

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: **National Grid NTS**
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Date of Representation: 05 January 2012

Do you support or oppose implementation?

0356 – Support

0356A - Support

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

Prefer **0356**

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

Whilst National Grid NTS supports the implementation of either Modification 0356 or 0356A on the basis that they both better facilitate the relevant objectives of cost reflectivity, accounting for developments in the transportation business, and facilitating effective competition, our preference is for Modification 0356.

Modification 0356 models demand flows in the NTS Transportation Model based on "forecast" which includes information in addition to the booking level, and is commensurate with information used to inform the assumptions made in designing and building the network in order to meet our 1-in-20 peak demand day Licence obligation. National Grid NTS believes that in those instances where the forecast might be higher than the current booking level there is the possibility that this difference could be met through a combination of annual and daily bookings. Therefore, to the extent that the forecast used for the Transportation Model and network planning are consistent, setting exit capacity charges on Modification 0356 assumptions is, in our opinion, more cost reflective than setting charges based solely on booked capacity at the time of exit capacity price setting.

National Grid NTS has concerns about Modification 0356A's ability to "factor-in" bookings of Annual NTS Exit (Flat) Capacity made in the final application window for Y+1, and bookings of Daily NTS Exit (Flat) Capacity. We also perceive limitations in Modification 0356A's ability to model an appropriate demand level for new sites, as these would be modelled at "zero", and the subsequent calculation of indicative exit capacity prices which ultimately feed in to the user commitment. National Grid NTS also notes that the booking level at the Moffat exit point is much higher than the 1-in-20 peak day forecast and downstream pipeline capability, although National Grid NTS acknowledges that exit capacity booking levels and forecast may come into line over time.

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

We do not believe there are any new or additional issues to record within the Modification Report.

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Relevant Objectives:

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

Reflecting the costs incurred by the licensee in its transportation business

National Grid NTS believes that either Modification 0356 or 0356A can be expected to better reflect network investment costs than the assumptions currently specified in the UNC (nodal demand data for the transport model being based on baseline plus obligated incremental exit capacity for Distribution Network (DN) and Direct Connection (DC) offtakes other than for bi-directional sites where the demand will be zero). National Grid NTS does, however, have a preference for Modification 0356.

National Grid NTS has a Licence obligation to develop the gas network so that it can transport gas in order to meet 1-in-20 peak day demand. Whilst National Grid utilises exit capacity bookings in the NTS investment process, as it is only through bookings that incremental exit capacity can be triggered, it is the forecast demand which includes information in addition to the exit capacity booking level and is commensurate with information used to inform the assumptions made in designing and building the network that drives NTS exit investment and hence TO costs.

National Grid NTS also notes that the DN's have a 1-in-20 peak day obligation and their bookings are, in the most part, driven by the 1-in-20 obligation with, perhaps, an additional element to allow for operational flexibility. The DC's do not have the same 1-in-20 obligation which may be reflected in a lower exit capacity booking level and so may, ultimately, not appropriately contribute to TO costs.

To the extent that using the forecast for the Transportation Model and network planning is consistent, and the network planning process drives investment, 0356 would be expected to reflect investment costs better than a model based solely on booked capacity.

National Grid NTS also notes the following:

- i) 0356A cannot "factor-in" bookings of Annual NTS Exit (Flat) Capacity made in the final application window for Y+1 nor bookings of Daily NTS Exit (Flat) Capacity made before or on-the-day. The use of booking data in calculating exit prices may result in Users relying on the daily and off-peak products not appropriately contributing to TO costs.
- ii) 0356A may have limitations in the calculation of indicative charges for new sites and, therefore, an appropriate user commitment value, as these sites would be modelled at zero.
- iii) The current booking level at Moffat exit point is much higher than the 1-in-20 peak day demand forecast and the capability of the downstream pipeline. National Grid does note however that exit capacity bookings and forecast may come into line over time.

National Grid NTS believes these are limitations in Modification 0356A's ability to calculate more cost reflective charges; limitations which, we believe, are not present in Modification 0356.

National Grid NTS therefore considers that the implementation of Modification 0356 will better facilitate Relevant Objective (a) "save in so far as paragraphs (aa) or (d) apply, that compliance with the charging methodology results in charges which better reflect the costs incurred by the licensee in its transportation business".

Taking account of developments in the transportation business

National Grid notes that either Modification 0356 or 0356A would appropriately take account of developments within the transportation business. With the assumptions currently specified in the UNC (nodal demand data for the transport model being based on baseline plus obligated incremental exit capacity for Distribution Network (DN) and Direct Connection (DC) offtakes other than for bi-directional sites where the demand will be zero), there may not be a balance between supply and demand in the charge setting NTS Transportation Model and, as a result, charges would not be calculated and hence would be undefined.

National Grid NTS notes that the implementation of either Modification 0356 or 0356A would result in a workable charging methodology and, therefore, updating the charging methodology by implementing either modification would facilitate Relevant Objective (b) "that, so far as is consistent with sub-paragraph (a), the charging methodology properly takes account of developments in the transportation business".

Facilitating effective competition between gas shippers and between gas suppliers

National Grid notes that the implementation of either Modification 0356 or 0356A would facilitate effective competition between gas shippers and gas suppliers. National Grid NTS believes that basing the NTS charging methodology on data that will either be published in the Ten Year Statement from 2011 or on capacity bookings should ensure a transparent charging methodology such that Users can replicate the charge setting process and forecast future charge levels more accurately. Promoting transparency of the charging methodology is consistent with the facilitation of competition between gas shippers.

National Grid NTS acknowledges that exit capacity booking levels are available in the public domain, transparent, and not subject to assumptions. National Grid NTS will produce a version of the charge setting Transportation Model, which allows the application of the proposed methodology in terms of the calculation of offtake demands to be replicated.

National Grid believes that implementing either Modification 0356 or 0356A would facilitate Relevant Objective (c) "that, so far as is consistent with the charging methodology facilitates effective competition between gas shippers and between gas suppliers".

Impacts and Costs:

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

National Grid NTS has identified that no further analysis, development or ongoing costs being incurred as a result of implementing either modification, with only minor changes to NTS manual processes being necessary.

Implementation:

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

Implementation of either modification is required in time for actual prices to be set by 1st May 2012 such that they become applicable from 1st October 2012.

National Grid is also required to produce indicative prices, for gas years Y+2 onwards, ahead of the annual NTS Exit (Flat) Capacity application windows and the next relevant application window, in regard to indicative price setting, will be July 2012. National Grid NTS believes that ideally, indicative charges should be based on an approved NTS Charging Methodology.

Legal Text:

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

National Grid NTS is satisfied that the legal text will deliver the intent of either of the modifications.

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.

National Grid NTS does not believe there are any additional comments, any supporting analysis or any other information which we wish to be taken into account.