Promoting choice and value for all gas and electricity customers

Determining Unit Cost Allowances (UCAs) for large new entry points & Section 23 notice for Fleetwood

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Target Audience: Network licensees, gas terminal developers, gas shippers, investors, consumer representatives and other interested parties

Overview:

This document sets out how we propose to adjust National Grid Gas (NGG) NTS's allowed revenues if capacity is sold at large new entry points on the gas transmission system in forthcoming long term entry capacity auctions during NGG NTS's current price control period. The purpose of the adjustment is to enable NGG NTS to fund any necessary additional investment whilst retaining incentives for investment costs to be efficiently incurred. The adjustment is achieved by setting price control parameters known as "Unit Cost Allowances" (UCAs) for the prospective new entry points. The document also discusses interactions between our proposals and the rules adopted by NGG NTS to determine how additional capacity should be released in the light of bids in the auctions. It includes as an appendix the formal notice of our intention to modify NGG NTS's licence for one particular large new entry point (Fleetwood).

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Context

The pattern of how demand for gas in Great Britain is met is shifting, with the reduced contribution of UK Continental Shelf (UKCS) gas and the increasing importance of gas imports. These developments require investment in the gas transmission system. Ofgem seeks to protect consumers' interests through effective regulation of network monopolies. In this context this means ensuring that the companies have available funds to respond to the changing demands for network capacity, and that they have incentives to deliver the necessary investment in a timely and efficient manner.

This document is about how we adjust the funding available to NGG NTS where changing demands for network capacity are such that new entry points might be required to accommodate large new flows of gas. The actual demand for capacity at new entry points will be revealed through booking of capacity in the long term entry capacity auctions. This document is about how we facilitate these auctions by defining how NGG NTS's revenue allowances would flex in the light of any such demand being revealed.

Associated Documents

- Ofgem (May 2005), Gas transmission - new NTS entry points, reserve prices in auctions and unit cost allowances (UCAs), Consultation document (Ref. No. 139/05) http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/11541_13905.pdf
- Ofgem (August 2005), Section 23 notice to modify Transco's Gas Transporter licence, Explanatory note to accompany proposals for new entry points to Transco's National Transmission System (Ref. No. 188/05) http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/12157_188_05.pdf
- Ofgem (August 2005), Notice under section 23(3) of the Gas Act 1986 (Ref. No. 196/05) http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/12250_196_05.pdf
- Ofgem (October 2005), Direction under section 23(3) of the Gas Act 1986 (Ref. No. 212/05) http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/12489_212_05.pdf
- Ofgem (29 March 2006), Adjusting National Grid's revenue allowances when large new entry points connect to the gas transmission system (Ref. No. 50/06) http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/14501_5006.pdf
- Ofgem (26 June 2006), Transmission Price Control Review, Initial Proposals (Ref. No. 104/06) http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/15595_104-06AMEND.pdf

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Summary

Introduction

The National Transmission System (NTS) transports gas at high pressure from sources of supply to the local distribution networks and to a small number of large industrial users (eg gas-fired power stations). Over time, new sources of supply emerge and these need to be accommodated on the NTS. This can require significant investment on the NTS, depending on the location and size of the new source of supply.

The current price control for National Grid Gas (NGG) NTS has mechanisms to adjust allowed revenues if entry capacity over and above specified levels is sold at any of the existing entry points on the NTS. These mechanisms make reference to a Unit Cost Allowance (UCA) for each entry point to derive the additional revenues. This document sets out how we propose to define the UCAs for large new entry points in general and for Fleetwood (in north west England) in particular.

Earlier this year we consulted on how we might go about setting these UCAs for large new entry points. In the light of this consultation we have now decided on the approach we wish to adopt. This document explains the rationale for our choice of approach in general. It also sets out the UCAs we propose to set for a large prospective new entry point at Fleetwood and includes as Appendix 2 the formal notice of our intention to modify NGG NTS's licence to introduce this large new entry point.

Our approach

The development of large new entry points will potentially trigger significant investment in the gas transmission system. We have sought to set UCAs which reflect these potential costs, using modelling data provided by NGG NTS and audited by independent consultants. For the large new entry point at Fleetwood, we have decided to set a profile of UCAs for a range of capacity increments, rather than a single UCA. This is because we think that a profile of UCAs will provide a more cost-reflective revenue allowance for NGG NTS. The table below sets out the UCAs we are proposing to set for Fleetwood. For ease of comparison with existing UCAs the numbers in the table are in £ per kWh in 2000 prices.

Canatxx	Capacity bands (in GWh/d)				
	Capacity > 0 and < 580	Capacity >= 580 and < 740	Capacity >= 740 and < 1000	Capacity >= 1000 and < 1200	Capacity >= 1200 and <= 1400
UCAG (£/kWh)	0.162	0.226	0.224	0.214	0.263

Impacts

The primary purpose of the UCAs is to adjust NGG NTS's revenue allowance if it releases additional capacity. The actual impact therefore depends on the bids in the long term auctions and the consequent amount of additional capacity released. The revenue stream triggered by the release of such capacity would endure until the 2012 price control review. At that point the actual (efficiently incurred) costs would be added to the generality of assets on which NGG NTS is permitted to earn a standard regulated return.

UCAs also have a secondary role in the context of NGG NTS's approved rules for determining whether or not to release capacity for any given set of auction bids. They are used as an estimate of the cost of providing the capacity, of which auction bids must cover at least 50 per cent if NGG NTS are to propose that the capacity should be released. Our decision to set a profile of UCAs rather than a single number, while providing for more accurate revenue allowances, has the side effect of potentially complicating these rules.

We think it is important to avoid any added complexity or delay to the auctions of capacity at the prospective new entry points. As such we consider that NGG NTS should apply its existing rules using a single UCA from our range for the purpose of determining whether capacity should be released or not. Further, it seems reasonable to use the UCA for the band of capacity that the new entrant has indicated as being their likely desired flow rate (as expressed in their formal UCA application to us). In any event, it is important that NGG NTS clarifies how it will apply its rules in advance of the auction such that prospective bidders understand fully the basis upon which they are submitting bids.

Next steps

This document includes as an appendix a formal notice of our intention to modify NGG NTS's licence to insert the new UCAs for Fleetwood. Publication of this notice is likely to be shortly followed by NGG NTS providing the standard 2-month notice period for its pricing schedule ahead of the long term capacity auctions, which should include Fleetwood. The notice of our intention to modify NGG NTS's licence is open to consultation for 28 days. After this period of consultation has closed, we will review any responses and make a decision on whether to direct the change to NGG NTS's licence.

