Representation

Draft Modification Report

0356/0356A: Demand Data for the NTS Exit (Flat) Capacity Charges Methodology

Consultation close out date: 06 January 2012

Respond to: enquiries@gasgovernance.co.uk

Organisation: **EDF Energy**

Representative: Stefan Leedham

Date of Representation: 06 January 2012

Do you support or oppose implementation?

0356 - Not in Support

0356A – Support

If either 0356 or 0356A were to be implemented, which would be your preference?

Prefer 0356A

Please summarise (in one paragraph) the key reason(s) for your support/opposition.

0356

Although 356 addresses the issues within the current transportation model so that a demand and supply match can be met, we are concerned with the sustainability of a forecasting methodology for determining prices. In particular we note the variability in exit charges caused by variations in NGG's forecasts, as a result of which NGG moved from a forecast to a capacity based approach under GCM14. The issues with forecasting will be more complex in the face of a changing generation background as CCGT demand is impacted more and more by the impact of intermittent generation as well as government policies such as the capacity mechanism. We therefore do not support 356 as although it addresses an existing issue, we believe it will introduce additional issues that will need to be addressed and resolved in the future which is neither economic nor efficient.

0356A

We support 356A as it uses booked capacity to develop charges. It is our belief that this is more cost reflective as booked capacity is used within NGG's planning processes as well as providing the regulatory obligations NGG has to meet. In addition using booked capacity is in line with the intent of Modification 0195AV to place an incentive on Users to manage their exit capacity bookings. We note that without this incentive there is a risk that Shippers will over inflate their capacity holdings to a significant degree knowing that they will not be exposed to the financial consequences of this through higher prices. Finally we believe that exit capacity bookings will represent a more stable and so enduring foundation for transmission charges going forward as they are less volatile than NGG's forecasts.

Are there any new or additional issues that you believe should be recorded in the Modification Report?

We believe that the report captures all of the key issues.

Relevant Objectives:
How would implementation of either of these modifications impact the relevant objectives?

In workgroup discussions one of the key issues was to the extent that NGG uses booked capacity or forecasts to feed into their investment decisions, and so whether booked capacity or forecasts would produce more cost reflective charges based on NGG's investment decisions.

Although it should be recognised that the transportation model develops charges based on the costs of delivering (or consuming) an incremental volume of energy at each node, the costs that NGG is seeking to recover through its charges are not just incremental investment costs, but also historical costs of providing and maintaining the network. Indeed NGG's recent business plan submission to Ofgem as part of the RIIO process has demonstrated that the costs of replacing and maintaining an ageing asset base will also be a significant cost driver going forward. It is therefore important to consider not just what is driving incremental costs to NGG's business, but also what is driving the ongoing costs.

We note that it is capacity bookings that deliver incremental capacity in the longer term. We are aware, through a CER consultation, that a capacity constraint has been identified on the Moffat interconnector which could take effect from 2013/14, depending on how demand develops in Ireland. According to the consultation the preferred option for Bord Gais is for investment on the network in Scotland to resolve this constraint. This would lend further weight to using capacity bookings as these would be required to signal the additional capacity and investment. It would also be useful to identify whether this is reflected in NGG's demand forecasts for this exit point.

To this extent we believe that 0356A is more cost reflective as it is capacity bookings that determines' NGG's code requirements to meet capacity requirements in the medium term.

We are also concerned with NGG's ability to accurately forecast peak demand going forward due to changing arrangements in the electricity market impacting on the operation of the gas system. In particular we note that although demand forecasts are relatively straight forward, and similar to capacity bookings this is based on the current market arrangements. Going ahead EMR, capacity mechanisms and an increasing penetration of intermittent generation could have a significant impact on how CCGTs operate. It is therefore unclear how well NGG will be able to forecast peak gas demand for these stations as this will be driven by electricity demand, the operation of the capacity mechanism and the volume of generation from intermittent sources. We therefore believe that using capacity bookings will provide an enduring basis for system requirements that will avoid the need to produce potentially erroneous forecasts.

It should also be noted that NGG has moved away from forecasts for entry supplies due to their volatility and the impact that this had on capacity charges. We are therefore concerned that returning to forecasts for demand may re-introduce this volatility. This in turn could have a detrimental impact on competition amongst Shippers.

Impacts and Costs:
What analysis, development and ongoing costs would you face if either of these modifications were implemented?

Not applicable

Implementation:
What lead-time would you wish to see prior to either of these modifications being implemented, and why?

In general we prefer to have at least a 12 month lead time from notice to implementation to ensure that we can build any changes into our business plans.

Legal Text:
Are you satisfied that the legal text will deliver the intent of either of these modifications?

We are satisfied with the legal text.

Is there anything further you wish to be taken into account?
Please provide any additional comments, supporting analysis, or other information that that you believe should be taken into account or you wish to emphasise.

There have been views expressed by some parties that the treatment of bi-directional points as entry for modelling purposes under 356A is arbitrary. We note that this replicates the current arrangements. We also understand that this is consistent with 356 which uses demand forecasts, and currently NG forecasts entry points as supply and not demand. For the purpose of the model this treatment is required to ensure that demand can be met by supplies, and also on the assumption that at times of peak demand bi-directional points will be acting as supply in response to higher prices, due to the positive correlation between demand and price.

Further although 356A (and 356) model bi-directional points as supply, this is only used to derive the charges that the exit points face, and a bi-directional site that has booked firm exit capacity will still have to pay the charges that the model derives. Further we understand that this treatment should have a minimal impact on the charges that are derived as it is the overall network that impacts on charges for individual exit points. Therefore a bi-directional point in the South East would still face high exit charges even if it was modelled as a supply point, due to the high level of demand in the South East, compared to the relatively low levels of supply. Further as the treatment of these points are the same under 356 and 356A we do not believe that there will be any material variation in prices.

0356/0356A
Representation

18 November 2011

Version 1.0

Page 4 of 4