Modification to Transmission Transportation Charging Methodology NTS GCM05 Reconsultation: NTS Exit (Flat) Capacity and Exit Reform Comments from AEP[1]

The Association welcomes the opportunity to comment on this consultation document. National Grid invites views on specific issues these are detailed below along with our comments:

_ *A consistent approach to setting actual, indicative and auction reserve prices for NTS Exit (Flat) Capacity is taken*

We support this approach

_ *Nodal NTS Exit (Flat) Capacity prices are generated*

We support this approach, but note that is remains unclear as to how these charges will be passed onto DN shippers and customers.

_ *Interruption credits are removed*

We believe this is consistent with the implementation of modification 195AV

_ *The prevailing methodology for NTS Exit Capacity Prices will be used for the purposes of determining Annual/Enduring Annual NTS Exit (Flat) Capacity prices and reserve prices for daily firm NTS Exit (Flat) Capacity auctions based on a single year network model, exit baselines plus incremental capacity and supply forecast for the relevant Gas Year*

We support the use of the transportation model based on a single year network model using baselines and incremental capacity data to set the demand levels, although in principle using booked capacity and incremental

[1] The Association of Electricity Producers (AEP) represents large, medium and small companies accounting for more than 95 per cent of the UK generating capacity, together with a number of businesses that provide equipment and services to the generating industry. Between them, the members embrace all of the generating technologies used commercially in the UK, from coal, gas and nuclear power, to a wide range of renewable energies.

capacity is an equally valid approach, since either could be argued to represent the network that NG has to provide.

We welcome confirmation that the reserve price for off-peak capacity will be zero.

_ The expansion factor, the unit cost (£/GWhkm) of adding capacity, will be determined in year N in relation for setting all exit prices for year N+4

We support this approach

_ The anuitisation factor used (currently 0.10272) will be that calculated from the allowed rate of return, operating expenditure allowance and the assumed asset life (currently forty five years) implied by the NTS Licence at the time of setting prices

We support this approach

_ The NTS (Flat) Commodity charge rate would be determined from a combination of SO & TO charges;

We consider that it is not entirely clear whether the same parties that pay SO commodity charges will pay TO commodity charges. If they are the same parties, then simple aggregation as detailed in the charging methodology is appropriate. However if they are paid by different parties then the two types of charges might need to be identified separately in the UNC. The Ofgem decision letter for mod 195AV clearly suggested that this could be the case. We consider that in principle if there is to be a TO commodity charge then it should be paid by the same parties that pay TO exit capacity charges.

- *a new SO Exit (Flat) commodity charge will map onto and replace the current SO Exit Commodity charge and*
- *a new additional TO Exit (Flat) Commodity charge will be required to offset under recovery arising due to any shortfall between NTS Exit (Flat) Capacity charges and TO Exit allowed revenue*

We are not convinced that the issue of how an under-recovery situation is managed needs to be addressed at this point in time. We consider it would be better to leave this until there is a better understanding of the magnitude of the problem. It is not possible to pre-judge the commercial strategies of shippers with regard to capacity bookings under the enduring regime. As a general principle we consider that TO costs / allowed revenue should be recovered through capacity rather than commoditised into non cost reflective commodity charges.

_ *These arrangements are implemented with effect from 1st April 2009*

We support implementation in this timescale so that indicative prices for the enduring period can be issued with sufficient notice prior to the initial application window. However following the implementation of GCM12 it is not clear whether implementation of GCM05 from 1 April this year could result in the introduction of a TO commodity charge should there be an under-recovery of exit charges.

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