

Eddie Blackburn
Regulatory Frameworks
National Grid
National Grid House
Gallows Hill
Warwick
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12 September 08

Dear Eddie,

RE: Modification Proposals to the Gas Transmission Transportation Charging Methodology – NTS GCM 05: NTS Exit (Flat) Capacity & Exit Reform

CSL welcomes the opportunity to comment on the above consultation document. Our response considers each of the areas identified for consultation and whether they achieve NG's relevant GT Licence objectives as requested in the consultation document. For the sake of clarity, CSL has reworded some of NG's paragraphs bulleted in section 7.1 to that consistent with those set out in its proposal under section 5.1.

CSL understands that NG's licence obligations relevant to charging methodology are to:

- reflect the costs incurred by National Grid where charges are not determined by auctions; and, subject to this principle consideration;
- facilitate competition between gas shippers and between gas suppliers; and
- take account of developments in the transportation business;

We offer the following comments:

NG proposes that a consistent approach to the setting of prices for NTS Exit (Flat) Capacity is taken for all UNC Modification Proposals other than 0116A (henceforth the relevant proposals) which requires no changes. A consistent approach shall be taken for the generation of auction reserve prices or indicative prices as required.

Given NG's licence obligation that prices calculated should reflect the costs incurred by National Grid, and that the flat exit capacity products in the relevant modification proposals are broadly similar and one imposes no additional costs on NG from the other, CSL can see no reason why NG could not use a consistent approach in the setting of prices for NTS Exit (Flat) Capacity for all relevant Proposals. Given the industry support expressed in GCD01 for the use of the Transportation Model in setting NTS Exit (Flat) Capacity prices, CSL believes that this is the most appropriate method and understands the prices generated are reflective of the costs incurred in making the physical system capacity available.

With regards to the generation of auction reserve prices or indicative prices, CSL understands that consistent inputs into the Transportation Model should be used due to the consistency of products across all relevant proposals; however NG has a suite of scenarios as to which these could be based upon. CSL is pleased to see that NG has considered a range of options and believes the most likely firm demand scenario should be pursued post Ofgem's enduring exit reform decision. CSL welcomes NG's final proposal consultation in this area.

Nodal, offtake specific, NTS Exit (Flat) Capacity prices are set

CSL believes that setting prices on a nodal basis rather than on a zonal basis allows NG to achieve its licence objectives. We believe that nodal prices also provide better signals to Users in relation to the relative cost associated with providing capacity on the network.

Interruption credits are removed

CSL believes the removal of interruption credits is relevant given that the relevant modification proposals effectively make the concept redundant.

The prevailing methodology for NTS Exit Capacity Prices will be used for the purposes of determining Enduring/Prevailing NTS Exit (Flat) Capacity prices and reserve prices for annual and daily firm NTS Exit (Flat) Capacity auctions based on a single year network model and supply/demand forecast for the relevant Gas Year

CSL believes this approach meets NG's licence obligations and has no concerns.

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

CSL believes this approach meets NG's licence obligations and has no concerns.

The annuitisation factor used will be that calculated from the allowed rate of return implied by the NTS Licence, at the time of setting prices, and a forty year asset life (currently 0.10272)

As this is implied by the NTS licence, CSL has no concerns in this regard.

If you would like to discuss any aspect of our response, please do not hesitate to contact me.

Yours sincerely



Craig Purdie
Regulatory Analyst