DISCUSSION DOCUMENT

Modification Proposals to the Gas Transmission Charging Methodology

NTS GCD 03:

Recovery of TO Allowable Revenue from Exit Users from 1st October 2010

20th October 2006

Table of Contents

Executive Summary

This document sets out for discussion National Grid NTS's proposed options for revising the Gas Transportation Transmission Charging Methodology (the "Charging Methodology") in respect of the introduction of a new mechanism to ensure recovery of TO Allowable Revenue from Users at NTS Exit Points from 1st October 2010. Such a change would be required in the event of implementation of UNC Modification 0116 ("Introduction of NTS Offtake arrangements"), which would make available NTS Exit (Flat) Capacity and NTS Exit (Flexibility) Capacity products to all Users as part of the enduring offtake arrangements.

These new products would be made available through "pay-as-bid" auctions (except for applications for long term release of NTS Exit (Flat) Capacity) with reserve prices set for each auction (as discussed in papers NTS GCD 01 and NTS GCD 02). The current arrangements whereby administered prices are scaled to ensure that 50% of NTS TO Allowable Revenue is recovered from Users at NTS Exit Points therefore requires amendment.

National Grid NTS therefore proposes for discussion that the following mechanisms are introduced to ensure recovery of NTS TO Exit Allowable Revenue from 1 October 2010 to meet its Licence obligations in respect of revenue restrictions:

- Under-recovery: An NTS TO Exit Commodity Charge is levied on Users at NTS Exit Points based on their utilisation of NTS Exit (Flat) Capacity, and potentially NTS Exit (Flexibility) Capacity, to make up any under-recovery of NTS TO Exit Allowable Revenue;
- Over-recovery:
    - If buy-back costs were to be recovered by the Exit Capacity Neutrality mechanism, proposed within UNC Modification Proposal 0116, then any over-recovery of NTS TO Exit Allowable Revenue would be redistributed to Users in line with their proportion of the aggregate Firm NTS Exit (Flat) Capacity holding for Gas Days for which National Grid NTS has undertaken buy back actions (reflecting the Buy-back Offset Entry arrangements outlined in PC65);
    - If over recovery was in excess of buy-back costs for such Gas Days (or if buy-back costs were not recovered by the proposed Exit Capacity Neutrality mechanism), then a negative NTS TO Exit Commodity Rate would be utilised, collared to prevent the aggregate of NTS TO and SO Exit Commodity Rates from being negative;
- For both under and over-recovery, the NTS TO Exit Commodity Rate would be set at a level which when combined with revenue recovered from the NTS TO Exit (Flat) Capacity charges (and potentially the NTS TO Exit (Flexibility) Capacity charges) would recover 50% of the NTS TO allowable revenue.

1 Introduction

1.1 National Grid NTS has proposed UNC Modification Proposal 0116 "Reform of the NTS Offtake Arrangements" in respect of the release of NTS Exit Capacity for utilisation from 1 October 2010. In the event that this proposal is implemented, National Grid NTS would make available Exit Capacity products referred to in the proposal as "NTS Exit (Flat) Capacity" and as "NTS Exit (Flexibility) Capacity".

1.2 In light of the development of these products, 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"). This paper sets out our proposals, for discussion, in respect of mechanisms to ensure recovery of TO Allowable Revenue from Users at NTS Exit Points consistent with National Grid NTS's Licence obligations in respect of revenue restrictions.

1.3 The introduction of such mechanisms would become effective from October 2010, coincident with the time that Users would commence paying for purchased quantities of NTS Exit (Flexibility) Capacity and NTS Exit (Flat) Capacity.

1.4 It should be noted that this charging proposal is consistent with the legal text included within UNC Modification Proposal 0116. Changes to the NTS Exit (Flexibility) Capacity product that may arise during the consultation on UNC Modification 0116 may impact the proposed charging methodology described in this paper.

2 Background

Charging Principles

2.1 National Grid NTS has a Licence objective to use its best endeavours in setting its charges not to over recover for any formula year and seeks not to under recover in the interests of price stability and recovery of costs from those parties that have utilised transportation services.

2.2 National Grid NTS has a reasonable endeavours obligation not to over recover by more than 4% in any financial year and not to over recover by more than 6% for any two year financial period.

2.3 National Grid NTS must also comply with its Licence obligations that where prices are established by means of auctions, either no reserve price is applied or reserve prices are calculated at a level that promotes efficiency, avoids undue preference in the supply of transportation services and promotes competition between gas shippers and between gas suppliers.

