Promoting choice and value for all gas and electricity customers

LNG Storage price control - Initial proposals

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Target audience: LNG storage facilities, gas shippers, National Grid Gas NTS and any other interested parties

Overview:

National Grid Gas (NGG) owns four Liquefied Natural Gas (LNG) storage facilities. The facilities are partially deregulated providing commerical storage services to gas shippers. But the price of the reserve services they provide to National Grid in its role as Transmission System Operator (TSO) and to provide gas to certain areas of Scotland not connected to the main network are still regulated. Ofgem's aim is to fully deregulate the LNG business but to do this NGG needs to establish effective competition in the provision of reserve services to the TSO. A clear timetable has been set out for establishing competition but it will be necessary to continue to impose price caps in the transition period.

This document is the second in a series of three regarding the price control of LNG storage facilities. It sets out respondents' views on the form, scope and duration of the control and our initial proposals on the recommended way forward.

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Context

National Grid Gas' Liquefied Natural Gas Storage business (NGG LNG) is in part a provider of price controlled services to the Transmission System Operator and in part a commercial provider of storage to the commercial market. Ofgem aims to establish effective competition in the provision of system reserve (operating margins) and supply to the Scottish Independent Undertakings so that the LNG storage facilities can become fully deregulated. This is in keeping with Ofgem's aim of protecting consumers' interests through the promotion of competition where appropriate.

Until competition is established, Ofgem will continue to regulate these services. This document is the second in a planned series of three which sets out our initial proposals on the form, scope and duration of the control.

Associated Documents

- LNG Storage price control - Initial Thoughts Consultation document, Ofgem 202/07 - August 2007
  http://www.ofgem.gov.uk/Networks/Trans/GasTransPolicy/Documents1/LNG%20Storage%20Price%20Control%20-%20Initial%20thoughts.pdf

- Open letter[1], Ofgem - March 2007
  http://www.ofgem.gov.uk/Networks/Trans/PriceControls/TPCR4/ConsultationDecisionsResponses/Documents1/070330_in_Open%20Letter%20Mar%2007%20draft%20V0%206_pdDH2.pdf

- Transmission Price Control Review - Final Proposals, Ofgem 206/06, December 2006
  http://www.ofgem.gov.uk/Networks/Trans/PriceControls/TPCR4/ConsultationDecisionsResponses/Documents1/16342-20061201_TPCR%20Final%20Proposals_in_v71%206%20Final.pdf

- Review of the National Grid LNG Storage Business, TPA - October 2006.

[1] Treatment of National Grid LNG storage services and section 23 (3) notice to modify Special Condition C3.

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Summary

Background

National Grid Gas (NGG) owns four Liquefied Natural Gas (LNG) storage facilities; these are situated at Avonmouth, Dynevor Arms, Glenmavis and Partington. When these facilities were built in the 1960's and 1970's, they were designed to deliver gas during a few days of high demand, ensuring that NGG could meet firm demand in line with its network planning requirements. This role developed such that they provided additional services to the gas Transmission System Operator (TSO) to maintain system pressures and resolve locational constraints on the network. In addition, NGG also provides a service providing gas supplies to Scotia Gas Networks' (SGN's) Scottish Independent Undertakings (SIUs).

In 1997, these assets were unbundled from Transco's Regulatory Asset Base (RAB) on the basis that these services, which we viewed as contestable, should be opened up to competition. Services provided by NGG LNG to the TSO and SIUs are subject to a separate price cap, the first of which came into effect in April 1997. In 2000 the services were partially deregulated following extensive consultation and auctions were introduced for the commercial services offered to shippers. The existing price caps were maintained for system reserve services provided to the TSO and for the SIUs.

The Transmission Price Control Review (TCPR4) 2007-2012 placed a licence obligation (Special Condition C25) on NGG NTS to use reasonable endeavours to promote competition in the provision of operating margin services to the licensee by April 2009. Once we are satisfied that a competitive market for the provision of these services has been established we would expect to be able to remove any remaining price controls on NGG LNG. In the interim period, NGG LNG remains a monopoly provider of services to both the TSO and SGN. The current price control expires in April 2008, and this document considers the appropriate regulatory framework going forward.

