

## **DISCUSSION REPORT**

***NTS GCD10R – Potential one-off change to  
NTS TO Exit (Flat) Capacity Charges for April  
2013***

**21<sup>st</sup> December 2012**

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## 1 Executive Summary

- 1.1 This document is issued by National Grid in its role as Gas Transporter Licence holder in respect of the NTS.
- 1.2 NTS GCD10 set out, for discussion, the option of a one-off change to NTS Exit Capacity charges in April 2013 in an effort to reduce the potential of year to year pricing volatility observed in indicative NTS Exit Capacity charges over the coming RIIO-T1 period. Charging volatility has been identified as a key issue for the industry.
- 1.3 This discussion report summarises and proposes a way forward based on industry responses to the discussion document NTS GCD10 and sets out next steps following on from this discussion report.
- 1.4 The new RIIO-T1 price control settlement for National Grid Gas will be effective from April 2013 for a period of eight years. This may involve a step change in TO Allowed revenue causing charging volatility between charging years and, hence, addressing this may be of interest to industry. A one off charge change in April 2013 could potentially mitigate some of the charging volatility caused by a revenue change. NTS GCD10 put forward for discussion the principle of effecting such a change.
- 1.5 TO Exit Capacity charges are set for each gas year with effect from 1st October to 30th September. The TO Maximum Allowed Revenue ("TO MAR") is set from 1st April to 31st March, referred to as the financial or formula year. This misalignment between the financial year and the charge setting period has been identified as a significant contributing factor to the volatility of exit capacity charges.
- 1.6 National Grid is incentivised not to over or under recover in relation to TO MAR in any given financial year. This incentive impacts the TO Exit Capacity charges set in October as they are set to match actual revenues to allowed revenues for any given formula year without consideration of future years TO MAR to ensure allowed revenue recovery. This can cause volatile NTS Exit Capacity Charges from year to year with an amplification effect on the charge changes caused by the compensation for any initial under or over recovery during the first six months of each formula year.
- 1.7 In the discussions held at consecutive meetings of the NTS Charging Methodology Forum ("NTS CMF") from July and September 2012, two options were considered to help address charging volatility. These were:
  1. A permanent move to April price changes instead of October; and
  2. A one off change in April then continuing to set annual charges from October in line with the charging methodology
- 1.8 The only solution that provides the ability to address the potential volatility in NTS Exit Capacity charges from April 2013 to align with the start of RIIO-T1 is the one off change option. Therefore it was decided to produce a charging discussion paper focusing solely on this option.

- 1.9 It should be noted that a one-off change to NTS Exit Capacity charges in April 2013 would not require a UNC modification and would only require a direction from Ofgem.
- 1.10 NTS GCD10 summarised and took forward discussions that have taken place at the NTS CMF in respect of NTS TO Exit Capacity charging volatility, including the major contributory elements of charging volatility and options around how these could be addressed with the use of a one off April 2013 change.
- 1.11 Following a draft discussion document published on 10<sup>th</sup> October, National Grid asked for comments on the scope of the discussion document. The Final Discussion Document was published on 24<sup>th</sup> October and updated to show the impact an April 2013 charge change to NTS Exit Capacity charges would have on the NTS TO Exit Commodity charge.
- 1.12 In NTS GCD10 responses were requested for the following questions:
- Do you support the use of a one-off April charge change effective from April 2013?
  - Do you agree that a one-off April 2013 charge change should only be used if the outcome of the RIIO-T1 price control presents a significant step change in allowed revenues?
  - Would a one-off April change have an adverse impact on any of your business processes?
  - Are there any other items in relation to the use of a one-off change that you believe to be relevant that should be taken into account or warrant further consideration?
- 1.13 This discussion report:
- Brings together all the responses received to the discussion document
  - Answers any additional questions received from the responses to help with the discussion and brings together additional relevant information
  - Details the proposed way forward and next steps including the timing by which Ofgem will need to make a decision on the recommendations.
- 1.14 National Grid received nine responses to NTS GCD10. Seven respondents expressed support for an April 2013 one off change. Two respondents were not in support of the use of an April 2013 one off change. Full details of all responses can be found in Section 5.
- 1.15 Copies of responses have been posted on National Grid's website at <http://www.nationalgrid.com/uk/Gas/Charges/consultations/> under the section headed "Current Discussion Papers".

## Way Forward

### Direct response to NTS GCD10

- 1.16 In relation to a one off April 2013 change, the majority of respondents supported the use of a one off change whilst stressing that as much notice as possible was needed and that the 150 days notice has passed for indicative notice to be given to be effective from 1st April 2013. Although a UNC modification is not required for this to be effective, this does require a licence direction from Ofgem for it to take place.
- 1.17 Standard Special Condition A4 (Charging – General) paragraph 2(a)(ii) of the Gas Transporter Licence states that National Grid shall use its reasonable endeavours:
- “not to make any changes to charges or reserve prices in relation to NTS exit capacity and NTS exit flow flexibility more frequently than once in each formula year and for such changes to take place on 1 October in each formula year or at such other time as the Authority may by notice in writing direct”
- 1.18 The only change for the one off April 2013 change would be to update the allowed revenue entered into the Transportation Model, used in the calculating of charges.
- 1.19 Therefore a UNC modification is not required as there would be no change to the methodology of calculating NTS Exit Capacity charges. Given that the timing of charge changes is mentioned in National Grid’s Transmission Licence, this will require Ofgem to provide a direction to implement a change in April 2013 to NTS Exit Capacity charges.
- 1.20 Ofgem published the Final Decision<sup>1</sup> on their Network Charging Volatility consultation on 17<sup>th</sup> October 2012. As part of this change for some network charges, they stated they “intend to amend licence requirements in order to limit network charge changes to once per year on 1 April.” However, in relation to Gas Transmission Charges they say they “do not intend to implement changes for gas transmission at this time” and that “for gas transmission we will reconsider licence requirements in light of industry developments in this area.” NTS GCD10 is part of the process to review the timing of changes to NTS Exit Capacity charges.
- 1.21 NTS GCD10 has given the industry the opportunity to formally provide their responses to the questions detailed with regards to a one off change in April 2013. The majority of respondents, seven out of the nine, expressed support for the use of a one off change in April 2013. Given the majority of respondents are in support of the change and in an effort to achieve longer term stability through Exit Capacity charges, National Grid is recommending that Ofgem allow a one off April 2013 change to NTS Exit Capacity charges.
- 1.22 Alongside the publication of this report National Grid is proposing to Ofgem that a one off April 2013 change to NTS Exit Capacity charges is permitted. This recommendation is based on the revenue scenarios utilised within NTS GCD10

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<sup>1</sup> [http://www.ofgem.gov.uk/Networks/Policy/Documents1/CV\\_Decision.pdf](http://www.ofgem.gov.uk/Networks/Policy/Documents1/CV_Decision.pdf)

where a one off change demonstrated considerable benefit in addressing volatility.

- 1.23 National Grid is currently assessing the impact on NTS Exit Capacity charges that would be effective from 1 April 2013 based on the RIIO-T1 final proposals. Once this work is complete a notice will be sent to Ofgem in early January 2013 seeking a direction from the Authority, under SSC A4 paragraph 2(a)(ii) of the Licence, to permit a one off April 2013 change to NTS Exit Capacity charges. The January 2013 notice will detail the April 2013 NTS Exit Capacity charges that we would propose to be effective based on the RIIO-T1 final proposals.
- 1.24 Ofgem will then make a decision on whether to allow National Grid to implement a change to NTS Exit Capacity charges for April 2013.
- 1.25 For information, irrespective of the decision on an April 2013 charge change, the NTS Exit Capacity charges to be effective from October 2013 will be published in May 2013.

