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Re: UNC Modification Proposal 0284 – Removal of the Zero Auction Reserve Price for Within-day daily NTS Entry Capacity (WDDSEC)

Dear Tim,

Thank you for your invitation seeking representations with respect to the above Modification Proposal. As proposer, National Grid NTS supports implementation of Modification Proposal 0284. This Modification Proposal is associated with the Modification Proposal to the Gas Transmission Transportation Charging Methodology – GCM19: Removal of NTS Daily Entry Capacity Reserve Price Discounts.

Rationale

National Grid NTS supports the principles outlined within Modification Proposal 0284. This proposal has arisen following shipper concerns regarding the high proportion of TO allowed revenue being collected through the TO commodity charge. It is a necessary first step in a suite of proposals designed to increase the proportion of revenue recovered through capacity charges, which better target the costs incurred, that are being progressed in stages following discussions in the Entry Charging Review Group (ERCG) meetings.

National Grid believes that irrespective of whether or not other potential or actual proposals are approved, this Proposal would be consistent with the principle that charge quantities are defined within the Network Code whereas charge rates are defined within the charging methodology.

Extent to which implementation of Modification Proposal 0284 would better facilitate the achievement (for the purpose of each Transporters' Licence) of the relevant objectives

National Grid NTS considers this Proposal would, if implemented, better facilitate the following Relevant Objectives as set out in its Gas Transporters Licence:

- ***Standard Special Condition A11.1(a): the efficient and economic operation of the pipeline system to which this licence relates;*** For the reasons given below, the Proposer believes that this Proposal will better facilitate relevant objectives A11.1 (a):

National Grid NTS continues to believe that this Proposal would encourage longer term bookings of entry capacity by removing the price incentive to buy later and therefore be consistent with the economic and efficient development of the system.

- ***Standard Special Condition A11.1(c): do far as is consistent with subparagraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;*** For the reasons given below, the Proposer believes that this Proposal will better facilitate relevant objectives A11.1 (c):

National Grid NTS continues to believe that this Proposal would better facilitate the charging methodology objectives as set out in Standard Special Condition A5 5 including cost reflectivity, promoting efficiency and avoiding undue preference.

In particular, cost reflectivity would be improved through a more apt redistribution of charges. The TO Entry Commodity Charge was designed as a correction mechanism for under recovery of allowed revenue from auctions. Using this charge to collect a large amount of under-recovered income from entry capacity auctions may result in a redistribution of charges from Users acquiring Entry Capacity at a discounted rate, to those Users that have previously paid a “full”, more cost reflective, rate for capacity.

New entry points, relative to existing entry points, are restricted in their opportunities to purchase firm capacity with a zero reserve price. Whilst this option remains more readily available to existing entry points there is undue preference for new as compared to existing entry points. The Proposal will help to avoid such undue preference by removing the opportunity to buy zero priced firm capacity.

- **Standard Special Condition A11.1 (d): so far as is consistent with subparagraphs (a) to (c) the securing of effective competition: (i) between relevant shippers;** For the reasons given below, the Proposer believes that this Proposal will better facilitate relevant objectives A11.1 (d):

National Grid NTS continues to believe that as this Proposal would reduce the large quantities of zero priced NTS Entry Capacity being released, it should incentivise Shippers to purchase longer term capacity and encourage further utilisation of the secondary capacity market. This proposal is part of a suite of proposals that are seeking to reduce the level of the TO Entry Commodity charge and hence seeking to avoid potential cross subsidies which may arise when this commodity charge represents a significant proportion of TO entry revenue. National Grid NTS believes that removing these potential cross subsidies is consistent with this objective.

If you have any questions, please do not hesitate to contact me.

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