2.4 Discussions at the Gas Transmission Charging Methodology Forum (Gas TCMF) have recognised that revenue recovery through adjusted Exit Capacity prices is consistent with an administered pricing regime whereas commodity charges are more consistent with a regime including auctions. With an administered regime there is greater price stability as revenue can be forecast more easily. With an auction regime the greater uncertainty of revenue levels might cause instability in capacity prices, if they were used as a means of managing over or under recovery of allowed revenue, which might distort auction behaviour and capacity price locational incentives.

2.5 Managing under recovery by means of a commodity charge should ensure that there is no incentive to change auction behaviour as the quantity of capacity purchased will not affect the recovery of revenue and hence should not influence parties to limit the quantities they purchase. Conversely, managing over recovery by means of a commodity charge should also ensure that there is no incentive to change auction behaviour as the quantity of capacity purchased will not affect the redistribution of revenue and hence should not influence parties to purchase excessive or unnecessary quantities.

2.6 Options for modifying the Charging Methodology to take into account Exit reform were consulted on in 2005 in pricing discussion papers PD18, PD19 and PD20.

Prevailing TO Exit Revenue Recovery Arrangements

2.7 National Grid NTS recovers NTS TO allowable revenue through the application of administered capacity charges at NTS Exit Points and capacity and commodity charges at NTS Entry Points. This is consistent with TO costs being principally linked through the NTS TO price control to the provision of Entry and Exit Capacity. We have previously discussed with the industry the balance of costs associated with providing NTS Entry/Exit Capacity, and how this balance can change over time[1]. In the interests of reducing charge volatility and issues of Entry/Exit equitability, National Grid NTS has from April 2002 aimed to recover 50% of NTS TO revenue from NTS Entry Capacity charges with the remaining revenue recovered from NTS Exit Capacity charges. In practice, other tools are required where revenue targeted for recovery through market-based mechanisms may not be consistent with National Grid NTS's forecast revenue target levels. Additionally, in the interests of cost reflectivity, National Grid NTS does not currently scale auction reserve prices to match the Entry revenue target level.

2.8 Currently, NTS TO Exit revenue is principally recovered through the application of administered NTS Exit Capacity charges levied on Users' levels of registered firm NTS Exit Capacity. These charges are set at a level to reflect analysis of the long run marginal cost (LRMC) of reinforcing the NTS for an increment of flow as described within the Gas Transmission Transportation Charging Methodology statement. Additionally, prior to reform of the NTS offtake arrangements, National Grid NTS's licence requires that an amount of TO revenue be recovered through SO charges to represent that revenue that would otherwise have come from charges that User interruptible customers may have paid, had they been connected to National Grid NTS's system on a firm transportation basis.

2.9 At present National Grid NTS scales NTS Exit Capacity charges in order to recover the appropriate proportion of the revenue allowed by the NTS TO price control (i.e. 50%). If auctions are introduced for NTS Exit Capacity, National Grid NTS considers that it would be inappropriate to continue this approach.

[1] PC71 NTS Transmission Asset Owner Charges - November 2001

Prevailing Entry TO Revenue recovery Arrangements

2.10 Under the prevailing Charging Methodology, NTS TO Entry revenue is recovered principally from Entry Capacity charges levied on capacity allocated to Users through (and at the prices determined by) Entry Capacity auctions. National Grid NTS bases its auction reserve prices, the minimum price that Users must bid for a unit (kWh) of Entry Capacity, on Unit Cost Allowances (UCAs) set by Ofgem and contained within National Grid NTS's Gas Transporter licence.

2.11 Where revenue is recovered from charges levied on the output of auctions, both the demand and price that Users bid for the capacity product will dictate whether actual revenue is less than or greater than National Grid NTS's revenue target. National Grid NTS bases it auction reserve prices on Ofgem determined UCAs, and these values are intended to provide a locational investment signal for providing a given increment of flow. In the interest of cost reflectivity, these reserve prices are not scaled to recover target revenue.

2.12 The following arrangements are in place to cater for over or under recovery of Entry related (50%) TO Revenue.

Under-recovery

2.13 A forecast of auction revenue for the following financial year is made, and where the forecast implies recovery below the target TO revenue, the TO commodity charge is set in the following October for a twelve month duration at a level to reduce the level of 'K' towards zero by the end of that financial year. The TO commodity charge has then typically been re-set to zero from the following April, although for the introduction of the charge this year (Oct 2006) the intention is not to re-set the charge to zero for the period April - Oct 2007. This methodology was implemented in October 2004 following approval of PC78.

