

To Whom It May Concern:

Ritchard Hewitt  
Gas Codes Development  
Manager,  
National Grid Transmission

Ritchard.Hewitt@uk.ngrid.com  
Direct tel +44 (0)1926 655 861  
Mobile +44 (0)7733 001 817

[www.nationalgrid.com](http://www.nationalgrid.com)

22nd July 2010

Our Reference MP0276\_ACS\_Open\_Letter

Dear Colleagues

**Agency Charging Statement (ACS) – UNC Modification 0276: Enabling the Assignment of a Partial Quantity of Registered NTS Exit (Flat) Capacity**

On 2<sup>nd</sup> March 2010, Ofgem directed the implementation of Modification Proposal 0276. In the decision letter, they also chose not to approve the draft ACS amendment associated with the Modification Proposal. On the 1<sup>st</sup> April 2010 Ofgem set out its reasoning for its rejection of the ACS amendment. In its letter Ofgem considered that the original ACS amendment did not meet the relevant objectives set out in National Grid Transmission's Standard Special Licence Condition A15 in that it did not target costs on the specific beneficiaries of the proposed new User Pays service. Ofgem also expressed reservations regarding the cost recovery time period proposed.

Having considered the above, National Grid Transmission is now seeking comments from the industry as to the best mechanism for cost apportionment and recovery prior to submitting a revised ACS to Ofgem. Your views should reach us by **Friday 13<sup>th</sup> August 2010**.

The costs recovery options put forward in this open letter seek to address two main areas of concern:

1. Identification and targeting of costs to the specific beneficiaries
2. The cost recovery mechanism and timeframe.

**1. Identification and targeting of costs to the specific beneficiaries.**

In its letter dated 1<sup>st</sup> April 2010 Ofgem stated that it agreed that "*exit users*" should "*contribute towards the costs of the modification*", but did not agree that National Grid Transmission does not benefit from the implementation of Modification Proposal 0276. Whilst National Grid Transmission acknowledges the view that the information derived from the provision of the service defined within the Modification Proposal may have some potential for a benefit to be realised at a future date, it doesn't believe that

the benefit will actually accrue. It is also our belief that the ability to quantify such benefit is constrained by our ability to forecast:

- i. The number of Partial Assignment interventions
- ii. The amount of capacity to be assigned in such interventions

The potential for realisation of a network investment benefit is further curtailed by the anticipated short lead times between the entering of Partial Assignment data into the UKLink system and the enactment of a Partial Assignment intervention. In light of this, it remains National Grid Transmission's view that the clear beneficiaries of this new User Pays service are the Exit related Users and, consequently, these Users should pay 100% of the cost of developing and implementing the new service.

## **2. Cost Recovery Mechanism and Timeframe.**

The costs associated with the User Pays service introduced by Modification 0276 are CAPEX related i.e. they are "fixed" costs which do not vary according to how many or how few transactions are completed during the service life of the systems introduced to provide the service. The cost recovery mechanism outlined in the original draft ACS which accompanied the UNC Modification Proposal proposed that these fixed Development and Implementation (D&I) costs should be invoiced on the date that the new User Pays service was made available to Users. Our rationale for proposing this mechanism was based on the ACS amendment previously approved in relation to UNC Modification 0224. We also believed that our ACS amendment was in keeping with the User Pays Guidelines document introduced by UNC Modification 0213.

As a result of the rejection of the ACS amendment related to Modification 0276 and following exploratory discussions with Ofgem, we have decided to seek industry comments on three possible cost recovery options:

- a) Recovery of the fixed implementation costs immediately following the successful introduction of the new User Pays service.
- b) Phased cost recovery over a three year period.
- c) The recovery of the fixed costs via a transactional charge over a three year period.

Option (a), Recovery of the fixed implementation costs immediately following the successful introduction of the service.

It is our opinion that this option offers the most efficient mechanism for cost recovery. During the D&I phases of the change, National Grid Transmission will be required to fund all of xoserve's costs (both internal and 3<sup>rd</sup> party) associated with this change. Having funded the change activity up to and including implementation, it seems reasonable and appropriate for National Grid Transmission to recoup its costs once the system change is successfully in place and the service available to Users. Costs would be apportioned to Shipper Users on the basis of their proportion of total Shipper User NTS Exit Capacity holdings on the date of implementation of the new User Pays service.

Option (b), Phased cost recovery over a three year period.

This option would operate as follows:

1. One quarter of all the fixed costs would be invoiced to Shipper Users immediately following the successful implementation of the service.
2. A further quarter of the costs would be invoiced to Shipper Users on a date one calendar year later.
3. A further quarter of the costs would be invoiced to Shipper Users on a date two calendar years later.
4. The final quarter of the costs would be invoiced on a date three calendar years following the first round of invoices.
5. In addition to the above, and in accordance with UNC Modification 0213, the amounts to be incorporated into rounds 2, 3 and 4 of the invoicing cycle will be adjusted to reflect their Net Present Values (NPVs) to ensure that National Grid Transmission is not disadvantaged by the delay in cost recovery.

In each year the amount invoiced to each Shipper User will be based on the amount of fixed costs to be invoiced in that year multiplied by the relevant Shipper's NTS Exit Capacity holding divided by the total amount of all Shippers NTS Exit Capacity holdings as at the 1<sup>st</sup> of October that year.

Option (c), Recovery of the fixed costs via a transactional charge.

This option would incorporate the following:

1. The application of a standard transaction charge for each partial assignment request for each User involved in the request (i.e. both assignor and assignee)
2. Reconciliation of the fixed costs against received transaction revenue at the end of the initial three years.
3. Costs to be recovered will be adjusted for NPV over the three year period.
4. Over-recovery of costs will be returned to those Users which have been party to a successful Partial Assignment request on the basis of their percentage of the total number of successful requests submitted by all Users (i.e. an User who carried out 10 out of a total of 100 successful partial assignment requests over the three year period would receive 10% of the over-recovery amount as a refund). This refund will be invoiced in the month immediately after the three year anniversary of the introduction of the new User Pays service.
5. Under-recovery of costs will be invoiced, three calendar years after the introduction of the new User Pays service, to all Shipper Users (irrespective of whether or not the Shipper User has used the new User Pays service since its introduction) on the basis of their proportion of total Shipper User NTS Exit Capacity holdings on the date of implementation of the new User Pays service.

In order to refine the options for a revised ACS, we would welcome industry views on the options described above.

We would also welcome your views on the annual frequency with which you believe you will use the Partial Assignment service introduced by Modification 0276. Please note the information provided will be particularly important in calculating the initial transactional charge to be applied if Option (c) is chosen by National Grid Transmission and subsequently approved by the Authority.

It is our intention to put forward a revised ACS amendment to Ofgem in August 2010. To this end, your views on the proposed options for costs apportionment and recovery should reach us no later than **Friday, August 13<sup>th</sup>**. We would also ask that you submit your forecasts for anticipated annual usage of the Partial Assignment service over the first three years of its operation.

Should you have any questions regarding the content of this letter, please don't hesitate to contact me at [Ritchard.Hewitt@uk.ngrid.com](mailto:Ritchard.Hewitt@uk.ngrid.com) or at the numbers above.

Yours sincerely,

Ritchard Hewitt.  
Gas Codes and Regulation Manager