#### **In relation to wider impact and potential future UNC consultations**

- 1.26 Discussions at NTS CMF have been held in relation to both the one off change in April 2013, and around a permanent move to April charge setting in place of October aligning the revenue year with the charging year. Through these discussions, it was clear that, even if a one off April 2013 change were to take place, some industry participants would welcome a permanent move to April charge setting.
- 1.27 Whilst not a direct question in NTS GCD10, of the nine respondents, six state that they would welcome the change to a permanent April change in place of October for NTS Exit Capacity charge setting. They commented that this would be a welcome change to mitigate volatility due to the existing disjoint of the current October charge setting and April allowed revenue changes over the longer term.
- 1.28 Of the three respondents that do not directly mention a permanent April change, two support the April one off change as a means of addressing volatility, at least in the short term, as they recognise the impact that revenue changes can have on the volatility of charges. Only one respondent makes no mention of any support for an April change.
- 1.29 National Grid intends to further engage with the industry to fully consider the impacts of a permanent move to April NTS Exit Capacity charge setting that could be in place for April 2014. National Grid expects to discuss this through the NTS CMF and UNC Workgroups at the earliest opportunity.

## 2 Introduction

- 2.1 NTS GCD10 was developed to provide additional detail on the impact of a one off change in April 2013 on NTS Exit Capacity charges.
- 2.2 Following National Grid's publication in May 2012 of indicative NTS Exit Capacity charges<sup>2</sup>, volatility of NTS Exit Capacity charges was brought forward as an issue of key concern for both National Grid and the industry. Following discussions at NTS CMF on the volatility seen in forecast indicative charges, NTS GCD10 was developed to see how potential volatility could be reduced by aligning the timing of changing allowed revenues with an April 2013 charge change.
- 2.3 The step change in allowed revenues seen in both National Grid's business plan numbers and Ofgem's Initial Proposals when utilised to calculate forecast indicative NTS Exit Capacity charges shows volatility in the NTS Exit Capacity charges would continue unless a change is made.

### Relationship of allowed revenue changes and charge changes

- 2.4 NTS Exit Capacity Charges are set to apply from October of year t to September of formula year t+1 in accordance with Standard Special Condition A4 2(a)(ii) of the Gas Transporter Licence in respect of the NTS (the "Licence").
- 2.5 NTS Transportation Owner Maximum Allowed Revenue (TO MAR) applies for April to March of formula year t as detailed in Special Condition C8B 3(a) of the Licence.
- 2.6 In any formula year t, NTS Exit Capacity Charges set in October take into account revenue recovered from April to September and are set at a level that aims to recover the remaining TO MAR in the final six months of the formula year. This is to align as closely as possible collected revenues and allowed revenues in any given formula year.
- 2.7 The TO MAR will subsequently change in April of the following formula year (t+1) but NTS Exit Capacity charges have already been set until September (t+1). The NTS Exit Capacity charges set in October (t+1) will take this into account to collect allowed revenues for year t+1. This effect is illustrated in Table 2.1:

Table 2.1 – Annual revenues for setting Exit Capacity Prices

NGG TO	2011/12	2012/13	2013/14	2014/15	2015/16
	£m	£m	£m	£m	£m
<b>Revenue to be collected via Exit charges</b>	<b>207.6</b>	<b>281.2</b>	<b>432.5</b>	<b>428.3</b>	<b>465.7</b>
Collection in first half of the year	97.4	110.2	171.0	261.5	166.9
Collection required in second half of the year	110.2	171.0	261.5	166.9	298.9
<b>Annual figure for charge setting</b>	<b>220.5</b>	<b>342.0</b>	<b>523.0</b>	<b>333.7</b>	<b>597.7</b>

<sup>2</sup> <http://www.nationalgrid.com/uk/Gas/Charges/indicativecharges/>

- 2.8 In October 2011 NTS Exit Capacity charges were set at a level to compensate for the initial under or over recovery in the first half of the formula year 2011/12. TO Exit Capacity Charge setting was based on a value of £220.5m.
- 2.9 In April 2012 the allowed revenue increases to £281.2m for the year April 2012 to March 2013. National Grid will recover £110.2m in the first six months of financial year 2012/13.
- 2.10 New annual Exit Capacity charges to be effective from October 2012 are set so that they aim to recover £281.2m in the financial year April 2012 – March 2013.
- 2.11 National Grid expects to recover £110.2m in the period April 2012 – September 2012. To reach £281.2m for the full year, charges are set such that £171m is recovered in this six month period (October 2012 to March 2013). This means TO Exit Capacity Charges are set based on a revenue value of £342m (£171m x 2) which means that £171m will also be recovered in the six months April 2013 to September 2013.
- 2.12 This pattern continues with a disjoint between the revenue to be collected via NTS Exit Capacity Charges and the value needed to be used to set annual Exit Capacity Charges.
- 2.13 In May 2012 National Grid NTS issued NTS Exit Capacity charges for the twelve months from October 2012 and indicative NTS Exit Capacity charges for the next three years based on the revenues submitted as part of National Grid's March RIIO-T1 submission. These indicative charges demonstrated a pattern of volatility caused by step changes in revenues and the method by which the revenues feed into NTS Exit Capacity charges.
- 2.14 This volatility is predicted to continue, however the extent of this will be dependent on the magnitude of the step change in allowed revenues.
- 2.15 By utilising two revenue scenarios NTS GCD10 discussed the potential for reducing volatility in NTS Exit Capacity Charges via a one off charge change in April 2013. Further detail on these revenue scenarios can be found in section 3.6 of this document.

#### **Additional information published after NTS GCD10**

- 2.16 On 13<sup>th</sup> November National Grid published, via the Joint Office of Gas Transporters, additional information<sup>3</sup> to provide further detail on indicative revenues that may be used for calculating NTS Exit Capacity charges over the whole RIIO-T1 period (extending the range previously published from 2015/16 to 2020/21).
- 2.17 This information was provided to industry parties to provide further details on the estimated revenues that may be used for NTS Exit Capacity charge setting over the full RIIO-T1 period and to show the relationship of these values to the allowed revenues over the same period.
- 2.18 The same two scenarios were used for the publication of this information as those used in NTS GCD10, National Grid's business plan values for RIIO-T1

<sup>3</sup> <http://www.nationalgrid.com/NR/rdonlyres/7C53EB6F-D7B4-4E44-BDDB-92A9EF14F12D/57549/RIIOT18yrExitRevenuesUpdate.xls>

and Ofgem's Initial Proposals. The only changes from those previously used in NTS GCD10 was to update the revenues to be based on the assumption that the collection of the DN Pensions deficit would be collected through the NTS Transportation charges, and an adjustment made for the inflation values.

- 2.19 This additional analysis shows the values for allowed revenues as they change over the course of the RIIO-T1 period, updating each April, and the associated values utilised for NTS Exit Capacity Charge setting, calculated annually in October..
- 2.20 What can be seen is that the volatility caused by any notable step change in revenues perpetuates the saw-tooth effect of having volatile charges from year to year, with fairly significant rises and falls of NTS Exit Capacity charges once a step change in revenues is seen. This would continue unless some stability was introduced via another mechanism, such as the use of an April one off change. Whilst a one off change would not remove volatility caused by future step changes for incremental revenue allowances, it would help mitigate volatility introduced as a result of the initial change in revenues at the introduction of RIIO-T1.
- 2.21 It should also be noted that, should allowed revenues for RIIO-T1 from the final proposals due out in December 2012 be close to current revenue levels, the associated volatility with changing charges would be lessened. Therefore the effectiveness of a one off change in stabilising charges would be reduced.