Over–recovery

2.14 Following the assessment of auction revenue described above, if auction implied revenue is more than 4% above the target level, the level of the excess revenue is divided into twelve monthly amounts (for the following financial year) and is used to offset the Entry buy-back scheme. This has the effect of offsetting the costs of buy-back that would otherwise be borne by shippers through entry capacity neutrality, by way of a reduction in all TO Entry Capacity charges for each month (by the lower of the monthly excess and monthly buy-back cost).

2.15 Any excess amount (of over-recovery) remaining for any month is carried forward to the end of the period and rebated to Shippers through adjustments to NTS Exit Capacity charges. This methodology was implemented in October 2001 following approval of PC65.

UNC Modification Proposal 116 – "Reform of the NTS Offtake Arrangements"

2.16 UNC Modification Proposal 0116 "Reform of the NTS Offtake Arrangements" proposes that common exit capacity products and registration processes are made available to all Users under the enduring offtake arrangements, commencing operation from 1 October 2010. Both an NTS Exit (Flat) Capacity product and an NTS Exit (Flexibility) Capacity product are proposed as described below:

- **"NTS Exit (Flat) Capacity"** - to provide Users the ability to obtain rights to offtake a daily quantity of gas at an NTS Exit Point, with the implied right to offtake at an even flow rate across the Gas Day. This in effect extends the current NTS Offtake (Flat) Capacity available to DNO Users at NTS/LDZ Offtakes to all Users and all NTS Exit Points. Such a product is anticipated to provide National Grid NTS with clear locational signals for where, when and how much transportation capability may be required by Users to support anticipated end of day demand, and will facilitate efficient NTS investment planning and operation. Charging proposals to support the introduction of this product are considered in paper NTS GCD 01.
- **"NTS Exit (Flexibility) Capacity"** - to provide Users the ability to obtain rights to offtake gas in aggregate over a Gas Day at one or more NTS Exit Points within an NTS Exit Zone (to be defined in the enduring ExCR Methodology Statement) at flow rates which deviate from the even flow rate conferred through holding NTS Exit (Flat) Capacity. Actual utilisation of NTS Exit (Flexibility) Capacity for each User at each NTS Exit Zone on each Gas Day will be determined by subtracting 2/3 of its total end of day allocated quantity from the cumulative allocated quantity it has offtaken between 06:00 and 22:00, including a tolerance of 1.5% on measurements of the cumulative flow. This in effect extends the current NTS Offtake (Flexibility) Capacity available to DNO Users at NTS/LDZ Offtakes to all Users and all NTS Exit Points within NTS Exit Zones. Such a product is anticipated to allow Users to compete, on a non-discriminatory basis, for constrained amounts of within day system capability that National Grid NTS will make available in accordance with its Licence obligations and incentives. In addition, this product, in the context of the proposed regime, will allow National Grid NTS to better manage the system, particularly in the context for large and/or unexpected within day flow rate variations. Charging proposals to support the introduction of this product are considered in paper NTS GCD 02.

3 NTS TO Revenue Implications of NTS Exit Reform

Issues with ensuring recovery of NTS TO revenue

3.1 National Grid NTS has developed UNC Modification Proposal 0116 to reform the NTS Exit regime to make NTS Exit (Flat) Capacity and a new NTS Exit (Flexibility) Capacity product available in part through auction mechanisms that have broad similarities to the existing NTS Entry Capacity regime. It is proposed that these NTS Exit Capacity products could be acquired by Shippers and Distribution Network Operators (DNOs) at any NTS Exit Point, with charges being determined through the auction processes (except for long term release of NTS Exit (Flat) Capacity).

3.2 National Grid NTS's initial thoughts are that, notwithstanding the proposed reforms, National Grid NTS would continue to seek to recover 50% of the NTS TO revenue from Entry charges with Exit charges recovering the remainder. Charges levied in respect of the proposed NTS Exit (Flat) Capacity product and NTS Exit (Flexibility) Capacity product would contribute to TO Exit revenue.

3.3 Since revenues arising from auctions are intrinsically unpredictable, a new mechanism would be required in order to allow National Grid NTS to ensure that its total revenue is consistent with that allowed by its price control.

