

CONSULTATION DOCUMENT

Modification Proposals to the Gas Transmission Transportation Charging Methodology

NTS GCM 07:

Introduction of an NTS Entry Capacity Transfer Application Fee

23rd May 2007

Table of Contents

| | | |
|----------|--|----------|
| 1 | EXECUTIVE SUMMARY | 1 |
| 2 | INTRODUCTION..... | 2 |
| 3 | TRANSFER RATE CALCULATION METHODOLOGY | 2 |
| 4 | NATIONAL GRID NTS'S PROPOSAL | 3 |
| 5 | JUSTIFICATION | 5 |
| 6 | QUESTIONS FOR CONSULTATION | 6 |

1 Executive Summary

This document sets out for consultation National Grid NTS's proposals for amending the Gas Transmission Transportation Charging Methodology (the "Charging Methodology") in respect of the introduction of an NTS Entry Capacity Transfer Application Fee. This fee will cover the costs incurred by National Grid in generating capacity exchange rates.

National Grid NTS has proposed UNC Modification Proposal 0150 which seeks to amend the UNC to allow the transfer of unsold capacity between ASEPs via the introduction of an Annual Monthly Transfer System Entry Capacity (AMTSEC) auction.

National Grid NTS propose that this auction will facilitate the transfer of unsold capacity between Aggregated System Entry Points (ASEPs) for a period, as specified within the auction invitation letter, but for not more than 6 calendar months i.e. for this winter period only.

A "capacity exchange rate" means a rate at which obligated entry capacity rights shall, if the transfer is completed, be reassigned between two different Aggregate System Entry Points ("ASEPs"). In making capacity available at the recipient point, in a quantity determined in accordance with the "The Entry Capacity Transfer and Trade Methodology Statement", National Grid will have complied with its obligation to provide obligated entry capacity at the donor point and such transferred capacity will not be available for sale in future auctions.

If a User desires to participate in the AMTSEC auction they must, within 5 business days of the publication of the Recipient and Donor ASEPs, commit to pay to National Grid NTS an application fee for those bids that are successful. This will entitle such Users to see the auction invitation information, as described below, and place bids, as desired, in the AMTSEC auction. The UNC two month notification period for charging will not be applied.

E.ON UK has raised an alternative UNC Modification Proposal 0150a which does not include an application fee and is based on a one-to-one exchange rate within zones.

UNC Modification Proposals 0150 and 0150a are being progressed on urgent timelines and this charging proposal will be progressed accordingly. National Grid notes that this will require the Authority to approve (in accordance with standard Special Condition A5 of National Grid's Gas Transporter Licence in respect of the NTS) a change to the methodology from a date other than 1st April or 1st October and having consulted for less than 28 days. National Grid also notes that this could require the Authority to approve (in accordance with standard Special Condition A4 (2) of National Grid's Gas Transporter Licence in respect of the NTS) that less than one months notice of charges will be given.

At this time, National Grid has no experience of the 0150 process and hence it is difficult to identify costs that would be specific to a single transfer. For this reason National Grid NTS proposes a zero rate until such a time as specific costs can be identified based on experience of the process.

2 Introduction

- 2.1 National Grid NTS has proposed UNC Modification Proposal 0150 which seeks to amend the UNC to allow the transfer of unsold capacity between ASEPs via the introduction of an Annual Monthly Transfer System Entry Capacity (AMTSEC) auction.
- 2.2 National Grid NTS propose that this auction will facilitate the transfer of unsold capacity between Aggregated System Entry Points (ASEPs) for a period, as specified within the auction invitation letter, but for not more than 6 calendar months i.e. for this winter period only.
- 2.3 A “capacity exchange rate” means a rate at which obligated entry capacity rights shall, if the transfer is completed, be reassigned between two different Aggregate System Entry Points (“ASEPs”). In making capacity available at the recipient point, in a quantity determined in accordance with the “The Entry Capacity Transfer and Trade Methodology Statement”, National Grid will have complied with its obligation to provide obligated entry capacity at the donor point and such transferred capacity will not be available for sale in future auctions.
- 2.4 If a User desires to participate in the AMTSEC auction they must, within 5 business days of the publication of the Recipient and Donor ASEPs, commit to pay to National Grid NTS an application fee for those bids that are successful. This will entitle such Users to see the auction invitation information, as described below, and place bids, as desired, in the AMTSEC auction. The UNC two month notification period for charging will not be applied.
- 2.5 In light of the potential implementation of this product, National Grid NTS is required by Standard Licence Condition A4 of its GT Licence to consider any associated changes to the Gas Transmission Transportation Charging Methodology (the “Charging Methodology”).
- 2.6 E.ON UK has raised an alternative UNC Modification Proposal 0150a which does not include an application fee and is based on a one-to-one exchange rate within zones.
- 2.7 UNC Modification Proposals 0150 and 0150a are being progressed on urgent timelines and this charging proposal will be progressed accordingly. National Grid notes that this will require the Authority to approve (in accordance with standard Special Condition A5 of National Grid’s Gas Transporter Licence in respect of the NTS) a change to the methodology from a date other than 1st April or 1st October and having consulted for less than 28 days. National Grid also notes that this could require the Authority to approve (in accordance with standard Special Condition A4 (2) of National Grid’s Gas Transporter Licence in respect of the NTS) that less than one months notice of charges will be given.