NGG NTS has indicated that relevant new information about the likely investment costs associated with the new entry points might emerge following the auction, including information on the exact pattern of capacity release they need to build for and more general information being collated through its ongoing investment planning consultation process. We have invited NGG NTS to submit any such information to us for consideration following the auctions. We will then take a view on whether the UCAs need to be refined further for the purpose of setting the adjustment to NGG NTS’s revenue allowance. For the avoidance of doubt, any such refinement will not affect the basis upon which bids in the next long term auction result in capacity being released to shippers. It will only affect NGG NTS's revenue allowances for providing any such capacity.

1. Introduction

Chapter Summary

This chapter sets out the purpose of the document and provides an overview. It also documents the steps we have taken over the past 14 months leading up to this decision document and provides some relevant regulatory and commercial background on the role of UCAs.

Purpose of document

1.1. Ofgem has received applications to set Unit Cost Allowances (UCAs) for a number of prospective large new entry points. Only one such project has confirmed, after we developed an approach for setting UCAs for large new entry points, that they wish for a UCA to be set such that they can participate in the next long term entry capacity auction, scheduled for September this year. This document sets out the UCAs that the Authority proposes to set for this new entry point. It also explains the reasoning for the chosen general approach for setting UCAs for large new entry points under the current price control period for NGG NTS.

1.2. The document also contains (in appendix 2) a notice under section 23 of the Gas Act 1986 which proposes modifications to NGG NTS's Gas Transporter licence so as to introduce UCAs for a large new entry point at Fleetwood. Following the close of the 28-day statutory consultation period associated with the Section 23 notice, and after consideration of the responses, we will then decide whether to modify NGG NTS's licence in order to formally introduce the UCAs into the licence.

Overview of document

1.3. The remainder of the introduction provides background information on:

- our consultation process, and
- the role of UCAs.

1.4. The remainder of the document is structured as follows:

- Chapter 2: Our decisions on UCAs for large new entry points
- Appendix 1: Consultation questions
- Appendix 2: Proposed Modifications to NGG NTS's Gas Transporter Licence
- Appendix 3: The Authority's Powers and Duties
- Appendix 4: Glossary
- Appendix 5: Feedback Questionnaire

Our consultation process

May 2005 UCA consultation

1.5. Following a number of requests for UCAs from new entrants, we consulted[1] on setting UCAs for prospective new entry points in May 2005. Prior to this consultation, we had set UCAs for three new entry points (Milford Haven, Barton Stacey and Garton) since the start of the price control period.

1.6. The May 2005 consultation set out two main options. Under the first option, UCAs for new entrants would be calculated on the basis of a new methodology set out in the May 2005 consultation document, and existing UCAs would be recalculated on the same basis. Under the second option, UCAs for new entrants would be set by reference to UCAs at nearby existing entry points, existing UCAs would be left unchanged, and a review of all of the UCAs would be postponed till the next price control review (this is the Transmission Price Control Review that we are currently undertaking).

July 2005 Authority decision

1.7. In July 2005 the Authority decided that:

- UCAs for smaller new entry points should be set by reference to the UCAs at nearby entry points,
- existing UCAs should be left unchanged and reviewed as part of the next price control review, and
- further options should be developed to set the UCAs for larger new entry points, to be consulted on in Q1 2006.

1.8. Following the July 2005 Authority decision, we set UCAs for a number of smaller new entry points, namely Burton Agnes (Caythorpe), Winkfield, Blyborough (Welton), Tatsfield, Albury and Palmers Wood, by reference to the UCAs at nearby entry points.[2]

March 2006 consultation

1.9. In March 2006, we issued a consultation document[3] on setting UCAs for large new entry points. In the consultation document, we sought views on:

[1] Ofgem (May 2005), Gas transmission - new NTS entry points, reserve prices in auctions and unit cost allowances (UCAs), Consultation document (Ref. No. 139/05).
[2] Ofgem (October 2005), Direction under section 23(3) of the Gas Act 1986 (Ref. No. 212/05).
[3] Ofgem (29 March 2006), Adjusting National Grid's revenue allowances when large new entry points connect to the gas transmission system, Ref. No. 50/06.

- how we should go about estimating the costs of providing capacity at large new entry points (through network modelling), and
- what other factors, if any, we should bear in mind when setting UCAs for large new entry points.

1.10. The consultation document set out a broad range of options covering both network modelling issues and other potentially relevant factors, and sought respondents' views on these options. It also presented our initial views on some of the options.

1.11. In April 2006, we gave a presentation at the gas transmission charging methodology forum (TCMF) about the consultation document and the issues on which we particularly welcomed views from respondents.[4]

1.12. The consultation closed at the end of April 2006. We received six responses to the consultation, including one confidential response. A summary of the consultation responses and our views can be found in appendix 1.

Role of UCAs

1.13. UCAs have three distinct uses within the current regulatory and commercial framework for gas entry, which are explained in some more detail below:

- Revenue driver: UCAs (in tandem with the value of bids in the auctions) determine the additional revenue stream that NGG NTS is allowed to earn when it provides incremental entry capacity on the gas transmission network.

- User commitment hurdle: UCAs are used in NGG NTS's approved procedures to determine the "hurdle" that shippers participating in the auctions must pass (in terms of the value of their bids in the auctions) in order to trigger the release of incremental entry capacity at (existing or new) entry points.

- Reserve price in entry capacity auctions: UCAs are used by NGG NTS as the basis for setting reserve prices for unsold baseline entry capacity in some of the entry capacity auctions. However for new entry points this is not the case, as NGG NTS sets the reserve price for new entry points equal to zero.

Revenue driver

1.14. If the user commitment test is passed and NGG NTS releases incremental obligated entry capacity, then it is entitled to an additional revenue stream. The additional revenue stream is set under the entry capacity investment incentive, which forms part of NGG NTS's SO incentives. These arrangements are explained in

[4] Our presentation can be found on http://www.nationalgrid.com/uk/Gas/Charges/TCMF/ under 26 April 2006

more detail in the explanatory notes accompanying a section 23 notice we issued in June 2003. [5]

1.15. The additional revenue stream is calculated on the basis of (1) depreciation and return on the deemed cost of providing the extra capacity at that particular point on the network and (2) the value of bids in the long term auctions. The deemed cost is taken to be the value of the relevant UCA multiplied by the amount of incremental obligated entry capacity that is released. The return is not fixed, but is variable (within a range of 5.25 per cent and 12.25 per cent) depending on the strength of bidding in the long term auctions.