### 3 Background

#### NTS Exit Capacity Charges

- 3.1 NTS Exit Capacity charges have historically varied from year to year, sometimes quite significantly. This topic has been discussed with industry in the past but no changes have to date been deemed necessary. Through recent industry discussions at the NTS CMF the following two options were discussed in relation to reducing potential volatility:
1. A permanent move to April price changes instead of October; and
  2. A one off change in April then continuing to set annual charges from October in line with the charging methodology
- 3.2 A permanent move to April annual charge setting instead of October would require a UNC modification. In addition this would require a comprehensive review of any impacts on the industry or associated processes. This is potentially a longer term solution but cannot be affected in time for April 2013. If any attempt to reduce volatility was to be in place for April 2013 by accommodating any potential step change in allowed revenues from the commencement of RIIO-T1, then a one off change would be the only option. This then became the focus of NTS GCD10, allowing industry parties to formally respond to the option of using an April one off change.
- 3.3 Therefore a one off change has been favoured in industry discussions at NTSCMF; with April 2013 rather than April 2014 having had more support for potentially implementing such a solution. NTS GCD10 was produced to give industry parties an opportunity to formally provide their opinion on this option.
- 3.4 NTS GCD 10 looked to assess the impacts based on an option that could be in place for use for April 2013 which would allow the implementation of a change to NTS Exit Capacity charges to align with the commencement of the RIIO-T1 price control settlement period.
- 3.5 A significant proportion of respondents have requested that a permanent move to April charge setting for NTS Exit Capacity charges be considered further and, as such, this will be considered separately and will be subject to further industry engagement to discuss. Whilst consideration was given to a permanent move to an April charge setting regime, discussions at NTSCMF determined it would not be possible to complete the necessary UNC processes and to give time for full consideration of any wider process impacts by April 2013.

#### Revenue Scenarios used for comparisons and modelling

- 3.6 Within NTS GCD10 two revenue scenarios<sup>4</sup> were used to model NTS Exit Capacity charges and show the potential impact of an April 2013 one off change. These were:
- National Grid's March 2012 RIIO-T1 submission ("Existing" revenues); and
  - Ofgem's July 2012 RIIO-T1<sup>5</sup> initial proposals.

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<sup>4</sup> It is these two revenue scenarios that are used throughout this discussion document and that have been discussed at recent NTS CMF's in July and September 2012

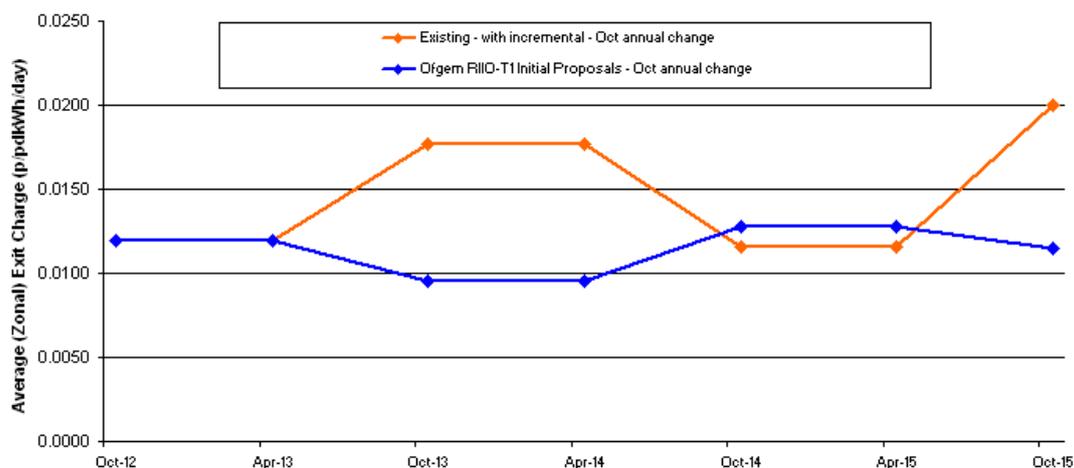
<sup>5</sup> The new price control settlement period that will run from April 2013 to March 2021

- 3.7 Comments were received acknowledging that it was likely that the RIIO-T1 final proposals would potentially be different to these two sets of values. Comments were also received stating that the full impact and the appropriateness of an April change would be dependent on the outcome of the final proposals for RIIO-T1. Some parties asked for another publication of the specific Exit Point charges following the RIIO-T1 final proposals to give them an opportunity to review the impact based on the actual RIIO-T1 allowed revenues. National Grid will be publishing the NTS Exit Capacity charges based on the RIIO-T1 final proposals in early January 2013 to show the impact a one off April 2013 change would have.

### Review of current arrangements for setting TO Exit (Flat) Capacity charges

- 3.8 In May 2012 National Grid published final NTS Exit Capacity charges for the twelve months from October 2012. Along with these final prices, indicative values for the following three years were also published. These values were based on National Grid's March 2012 RIIO-T1 submission. Values have also been calculated to show what the prices would be using the revenue values from Ofgem's RIIO-T1 initial proposals. A comparison of the charges from these two revenue scenarios and associated volatility over time is shown in chart 3.1 below:

Chart 3.1 – Comparison of average zonal charges between existing publication and Ofgem RIIO Initial Proposals



- 3.9 What can be seen is that depending on a revenue change taking place the volatility and fluctuating charges from year to year will continue as a result of the under and over recovery adjustment taking place in the October charges to ensure allowed revenues are recovered in each formula year.
- 3.10 Such volatility would continue until either the allowed revenue from one price control to another remained broadly consistent or until there is a correcting element such as a one-off change to act as a stabiliser.

### Impact of a one off April 2013 change

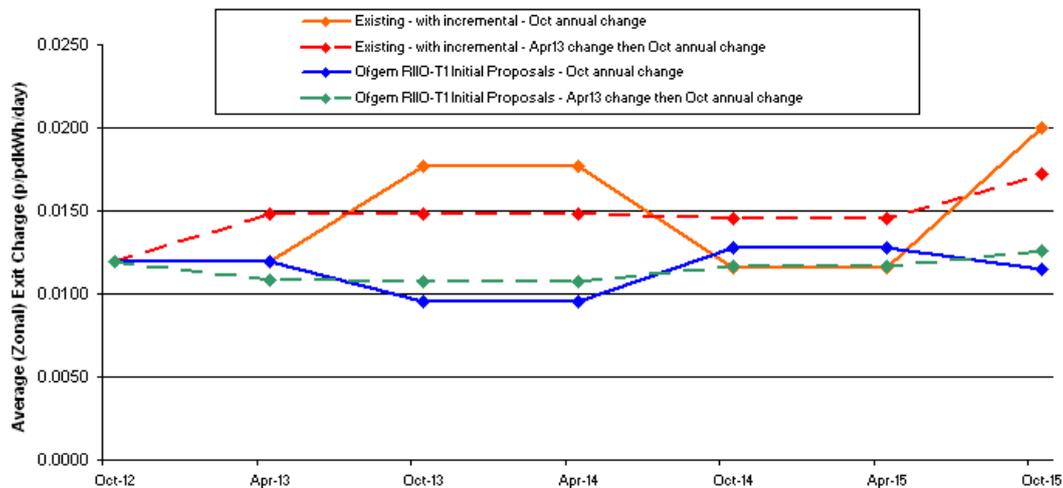
- 3.11 Where revenues do change (either increasing or decreasing) from one year to the next it will result in swings in NTS Exit Capacity Charges that fluctuate each

year as they are set to ensure that recovered revenues match the allowed revenues. To show the impact of having a one off change in April 2013 the revised charges have been calculated over the same period as was used in chart 3.1 to show the difference between:

- Setting annually for October; and
- Setting for April 2013 for six months only then continuing with October annual setting from October 2013 onwards

3.12 A comparison of the average zonal charges for the two revenue scenarios is shown in chart 3.2.

Chart 3.2 - Comparison of average zonal charges between Existing publication and Ofgem RIIO-T1 Initial Proposals with and without an April one off change



3.13 In comparing the impact of incorporating an April 2013 charge change Chart 3.2 shows that volatility is reduced, lessening the overall size of the changes seen in prices from year to year and reducing the volatility in the changes over time (i.e. a comparison of the dotted lines compared to the solid lines).

## 4 Discussion of Issues

### Volatility as an issue for Customers

- 4.1 Volatility in NTS Exit Capacity charges has been raised as a key issue by stakeholders through RIIO engagement, customer services and industry expert groups.
- 4.2 Subject to the outcome of RIIO-T1 final proposals, under the scenarios considered in Section 3.6, volatility is likely to remain within the NTS Exit Capacity Charges if no action is taken. If long term stability to these charges is considered of value to the industry then the option of an April 2013 one-off price change could be considered as a stabilising mechanism to the NTS Exit Capacity Charges.

