

Action Dis1204: National Grid NTS to provide details of the incentives, the licence condition and the impact of re-aligning the SO charges:

Response:

The licence conditions that drive NTS to change the SO Commodity charges as result of a meter error are as follows;

Special Condition C8C: NTS System Operation Activity Revenue Restriction

1. Principal restriction

(a) The licensee shall use its best endeavours in setting its charges relating to the NTS SO activity to ensure that in respect of any formula year the NTS system operation revenue (SORt) shall not exceed the maximum NTS system operation revenue (SOMRt).

(b) If in respect of any formula year the NTS system operation revenue (SORt) exceeds the maximum NTS system operation revenue (SOMRt) by more than 4 per cent of the latter, the licensee shall provide to the Authority a written explanation stating the reasons why the NTS system operation revenue has exceeded the maximum NTS system operation revenue by more than 4 per cent and, in the next formula year, the licensee shall not effect any increase in charges relating to the NTS SO activity unless either:

(i) it has demonstrated to the reasonable satisfaction of the Authority that the NTS system operation revenue would not be likely to exceed the maximum NTS system operation revenue in that next following formula year; or

(ii) the Authority has, on the written application of the licensee, consented to such an increase in charges relating to the NTS SO activity.

(c) If, in respect of any two successive formula years, the sum of the NTS system operation revenues in those two successive formula years has exceeded the sum of the maximum NTS system operation revenues in the same two successive formula years by more than 6 per cent of the maximum NTS system operation revenue for the second of those formula years, then in the next formula year the licensee shall, if required by the Authority, adjust its charges relating to the NTS SO activity such that the NTS system operation revenue in that next formula year would not be likely in the judgement of the Authority to exceed maximum NTS system operation revenue in that next formula year.

An over-read meter error being corrected will result in a reduction in unaccounted for gas (UAG) for the duration of the meter error within the formula year, and for the remainder of the formula year, assuming the meter error was no longer factored into the UAG forecast. As UAG is essentially a pass through SO cost (with a price incentive), a reduction in UAG will represent a reduction in SO allowed revenue (SOMRt). Our interpretation is that reducing charges when costs (SOMRt) reduce is consistent with a best endeavours obligation and particularly where not doing so would result in charges being more than 4% in excess of costs.