1.16. NGG NTS will earn the variable rate of return between 5.25 per cent and 12.25 per cent based on the UCA over a five year incentive period on any permanent obligated incremental entry capacity that it releases. In effect therefore the UCAs for all NTS entry terminals provide "deemed SO regulatory asset values" (deemed SO RAVs). If a revised price control is implemented during the five year incentive period, all of NGG NTS's actual and projected investment in the previous five year period would have been assessed as part of the process of determining the TO RAV. Because NGG NTS would continue to earn a rate of return on that investment associated with providing permanent obligated incremental capacity through its SO investment incentives, an adjustment would be made to the actual investment which is to be added to the TO RAV. The adjustment would be made such that the TO RAV would be increased by the total value of the actual investment (subject to a test that it has been efficiently incurred) less the deemed SO RAV. From the end of the five year incentive period and up until the next price control period thereafter, NGG NTS will be entitled to the revenue associated with the deemed SO RAV at a standard rate of return. At the start of the next price control period after the expiry of the five year incentive period, the deemed SO RAV will fall into the TO RAV and be treated as a TO price control asset in the usual way.

User commitment (NPV) test

1.17. NGG NTS is obliged by its licence to publish a statement setting out the rules it applies when considering the release of incremental entry capacity at a particular point on the network. This statement, the Incremental Entry Capacity Release (IECR) Methodology Statement,[6] is reviewed by NGG NTS on an annual basis following a process of consultation with the industry and requires annual regulatory approval. The statement sets out how NGG NTS will interpret bids in the long term entry capacity auctions when deciding whether or not to propose the release of extra capacity.

1.18. One of the rules it applies is the so-called "NPV test". This says, in broad terms, that extra capacity will be released at a particular point on the network if the net present value (NPV) of the auction bids for extra capacity at the point is sufficient

[5] Ofgem (June 2003), New entry terminals to Transco's National Transmission System, Ofgem's views on Transco's proposals and Explanatory notes to accompany the section 23 notice of proposed modifications to Transco's gas transporter licence, Appendix 2.
[6] Available at http://www.nationalgrid.com/uk/Gas/Charges/statements/.

to cover at least 50 per cent of the deemed cost of providing the extra capacity. The UCA is used to determine the deemed cost. For shippers considering bidding in the auctions, the level of the UCA therefore sets the "hurdle" for triggering the release of extra capacity. It reflects, in effect, the level of user commitment required to secure additional entry capacity.

Auction reserve prices

1.19. For existing entry points, UCAs are used by NGG NTS as the basis for setting reserve prices for unsold baseline entry capacity in the long term system entry capacity (LTSEC) auctions as well as in subsequent annual monthly (AMSEC), rolling monthly (RMSEC), and day-ahead daily (DSEC) system entry capacity auctions. However, for new entry points, reserve prices are set on a different basis that is not linked to their UCAs. NGG NTS sets the reserve price for new entry points equal to zero and calculates incremental price steps starting from this zero price base, in line with the pricing methodology set out in its IECR Methodology Statement.

1.20. Therefore, the link between UCAs and auction reserve prices that applies for existing entry points does not apply in relation to the prospective new entry points referred to in this document.

Future developments and TPCR

1.21. It should be noted that the future role of UCAs is under review as part of the Transmission Price Control Review (TPCR).[7] This would affect the arrangements to apply from April 2007 onwards.

1.22. One particular development is that the three constituent functions that UCAs have at present (revenue driver, user commitment hurdle, reserve price) are proposed to be de-linked. Under our proposals, there will be separate (entry-point specific) revenue drivers that determine the additional revenue NGG NTS is allowed to earn if it releases extra capacity. There may also be changes to the way in which the user commitment test works. Finally, under our proposals there will be changes to the gas transmission charging regime:

- NGG NTS has been asked to develop a new charging methodology, in consultation with the industry, to be accompanied by a publicly available charging model.
- We will set high level objectives for the charging methodology and NGG NTS would periodically need to seek regulatory approval of it.

1.23. Discussions about the charging methodologies and models to apply from April 2007 have been taking place since January this year through the Gas Transmission

[7] Ofgem (26 June 2006), Transmission Price Control Review, Initial Proposals (Ref. No. 104/06).

Charging Methodology Forum (TCMF), organised by NGG NTS.[8] So far, NGG NTS has developed various methods and provided indicative transmission charges for each of the methods. It intends to consult on a preferred method later this summer.

1.24. It is envisaged that under the revised charging arrangements, entry reserve prices will no longer be linked to revenue drivers. Also, there will be an opportunity for entry reserve prices to be updated for new cost information more frequently during the price control period than at present. On this basis, it is likely that from April 2007 reserve prices in auctions for entry capacity will no longer be set on the basis of UCAs (or their revenue driver equivalent) for the full duration of the price control period.

[8] http://www.nationalgrid.com/uk/Gas/Charges/TCMF/

2. Our decisions on UCAs for large new entry points

Chapter Summary

This chapter sets out the general approach we have used to set UCAs for large new entry points, following our process of consultation. We have chosen to set different UCAs for different sizes of capacity increment. This is aimed at making the UCAs more cost-reflective. The chapter also sets out our view on how NGG NTS should interpret its rules for determining whether or not capacity should be proposed for release in the light of auction bids, in the light of this more complex profile of UCAs. Finally, it sets out the UCAs for the prospective new entry point at Fleetwood.

Our approach to setting UCAs for large new entry points

2.1. This section sets out the approach we adopted on two separate sets of issues that we consulted on in March 2006:

- how we should go about estimating the costs of providing capacity at large new entry points (through network modelling), and
- what other factors, if any, we should bear in mind when setting UCAs at large new entry points.

Estimating costs

2.2. Following the close of the March 2006 consultation and in light of the responses to the consultation, we needed to develop an approach for estimating the costs of network reinforcement for large new entry points. This was explained in the March consultation document.

2.3. We adopted the following assumptions on each of the network modelling issues that we consulted on:

- Base network: Model the 2008/09 physical network, containing all currently committed investment for that year.
- Supply (gas entry) scenarios: Model the three supply scenarios contained in NGG NTS's latest Ten Year Statement (TYS),[9] ie the Auctions+, Global LNG, and Transit UK scenarios, for 2008/09.
- Demand (gas offtake) scenario: Model the 1 in 20 winter peak demand scenario for 2008/09 contained in NGG NTS's latest TYS.

[9] National Grid (December 2005), Gas Transportation Ten Year Statement 2005, pp44-45, available at http://www.nationalgrid.com/uk/Gas/TYS/current/tys2005.htm.

- Number of years being modelled: Model the base network and supply and demand flows on that base network for a single year, ie 2008/09.