### Main drivers of volatility

- 4.3 The greatest contributor to volatility in NTS Exit Capacity charges is the allowed revenue change and the method of its inclusion into setting charges and, as such, this was the main focus of NTS GCD10. However, aside from the misalignment of gas and formula year (i.e. the disjoint between charging/capacity year and formula year), the following also contribute to volatility in charges but were not considered within NTS GCD10 discussion paper:
- Supply / Demand flows – supply and demand changes in the Transportation Model
  - Expansion Constant – unit cost that is part of the transportation model based on the costs of constructing NTS capacity
  - Changes to the Network – used in the transportation model

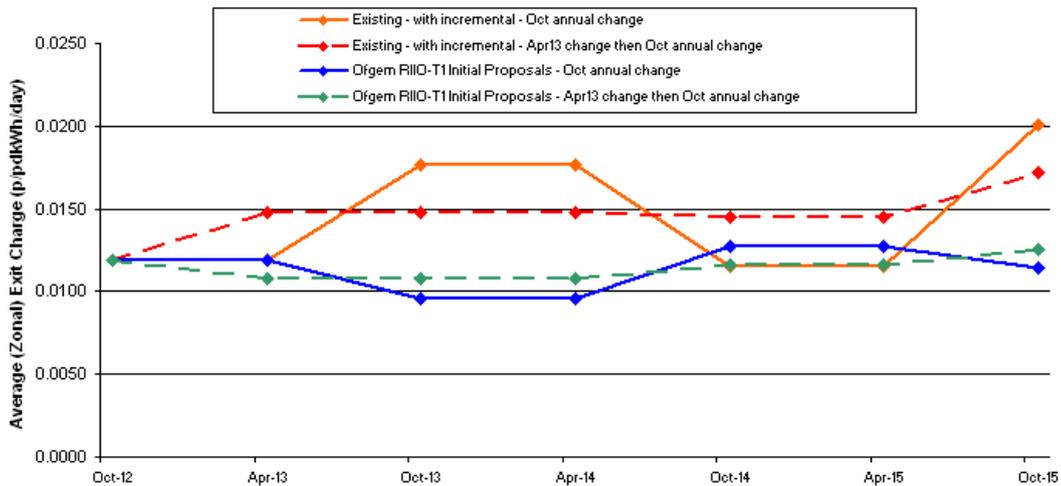
### Timing of changing charges

- 4.4 In arriving at the decision to publish NTS GCD10 on the use of an April 2013 price change alternative timings were considered to show the potential impact of an April one off change and provide a comparison based on setting charges at different times. The options considered were:
1. One-off change to set charges from 1<sup>st</sup> April 2013 for six months
  2. A permanent move to April annual charge setting in place of October
  3. No change - continue to set charges with effect from 1<sup>st</sup> October each year for 12 months duration.

#### Option 1

- 4.5 A one off change to NTS Exit Capacity Charges for six months from April 2013 would override prices already published for the period April 2013 to September 2013. Charge setting from then on would continue to follow the UNC, setting annual prices in October. This option would not require a UNC modification. A direction would be required from Ofgem to implement this option.
- 4.6 The impact of accommodating a one off change is shown in Chart 4.1 that displays the charges for the two revenue scenarios detailed in Section 3.4.

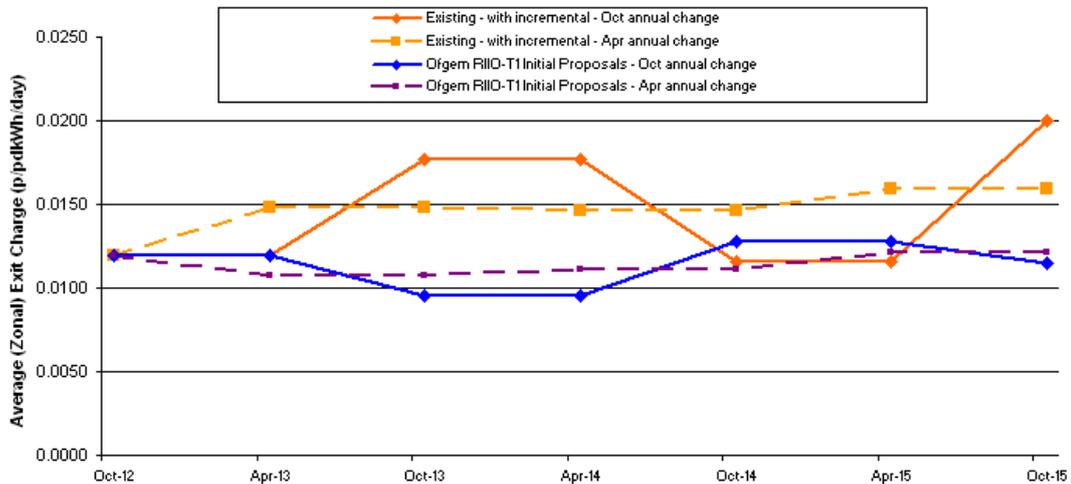
Chart 4.1 – Comparison of average zonal charges between Existing publication and Ofgem RIIO Initial Proposals with and without an April one off change



Option 2

4.7 A move to April annual charge setting would require a UNC modification and further consideration on any additional industry processes or obligations that may be impacted. Chart 4.2 shows a comparison of October prices, again using the two revenue scenarios of existing march 2012 RIIO submission and that of Ofgem Initial proposals, and that of setting annually in April.

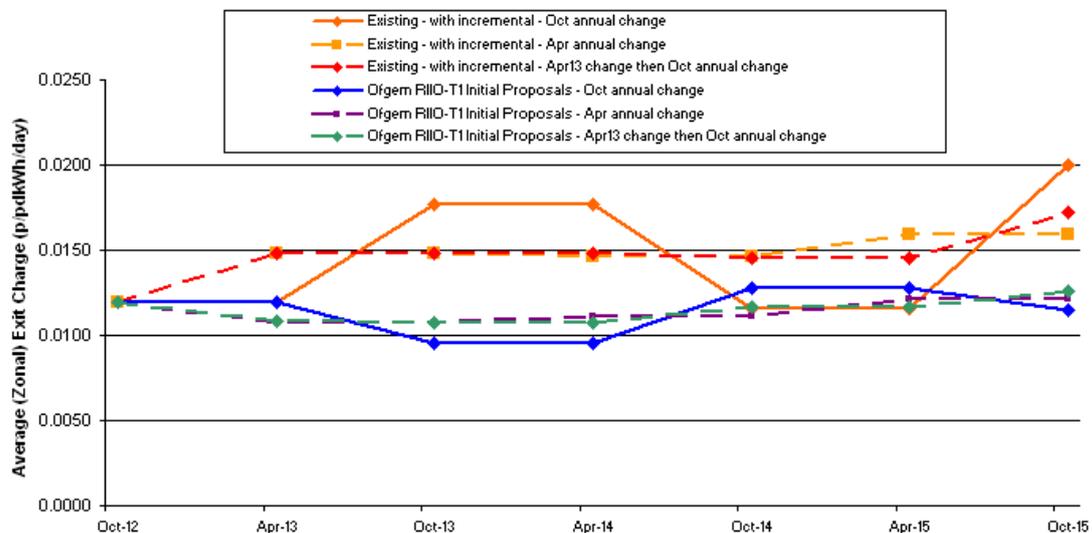
Chart 4.2 - Comparison of average zonal charges between Existing publication and Ofgem RIIO Initial Proposals of October and April annual price setting



## Option 3

- 4.8 This would leave the arrangements as they are and any volatility would remain in the NTS Exit Capacity charges where step changes are seen in TO MAR.
- 4.9 Following discussions at NTS CMF it was decided to take forward the option of using an April price change as a one off exercise for discussion as, over the permanent April annual change; it has a number of benefits in that no UNC modification would be required and that it offers almost the same level of volatility reduction as the permanent April price change would offer. Chart 4.3 shows Options 1, 2 and 3 together in that, for both revenue scenarios it shows the impact of an April one off change and the April permanent move and the original October annual prices for comparison.

