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19 February 2009

Dear Eddie,

Response to Gas Transmission Transportation Charging Methodology Consultation Document NTS GCM05 Re-Consultation: NTS Exit (Flat) Capacity & Exit Reform

This response is on behalf of National Grid's gas distribution business. Considering each of the areas for consultation set out in section 7 of the consultation document, our comments are:

1. We agree that a consistent approach to setting actual, indicative and auction reserve prices for NTS Exit (Flat) Capacity should be taken. Since the actual prices to be paid will only be known after capacity is booked it is important that the indicative prices are as accurate an indication as possible of the actual prices to be paid since capacity booking decisions will be made on the basis of the indicative prices. If the indicative prices do not accurately reflect the actual prices to be paid then this could lead to investment decisions by the DN, in terms of trade-off between investment in distribution capacity or interruption choices and NTS capacity, which are economic and efficient based on the indicative price information but which might be seen as less-efficient in terms of the later actual NTS prices.

2. Since exit (flat) capacity will be sold on a nodal basis then it would seem appropriate to set prices on a nodal basis. However, it is important that prices set on a nodal basis are stable, both in terms of indicative to actual prices comparison, and from one year to another. If nodal level prices are unstable, in either manner, then this will undermine their usefulness in giving locational signals for capacity booking. We consider that further information on the price stability of the proposed approach on individual nodal exit prices should be provided prior to implementation.

3. We agree that NTS interruption credits should be removed in determining exit (flat) capacity prices.

4. As stated above, we consider that the stability of prices resulting from the prevailing methodology should be demonstrated prior to its use. If the prevailing methodology does not result in stable prices then alternative approaches, possibly with different ways of balancing supply and demand for price-setting purposes, capable of providing such stability should be considered. If the methodology used leads to unstable exit capacity charges this would make it difficult for the DN to determine a robust investment strategy since the NTS/DN investment trade-off could vary appreciably from year to year.

5. We support using the expansion factor determined in year N for setting all exit prices for year N+4.

6. We support the proposed approach to determining the annuitisation factor for NTS exit (flat) capacity price-setting purposes.

7. We support the proposed basis for determining the NTS (Flat) commodity charge rate.

8. We support implementation from 1st April 2009 but consider that information on the price stability of the methodology should be provided prior to then. We would also highlight that it is essential, for the DN regulatory incentive, that NTS indicative prices for gas year N+4 are published in the NTS Gas

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Transportation Statement by 1st May at the latest within year N, e.g. by 1st May 2009 for Gas Year 2012/13.

Yours sincerely,

(by email)

Steve Armstrong