- Flow rates: Model the flow rate or rates as applied for by new entrants in their formal UCA requests to us (in several cases, this involved modelling several flow rates per new entry point).

- Cost allocation between entry and offtake: Allocate all estimated costs to the entry point in question.[10]

- Network balancing: Use supply substitution for the purpose of (1) matching supply to demand to derive a balanced network and (2) keeping the network in balance when incremental flows are added to the new entry point in question.[11]

- Cost data: Use up-to-date cost data.

- Treatment of connecting pipelines: Assume, as under current custom and practice, that when NGG NTS is asked to provide the connecting pipeline, the associated costs are included in the modelling and total costs (connecting pipeline costs plus network reinforcement costs) are calculated. In practice, as none of the prospective new entrants asked for a connecting pipeline in their UCA application, no costs associated with this were included.

Other factors

2.4. In the March 2006 consultation document, we also consulted on other potentially relevant issues (ie, other than estimating costs), namely:

- relationship of new UCAs to existing UCAs
- non-discrimination
- precedent of Milford Haven, and
- differential treatment of storage sites.

[10] This does not imply that all estimated costs will be charged to the shippers bidding for capacity at the new entry point in the long term entry capacity auctions. As explained in chapter 1, bids in the auctions must cover 50 per cent of the (deemed) costs of providing the capacity, before NGG NTS will seek approval to release the capacity.

[11] Of the various supply substitution options consulted on in the March 2006 document, we adopted "least helpful" supply substitution. Supply substitution assumes that the network is kept in balance by turning down supply flows at entry points other than the entry point in question. The "least helpful" option reduces flows at those entry points that are least helpful in terms of saving network reinforcement costs relative to this entry point. The entry points that are least helpful are likely to be relatively far away from the entry point in question and have little or no interaction with it.
The "least helpful" assumption ensures that other entry points with a high degree of interaction with the entry point in question (eg, nearby ones) continue to flow at a rate that is as close as possible to the initial flow rate under the assumed supply scenario, while the incremental costs of the incremental flows at the new entry point are being estimated.

2.5. On each of these issues, we have decided not to adjust the UCAs derived from the network modelling approach described above for the purpose of setting UCAs for prospective large new entry points.

Further information

2.6. Appendix 1 summarises responses to the consultation and our views thereon. It also explains the reasons for our proposed approach for estimating costs and for not adjusting the resulting figures in light of the other factors set out above.

2.7. One key consideration in terms of applying our statutory objectives (including our principal objective of protecting the interests of present and future consumers) was that the UCAs should be cost-reflective, given the latest available information. More specifically, the UCAs should reflect the efficient long-run incremental costs that NGG NTS was likely to incur, based on the best information available at the time at which we asked NGG NTS to undertake the modelling work. We explained the reasons for our focus on cost-reflectivity in more detail in the March 2006 consultation document.

Our approach to data collection, data processing and quality assurance

2.8. In May 2006, we asked NGG NTS to provide estimates of network reinforcement costs for several prospective large new entry points based on the network modelling assumptions set out above. As explained in our March 2006 consultation, NGG NTS used its Graphical Falcon model (instead of its Transcost model) to calculate costs. Graphical Falcon is the software used by NGG NTS for its network investment planning. NGG NTS provided modelling data by the end of May 2006, and we then considered how to use these data to set UCAs and subsequently went through a quality assurance process.

2.9. We propose to set the UCAs for large new entry points on the basis of the flow rates that the new entrants applied for. More specifically, we propose to set different UCAs for different flow rates, up to the maximum flow rate for which the new entrant has applied.

2.10. Also, we propose to set “capacity bands” around these flow rates, so that for each level of incremental obligated entry capacity release that falls within these bands, a single UCA would apply for the purpose of determining NGG NTS's revenue allowance which approximately reflects the estimated costs associated with the applicable band.

2.11. Finally, we propose to take an unweighted arithmetic mean (ie, a simple average) across the three supply scenarios for which NGG NTS has provided modelling results, namely Auctions+, Global LNG and Transit UK. We considered this to be appropriate because:

- the estimates of network reinforcement costs that NGG NTS has provided are derived on a fairly conservative basis under all three scenarios,[12]
- the supply scenarios are derived through a process of consultation with the industry and we did not have any better information with which to generate alternative scenarios at the time we asked NGG NTS to undertake the modelling work, and
- NGG NTS itself does not attach any particular weighting to the likelihood of the different scenarios in its Ten Year Statement.

2.12. As an additional step, we asked external consultants (Penspen Limited) to audit the modelling results provided by NGG NTS. Penspen raised some potential issues with the modelling work but concluded in summary that the modelling results appeared reasonable and robust relative to Ofgem's modelling brief. Penspen was also broadly satisfied with NGG NTS's own internal quality assurance processes given the limited time available for NGG NTS to do the work. We therefore decided that the modelling results provided by NGG NTS were of sufficient quality for the purpose of setting UCAs for the prospective large new entry points.

2.13. During the final couple of weeks leading up to the publication of this document and the formal section 23 notice, several potential new entrants decided that they did not want the UCAs for their projects to appear in the section 23 notice. Some withdrew their request for a UCA because they did not want their new entry point to feature in any long term auctions held prior to April 2007. Therefore the formal licence modification is only for one large prospective new entry point, namely Fleetwood.

Interaction with the long term entry capacity auctions

2.14. The primary role of the UCAs is to set revenue allowances for NGG NTS if they release additional capacity at a particular entry point. However, as explained in chapter 1 they are also made reference to in other aspects of the commercial and regulatory regime. The most important example of this for new entry points is the use of the UCAs in NGG NTS's approved rules for interpreting bids in the long term capacity auctions to determine whether additional capacity should be released.

2.15. The approved rules, set out in NGG NTS's IECR methodology statement, require that the net present value (NPV) of the bids must cover at least 50 per cent of the deemed cost of providing the capacity. The UCAs are used to determine the relevant deemed cost. Our decision to set a profile of UCAs rather than a single number, while providing for more accurate revenue allowances to NGG NTS, has the side effect of potentially complicating these rules. This is because the amount of capacity being released (and therefore the relevant UCA) will not be known until after the auction. Hence, absent further clarification, bidders would not know what the hurdle actually is when they bid. This is not satisfactory.

[12] For example, because they are based on "least helpful supply substitution" as explained in an earlier footnote.

2.16. There are two ways in which this issue might be addressed. First, NGG NTS could consult on a modification to its IECR methodology to define the rules for the test in the context of a profile of UCAs. This process will result in added complexity on what is already a very complex set of arrangements. It will also delay the auctions at the new entry points planned for September 2006.