3.4 National Grid NTS believes that it would be appropriate to have a common approach at Exit to that in place at Entry. The use of a TO commodity charge was debated with the industry at great length prior to its implementation for NTS Entry. An Exit TO commodity charge could be used where TO revenue is forecast to be less than (positive charge) or greater than (negative charge) the Exit revenue target level.

3.5 If exit buy-back costs were to be recovered by the Exit Capacity Neutrality mechanism, proposed within UNC Modification Proposal 0116, then the use of an exit capacity buy-back offset mechanism equivalent to the entry buy-back offset mechanism[2], introduced via PC65, could also apply to exit where TO exit revenue is forecast to be greater than the Exit revenue target level. If exit buy-back costs were not to be recovered by the Exit Capacity Neutrality mechanism, proposed within UNC Modification Proposal 0116, then this mechanism would not be required and over recovery would be managed solely through a negative NTS TO Exit Commodity charge.

3.6 Whilst an NTS TO Exit Commodity charge may be negative, it may be necessary to collar the extent of any negativity. National Grid NTS believes it important that transportation charging should not create a perverse incentive to flow gas, but rather that system use be driven by the commercial supply and demand considerations of Users and consumers.

3.7 We consider it necessary that such a test should be undertaken in isolation at both Entry and Exit since the transportation costs borne by customers may not be a combination of both Entry and Exit charges if they are trading at the National Balancing Point (NBP). It may therefore be necessary to ensure that the sum of NTS TO and SO commodity charges (excluding the NTS optional charge) at Exit would not be negative.

[2] Note that exit buy-back costs would only be recovered through exit capacity neutrality in the event that a buy-back incentive was established.

3.8 To inform this position, each £10m of NTS TO Exit revenue over-recovery may result in an annual TO Exit Commodity rate, on Exit flat and flexibility capacity utilisation, of approximately - 0.0010 pence per kWh.

Charging Base

3.9 National Grid NTS recognises that an important part of the Entry TO commodity debate within recent years has focused on which parties should pay the charge. National Grid NTS consulted on this issue within PC78, and asked for views on whether a single positive Entry TO commodity charge should be levied equally on Entry and Exit Users or only on Entry Users.

3.10 Understandably, given the differing interests of respondents, there was no industry consensus on this issue, however, National Grid NTS agreed, on balance, with those respondents that argued the TO Entry commodity charge should be levied on Entry allocations to maintain the TO Entry / Exit revenue split and target those Users that have the potential to give rise to any under-recovery of revenue. A consistent approach at NTS Exit suggests a single TO Exit Commodity charge should be levied on both Shipper and DNO Users at NTS Exit Points.

3.11 An NTS Exit Commodity charge could be levied on the utilisation of only the flat capacity product or alternatively on both the flat and flexibility capacity products. As the flat capacity product is the primary product and the flexibility product is largely a by-product of making flat capacity available it could be argued that to charge solely on the flat product would be the most cost reflective approach. Alternatively, as both products are provided by the same asset base it could be argued that the most cost reflective approach would be to levy the charge on the utilisation of both products.

3.12 It should be noted that if TO Exit revenue recovery were forecast to be above the Exit target level, and TO Entry revenue recovery forecast to be symmetrically under the Entry target level, then National Grid NTS considers that adjustments should be made separately to the TO Exit and Entry commodity charges.

4 National Grid NTS Preferred Methodology

4.1 The following approaches would be consistent with National Grid NTS's aim to recover 50% of its NTS TO revenue through NTS TO Exit charges, assuming that the other 50% will be recovered through NTS TO Entry charges.

Under Recovery

4.2 NTS Exit Commodity Prices are determined in light of capacity sale and auction-derived revenues, as an appropriate under recovery mechanism to ensure National Grid NTS can comply with its licence obligations;

4.3 The NTS TO Exit Commodity Charge would be levied on Shipper Users for their NTS directly connected sites and on DNO Users at the NTS/LDZ offtakes for Exit flat and flexibility capacity utilisation;

4.4 The level of an NTS TO Exit Commodity rate will be set based solely on NTS Exit flat and flexibility capacity utilisation, only taking account of Exit TO revenue recovery;

4.5 Exit flat and flexibility capacity utilisation at storage sites are excluded as is the case for the TO Entry Commodity charge

Over Recovery – Buy-back Offset Mechanism

4.6 If exit buy-back costs were to be recovered by the Exit Capacity Neutrality mechanism, proposed within UNC Modification Proposal 0116, then an Exit Buy-back mechanism is introduced in light of capacity sale and auction-derived revenues, as an appropriate over recovery mechanism to ensure National Grid NTS can comply with its revenue restriction licence obligations;

4.7 Over recovery revenue would be redistributed to Users in line with their proportion of the aggregate Firm NTS Exit (Flat) Capacity holding for each Gas Day in a month (reflecting the Buy-back Offset Entry arrangements outlined in PC65).