Initial thoughts document

The Initial thoughts document in August[2] expressed Ofgem's preference for the continuation of a price cap based on allowing NGG LNG to recover their efficient forward looking costs. Such costs would comprise of operating expenditure (Opex) and short term capital expenditure (Capex) required for the coming period, while excluding long term capex, which if spent should be funded by shareholders in anticipation of future returns from the competitive markets. We specified an expectation that a competitive market could be established for the provision of

[2] LNG Storage price control - Initial thoughts, 202/07, 3 August 2007

operating margins by April 2009. We also said that we would assess costs using a previous assessment conducted by TPA[3] during the TPCR, but using more recent data provided by NGG LNG.

With regard to the decommissioning of LNG storage facilities, we proposed that any decommissioning costs should be for National Grid's shareholders to manage and bear, and thus excluded them from the scope of the control. This was the position adopted when the assets were partially deregulated and is also consistent with the decision not to seek to claw back any of the gains for customers when National Grid converted the Isle of Grain LNG facility from a storage site to an import terminal.

Ofgem's Initial proposals

This document sets out respondents' views on the issues raised in the Initial thoughts document and details our Initial Proposals for the price control. We propose continuing with a price cap on the provision of regulated services with guaranteed remuneration though the regulated services for efficient forward looking costs only. The overall level of return that NGG earns (and whether they are able to earn a return on historic investments) will be determined by the revenues and prices that they command in the market for the commercial storage services, since if the price for commercial services exceeds the price cap, NGG LNG can charge the market price for these capped services. This is because it would be inefficient to force NGG LNG to sell these services to the TSO and SIUs at below the market rate if there are other shippers willing to pay more for the capacity. While we continue to expect NGG NTS to meet its obligations under SC C25, we have calculated the control using data for the three years 2008/09 - 2010/11. This would allow for a continuation of the control if required until competition is established. Additionally, we reiterate our position that there will be no provision for decommissioning costs and that these remain a matter for NGG.

The net effect of adopting these Initial Proposals would be a 29% reduction in the current level of prices set out in special condition C3 of NGG NTS's licence (the C3 prices). We have also included two alternative scenarios. The first shows the potential impact on regulated prices if we allowed NGG all of the capital expenditure allowances they had bid for and did not make the adjustments to capital expenditure suggested by our consultants. This could potentially involve a 38% price increase. We have also shown the impact of meeting NGG's request that we also guarantee a return on historic investment rather than relying on the market for commercial services to determine the overall level of return. This could potentially involve an increase in current prices of 166%.

Respondents are invited to submit comments to our Initial proposals by 23 November 2007. These submissions will be considered when drafting the Decision document on the price control for LNG storage, which we intend to publish in mid-December 2007.

[3] Review of the National Grid LNG Storage Business, 17 October 2006.

1. Introduction

Chapter Summary

This chapter sets out the background and structure of the document.

Question box

There are no questions on this Chapter

Background[4]

1.1. National Grid Gas (NGG) owns four Liquefied Natural Gas (LNG) storage facilities. The facilities provide services in both a regulated and a deregulated market. In addition to providing storage to shippers in a competitive market, NGG LNG also provides monopoly services to NGG's Transmission System Operator (TSO) and the Scotia Gas Networks' (SGN's) Scottish Independent Undertakings (SIUs) as follows:

- **resolution of locational constraints:** This is a geographic service to support the NTS. The TSO uses this service instead of building additional pipeline capacity. Revenues received in relation to this service are subject to NGG's Constrained LNG incentive scheme;
- **system reserve (operating margins [OM] gas):** OM gas is the term for gas that is used to maintain system pressures under certain operational circumstances, eg a sudden loss of supply or a sharp increase in demand; and
- **services for SIUs:** LNG is loaded into road tankers at the Glenmavis site and transported for distribution in four remote Scottish towns through separate networks known as the SIUs. Regasified LNG is transported via local distribution networks owned by Scotia Gas Networks.

1.2. The price control that currently applies to these regulated services expires on 30 April 2008. Until competition has developed in this area, it will be necessary to extend the regulatory control and in this document we set out our recommended approach.

[4] A more complete description of the operation and services provided by LNG facilities can be found in the Initial thoughts document

Structure of this document

1.3. This consultation document is organised as follows:

- Chapter 2 provides a summary of responses to the main points raised in the Initial thoughts document. It also details our updated view on the form, scope and duration of the control;
- Chapter 3 sets out our updated thinking on the appropriate cost structure to determine the price control;
- Chapter 4 details the price control calculations and underlying assumptions; and
- Chapter 5 details the next steps for the consultation.