2.17. We think it is important to avoid any added complexity or delay to the auctions of capacity at the prospective new entry points. As such we consider that NGG NTS should apply its existing rules using a single UCA from our range for the purpose of determining whether capacity should be released or not. Further, it seems reasonable to use the UCA for the band of capacity that the new entrant has indicated as being their likely desired flow rate (as expressed in their formal UCA application to us). In any event, it is important that NGG NTS clarifies how it will apply its rules in advance of the auction such that prospective bidders understand fully the basis upon which they are submitting bids.

The proposed UCAs

2.18. This section sets out the UCAs that we propose to apply for Fleetwood.[13] As explained above, we propose to set a profile of UCAs over a range of potential capacity increments. In the light of the modelling we have commissioned to inform this work, a profile of UCAs would appear to result in revenue allowances which more accurately reflect efficient investment costs.

Fleetwood

2.19. The prospective new entry point of Canatxx Gas Storage Ltd is proposed to connect to the NTS at Fleetwood, Lancashire.

2.20. The table below sets out the UCAs for different capacity bands for Fleetwood. A schedule of five different UCAs has been set, based on information about possible flow rates provided by Canatxx. Canatxx's formal UCA application to us was for a flow rate that would fall within the top capacity band of 1,200 GWh/d to 1,400 GWh/d.

Canatxx	Capacity bands (in GWh/d)				
	Capacity > 0 and < 580	Capacity >= 580 and < 740	Capacity >= 740 and < 1000	Capacity >= 1000 and < 1200	Capacity >= 1200 and <= 1400
UCAG (£/kWh)	0.162	0.226	0.224	0.214	0.263

[13] In the tables, the UCAs are referred to as "UCAGs" (ie, Unit Cost Allowance Gross) as this is how they are formally specified in NGG NTS's Gas Transporter licence (Special Condition C8B).

Appendices

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Appendix 1 – Consultation Questions

1.1. In our March 2006 consultation document (Ref. No. 50/06), we sought the views of respondents about a number of questions as set out below:

CHAPTER 3

Question 1: Do you agree with the proposed scope of this consultation as set out in this chapter, ie covering network modelling issues and the identification of other potentially relevant information?

Question 2: Do you agree with the proposed focus on estimating actual long-run incremental costs, for the purpose of setting UCAs for large new entry points?

CHAPTER 4

Question 1: Do you agree that it might be appropriate to model the "Auctions+" supply scenario and 1 in 20 winter peak demand scenario taken from NGG's latest Ten Year Statement, or would it be more appropriate to consider, in addition to or instead of these scenarios, other potential supply and demand scenarios?

Question 2: Do you agree with the proposed approach to setting the base network, including the proposal to use the same base network (ie, for 2008/09) for all new entrants irrespective of when their project is expected to come on-stream?

Question 3: Do you have any views on the range or combination of years that the network should be modelled for, given that with the Graphical Falcon model a multi-year modelling period (eg, 10 years or more) is unlikely to be practical, given the difficulty of producing robust long term gas flow forecasts, and given that forecasting for later years (when the new entry capacity is assumed to have come on-stream) may involve a circularity problem?

Question 4: Do you agree that it is appropriate to determine ranges of flow increments for each large new entry point (eg, 20-40 mcm/d, 40-60 mcm/d, 60-80 mcm/d), based on the incremental flow requests submitted by the applicant, and then set a separate UCA for each range? Also, do you agree that if the final capacity bookings signalled in the auctions are in excess of the chosen ranges, a new UCA request will have to be submitted?

Question 5: Do you agree that it may be appropriate to treat the costs of connecting pipelines differently from other network reinforcement costs incurred to accommodate large new entry points, and if so, how?

Question 6: Do you agree that cost allocation between entry and offtake should depend on the approach by which the network is balanced and, if so, that costs

should be apportioned fully to entry points if a supply substitution approach is adopted?

Question 7: Do you agree that is appropriate to use supply substitution for network balancing purposes, in the context of modelling incremental flows at large new entry points, or are there situations in which a load absorption approach may be more appropriate? If we adopt supply substitution, which of the proposed four options would you consider the most appropriate, and on what grounds? Alternatively, would you consider another approach to supply substitution more appropriate, and if so, on what grounds?

Question 8: Do you have any views on what cost data should be used in the modelling work, eg should cost data from the last price control be used (for consistency reasons) or should more up-to-date cost data be used (to improve cost-reflectivity)?

CHAPTER 5

Question 1: Should Ofgem take into account any of the factors raised in this chapter when setting UCAs for large new entry points, and if so, on what grounds and in what way?

Question 2: Are there are any other factors, not mentioned in this chapter, that Ofgem should take into account when setting UCAs for large new entry points, and if so, on what grounds and in what way?

List of Respondents

List	Name
1	Canatxx Gas Storage Limited / Canatxx LNG Limited
2	E.ON UK plc
3	National Grid Gas (NGG) NTS
4	RWE npower
5	Scottish and Southern Energy (SSE)
6	Confidential

Summary of Responses

1.2. Responses received by Ofgem which were not marked as being confidential have been published on Ofgem's website www.ofgem.gov.uk. Copies of non-confidential responses are also available from Ofgem's library.

1.3. The following is a summary of those responses which were received and of our views.

Chapter 3

1.4. **Question 1**: Do you agree with the proposed scope of this consultation as set out in this chapter, ie covering network modelling issues and the identification of other potentially relevant information?

1.5. Three respondents agreed with the proposed scope of the consultation, two did not respond, and one felt that wider consideration should be given to problems surrounding the application of LRIC modelling for charging purposes.

1.6. In our view the proposed scope of the consultation was sufficient to address the issue at hand, ie the setting of UCAs for prospective large new entry points prior to the start of the next price control period (starting in April 2007). On the wider question of charging principles, there is already an ongoing process of industry consultation, through the gas Transmission Charging Methodologies Forum (TCMF), and we did not therefore consider it appropriate to extend the scope of the consultation process for setting UCAs for large new entry points under the existing framework in parallel with this work. It might also have delayed our decision making, hence delaying the point at which new entrants were able to buy capacity.

1.7. **Question 2**: Do you agree with the proposed focus on estimating actual long-run incremental costs, for the purpose of setting UCAs for large new entry points?

1.8. Three respondents broadly supported the principle of estimating long-run incremental costs (LRIC), subject to caveats, one respondent fundamentally disagreed with estimating LRIC for charging purposes, and two respondents supported the wider principle of cost reflectivity.