Chart 4.3 - Comparison of average zonal charges between Existing publication and Ofgem RIIO Initial Proposals of October and April annual price setting and the use of an April one off change



- 4.10 The level of volatility reduction beyond that of an April 2013 one off price change is minimal and therefore an option for development and discussion at this time is a April 2013 one off change. This would not preclude further consideration in the future for a permanent move to April NTS Exit Capacity charge setting.

### Licence and the UNC

- 4.11 A one-off change applied for NTS Exit Capacity prices would not require a UNC modification but would require a direction from Ofgem to take place. Standard Special Condition A4 (Charging – General) paragraph 2(a)(ii) states that National Grid shall use its reasonable endeavours:

“not to make any changes to charges or reserve prices in relation to NTS exit capacity and NTS exit flow flexibility more frequently than once in each formula year and for such changes to take place on 1 October in each formula year or at such other time as the Authority may by notice in writing direct”

### **The Transportation Model**

- 4.12 The Transportation Model will not be affected by the one off April 2013 change discussed within NTS GCD10 as only the revenue input would be revised.

### **Revenue (TO MAR) changes**

- 4.13 Should the final RIIO-T1 revenues be close to the current revenue levels used for charge setting in 2012/13 there would be less volatility and therefore a one-off change would have a minimal impact in addressing volatile charges.
- 4.14 Some respondents gave support for a one off change irrespective of the outcome of the revenue levels from RIIO-T1. These respondents welcomed any steps toward achieving longer term stability within NTS Exit Capacity charges.
- 4.15 Some respondents considered that a one off change would not have a significantly material effect on charges should revenue levels for RIIO-T1 be similar to current values.
- 4.16 One respondent commented on the individual NTS Exit Point charges having a greater volatility than the average values shown in NTS GCD10 and when looking at specific NTS Exit Points these can vary significantly from year to year. With swings in revenue levels used for NTS Exit Capacity charge setting, where the revenue levels have large increases or decreases from year to year this can result in changes in individual NTS Exit Point capacity charges. For example at individual NTS Exit Points, charges can move from minimal price (0.0001 p/pkdkWh/day) to a price that represents a large percentage swing.
- 4.17 This volatility will continue if no changes are made to the contributory components of the charges. Whilst allowed revenue changes are the most significant contributory element to the volatility of charges, given the misalignment of revenue years and charging years, other components such as demand and supply levels may also need to be looked at in the future should volatility continue.

### **Ofgem Volatility Consultation**

- 4.18 In April 2012 Ofgem released a consultation on network charging volatility entitled "Mitigating network charging volatility arising from the price control settlement". This consultation<sup>6</sup> covers volatility in Gas and Electricity Transmission and Distribution Charges.
- 4.19 On 17 October 2012 Ofgem published a decision document<sup>7</sup> in relation to measures to mitigate network charging volatility arising from the price control settlement.
- 4.20 In their decision document, in relation to Gas Transmission charges, Ofgem do not consider that it is appropriate to mandate a change restricting changes to

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<sup>6</sup> <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=368&refer=NETWORKS/POLICY>

<sup>7</sup> [http://www.ofgem.gov.uk/Networks/Policy/Documents1/CV\\_Decision.pdf](http://www.ofgem.gov.uk/Networks/Policy/Documents1/CV_Decision.pdf)

charges once per year starting from April 2013 at this time but will reconsider any restriction on intra-year charges once the industry has resolved the issue of aligning the gas and regulatory years.

- 4.21 NTS GCD10 is part of the process of reviewing the timing of setting NTS Exit Capacity charges.

### NTS Exit Commodity Charge

- 4.22 Following comments received on the scope of the draft discussion document a additional section was added to show the impact a one off April 2013 change would have on the calculation of the NTS TO Exit Commodity Charge.
- 4.23 NTS Exit Capacity charges are calculated using the Transportation model so as to recover the target TO exit revenue from baseline capacity sales. Any forecast revenue shortfall, as a result of unsold baseline capacity will be recovered through the NTS TO Exit Commodity Charge. The NTS TO Exit Commodity charge is a single unit charge that will be applied to all exit volumes. The TO Exit Commodity rate is therefore the amount to be recovered divided by forecast exit throughput levels.
- 4.24 When updating the forecast NTS Exit Commodity Charge National Grid NTS looks at the twelve month period of April to March. The NTS Exit Commodity charge will be set at a rate that would aim to recover the allowed revenue over the twelve month period. This process aims to ensure that any change in the NTS Exit Commodity rate required in October will be minimised with the main influence within year being changes to forecast throughput levels.
- 4.25 Resetting NTS Exit Capacity charges in April 2013 does not impact the NTS Exit Commodity charge as the overall amount to be recovered through Exit Commodity charges remains the same. The volatility therefore remains solely with the NTS Exit Capacity charges as can be seen in Table 4.1.

**Table 4.1 - Setting NTS Exit Capacity Charges in October and impact on TO Exit Commodity charge**

2013/14 Charges and Revenues <sup>#</sup> (£m)	Apr 13 to Sep 13	Oct 13 to Mar 14	Apr 13 to Mar 14
<b>Total TO Exit Target Revenue</b>			307
<b>Using baselines, calculated prices at Oct 12 and Oct 13, respectively</b>	172	136	307
<b>Expected revenue from Booked Capacity (excl incremental)</b>	128	99	227
<b>Shortfall (to be recovered from TO Exit Commodity)</b>			81

2013/14 TO Exit Commodity Charge <sup>#</sup>	Apr to Mar
<b>Exit Charging Base (GWh)</b>	737,209
<b>TO Exit Commodity (p/kWh) Same price all year</b>	<b>0.0110</b>

**Table 4.2 - Setting NTS Exit Capacity Charges in April 2013 and subsequently in October 2013 and impact on TO Exit Commodity charge**

2013/14 Charges and Revenues <sup>#</sup> (£m)	Apr to Sep	Oct to Mar	Apr to Mar
<b>Total TO Exit Target Revenue</b>			307
<b>Using baselines, calculated prices at Oct 12 and Oct 13, respectively</b>	153	153	307
<b>Expected revenue from Booked Capacity (excl incremental)</b>	112	112	225
<b>Shortfall (to be recovered from TO Exit Commodity)</b>			81

2013/14 TO Exit Commodity Charge <sup>#</sup>	Apr to Mar
<b>Exit Charging Base (GWh)</b>	737,209
<b>TO Exit Commodity (p/kWh) Same price all year</b>	<b>0.0110</b>

<sup>#</sup>The values used in Tables 4.1 and 4.2 are for illustrative purposes only and should not be used as the indicative charges National Grid are due to publish in November 2012 for April 2013. Final charges will depend on the outcome of the RIIO-T1 price control settlement.

4.26 NTS GCD10 showed that any volatility in the TO Exit Commodity charge, following a one off change for NTS Exit Capacity charges, would only be as a result of:

- Changes in allowed revenues
- Differences in forecast and actual throughput levels

### Summary of Discussion within NTS GCD10

4.27 Of the two options considered, NTS GCD10 showed that both an April one off change and a permanent move to April charge setting would significantly reduce the volatility within NTS Exit Capacity charges with a permanent move reducing volatility slightly more than a one off change. With a one off change, a reduced level of volatility would remain and be dependent on future allowed revenue changes.

4.28 Timescales for changes and appropriate notice periods has been cited as a concern. The 150 days notice period for indicating a change to NTS Exit Capacity charges for 1 April 2013 has passed. However, whilst NTS GCD10 has been discussed with industry, any change effective from 1 April 2013 would still be subject to at least two months notice ahead of the effective date ahead of any change, should a direction be given.

4.29 Through the publication of indicative charges based on different revenue scenarios, NTS GCD 10 helped show some potential ranges of charges to customers to assist in planning their own assumptions.

