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Dear Eddie,

Response to Gas Transmission Transportation Charging Methodology Consultation Document NTS GCM05: 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, should such prices be required. If the actual prices to be paid are only to be known after capacity is booked then 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. If exit (flat) capacity is to be sold on a nodal basis then it would seem appropriate to set prices on a nodal basis. Our support for nodal prices on this basis should not be taken as necessarily supporting a nodal basis for capacity.

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

4. The consultation paper provides indicative exit (flat) capacity charges under a number of scenarios. We consider that the merits of different approaches to the exit and entry capacity assumptions and to the method of balancing supply and demand within the price setting process have not been fully explored yet and require further consultation. In particular, we are concerned that a methodology which leads to unstable exit capacity charges could 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. Until these aspects of the methodology are properly consulted on, we do not support using the prevailing mechanism to determine actual, indicative and auction reserve prices for NTS exit (flat) capacity following implementation of any of the relevant UNC Modification Proposals, should such prices be required.

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 agree that it would be sensible to implement any new arrangements with effect from the date of the relevant UNC Modification Proposal. However, this timescale needs to ensure that appropriate time is allowed for all parties to prepare for the change of regime and that the interactions with other

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processes, such as the DN Interruption arrangements, are properly taken into account. In particular, we note that the consultation paper refers to application in summer of year N for capacity from October of year N+4. However, the DN exit incentive, relating to the booking of NTS exit (flat) capacity, refers to indicative NTS exit prices as specified at 1st May of the relevant year (rather than just summer) and so it is essential, both in terms of the incentive and the efficient interaction with the DN Interruption regime, that NTS indicative prices are available by 1st May at the latest within year N.

Our support for some aspects of this pricing proposal should not be taken as support or opposition for any particular aspects of the relevant UNC Modification Proposals.

Yours sincerely,

(by email)

Steve Armstrong