1.9. The primary purpose of UCAs is to define a revenue stream for NGG NTS in the event that they release additional capacity on the network. It seems reasonable to attempt to set this revenue stream with reference to the costs that they might incur in so doing. Setting UCAs based on estimates of long run incremental costs is consistent with the approach. How NGG NTS's revenue allowances link to charging is a separate matter. There is an ongoing process of industry consultation being led by NGG NTS on charging principles for gas entry and offtake, and this is the appropriate forum to consider the merits of alternative approaches. However, it should be noted that the principle of cost reflective charging will continue to be an integral part of the regulatory regime and any proposed changes to charging will need to be consistent with this.

Chapter 4

1.10. **Question 1**: Do you agree that it might be appropriate to model the "Auctions+" supply scenario and 1 in 20 winter peak demand scenario taken from NGG's latest Ten Year Statement, or would it be more appropriate to consider, in addition to or instead of these scenarios, other potential supply and demand scenarios?

1.11. One respondent agreed with modelling Auctions+ supply and 1 in 20 winter peak demand only, but most other respondents expressed a preference for modelling a wider range of supply and demand scenarios, eg covering the Transit UK and Global LNG supply scenarios. Two respondents questioned the impact of different demand assumptions (ie, other than 1 in 20 winter peak).

1.12. We chose to model all three supply scenarios from NGG NTS's latest Ten Year Statement (TYS) and one demand scenario (1 in 20 winter peak). Our view is that the supply and demand scenarios in the TYS provided the best available information on forecast supply and demand flows and it did not seem sensible (given conceptual and practical limitations) to model additional scenarios. The chosen scenarios represent a sound basis on which to develop a range of cost estimates, given the impracticality (in terms of our own resources, and the resources of NGG NTS) of undertaking the modelling for all possible scenarios and the risks of delaying market entry if additional work to identify and model alternative scenarios was undertaken.

1.13. The development of alternative scenarios is highly subjective, and could be viewed as selective or arbitrary – and would certainly be based on less information than is available to NGG NTS through the annual TBE (Transporting Britain's Energy) consultation process, on which the information in the TYS is based. While new scenarios are being developed through NGG NTS's current TBE consultation process, these scenarios were not available to us yet at the time the modelling work was commissioned.

1.14. **Question 2**: Do you agree with the proposed approach to setting the base network, including the proposal to use the same base network (ie, for 2008/09) for all new entrants irrespective of when their project is expected to come on-stream?

1.15. Three respondents supported the use of a 2008/09 base network, and two of them agreed with using the same base network for all new entrants. Two respondents disagreed with using a 2008/09 base network and not taking into account later projects.

1.16. A 2008/09 base network captures the investments which are currently being undertaken or planned for in the light of bidding for capacity in previous long term entry capacity auctions. Guessing how the network might need to evolve further in the light of bids for capacity which have not yet been made is highly subjective, and could result in highly speculative cost estimates. We therefore decided to ask NGG NTS to model the base network for 2008/09 and to apply the same base network to all new entrants.

1.17. **Question 3**: Do you have any views on the range or combination of years that the network should be modelled for, given that with the Graphical Falcon model a multi-year modelling period (eg, 10 years or more) is unlikely to be practical, given the difficulty of producing robust long term gas flow forecasts, and given that forecasting for later years (when the new entry capacity is assumed to have come on-stream) may involve a circularity problem?

1.18. Three respondents supported the use of a 5-year modelling horizon, one respondent believed the network should be modelled for 2008/09 only, and another supported a modelling horizon between 1 and 5 years. No respondents supported a 10 year modelling horizon as was used to set most of the existing UCAs.

1.19. Our view is that it is difficult to forecast future gas networks and flow scenarios in a robust manner, and forecasts for later years are likely to be highly subjective. We also faced practical constraints in terms of the amount of modelling required to generate estimates for later years. We therefore considered our approach to be proportionate in the circumstances.

1.20. **Question 4**: Do you agree that it is appropriate to determine ranges of flow increments for each large new entry point (eg, 20-40 mcm/d, 40-60 mcm/d, 60-80 mcm/d), based on the incremental flow requests submitted by the applicant, and then set a separate UCA for each range? Also, do you agree that if the final capacity bookings signalled in the auctions are in excess of the chosen ranges, a new UCA request will have to be submitted?

1.21. Respondents supported the setting of UCAs for ranges of flow increments for each entry point. Most also agreed that new entrants must submit a new UCA request if final capacity bookings are outside or above the chosen ranges.

1.22. Our proposed approach is based on estimating costs for the increments that are, in our view and given the information we have available to us, most likely. Modelling a small number of increments for each entry point gives us some information on the relationship between costs and increment size – which enables the UCAs to be more cost reflective than if a single increment size was used. Modelling a large number of possible increments, while generating more information, would have been impractical from a resource perspective – and it is questionable as to the value of the additional information it would generate.

1.23. **Question 5**: Do you agree that it may be appropriate to treat the costs of connecting pipelines differently from other network reinforcement costs incurred to accommodate large new entry points, and if so, how?

1.24. Four respondents agreed that it may be appropriate to treat the costs of connecting pipeline separately, and some of them agreed that the provision of a connecting pipeline is a contestable activity. Different ways of treating connecting pipelines were proposed. One respondent felt that the current status quo (where developers can choose whether or not to include a connecting pipeline in the UCA) should be retained.

1.25. None of the UCA applicants has asked for NGG NTS to provide a connecting pipeline, and in this light and for reasons of consistency with current custom and practice within the current price control period, it does not seem necessary to change the policy now.

1.26. **Question 6**: Do you agree that cost allocation between entry and offtake should depend on the approach by which the network is balanced and, if so, that costs should be apportioned fully to entry points if a supply substitution approach is adopted?

1.27. Three respondents agreed that cost allocation should depend on the approach by which the network is balanced, one respondent advocated allocating all costs to entry, and another respondent said the results of a supply substitution model should be compared with those of a load absorption model.

1.28. Our view is that the key driver for investment in large new entry points is changes in the pattern of supply rather than in anticipation of general growth in the demand for gas in GB. This is why we have modelled costs based on supply substitution. In this context, it appears to us more appropriate to allocate costs to entry. While it could be argued that some of the entry-triggered investments might potentially affect the amount of capacity available at offtake points, in practice the interactions between entry and offtake points may be off too limited a nature to justify allocating some proportion of costs to offtake.

1.29. **Question 7**: Do you agree that is appropriate to use supply substitution for network balancing purposes, in the context of modelling incremental flows at large new entry points, or are there situations in which a load absorption approach may be more appropriate? If we adopt supply substitution, which of the proposed four options would you consider the most appropriate, and on what grounds? Alternatively, would you consider another approach to supply substitution more appropriate, and if so, on what grounds?