4.30 Final charges, should an April one off change be implemented, would still remain dependent on the outcome of RIIO-T1. The charges based on the outcome of RIIO-T1 final proposals will be published in early January following the publication of the final proposals.

4.31 Customers will look to factor into their own charges the forecast changes in NTS Exit Capacity charges and some respondents to NTS GCD10 comment that they may not be able to react or quickly include the changes should they be done in April 2013. For charges to be effective from April 2013 this will

require notice of final charges to be given on or before 1<sup>st</sup> February 2013  
(Providing two months notice of final charges is a requirement of the UNC).

- 4.32 Consideration should be given to publishing an additional set of charges once the RIIO-T1 allowed revenues are known, specifically if revenues are different to Ofgem's Initial Proposals.
- 4.33 The balance between predictable stability and predictable volatility needs to be addressed. Most respondents welcomed attempts to provide stable charges over the longer term but accepted that notice periods should be as long as possible to accommodate the predicted changes into their own charging mechanisms. This would then help address any concerns regarding changes that may cause issues or financial / financing concerns.

## 5 Summary of Responses

- 5.1 National Grid NTS received 9 responses to the discussion document NTS GCD10; 7 respondents expressed support, 2 were not in support of the use of an April 2013 one off charge change to NTS Exit Capacity charges. To enable better consideration of the issue, one of the two respondents not in support expressed an interest in seeing the charges based upon the RIIO-T1 Final Proposals and the impact on charges.
- 5.2 Copies of the responses have been posted on the National Grid website at the location  
<http://www.nationalgrid.com/uk/Gas/Charges/consultations/Current+Discussion+Papers/>
- 5.3 A summary of the responses can be seen in Table 5.1 below. The table details the general position of supportive or against the use of an April 2013 one off change.

Table 5.1 Support or otherwise for the use of an April 2013 one off change to NTS Exit Capacity charges

Respondent		View	Note / Additional Comments
INT	Intergen UK	Support	Would be a welcome change
CSL	Centrica Storage Limited	Support	Would encourage NG continue to investigate potential for move to a permanent April change and wider review of the calculation of charges within the methodology.
NGN	Northern Gas Networks Limited	Support	Feel this is a short term solution. Believe a permanent change to setting charges in April each year is required with sufficient notice provided to allow changes to be reflected in the DN Exit Capacity charges.
SSE	Scottish and Southern Energy plc	Support	Will help reduce volatility. If April change not implemented and charges are as volatile as forecast they will impact negatively on budget forecasts and may impact on when to give incremental capacity user commitment signals.
NGD	National Grid Gas Distribution	Support	Should also be used as an opportunity for industry to assess and see options presented by an ongoing April change. A transition to an enduring arrangement should be considered as soon as reasonably practicable.
EON	E.ON UK Plc	Against	Inappropriate to implement with short timescales. Do not believe that sufficient opportunity exists for shippers

			to pass through costs to consumers as a result of the one off April 2013 change.
BGT	British Gas Trading Limited (Centrica Energy)	Against	We request a further opportunity to consider a one-off change in April 2013, once Ofgem's final decision on allowed revenues is known, via a quick follow-up consultation in January. Support an enduring change such that charges are set in April from April 2014.
RWE	RWE Group (covering RWE Npower plc and RWE Supply and Trading GmbH)	Support	Preference would be to see the impact the final allowed revenue has on the individual NTS Exit Capacity charges before making a decision.
WWU	Wales & West Utilities Limited	Support	WWU support a 'one off' April 2013 charge change, if the Allowed Revenue for NG RIIO-T1 NTS increased significantly from Apr 13 (this being the scenario set out by NG NTS in its RIIO Business Plan Submission).

## Detailed responses by discussion question

### Q1. Do you support the use of a one-off April charge change effective from April 2013?

INT – “InterGen is supportive of this change”

CSL – “CSL supports the one-off April charge change effective being effective from April 2013.... Given the potential impact of exit capacity charges on the economics of storage facilities, CSL welcomes any proposal that helps reduce such costs. Given this, CSL is supportive of NGG’s proposal to have an initial one-off change to exit capacity charges in April 2013 in order to facilitate the smoothing of exit capacity charges going forward.”

However, CSL also notes that it has experienced significant volatility associated with exit capacity charges at its Caythorpe site which were unrelated to the RIIO-T1 proposals, and notes that even under the allowed revenues provided for in Ofgem’s initial proposal that the exit capacity charges would be in the order of ten to 25 times higher than those that were envisaged when CSL made its initial user commitment in 2009, “This magnitude of change creates significant challenges for determining the profitability and therefore viability of such investments.”

SSE – “Based on the data provided in the Discussion Document SSE is supportive of a one off change to NTS TO Exit capacity Charges for April 2013, this will help reduce volatility of charges.”

NGN – “National Grid Gas distribution is supportive of a one-off change to NTS (TO) Exit (Flat) Capacity charges effective from April 2013. Whilst Ofgem’s proposed changes to the Gas Distribution licence conditions for the RIIO GD1 control will mean that GDNs will not be immediately impacted by any step-change in these charges as NTS moves to the new RIIO T1 control, as the pass-through of such costs by GDNs will be lagged by two years, we are nevertheless of the view that an April 2013 change would be beneficial, for two reasons:

a) an initial change in April 2013 would be likely to reduce the level of underlying volatility in these charges that can be attributed to timing issues; and

b) we believe that an April 2013 change would also be a useful way of surfacing the issues that would need to be addressed in order to move to an ongoing April price change for these charges; which we believe may be ultimately beneficial to gas transporters and customers as it would eliminate the periodicity conflict that presently serves to generate the significant year-to-year volatility in these charges.”

EON – “E.ON UK does not support these proposals and believes it would inappropriate to implement them with such short notice. We do not believe that sufficient opportunity will exist for Shippers to pass through costs to customers as a direct result of a proposed “one-off” April 2013 Exit capacity price change.”

BGT – “We do not support a one-off change to charges next April since it is not possible to assess the business impact of such a change.” “We support the principle of reducing charge volatility. However, we believe that an enduring solution is

required and that this should be pursued as soon as possible by seeking to set charges from April and not October (as is currently the case). This would also align well with the timing for the setting of charges by Distribution Network Owners, RIIO price controls and possibly the introduction of a new electricity charging regime. We do not support a one-off change next April since it is impossible to assess the impact on different parts of our business. However, we urge National Grid to swiftly follow up this discussion document with a further discussion/ consultation when they are in a position to calculate actual charges derived from Ofgem's final decision on allowed revenues. This would allow for a proper assessment of business impact."

RWE – "National Grid Gas (NGG) has shown that moving to the new RIIO price control framework from April 2013 may introduce significant year on year price volatility into future NTS Exit Capacity Charges, particularly where Allowed Revenues under RIIO-T1 represent a step change from current levels. NGG's analysis indicates that a key driver of volatility is created by the misalignment of the Formula Year and Charging Year, although there are number of contributory elements. We support the proposed one-off change to NTS Exit Capacity charges in April 2013, with charges set again in October 2013. This approach should mitigate some of the observed volatility and can be implemented relatively quickly."

WWU – "WWU support a 'one off' April 2013 charge change, if the Allowed Revenue for NG RIIO-T1 NTS increased significantly from Apr 13 (this being the scenario set out by NG NTS in its RIIO Business Plan Submission."

### **NGG Summary**

- 5.4 Of the nine respondents, seven are in favour of the change to April. Of the two that are against one has asked for another opportunity to review the impact based on the outcome of final proposals when these are known. Implementation timescales have been recognised as an issue for some parties with the desire for as much notice as possible. However, despite this, the majority of respondents are in favour of a one off April 2013 change.
- 5.5 One respondent does not believe sufficient opportunity will exist for Shippers to pass through costs to customers as a direct result of a one off April 2013 change.
- 5.6 Some key items for consideration that have been raised are that volatility is an issue that needs to be addressed. Most have concluded that a one off change is a short term solution and that industry debate to manage the volatility of NTS Exit Capacity charges should continue, with particular emphasis on the development and progression of a consultation on a permanent move to April annual charge setting.
- 5.7 Many cite the dependency on RIIO-T1 in their responses. Whilst there is majority support for the use of a one off April 2013 change, the actual charges that would be effective from 1 April 2013 would be dependent on the outcome of RIIO-T1. This will determine the impact of a one off April 2013 change on charge volatility. Should revenues be similar to current values for 12/13 then the impact of an April price change would be reduced and may not have much benefit.

