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Re: UNC Modification Proposal 0285 – “Use it or lose it”(UIOLI) Interruptible Capacity only to be released when there is at most 10% unsold firm entry capacity

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 0285. This Modification Proposal has been raised alongside Modification Proposal 0284: Removal of the Zero Auction Reserve price for Within-day daily NTS Entry Capacity (WDDSEC) and the Modification Proposal to the Gas Transmission Transportation Charging Methodology – GCM19: Removal of NTS Daily Entry Capacity Reserve Price Discounts. These three proposals have been raised within the same timeframe as they are all seeking to reduce the quantity of entry capacity auctioned with a zero reserve price which has been identified as a contributory factor in the high levels of the TO commodity charge

Approval of the charging methodology proposal GCM19 and Modification Proposal 0284 would provide some benefit towards the underlying aim of reducing the level of TO allowed revenue being recovered through commodity rather than capacity charges; however, the full benefit might only be achieved through the additional approval of this Modification Proposal 0285.

Rationale

National Grid NTS supports the principles outlined within Modification Proposal 0285. This proposal has arisen following shipper concerns regarding the high proportion of TO allowed revenue being collected through the TO commodity charge. It is part of a suite of proposals designed to increase the proportion of revenue recovered through capacity charges, which should better target the costs incurred, following discussions in the Entry Charging Review Group (ERCG) meetings. A major priority identified by the review group was to reduce the significant quantities of NTS Entry Capacity which are auctioned at a zero reserve price. Modification Proposal 0285 has been raised, alongside Modification Proposal 0284, to further reduce the amount of capacity released with a zero reserve price by only releasing such capacity when at most 10% of entry capacity remains unsold at an ASEP.

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 purchase capacity close to the day of its intended use and therefore be consistent with the economic and efficient development of the system.

Information on likely maximum flows is provided through the timely booking of entry capacity and, in conjunction with actual flow patterns, can assist system operation in planning. This information, particularly that in regard to daily capacity purchases, is also likely to be more reliable if capacity has been bought at a cost above zero, since Shipper Users will be less likely to buy capacity that may be subsequently unutilised. It has been suggested within the Transmission workstream that nominations are more relevant than capacity bookings, however nominations signal on the day flows and there may be limited opportunities to react and so may hinder provision of the most efficient outcomes.

- ***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.

- ***European Regulation Compliance***

In addition National Grid NTS believes that this proposal is consistent, and indeed brings the GB gas market more into line, with the current European regulations and their intent. The following extracts are from REGULATION (EC) No 1775/2005 and are unchanged in REGULATION (EC) No 715/2009;

Article 2 - 21 'contractual congestion' means a situation where the level of firm capacity demand exceeds the technical capacity;

Article 16 - 3(a) in the event of contractual congestion, the transmission system operator shall offer unused capacity on the primary market at least on a day-ahead and interruptible basis;

National Grid NTS believes that continuing to release interruptible capacity when there is 10% (or less) of firm capacity still available for auction is consistent with the obligation to release interruptible capacity in the event of 'contractual congestion'.

The GB regime currently differs from other European countries in that the GB regime releases interruptible capacity at a zero reserve price whilst there are significant levels of firm capacity available. The regulation applicable to the European Union also states that the price of interruptible capacity should reflect the likelihood of interruption and be cost reflective.

REGULATION (EC) No 715/2009 Article 14 – 1(b) states that Transmission system operators shall: provide both firm and interruptible third-party access services. The price of interruptible capacity shall reflect the probability of interruption.

National Grid NTS believes that as both firm and interruptible services will continue to be provided, albeit only released as interruptible when there is limited firm availability, Modification Proposal 0285 is compliant.

National Grid NTS considers that a zero reserve price for interruptible capacity is more appropriate where there exists a material risk of interruption, which is more likely to be the case when firm capacity is close to selling out. This Proposal, which restricts interruptible entry capacity release at zero reserve price to when there is at most 10% unsold firm entry capacity, is more consistent with this European Regulation than the present interruptible capacity release and charging arrangements.

- **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 this Proposal would reduce the large quantities of zero priced NTS Entry Capacity being released and it should incentivise Shippers to purchase longer term capacity. The availability of large quantities of zero reserve priced firm and 'effectively firm' capacity does not facilitate development of the secondary capacity market. This Proposal should therefore further encourage 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.

This Proposal should reduce the amount of Interruptible NTS Entry Capacity that is effectively firm by releasing only when there is limited firm capacity available. This would facilitate a more 'level playing field' and thereby not encourage more Shipper Users to buy interruptible in the knowledge that they are unlikely to be interrupted.

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

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