1.30. Three respondents supported the use of supply substitution as the most realistic or logical model to use, while one respondent did not believe a supply substitution was appropriate (but did not suggest an alternative although they referred to the possibility of new demand). Two respondents said that load absorption is not appropriate. On the different options for supply substitution, a variety of views was expressed. One respondent favoured the first option (pro rata), another favoured the second option (pro rata but leaving nearby entry flows unchanged), another favoured the least helpful option (or an alternative, or complementary, merit order based concept), and another saw benefits in both the second option and the fourth option (engineering judgment). One respondent suggested it might be useful to model all four options.

1.31. Our choice of "least helpful supply substitution" over other options for supply substitution is intended to derive cost estimates consistent with (realistically) prudent network planning assumptions, ie it makes capacity available under a wide range of network flow scenarios. It should be noted, however, that implicit in our approach of estimating costs on the basis of a simple average of the three TBE scenarios we are not setting UCAs consistent with all possible flow scenarios. This is one of the reasons why we are providing NGG NTS with the opportunity to submit additional information after auctions have taken place - to recognise that more information might be available as to what flow scenarios NGG NTS is actually planning investment against. We preferred supply substitution over load absorption

because, given the potentially large flow increments associated with the new entry points, load absorption would probably imply demand going well above 1 in 20 demand levels currently forecast by NGG NTS, and arguably this is less realistic than assuming that new entry points are displacing existing supplies.

1.32. **Question 8**: Do you have any views on what cost data should be used in the modelling work, eg should cost data from the last price control be used (for consistency reasons) or should more up-to-date cost data be used (to improve cost-reflectivity)?

1.33. Respondents broadly supported the use of the most up to date cost information, although one respondent favoured the use of cost data as used for Milford Haven (to encourage investment in LNG facilities).

1.34. We want to derive the best estimate of long-run incremental costs given the information available to us, and this requires the use of up-to-date cost data. The choice of less recent cost data would, in our view, represent ignoring relevant information. This could be viewed as arbitrary. It would also result in revenue allowances which are systematically biased, and not therefore fit for purpose if the intention is to set allowances which reflect the efficient costs of providing the additional capacity.

Chapter 5

1.35. **Question 1**: Should Ofgem take into account any of the factors raised in this chapter when setting UCAs for large new entry points, and if so, on what grounds and in what way?

1.36. One respondent felt that all factors raised are relevant, while another questioned the role of LRIC models for charging purposes. Other respondents were largely silent on this broader question or only raised concerns in relation to individual factors:

- Relationship of new UCAs to existing UCAs: One respondent recognised that UCAs for new entry points may well differ from those for existing entry points, while another thought that some users may raise concerns over potential discrimination between the two. Another respondent believed non discrimination between projects seeking UCAs in 2006 and ones approved in 2004 and 2005 should be a key determinant.

- Non-discrimination: One respondent said that using the best possible information and models would be consistent with non discrimination.

- Precedent of Milford Haven: One respondent argued (as one possible option) that the UCAs for Milford Haven, or at least the underlying cost data, should be used, while another argued that there should be no precedent set by the Milford Haven UCAs.

- Differential treatment of storage sites: Four respondents argued that storage sites should be treated differently, to varying degrees. One respondent argued that the only difference should be around flow assumptions, another argued for "making adjustments" to make it easier for storage project to be developed, another argued that the generally beneficial network usage profile of storage sites should be reflected in entry charges, and another argued that gas entering into storage sites has already been entered into the network before (suggesting that it should not be charged again). In contrast, one respondent argued that no distinction should be made for storage and that no undue discrimination results from this.

1.37. On the relationship of new UCAs to existing UCAs, we do not consider it necessary or appropriate to make further adjustments to the UCAs for new entrants in light of this concern. It appears reasonable to use the best possible information and modelling approaches that are available at the time when each UCA is set, for the purpose of determining an appropriate user commitment hurdle. There is a risk to consumers of stranded assets (if we set the UCAs below costs) or an inefficiently constrained network (if we set the UCAs above costs). Therefore setting UCAs that reflect costs should be in the best interests of consumers. Finally, the link between UCAs and auction reserve prices that applies for existing entry points does not apply in relation to the new entry points, as NGG NTS sets the reserve price for new entry points equal to zero.

1.38. On non-discrimination, some parties have suggested that it may be discriminatory if we set UCAs for large new entry points on a different basis from how UCAs were set previously. However we are of the view that the principle of non-discrimination is consistent with using the best information and modelling approaches available at the time of making any decision, and revising our approach relative to decisions we have made previously if appropriate following consultation.

1.39. On the precedent of Milford Haven, some parties have suggested that it may be appropriate to use the approach used in determining the UCAs for Milford Haven as one possible way of setting the UCAs for large new entry points. However, we did not consider it appropriate to use the Milford Haven approach for the large new entry points under consideration, for a variety of reasons. For example, network reinforcement costs have arguably changed since the Milford Haven UCAs were set. Also, no bands were set around the flow rates associated with the two Milford Haven UCAs, which could impose risks to consumers (if it results in UCAs not being cost-reflective).

1.40. On differential treatment of storage sites, some storage developers have argued that storage sites should be treated favourably from other new entry points, because of their alleged strategic importance to the network (eg, in relation to security of supply) or for other reasons. We do not consider it appropriate that storage sites are treated differently from other entry points, for a variety of reasons. For example, differential treatment could result in cross-subsidies between different types of entry points. This kind of intervention could be destabilising for the operation of the market. Further, to the extent that storage sites are directly equivalent to other new entry points, differential treatment may be considered

discriminatory. In any event, if there is a case for subsidy for storage sites, then this should come through explicit measures put in place by Government. It is not Ofgem's role to create new taxes and subsidies. Finally, in terms of transmission charging arrangements for storage, there is already an ongoing process of industry consultation, through the gas Transmission Charging Methodologies Forum (TCMF), where charging for storage sites is being considered. We did not therefore consider it appropriate to extend the scope of the consultation process for setting UCAs for large new entry points under the existing framework in parallel with this work.

1.41. **Question 2**: Are there are any other factors, not mentioned in this chapter, that Ofgem should take into account when setting UCAs for large new entry points, and if so, on what grounds and in what way?

1.42. One respondent expressed concern about the risk of a revenue shortfall to the regulated gas transmission business if UCAs are not set on a fully cost reflective basis. Another suggested that varying risks of stranded assets between new entry projects could be taken into account using a "stranded asset risk factor". Another said that network development should recognise that security of supply is significantly enhanced by storage. Another was extremely concerned about the combined impact of the complexity of entry arrangements, the volatility of LRIC derived UCAs and NTS exit reform on storage sites going forward. Another suggested that charges should not change if users are prepared to commit long term.

