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Dear Bob

Transmission price control review: Draft licence conditions (gas) second informal consultation

I am writing in response to the above informal consultation.

We support the proposed new structure of the NTS price control licence conditions and believe that the new arrangement will provide much easier interpretation and clarity. However, we wonder whether even greater clarity would be achieved by creating further sub-sets within Special Condition C8E to separate the different incentive arrangements that apply for the interim, transition and enduring periods within the price control review period.

Definitions and baselines

We note that Ofgem has highlighted that certain definitions will be removed or amended and new definitions inserted into Special Condition C8A. However, as yet drafting for the amended and new definitions has not been provided. We are therefore unsure where exactly the initial baselines for both NTS exit flat capacity and NTS exit flex capacity will be specifically set out. It would appear that they will no longer be set out in a separate Schedule, but rather in the new proposed NTS exit baseline statement. However, reference to this statement in Special Condition C8E paragraph 4(d), would seem to only require this statement to be produced in the context of setting out *revised* baselines following any substitution, it does not appear to include a requirement to produce an initial statement setting out the initial baselines. Given the importance of these baselines for NGG NTS in terms of its allowed revenue and to both shippers and DNOs for capacity release obligations etc, we believe the initial baselines should probably be best set out in the licence.

A further aspect that we believe Ofgem should consider is the definition of exit zones and regions and the associated capacity maxima proposed by NGG NTS in respect of

the allocation of NTS exit flex capacity. In our view, these parameters are central to the allocation of flex. Therefore, we believe that there is merit in considering their specific inclusion in one of the various statements NGG NTS has to prepare under the enduring regime. This would ensure that they are defined from day one of the new price control period it would also ensure that any proposal by NGG NTS to change them would be subject to consultation and Ofgem approval. Such an obligation may best sit in the statement produced pursuant to paragraph 2 of Special Condition E18 “Licensee’s methodology for determining incremental exit capacity volumes”. Accordingly, paragraph 2 of this condition should specifically state that the statement would include the definitions of exit zones and regions and the associated capacity maxima.

Special Condition C8E - NTS gas exit revenues

For the period 1 April to 30 September 2010 only shippers will pay for NTS exit capacity and the product that the shipper is paying for is NTS baseline shipper capacity. Therefore, references to NTS baseline exit flat capacity and NTS baseline exit flow flexibility should be removed from the definition of TOExRF in paragraph 2.(a).

Similarly, the terms TREVExCt and TREVBFFt set out in paragraph 2.(a)(i) are not required. Therefore the definition of TOExRFt in this paragraph could be significantly simplified or, alternatively, removed altogether and appropriate amendments made to the definition of TOExRF in paragraph 2.(a) to reflect that from and including 1 October 2010 the value of this term is zero.

Special Condition C8E - Capacity release obligations

The first line of Paragraph 3.(a)(ii) should refer to “NTS exit point” rather than “supply point, connected system exit point or storage connection point” to be consistent with paragraph 3.(a)(i) and Ofgem’s policy to ensure that capacity release obligations apply to all categories of NTS exit point. As currently drafted the obligation would not apply to DN offtakes which is clearly incorrect.

Standard Special Condition A55 (Enduring Offtake Arrangements)

We agree that this condition should be deleted.

We hope that you will find these comments useful.

Yours sincerely

Victoria Hunter
Regulation Manager