

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: **Vayu Limited**

Representative: Bryan Hennessy

Date of Representation: **6 January 2012**

Do you support or oppose implementation?

0356 - Support/Qualified Support/Neutral/Not in Support/Comments* *delete as appropriate*

0356A - Support/Qualified Support/Neutral/Not in Support/Comments* *delete as appropriate*

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

Prefer 0356 or ~~0356A~~ *delete as appropriate*

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

0356

Mod. 0356 will generate a fairer and more accurate cost reflective capacity price, which is of the utmost importance when setting capacity tariffs. Cost reflective pricing is equally if not more important than transparent and reliable forecasts, thus leading to budget certainty in the medium to long term. Setting capacity prices using 1-in-20 peak day demand data is a more equitable basis than that proposed under Mod. 0356A. To do otherwise will generate uncertain prices in an environment of changeable booking patterns. Mod. 0356 also uses consistent forecast data for all types of exit point avoiding undue discrimination, and would further the competition objective.

0356A

Mod. 0356A treats the only bi-directional point in GB without physical entry capability (Moffat) as a point that should be treated the same as "all other NTS Exit Points". The premise with this approach is that a supply and demand match would be ensured if capacity charges were based on booked capacities. Using the historic peak flow rates at Moffat and the information in the 2011 Joint Gas Capacity Statement jointly published by the Commission for Energy Regulation and the Northern Ireland Authority for Utility Regulation, the booked capacity levels could not physically flow. In the unique Moffat case, it is therefore ludicrous to calculate a capacity charge using the proposed structure. Cross-subsidies between shippers will result.

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

None

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, as a TSO, has access to information, data e.g. forecast usage that other undertakings will not and can therefore use this information to fairly structure capacity charges that reflect costs incurred. Their preferred methodology will avoid cross subsidisation as the most realistic flow rate would be used.

Interaction with reformed exit regime

The calculation of price needs to be cost reflective, not dependent on booking behaviour which can be an intent that may not be realised. As an investment signal, actual usage will reflect the best signal going forward.

Taking account of developments in the transportation business

The network development plan, mandated to be prepared every two years under Art. 8 of EC Regulation N° 715 of 2009, will reflect demand expectations of shippers and this, more than capacity bookings, will drive investment where it is needed.

Facilitating effective competition between gas shippers and between gas suppliers

Cross-subsidy

Cost reflectivity in pricing is an imperative and should not lead to cross subsidisation. Pricing based on capacity bookings will result in higher costs in the long term. Improved cost reflectivity under Mod. 0356 would reduce cross subsidies and thereby further facilitate competition.

Undue discrimination

No modification should treat exit points differently. Our understanding currently indicates that Mod. 0356A results in starkly different treatments for certain exit points, for example the Moffat Interconnector and the Bacton (IUK) Interconnector exit points. The Moffat exit price is based on booked capacities of circa. 430 GWh/d whilst the exit price for the Bacton (IUK) Interconnector (which we understand has booked exit capacity of over 550GWh/d) is based on zero assumed peak day flow, by virtue of this point having physical entry capabilities.

Mod 0356 avoids undue discrimination and the need for special treatments by the consistent use of forecast data for all types of exit point, and would therefore further the competition objective.

We do not accept the argument advanced by certain shippers that effectively there is no distinction between the modifications, as both would assume zero peak day flows for bi-directional sites. Mod. 0356A is unduly discriminatory because it can use either booking data for certain exit points or zero flow assumptions for others, without any underlying rationale.

Transparency, predictability and stability of charges

We understand that Mod. 0356 proposes to include a change to section O of the UNC to facilitate the publication of additional data at individual exit points up to Y+4 rather than Y+2, this is welcomed. The timing of the publication of data and its finalisation should be sequenced to be logical and reveal the right information at the right time.

Impacts and Costs:

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

Mod. 0356A will lead to higher ongoing costs compared to Mod. 0356.

None

Implementation:

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

The modification should be implemented in Q1 2012 to allow calculation of prices for the 2012 application window and the 2012/13 gas year.

Legal Text:

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

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