3 Transfer Rate Calculation Methodology

- 3.1 The methodology that National Grid NTS will undertake in order to determine capacity exchange rates in support of requests for the transfer or trade of capacity will be defined in the Entry Capacity Transfer and Trade Methodology Statement.

- 3.2 The most significant constraint on capacity exchange rates is the requirement for National Grid to avoid undue increases in the costs that can reasonably be expected to be incurred as a result of capacity being reassigned. This includes capacity buy-back costs, hence, provided physical system limitations are not a constraint, an assessment of incremental buyback risk arising from capacity transfers and trades is critical to determining appropriate capacity exchange rates. It is a measure of this risk that is the primary factor in the determination of availability of capacity at the recipient ASEP.
- 3.3 The derivation of a capacity exchange rate is specific to each individual transfer and is based upon the network infrastructure (i.e. existing and planned) and forecast flows based on commercial rights (actual and assumed) at the time of analysis, hence, only one transfer can be assessed at a given time.
- 3.4 The exchange rate determined by National Grid will be applicable to either the amount requested by the Transferor User or, if this amount cannot be fully transferred to the recipient ASEP, the maximum amount that can be transferred without;
 - creating additional risk (in respect of any part of the network) of the necessity for capacity buy-backs;
 - breaching the nodal maximum at the recipient ASEP minus any existing allocated capacity; or
 - exceeding the maximum capacity available at the donor ASEP taking into account the exchange rate determined by this process
- 3.5 It had been anticipated that the proposed charge would be based on the cost associated with generating an exchange rate which would be the time taken to quantify the limits and carryout the risk assessment multiplied by the applicable manpower rate. For the avoidance of doubt, this would be the time taken to setup and process the results from simulation tools that facilitate the process and not the elapsed time.
- 3.6 Were Modification Proposal 0150a implemented this would be based on a fixed exchange rate within a zone and hence minimal costs would be incurred.
- 3.7 At this time, National Grid has no experience of the 0150 process and hence it is difficult to identify costs that would be specific to a single transfer. There is the potential for a series of bids to be processed under a single rate. For this reason National Grid NTS proposes a zero rate until such a time as specific costs can be identified based on experience of the process.

4 National Grid NTS's Proposal

- 4.1 National Grid NTS proposes that:
 - The NTS Entry Capacity Transfer Application Fee is set at a zero rate.
 - National Grid NTS will reassess the costs in the light of the decision on 0150/0150a and experience of the resulting process

Implementation

- 4.2 It is proposed that these arrangements are implemented to set NTS Entry Capacity Transfer Application Fees from 2nd July 2007.

- 4.3 For the avoidance of doubt, in the event that the setting of an NTS Entry Capacity Transfer Application Fee is not required due to the Ofgem's decisions on UNC Modification Proposals 0150 and 0150a, National Grid NTS will not make a final proposal to change the Charging Methodology as a result of this consultation process. A decision is expected on 12th June 2007.

5 Justification

Assessment against Licence Objectives

- 5.1 The National Grid plc Gas Transporter Licence in respect of the NTS requires that proposed changes to the Charging Methodology shall achieve the relevant methodology objectives.
- 5.2 Where transportation prices are not established through an auction, prices calculated in accordance with the methodology should:
1. Reflect the costs incurred by the licensee in its transportation business;
 2. So far as is consistent with (1) properly take account of developments in the transportation business;
 3. So far as is consistent with (1) and (2) facilitate effective competition between gas shippers and between gas suppliers.
- 5.3 National Grid NTS believes that the proposal contained in this paper would satisfy the relevant objectives as the charge is reflective of the identified specific costs incurred and is linked to the development the proposed entry capacity transfer process.

Assessment against EU Gas Regulations

- 5.4 EC Regulation 1775/2005 on conditions for access to the natural gas transmission networks (binding from 1 July 2006) states that the principles for network access tariffs or the methodologies used to calculate them shall:
- Be transparent
 - Take into account the need for system integrity and its improvement
 - Reflect actual costs incurred for an efficient and structurally comparable network operator
 - Be applied in a non-discriminatory manner
 - Facilitate efficient gas trade and competition
 - Avoid cross-subsidies between network users
 - Provide incentives for investment and maintaining or creating interoperability for transmission networks
 - Not restrict market liquidity
 - Not distort trade across borders of different transmission systems.
- 5.5 National Grid NTS believes that its charging proposal put forward in this paper is consistent with the principles listed above in that it is reflective of the identified specific costs incurred.

6 Questions for Consultation

- 6.1 National Grid NTS invites views on whether the proposed changes to our Gas Transmission Transportation Charging Methodology meet National Grid Gas's relevant GT Licence objectives, specifically that:
- The NTS Entry Capacity Transfer Application Fee is set at a zero rate.
 - National Grid NTS will reassess the costs in the light of the decision on 0150/0150a and experience of the resulting process

The closing date for submission of your responses is **Thursday 7th June 2007**. Your response should be e-mailed to .box.transmissioncapacityandcharging@uk.ngrid.com or alternatively sent by post to Jan Gascoigne, Regulatory Frameworks, National Grid, National Grid House, Gallows Hill, Warwick, CV34 6DA. If you wish to discuss any matter relating to this charge methodology consultation then please call Eddie Blackburn ☎ 01926 656022.

Responses to this consultation will be incorporated within National Grid NTS's conclusion report. If you wish your response to be treated as confidential then please mark it clearly to that effect.