4.8 If auction implied revenue is above, but within 4% of, the target level, there will be no automatic offsetting adjustment to transportation charges;

4.9 If auction implied annual revenue is more than 4% above the target level, National Grid NTS will calculate the level of this excess revenue;

4.10 The excess annual revenue will then be divided by twelve in order to establish monthly amounts;

4.11 For any month where the excess amount exceeds aggregate User buy-back costs, the excess amount for the following month will be increased by the amount by which the excess exceeds aggregate User buy-back costs. For example if the excess revenue for each month is £10m and the buy-back costs for a given month are £8m then £2m will be rolled forward to the next month such that £12m is available to offset buy-back costs in that month;

4.12 National Grid NTS will credit each User by a share of the lower of the excess or buy-back costs for the relevant month, with that share based on the proportion of aggregate NTS Exit (Flat) Capacity held by the User concerned in the relevant month. For example if the excess revenue for a given month is £10m and the buy-back costs for that month are £8m then Users will be credited with £8m. If the excess revenue for the month were £6m and the buy-back costs for that month are £8m then Users will be credited with £6m.

Over Recovery – Negative Commodity Charge

4.13 If over recovery was in excess of the buy-back costs that could be recovered through the Exit Capacity Neutrality mechanism then a negative NTS Exit Commodity Price would be determined in light of capacity sale and auction-derived revenues, as an appropriate over recovery mechanism to ensure National Grid NTS can comply with its licence obligations;

4.14 The NTS TO Exit Commodity charge when negative would be collared to prevent the aggregate of NTS TO and SO Exit Commodity charges from being negative;

Implementation

It is proposed that:

4.15 Theses arrangements are implemented to set NTS TO Exit Commodity Prices and trigger the over recovery mechanism when required, from 1st October 2010.

4.16 For charge application purposes, any TO and SO Exit Commodity charges would be combined and levied as a single NTS commodity charge at Exit. Naturally this would only be possible if a common charge base existed between any TO Exit Commodity charge and the SO Exit Commodity charge. Common application would involve least change in business processes and minimise, for both gas transporters and Users, I.T. costs associated with separate NTS TO Exit Commodity and NTS SO Exit Commodity charges.

5 Justification

Assessment against Licence Relevant Objectives

5.1 The National Grid Gas 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 Reflect the costs incurred by the licensee in its transportation business;

5.3 A proposed new TO Exit Commodity charge would be derived based on a methodology that identifies those TO costs that can be attributed to the provision of Exit Capacity to Users, and therefore is considered an approach that reflects the costs incurred by the NTS TO. An NTS Exit Commodity charge could be levied on the utilisation of either or both the flat and flexibility capacity products.

5.4 So far as is consistent with (5.2) properly take account of developments in the transportation business;

5.5 The proposed NTS TO Exit Commodity Charge has been developed as a result of the introduction of auctions as part of the enduring NTS offtake arrangements (UNC Modification 0116) and thus, in National Grid NTS' view, as a consequence of developments in the transportation business.

5.6 Where prices are established by means of auctions, either no reserve price is applied or reserve prices are calculated at a level that promotes efficiency, avoids undue preference in the supply of transportation services and promotes competition between gas shippers and between gas suppliers.

5.7 The proposal within this document have been developed such that stable reserve prices can be set for both NTS Exit (Flat) Capacity and NTS Exit (Flexibility) Capacity while ensuring that National Grid NTS meets its Licence obligations in regard to allowed TO revenue. In setting transportation charges is required by the prevailing GT Licence to minimise any over-recovery against allowed revenue, and for reasons of price stability, not to significantly under-recover.

5.8 Managing under recovery by means of a commodity charge should ensure that there is no incentive to change auction behaviour as the quantity of capacity purchased will not affect the recovery of revenue and hence should not influence parties to limit the quantities they purchase.