- 5.8 Several respondents note that this is a change that gives the opportunity to reflect on and assess the impact of an April charge change and that, should this be affected then it will provide valuable information that could feed into the wider debate of potential benefits of a permanent move to April charge setting.

**Q2. Do you agree that a one-off April 2013 charge change should only be used if the outcome of the RIIO-T1 price control presents a significant step change in allowed revenues?**

INT – “No, InterGen believes that any change that reduces the inherent volatility of exit capacity charging will be in the best interests of industry, in particular independent generators for whom charging volatility presents the most serious issues.”

CSL – “CSL notes that even under Ofgem’s initial proposals for RIIO-T1 that a number of sites may benefit from the one-off change. Given this, CSL would not oppose a one-off change irrespective of the RIIO-T1 outcome.”

NGN – “The figures provided in Appendix A of the consultation highlights a significant variation in indicative offtake charges between those based on the NTS RIIO-T1 submission and the Ofgem Initial Proposals. For example, indicative charges at NGN’s Coldstream offtake change from 0.0029p/kWh/d to 0.0001p/kWh/d. NGN is concerned the differences between the two sets of figures is not proportional across the offtakes, and therefore believes a April 2013 price change would be required unless there is no material difference between the charges at all offtakes.”

SSE – “The level of annual charging volatility as a result of NGG’s RIIO submission is significant; with £100m/yr variances, equivalent to circa 25 % of allowed revenue, swinging from under to over recovery year on year. Ofgem’s RIIO Initial Proposals do not result in the same magnitude of volatility but the one-off change would still help to reduce the level of volatility of charges.”

NGD – “National Grid Gas distribution considers that, as an initial change in April 2013 would be likely to reduce the level of volatility in these charges attributable to timing issues; such a change is equally valid whether or not the outcome of the RIIO-T1 price control presents an immediate significant step change in allowed revenues. However, we would also reiterate our view that an enduring move to an April price change for these charges may be ultimately beneficial to gas transporters and customers, for the reason stated above.”

EON – “E.ON UK does not support these proposals and believes it would inappropriate to implement them with such short notice.”

BGT – “It rather depends on what is meant by “significant step change”. Notwithstanding this, we believe that Users require access to actual charges to assess the implications of any change to charges next April. Without the provision of this information, a one-off change should not be permitted.”

RWE – “The Discussion Document sets out two revenue scenarios that, we assume, show a range within which the final RIIO-T1 outcome will lie. Without a definition of what a “significant step change” is, our preference would be to see the impact that the final allowed revenue has on the individual NTS Exit Capacity charges before making a decision. Given the saw tooth effect of future NTS Exit Capacity charges that NGG has demonstrated, it may be worth making a one-off change even where there is only a modest impact.”

WWU – “If the Allowed Revenue given to NG NTS is closely aligned to Ofgem’s Initial Proposals then the change to Exit Capacity prices would be minimal and no one-off charge change in April 13 would be necessary.”

### **NGG Summary**

- 5.9 In relation to the question of whether to have an April NTS Exit Capacity charge change irrespective of the outcome of RIIO-T1, four respondents express support for using the one off April 2013 change even if RIIO-T1 represents only a minor change in revenues. Several respondents cite the dependency on the outcome of RIIO-T1 and the desire to see the final NTS Exit Capacity charges based on RIIO-T1 before making a final decision on the use of a one off April 2013 change. One respondent, not supportive of the change, states it would be inappropriate to implement with such short notice. One respondent, not in support, does not believe a change should be permitted until the actual NTS Exit Capacity charges that would apply from 1 April 2013 are known to allow better assessment of any implications.
- 5.10 Some respondents commented that should the RIIO-T1 allowed revenues be close to current levels then the benefit of a one off change is lessened and may not be required. Whilst NTS GCD10 provided some revenue scenarios they may not be wholly reflective of final values for RIIO-T1. Some parties would welcome an additional opportunity to see final charges once the outcome of RIIO-T1 is known as this will enable them to make a more informed decision on the impact it would have on their business and commercial arrangements.
- 5.11 One respondent has expressed support for a one off change if the RIIO-T1 revenues represent an increase from current levels, closer aligned to National Grid’s RIIO-T1 March 2012 Business Plan and stating that should the revenues be more closely aligned to Ofgem’s Initial Proposals then a one off April 2013 change may not have as much of an impact in reducing volatility.
- 5.12 Clear benefits can be seen in addressing volatility in implementing a one off April 2013 change in the two revenue scenarios in NTS GCD10. The main benefit of implementing a change, irrespective of the outcome of RIIO-T1, would be to introduce some stability at the earliest opportunity, albeit with a reduced effect, where revenue levels at the commencement of RIIO-T1 are closer to current levels.
- 5.13 The NTS Exit Capacity charges, based on the RIIO-T1 final proposals, will be available early in January 2013 to show the impact of a one off April 2013 change would have using these values.

**Q3. Would a one-off April change have an adverse impact on any of your business processes?**

INT – “No, it would be a welcome development.”

CSL – “The one-off April change would not have an adverse impact on any of CSL’s business processes.”

NGN – “To the contrary, an April price change would have a positive effect on our business processes, through improved forecasting and more accurate charges levied onto shippers.”

SSE – “A one off April change to charges will not have a material impact on business processes. But if the April change is not implemented and charges are as volatile as forecast they will impact negatively on subsequent year budget forecasts and may impact on when to give incremental capacity user commitment signals.”

NGD – “National Grid Gas distribution would not be adversely impacted by a one-off April change to these charges.”

EON – “this price change, if it were known about pre-October 2012 may have influenced Shipper’s decisions on whether individual off-takes should go firm or rely on the off-peak capacity product. Therefore, this proposal has the potential to undermine previously made commercial decisions.”

BGT – “Yes, it might have an adverse effect on financial planning and forecasting both in the short term and over the medium to longer term. As stated above, we cannot assess this without the provision of actual, or more meaningful, charging data, reflecting Ofgem’s final decision on allowed revenues.”

RWE – “No”

WWU – “No adverse impact foreseen.”

**NGG Summary**

5.14 In relation to impacts on business processes, the majority of respondents do not foresee any negative impacts with some commenting that it will improve processes such as budget forecasting. There are also comments that without knowing the final numbers for RIIO-T1 and the charges that would be based upon them, then the full impact cannot be meaningfully assessed.

5.15 One respondent has commented that this change, should it be implemented may undermine previously made commercial decisions given that the notice period is short and post October 2012, when current charges became effective.

**Q4. Are there any other items in relation to the use of a one-off change that you believe to be relevant that should be taken into account or warrant further consideration?**

INT – “No”

CSL – “CSL would encourage NGG to continue to investigate the potential for a permanent shift to April for setting exit capacity charges.”

NGN – “The notice period of price changes provided by the NTS should be addressed as part of this consultation. Currently the Licence and UNC notice requirements are the same for both DNs and the NTS, with indicative prices are required to be provided 150 days prior to price setting with actual charges provided two months prior to price setting. Any move to an April price change would require the NTS to provide additional notice to DNs to prevent the situation where the DNs would be required to set Exit Capacity charges to shippers on the same day we receive the charges from NTS.”

NGD – “Whilst National Grid Gas distribution is supportive of a one-off change to NTS (TO) Exit (Flat) Capacity charges effective from April 2013, we are also strongly of the view that the most significant contributor to year-to-year charging volatility in this area is the existing periodicity conflict between the NTS charging year and the Formula Year. The resulting unfavourable interaction with underlying variations in the profile of TO MAR is predisposed to produce a very jagged year-to-year profile of NTS Exit charges.

