

CONSULTATION DOCUMENT

Modification Proposals to the Gas Transmission Transportation Charging Methodology

NTS GCM 15 [Draft]:

User Commitment & Entry Capacity Cancellation Fees

16th April 2009 [Draft 8th April 2009]

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1 Executive Summary

This document is issued by National Grid Gas plc (“National Grid”) in its role as holder of the Gas Transporter Licence in respect of the NTS (the “Licence”).

This document sets out for consultation a proposal for amending the Gas Transmission Transportation Charging Methodology (the “Charging Methodology”) in respect of the introduction of an NTS Entry Capacity Cancellation Fee.

This proposal, GCM15, would ensure that revenue recovered from Users in regard to entry capacity cancellation fees would appropriately offset other NTS transportation charges.

GCM15: National Grid proposes through this consultation document that:

- Cancellation fees in regard to baseline entry capacity that would have resulted in TO revenue would be treated as TO entry revenue; this would result in reduced TO Entry Commodity Charges
- Cancellation fees in regard to incremental and non-obligated entry capacity that would have resulted in SO revenue would be treated as SO revenue; this would result in reduced SO Commodity Charges (Entry & Exit)

Implementation

It is proposed that these arrangements are implemented with effect from 1st September 2009.

The closing date for submission of your responses to this consultation is **[Date to be confirmed]**

2 Introduction

- 2.1 This document is issued by National Grid Gas plc (“National Grid”) in its role as holder of the Gas Transporter Licence in respect of the NTS (the “Licence”).
- 2.2 This document sets out for consultation a proposal for amending the Gas Transmission Transportation Charging Methodology (the “Charging Methodology”) in respect of the introduction of an NTS Entry Capacity Cancellation Fee.
- 2.3 This proposal, GCM15, would ensure that revenue recovered from Users in regard to entry capacity cancellation fees would appropriately offset other NTS transportation charges.

3 Background

- 3.1 The 0221 UNC Review Group was established in September 2008 to assess whether or not the current credit arrangements in place for securing long term NTS Entry Capacity were
 - sufficiently robust, and
 - provide the correct balance of risk between various Shipper Users
- 3.2 One of the issues identified by the Review Group is that there is currently an inappropriate length of time between a User committing to buy long term NTS Entry Capacity and the User financially underpinning this commitment.
- 3.3 This could lead to a situation where, following User default or deferral of capacity commitment, the revenue associated with the User’s capacity commitment will be recovered through increases to general NTS Transportation Charges, i.e. non User specific NTS Entry Commodity Charges.
- 3.4 UNC Modification Proposal 0246 has been raised to seek to address this.
- 3.5 As part of the 0246 UNC Proposal, Users will be required to put in place and subsequently keep in place sufficient security to underpin their existing and anticipated capacity holdings.
- 3.6 It is proposed that the following actions be classed as “events of User default”:
 - the required level of security exceeds the value of the security in place; or
 - the User’s supplied security tool (Letter of Credit or Deposit deed) has less than the minimum number of days validity remaining; or
 - the credit rating of the financial institution providing the Letter of Credit has gone below the minimum credit rating specified in UNC TPD Section V.
- 3.7 If an “event of default” occurs, and is not rectified within the next 10 Business Days, then the User’s relevant entry capacity holdings, as defined by UNC Modification Proposal 0246, will be cancelled and the User will be charged a cancellation fee.

4 Discussion and Issues

Licence

- 4.1 The intention of putting credit in place was that this credit could be used to offset charges to other users in the event of a User default occurring. The relevant charges that would increase would be the TO Entry Commodity charge, which applies only at entry, and the SO Commodity charge which applies to both entry and exit.
- 4.2 A Modification to the NTS Charging Methodology is required to define the calculation of the cancellation fees such that they can be treated appropriately in accordance with the NTS Licence. The UNC will define the charges and the proposal laid out in this proposal GCM15 will map the charges on to the relevant price control terms. This would allow the mapping of the charges to TO and SO collected revenue, as required, and allow the consequential recalculation of other existing charges taking into account revenues resulting from the cancellation fees.
- 4.3 The capacity cancellation fees would need to be determined in accordance with the NTS Charging Methodology, in compliance with the following NTS Licence conditions, in order for them to offset other NTS charges;
 - Standard Special Condition C8B 2(a); Definition of TORCOMt ~ TO revenue other than that collected through capacity charges
 - Standard Special Condition C8C 2(a); Definition of RCOMt ~ SO revenue other than that collected through capacity and other Licence defined charges
- 4.4 Cancellation fees in regard to baseline entry capacity that would have resulted in TO revenue would be treated as TO entry revenue; this would result in reduced TO Entry Commodity Charges
- 4.5 Cancellation fees in regard to incremental and non-obligated entry capacity that would have resulted in SO revenue would be treated as SO revenue; this would result in reduced SO Commodity Charges (Entry & Exit)

