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Dear Paul,

Response to Gas Transmission Transportation Charging Methodology Discussion Paper NTS GCD03: Recovery of TO Allowable Revenue from Exit Users from 1st October 2010

This response is on behalf of National Grid's distribution business.

We consider that the under- and over-recovery mechanisms that are put in place need to be appropriate to the level of under- or over-recovery that is expected. Since the TO revenue relates primarily to transportation assets we consider that the charging methodology and level of charges implemented should be such that 100% of the TO revenue is targeted to be collected through capacity-based charges, so that the expected level of under- or over-recovery that might occur is as small as possible.

If the charging arrangements are such that only relatively small levels of under- or over-recovery might be expected we consider that it would be appropriate to adjust for both under- and over-recovery through a TO exit commodity charge, rather than through the more complex PC65-type mechanism.

It might thus be appropriate to only use the PC65-type mechanism for over-recovery if the revenue difference from target is above a certain threshold, reflecting the way it is implemented for entry over-recovery.

Dependent upon the distribution GT Licence, the DNs would expect to recover the level of their NTS TO charge payments from Shippers through the DN transportation charges. At present DNs have a requirement to use reasonable endeavours not to make changes to their transportation charges more than once a year. Clarity is needed on the proposed timing and frequency of potential changes to NTS transportation charges to handle forecast and actual TO under- or over-recovery, and on the notice that will be provided regarding such changes, to ensure that the DNs are able to reflect these changes in their transportation charges and are able to give the required notice to their Users. For example, DNs will need more than the present minimum two months notice of changes from the NTS in order to be able to provide two months notice to Shippers of changes to their DN transportation charges from the same time.

Yours sincerely,

Steve Armstrong