5.9 Managing over recovery by means of a commodity charge, after netting off any buy-back costs recovered through capacity neutrality, should also ensure that there is no incentive to change auction behaviour as the quantity of capacity purchased will not affect the redistribution of revenue and hence should not influence parties to purchase excessive or unnecessary quantities.

6 Level and Impact of the Charge

6.1 Table 6.1 contains indicative TO Exit commodity prices, based on the indicative capacity prices described in NTS GCD 01, for formula years 2010/11, 2011/12 and 2012/13.

6.2 The level of revenue that would need to be collected via the TO Exit Commodity charge will depend on the revenue collected through both the TO Exit (Flat) Capacity and TO Exit (Flexibility) Capacity charges. The revenue from the TO Exit (Flat) Capacity charges has been forecast based on all flat capacity implied by forecast demand being sold at the reserve prices.

6.3 The revenue from the TO Exit (Flexibility) Capacity charges is uncertain and hence a series of TO Exit Commodity prices have been calculated depending on a range of values for the average cleared prices for NTS Exit (Flexibility) Capacity.

Table 6.1 – Indicative NTS TO Exit Commodity Prices for Under Recovery

NTS Exit (Flexibility) Capacity - Cleared Average price (p/kWh)	NTS TO Exit Commodity Rate (p/kWh)					
	Transportation Model			Transcost		
	2010/11	2011/12	2012/13	2010/11	2011/12	2012/13
0.0050	0.0101	0.0111	0.0118	0.0099	0.0095	0.0095
0.0100	0.0096	0.0107	0.0114	0.0095	0.0090	0.0090
0.0150	0.0092	0.0103	0.0109	0.0090	0.0086	0.0086
0.0200	0.0088	0.0098	0.0105	0.0086	0.0082	0.0082
0.0250	0.0083	0.0094	0.0101	0.0082	0.0077	0.0077
0.0300	0.0079	0.0090	0.0096	0.0077	0.0073	0.0073
0.0350	0.0074	0.0085	0.0092	0.0073	0.0069	0.0069
0.0400	0.0070	0.0081	0.0088	0.0068	0.0064	0.0064
0.0450	0.0066	0.0076	0.0083	0.0064	0.0060	0.0060
0.0500	0.0061	0.0072	0.0079	0.0060	0.0055	0.0055
0.0550	0.0057	0.0068	0.0075	0.0055	0.0051	0.0051
0.0600	0.0053	0.0063	0.0070	0.0051	0.0047	0.0047
0.0650	0.0048	0.0059	0.0066	0.0047	0.0042	0.0042
0.0700	0.0044	0.0055	0.0061	0.0042	0.0038	0.0038
0.0750	0.0040	0.0050	0.0057	0.0038	0.0034	0.0034

7 Summary and Questions for Discussion

This paper has discussed the issues and National Grid NTS's views relating to the pricing implications of the introduction of an NTS TO Exit Commodity charge.

We would be pleased to receive views on the following areas of our Transportation Charging Methodology:

- The derivation of NTS TO Exit Commodity Rates, applicable to flat capacity utilisation or alternatively to both flat and flexibility utilisation, in light of capacity sale and auction derived revenues, as an appropriate mechanism to ensure National Grid NTS can comply with its revenue restriction licence obligations;
- If exit buy-back costs were recovered through the proposed exit capacity neutrality mechanism, the introduction of an Exit Buy-back mechanism in light of capacity sale and auction-derived revenues, as an appropriate over recovery mechanism to ensure National Grid NTS can comply with its revenue restriction licence obligations;
- The derivation of a negative NTS Exit Commodity Price, applicable to flat capacity utilisation or alternatively to both flat and flexibility utilisation, in light of capacity sale and auction-derived revenues and if over recovery was in excess of buy-back costs, as an appropriate over recovery mechanism to ensure National Grid NTS can comply with its licence obligations;
- The NTS TO Exit Commodity charge when negative is collared to prevent the aggregate of NTS TO and SO Exit Commodity charges from being negative
- The NTS TO Exit Commodity Rate would be set at a level which when combined with revenue recovered from the NTS TO Exit (Flat) Capacity and NTS TO Exit (Flexibility) Capacity charges would recover 50% of the TO allowable revenue.

The closing date for submission of your responses is **Friday 24th November 2006**.

Your response should be e-mailed to jan.gascoigne@uk.ngrid.com or alternatively 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 or Dominic Harrison ☎ 01926 656316.

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.