Commodity Charge Impact

- 4.6 Shippers can calculate the approximate impact on their net entry commodity charges of the revenue received from any capacity cancellation fees.
- 4.7 Every £1m of entry revenue arising from cancellation fees received in relation to capacity that would have been treated as TO revenue will result in a 0.0001 p/kWh reduction in the TO Entry Commodity charge over a 12 month period.
- 4.8 Every £2m of entry revenue arising from cancellation fees received in relation to incremental capacity that would have resulted in SO revenue will result in a 0.0001 p/kWh reduction in the SO Commodity charge, applied at both entry and exit, over a 12 month period.
- 4.9 The cancellation fee will be treated as income in the year in which it is invoiced.

4.10 If the collection of a cancellation fee could not be reflected in TO Entry Commodity charges within the relevant formula year due to the timing of the invoice, the TO entry commodity charge rebate or the TO entry commodity charge credit would be used to return any TO over recovery in excess of £1m. In this instance the rebate or credit would be paid following the end of the formula year. For any TO over recovery below this £1m threshold the value would flow through TOK to the following formula year and the impact would be only on the TO Entry Commodity charge in the following formula year due to the separate treatment of over and under recovery of TO allowed revenue within the Charging Methodology.

5 National Grid's Proposal

5.1 National Grid proposes that:

- Cancellation fees in regard to baseline entry capacity that would have resulted in TO revenue would be treated as TO entry revenue; this would result in reduced TO Entry Commodity Charges
- Cancellation fees in regard to incremental and non-obligated entry capacity, which would have resulted in SO revenue, would be treated as SO revenue; this would result in reduced SO Commodity Charges (Entry & Exit)

Implementation

It is proposed that these arrangements are implemented with effect from 1st September 2009.

6 Justification

Assessment against Licence Objectives

- 6.1 The Licence requires that proposed changes to the Charging Methodology shall achieve the relevant methodology objectives.
- 6.2 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.
- 6.3 National Grid believes that GCM15 would satisfy the relevant objectives as, it would properly take account of developments in the transportation business should the relevant UNC proposal be directed for implementation.
- 6.4 GCM15 should facilitate the UNC modification which should reduce cross subsidies between Users at different ASEPs (since defaulting Users will contribute to the TO or SO revenue streams and thereby reduce the impact on non defaulting Users) and between entry and exit Users (since defaulting Users will contribute to the SO revenue in regard to incremental and non-obligated entry capacity and will reduce the SO charges applicable to both entry and exit) and hence should facilitate effective competition between gas shippers and between gas suppliers.

Assessment against EU Gas Regulations

- 6.5 EC Regulation 1775/2005 on conditions for access to the natural gas transmission networks (binding from 1 July 2006) are summarised below. 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.
- 6.6 National Grid believes that GCM15 is consistent with the principles listed above, specifically the amended methodology should;
- Be applied in a non-discriminatory manner
 - Avoid cross-subsidies between network users
 - Not distort trade across borders of different transmission systems.

7 Questions for Consultation

7.1 National Grid invites views on whether the proposed changes to our Gas Transmission Transportation Charging Methodology meet the Licence objectives, specifically that:

- Cancellation fees in regard to baseline entry capacity that would have resulted in TO revenue would be treated as TO entry revenue; this would result in reduced TO Entry Commodity Charges
- Cancellation fees in regard to incremental and non-obligated entry capacity, which would have resulted in SO revenue, would be treated as SO revenue; this would result in reduced SO Commodity Charges (Entry & Exit)

Implementation

- These arrangements would be implemented with effect from 1st September 2009.

The closing date for submission of your responses is **[Date to be confirmed]**. Your response should be e-mailed to:

box.transmissioncapacityandcharging@uk.ngrid.com

or alternatively sent by post to

Eddie Blackburn, Regulatory Frameworks, National Grid, National Grid House, Gallows Hill, Warwick, CV34 6DA.

If you wish to discuss any matter relating to this charging methodology consultation then please call Eddie Blackburn ☎ 01926 656022 or Debra Hawkin ☎ 01926 656317.

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