From a GDN perspective, this volatility has the effect of obscuring any meaningful price signals necessary to optimise the longer-term booking of NTS Exit capacity, which is primarily made 3 years ahead, utilising the forward indicative charges available at that point. If these indicative charges vary greatly from year to year - as NGG Transmission’s estimates of future gas year target revenues suggest they would on the current timing basis - then this clearly undermines their value for determining economic and efficient decisions by GDNs.

For the reasons stated, National Grid Gas distribution thus believes that an April 2013 change to NTS (TO) Exit (Flat) Capacity charges should also be used as an opportunity for the industry to assess, and begin to seek options to address, any issues that would be presented by an ongoing April price change for these charges, and that a transition to an enduring arrangement should be considered as soon as reasonably practicable.”

EON – “We would also question whether a price change in April gives NGG sufficient time to understand the previous winter consumption and give Shippers the required notice of a change to prices. For instance, would a particularly cold February / March be included? It is our understanding that one of the reasons for setting Exit prices in October was that it allowed the prior winter to be taken into account. If they do not, this could lead to more volatility than anticipated in the October prices.”

BGT – “We believe National Grid should also consider how the proposed one-off change may impact on the plans for how Distribution Network Owners (DNOs) will recover NTS exit capacity costs from their Users. Ideally, there should be close alignment between National Grid Gas (NTS) and the DNOs such that the DNOs can utilise timely and accurate exit capacity charge data and not be required to make their own forecasts of future charges should there be a misalignment between charge setting periods. It may be that such a consideration is more important should a

permanent change be introduced at a later date but the issue needs to be captured and acknowledged in future papers or discussion on this subject.”

RWE – “We would like to understand whether there will be any impact from using earlier supply and demand data in calculating charges, as the charge setting timetable is effectively brought forward 6 months from October to April. The issue of data needs also to be considered in the context of any permanent move to April charge setting.”

WWU – “There are no other items that we can think of.” “We would support a move to a permanent April charge change, possibly from April 2014. This would ensure that, going forward, if there were step changes between Allowed Revenues in any of the years under RIIO then it would not lead to the ‘see saw’ effect on charges that we have experienced with October price changes over the last 5 years.”

### **NGG Summary**

- 5.16 For additional areas many respondents comment on the desire to review permanent April charge setting at the earliest opportunity and that an April one off change is only a short term measure in addressing volatility of NTS Exit Capacity charges.
- 5.17 One respondent commented on the issue of data used in the calculation of NTS Exit Capacity charges when being changed from October to April. Data will be used as per the UNC in the calculation of charges, with only the allowed revenue being updated within the Transportation model for a one off April 2013 change. Further consideration will be given to the data used in the calculation of charges in any discussions on a permanent move to April charge setting.
- 5.18 Comments have been made on notice periods of changes. Industry parties welcome as much notice as possible so potential changes can be accommodated within their own commercial and charging frameworks. In accordance with UNC obligations of providing notice of charge changes, a minimum of two months notice is required to be provided.
- 5.19 One respondent queried whether a price change in April gives NGG sufficient time to understand the previous winter’s consumption whilst providing the required notice of a change to prices.
- 5.20 National Grid believes that a one off April 2013 NTS Exit Capacity charge change, if it was to update supply / demand assumptions would require a UNC modification. To update the model based on revenues only and use the same Transportation model as for October 2012 charges does not require a UNC modification. Therefore this method is being used so that a change could be in place for April 2013, to align with the commencement of RIIO-T1. Further consideration will be given to the data used in the calculation of charges in any discussions on a permanent move to April charge setting.
- 5.21 Long term stability is another area that parties have commented on with most welcoming any efforts to look at long term stability and addressing the “see-saw” effect on charges that are seen in forecast charges when there are any step changes in allowed revenues. A one off April 2013 change could be used to assess, understand and feed into the potential for future permanent move to April charge setting whilst in the short term addressing some volatility in the short term should allowed revenues be different to current levels.

## 6 Way Forward

- 6.1 NTS GCD10 was issued to formally consult with industry since a UNC modification is not required for a one off change to NTS Exit Capacity charges. National Grid considers that, on the basis of the responses received, with a majority supporting a one off April 2013 change, a one off change should be implemented effective 1 April 2013.
- 6.2 National Grid will need to seek a direction from the Authority, under SSC A4 paragraph 2(a)(ii) of the Licence, to permit a one off April 2013 change to NTS Exit Capacity charges.
- 6.3 This proposal is based on the revenue scenarios utilised within NTS GCD 10 where a one off change demonstrated considerable benefit in addressing volatility in short to medium term. This report and proposal is to provide Ofgem and industry stakeholders with as much notice as possible of the potential change.
- 6.4 Whilst National Grid is recommending this be implemented, we recognise that the outcome of RIIO-T1 final proposals on NTS Exit Capacity charges is currently unknown and that Ofgem and the industry will be keen to see the impact that a one off April 2013 change would have on NTS Exit Capacity charges based on the RIIO-T1 final proposals
- 6.5 National Grid is currently assessing the impact on NTS Exit Capacity charges that would be effective from 1 April 2013 based on the RIIO-T1 final proposals. Once this work is complete a notice will be sent to Ofgem in early January 2013 seeking a direction from the Authority, under SSC A4 paragraph 2(a)(ii) of the Licence, to permit a one off April 2013 change to NTS Exit Capacity charges. The January 2013 notice will detail the April 2013 NTS Exit Capacity charges that we would propose to be effective based on the RIIO-T1 final proposals.
- 6.6 Ofgem will then make a decision on whether to allow National Grid to implement a change to NTS Exit Capacity charges for April 2013 based on the charges submitted as part of the direction request.
- 6.7 If there is any additional information required or any further industry engagement requested by Ofgem to facilitate making a decision on the use of an April one off change these will be addressed as required.
- 6.8 Whilst the notice period provided for this change would be short, industry stakeholders have been aware of this potential change and scenarios have been provided to give an indication of the potential NTS Exit Capacity charges should a one off April 2013 change be implemented. A minimum of two months notice will be given for any change to the NTS Exit Capacity charges in accordance with the UNC.
- 6.9 As charging volatility is a key issue for stakeholders, a one off April 2013 change will look to introduce predictable stability in the longer term to NTS Exit Capacity charges and to reflect more closely the allowed revenues to those used for setting charges.
- 6.10 In relation to a permanent April charge change, National Grid will look to engage with industry stakeholders in due course to discuss the impact of a

permanent April charge change in place of October, thereby potentially aligning the NTS Exit Capacity charge setting and allowed revenue changes. This will also give an opportunity to take into account any industry process that may be impacted by such a change.

## **7 Justification for a one off April 2013 change to NTS Exit Capacity charges**

### **Assessment against licence objectives**

- 7.1 The National Grid plc Gas Transporter Licence in respect of the NTS requires that proposed changes to the Charging Methodology shall achieve the relevant methodology objectives. Whilst the option considered here does not require a change to the Charging Methodology, consideration against National Grid's objectives under the licence may still be deemed appropriate.
- 7.2 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.
- 7.3 National Grid believes that a one off April 2013 change to NTS Exit Capacity charges would achieve the relevant objectives. As the option of having a one-off change in April 2013 does not require a change to the Charging Methodology the process by which Exit Capacity charges are calculated will continue to reflect the costs incurred by the licensee in its transportation business.
- 7.4 A one off change in April 2013 will act as a stabiliser to charges and the process would then continue as per the current process and continue to be set annually with effect from October 2013. This will begin to introduce longer term charging stability and provide more useful long term information benefitting both existing and new entrants.
- 7.5 A one-off change to help stabilise charge fluctuations from year to year facilitates effective competition between gas shippers and suppliers as more stable NTS Exit Capacity Charges without undue volatility could help to reduce the risks associated with reflecting transportation charges within their contracts
- 7.6 A one off April 2013 change would take into account developments in the Transmission business with the opportunity being taken to reduce volatility arising from a step change in allowed revenues resulting from the RIIO-T1 price control settlement.