neutral

3. Consultation Responses

Respondents' Views

National Grid NTS received two responses to the charging methodology proposal NTS GCM02. UKD's response provides support to National Grid NTS' proposals. BGT provides a number of comments but gives no overriding view on whether it supports the proposals. Copies of the responses have been posted on the Gas Charging section of the National Grid information website.

In providing support to the approach proposed by National Grid NTS in the consultation paper, UKD expresses agreement to the suggestion of *"a fixed monthly charge which should be set such that the revenue is recovered within the formula year to which it relates."*

BGT states that it is *"not commenting on the appropriateness of the size and/or, recovery targets for the DN Pensions deficit as identified during the current Price Control Review consultations."* BGT also states that it assumes the DNs will be similarly consulting on their proposals to manage the charge.

BGT queries the apportionment of the charges between DNOs and NTS Users, and requests clarification of the numbers in the documentation. While noting the proposal for the first year to commence recovery from the date of implementation of the TPCR (allowing for proper notice of charges), BGT argues that it would prefer to see the proposed charge automatically included in the changes notified for 1st April 2007 as this charge is essentially known. It suggests it would be more equitable that if any subsequent changes are required due to changes in the outcome of the TPCR these could be handled in a future year adjustment.

National Grid NTS' Response

National Grid NTS welcomes the responses received to its Pricing Consultation Paper, and following the lack of opposing views to the key principles of its charging proposals, National Grid NTS maintains its view that implementation of the proposals would further meet its GT Licence obligations.

For the purposes of clarification of the allowance figures in NTS GCM02, National Grid NTS acknowledges the discrepancy contained in the Consultation Paper between the figure of £23.3m referenced in Section 2 (Background) and the figure for the total of all DN allowances in Appendix A of £23.7m. National Grid NTS can confirm that the figure of £23.7m for the indicative pension annual allowances for all DNs was the correct one at the time of publication of the Consultation Paper, with the discrepancy being due to rounding errors. When deducted from the NTS pension deficit annual allowance given in the consultation paper (of £27.5m) this gives an amount of £3.8m to be recovered from Shipper Users via the NTS TO transportation charges, equivalent to an approximate 86% : 14% split (between DN Users and Shippers respectively). National Grid NTS, however, would like to reiterate that the exact figures will only be known following agreement of the precise drafting for its GT modified licence (see Appendix A).

In respect of BGT's comments about the implementation of the proposed charges, National Grid NTS notes the desire for price stability. National Grid NTS will seek to minimise changes to the NTS TO transportation charges as best possible.

4. Summary – Final Proposals

Having considered the respondents' views, and taking into account the points put forward, National Grid NTS remains of the view that the introduction of a DN Pensions Deficit Charge would better facilitate its GT licence objectives (as set out in section 4 of the Pricing Consultation Paper NTS GCM-02). National Grid NTS believes that the proposed amendment to its Transportation Charging Methodology offers a pragmatic and transparent approach to the recovery of costs that are expected to be allowed in the new 2007 – 2012 TO price control, whilst avoiding any complexity and inefficiency in the transportation charge setting process.

Following the publication of Ofgem's TPCR Final Proposals, the exact pension deficit allowances for each DN have been revised and are illustrated in Appendix A. The revised figures amend the annual pension deficit allowance to be recovered from all DNs from £23.7m to £24.9m. It is proposed that the annual pension deficit allowances for each DN will form the basis of the DN Pensions Deficit Charges which will be set out in the revised Statement of Transportation Transmission Charges.

In summary, National Grid NTS' proposals are as follows:

- a DN Pensions Deficit Charge is introduced from April 2007 that will be levied on DNOs;
- the Charge will be levied on a monthly basis, and set at a level to allow recovery of the annual fixed allowances during any formula year (thus avoiding any "carry over" of revenue amounts);
- the level of the annual charge for each DNO will be in accordance with the DN allowances set out in National Grid's NTS GT Licence, divided into 12 monthly amounts, and hence will remain fixed for the term of the next price control;
- in the event that the timing of the TPCR outcome does not allow charges to become effective from 1 April 2007, for the first year the monthly charges will be determined from the annual allowances divided by the remaining number of months in the formula year.

National Grid NTS notes that the implementation of the proposed new charge is also subject to implementation of the UNC Modification Proposal 0127 "Introduction of a DN Pensions Deficit Charge on DNO Users".

Appendix A – Indicative Pension Allowances and Amendments to NTS TO Revenues

1. Indicative Pension Annual Allowances (£m, 2005-06 prices)

These figures have been revised from those contained in the Consultation Paper NTS GCM02 to reflect Ofgem's TPCR Final Proposals.

	GDN	Annual NTS Charge for non-active deficit (£m)
NGG	East England	4.6
	London	2.7
	North West	3.1
	West Midlands	2.3
NGN	North England	2.9
SGN	Scotland	2.0
	South England	4.6
WWU	Wales & West	2.8
	Total	24.9

2. Adjustment of Maximum NTS transportation owner revenue (TOMR_t)

The principal formula that derives the TOMR in respect of formula year t is :

$$\text{TOMR}_t = \text{TOZ}_t + \text{TOF}_t - \text{TOK}_t$$

where , :

TOZ_t means the core transportation revenue

TOF_t means the NTS Prescribed Rates & the NTS licence fees

TOK_t means the NTS TO revenue adjustment for any NTS TO over or under recovery in respect of formula year t-1

National Grid's preferred approach would be to bundle the agreed annual deficit allowance within the term TOF_t as it is considered this would ensure transparency, and would seem appropriate for such a fixed allowance sum.

3. Adjustment of Transportation Owner Revenue (TOR_t)

The principal formula that derives the TOR in respect of formula year t is :

$$\text{TOR}_t = \text{TOREVBEC}_t + \text{TOExR}_t + \text{TORCOM}_t$$

where :

TOREVBEC_t means the NTS TO revenue derived from the sale of NTS SO baseline entry capacity.

TOExR_t means the NTS TO revenue derived from the sale of NTS Exit Capacity.

TORCOM_t means the NTS TO revenue derived from transportation charges levied on gas shippers and DN operators, other than revenue earned through TOREVBEC_t and TOExR_t.

It is proposed that payments made to the NTS by the DN Operators would be streamed to "TORCOM_t".