1.43. We have taken these views into consideration in developing our proposed approach. For example, our decision not to replicate the approach we took to setting the UCAs at Milford Haven is informed in part by the evidence that the UCAs we set have proven to be substantially below the actual level of efficiently incurred costs for that development. Further, we think that going forward, some concerns are probably more appropriate addressed in other forums. For example, concerns about charging arrangements could be raised in the discussions at the gas transmission charging methodology forum (TCMF) and concerns about exit reform could be raised in the ongoing discussions in this area. Finally, consideration of additional concerns might have delayed our decision making on setting UCAs for large new entry points under the existing framework, hence delaying the point at which new entrants were able to buy capacity.

Appendix 2 – Proposed Modifications to NGG NTS's Gas Transporter Licence

1.1. For administrative reasons, the notice under section 23(3) of the Gas Act 1986 will be published separately on Ofgem's website www.ofgem.gov.uk, at the same time as this document is published.

Appendix 3 – The Authority's Powers and Duties

1.1. Ofgem is the Office of Gas and Electricity Markets which supports the Gas and Electricity Markets Authority ("the Authority"), the regulator of the gas and electricity industries in Great Britain. This Appendix summarises the primary powers and duties of the Authority. It is not comprehensive and is not a substitute to reference to the relevant legal instruments (including, but not limited to, those referred to below).

1.2. The Authority's powers and duties are largely provided for in statute, principally the Gas Act 1986, the Electricity Act 1989, the Utilities Act 2000, the Competition Act 1998, the Enterprise Act 2002 and the Energy Act 2004, as well as arising from directly effective European Community legislation. References to the Gas Act and the Electricity Act in this Appendix are to Part 1 of each of those Acts.[14]

1.3. Duties and functions relating to gas are set out in the Gas Act and those relating to electricity are set out in the Electricity Act. This Appendix must be read accordingly[15].

1.4. The Authority's principal objective when carrying out certain of its functions under each of the Gas Act and the Electricity Act is to protect the interests of consumers, present and future, wherever appropriate by promoting effective competition between persons engaged in, or in commercial activities connected with, the shipping, transportation or supply of gas conveyed through pipes, and the generation, transmission, distribution or supply of electricity or the provision or use of electricity interconnectors.

1.5. The Authority must when carrying out those functions have regard to:

- The need to secure that, so far as it is economical to meet them, all reasonable demands in Great Britain for gas conveyed through pipes are met;
- The need to secure that all reasonable demands for electricity are met;
- The need to secure that licence holders are able to finance the activities which are the subject of obligations on them[16]; and
- The interests of individuals who are disabled or chronically sick, of pensionable age, with low incomes, or residing in rural areas.[17]

1.6. Subject to the above, the Authority is required to carry out the functions referred to in the manner which it considers is best calculated to:

[14] entitled "Gas Supply" and "Electricity Supply" respectively.
[15] However, in exercising a function under the Electricity Act the Authority may have regard to the interests of consumers in relation to gas conveyed through pipes and vice versa in the case of it exercising a function under the Gas Act.
[16] under the Gas Act and the Utilities Act, in the case of Gas Act functions, or the Electricity Act, the Utilities Act and certain parts of the Energy Act in the case of Electricity Act functions.
[17] The Authority may have regard to other descriptions of consumers.

- Promote efficiency and economy on the part of those licensed[18] under the relevant Act and the efficient use of gas conveyed through pipes and electricity conveyed by distribution systems or transmission systems;
- Protect the public from dangers arising from the conveyance of gas through pipes or the use of gas conveyed through pipes and from the generation, transmission, distribution or supply of electricity;
- Contribute to the achievement of sustainable development; and
- Secure a diverse and viable long-term energy supply.

1.7. In carrying out the functions referred to, the Authority must also have regard, to:

- The effect on the environment of activities connected with the conveyance of gas through pipes or with the generation, transmission, distribution or supply of electricity;
- The principles under which regulatory activities should be transparent, accountable, proportionate, consistent and targeted only at cases in which action is needed and any other principles that appear to it to represent the best regulatory practice; and
- Certain statutory guidance on social and environmental matters issued by the Secretary of State.

1.8. The Authority has powers under the Competition Act to investigate suspected anti-competitive activity and take action for breaches of the prohibitions in the legislation in respect of the gas and electricity sectors in Great Britain and is a designated National Competition Authority under the EC Modernisation Regulation[19] and therefore part of the European Competition Network. The Authority also has concurrent powers with the Office of Fair Trading in respect of market investigation references to the Competition Commission.

[18] or persons authorised by exemptions to carry on any activity.
[19] Council Regulation (EC) 1/2003

Appendix 4 – Glossary

G

GWh/d

Gigawatt-hour/day

K

kWh/d

Kilowatt-hour/day

M

mcm/d

Million cubic metres/day

L

LNG

LNG consists of mainly methane gas liquefied at around minus 260 degrees Fahrenheit. Cooling and liquefying the gas reduces its volume by 600 times such that a tonne of LNG corresponds to about 1,400 cubic metres of methane in its gaseous state. LNG may be stored or transported by special tanker.

N

NTS

NTS stands for National Transmission system. This is the high-pressure gas transmission system consisting of entry points (or terminals), compressor stations, pipelines and offtake points. NTS pipelines transport gas from entry points to offtake points.

U

UCA

UCA stands for Unit Cost allowance. This is a parameter of the current revenue restriction for NGG NTS. A UCA is set for each entry point, and is intended to reflect the cost of providing additional capacity at that point on the network. The actual additional revenue entitlement for NGG NTS if it releases such additional capacity at a particular entry point is a function of the UCA for that entry point. NGG NTS also uses the UCAs as reserve prices in its auctions of entry capacity (for existing entry

points) and in the user commitment test it applies to bids in the long term auctions, before seeking approval from the Authority to release additional capacity on the NTS.

Appendix 5 – Feedback Questionnaire

1.1. Ofgem considers that consultation is at the heart of good policy development. We are keen to consider any comments or complaints about the manner in which this consultation has been conducted. In any case we would be keen to get your answers to the following questions:

- Does the report adequately reflect your views? If not, why not?
- Does the report offer a clear explanation as to why not all the views offered had been taken forward?
- Did the report offer a clear explanation and justification for the decision? If not, how could this information have been better presented?
- Do you have any comments about the overall tone and content of the report?
- Was the report easy to read and understand, could it have been better written?
- Please add any further comments?

1.2. Please send your comments to:

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