2. Form, scope and duration of the price control

Chapter Summary

This chapter summarises responses and our own views on the issues raised by Ofgem's Initial thoughts document published in August 2007.

Question box

There are no questions on this Chapter

Introduction

2.1. Ofgem received six responses to the Initial thoughts document on the LNG price control. Responses were received from a GT, NGG LNG, three shippers and one customer interest group. All the responses were marked as non-confidential and can be viewed on Ofgem's website under the Networks - Transmission - Gas Transmission Policy[5] area of work.

2.2. Ofgem invited comments from respondents to the proposed form, scope and duration of the control. Their comments and Ofgem's subsequent views are set out below.

Form of the control

Most appropriate form of price regulation

Ofgem's initial thoughts

2.3. Ofgem has put into place a set of price caps for the provision of services by NGG LNG to either the TSO or the SIUs, which will expire on 30 April 2008. We stated in the Initial thoughts document that we were minded to adopt price caps based on forward looking costs for the forthcoming control, rather than a revenue allowance. We asked respondents to consider whether the price cap should be retained or some other form of control, such as a revenue allowance be introduced.

[5] To access these, scroll down to the publications panel on the Gas Transmission Policy page and left-click on the Initial thoughts document name in the leftmost column

Respondents' views

2.4. Three respondents agreed to the retention of the price caps, which they considered to be more proportionate and appropriate than a revenue allowance. They added that a price cap would ensure that minimum risk is passed onto users of the facility, in contrast to a control based on a revenue allowance.

2.5. One respondent considered that the price cap applicable to SIUs should not be linked to the competitive auction price. This would reflect the differences between the LNG services where gas for OM purposes is provided for peak day/high demand, while gas given for SIUs is required on an enduring base load. In any event, the respondent considered that SGN should be allowed to pass through these costs to its revenue allowance.

2.6. The two remaining respondents who provided comments to this question supported the introduction of a revenue allowance. One respondent suggested a variation, with a cap, collar and profit sharing factors, which they considered to be flexible, while sharing the costs and risks with customers. The other respondent stated that such a sharing mechanism would ensure certainty of funding for the LNG storage business to meet their obligations. For example, shippers could fund any shortfall in total revenue via the system operator (SO) commodity charge, while a proportion of any excess revenue would be passed back to customers.

Ofgem's views

2.7. In line with our comments in the Initial thoughts document, we consider that continuing with a price cap approach is consistent and appropriate, and places the risks with those best placed to manage them, namely NGG LNG. For this reason, we do not support introducing a revenue control as customers would take on the risk of making up the shortfall, if actual revenue is less than forecast. In addition, we consider that the administrative resources required for adopting a revenue allowance with a sharing mechanism would be significant and disproportionate, and would set the timeline for introducing a new control back several months.

2.8. The issue of allowing SGN to pass through to consumers those costs associated with SIUs has been passed on to Ofgem's Gas Distribution Price Control team for further consideration, and a decision should be made later this year.

Scope of the control

<u>Feasibility of introducing competition in medium term</u>

Ofgem's initial thoughts

2.9. In the Initial thoughts consultation, we considered that the establishment of competition for contestable services will bring long term benefits to consumers. We sought views regarding the steps required for competition in this area and what barriers, if any there are to introducing competition.

Respondents' views

2.10. The majority of respondents were generally supportive of the concept of introducing competition into the market, but questioned the feasibility of the timescale. One respondent considered that the Partington site could be competitive by 2010, but the other sites would take longer.

2.11. Another respondent claimed that it would take longer to develop competition in the provision of LNG to the SIUs as there would be no alternative sources of LNG available in the medium term.

2.12. One shipper stated that they were not persuaded that the costs of introducing competition were objectively justified, given the small sums of money involved. A further shipper also questioned the economic justification, and asked for a full impact assessment of this policy.

Ofgem's views

2.13. We maintain the view that operating margins services can be provided by competitive third parties, and that this can be achieved by April 2009 in line with NGG NTS' reasonable endeavours obligation under SC C25. However, we will await the outcome of any tender exercise conducted by NGG NTS to further inform our position.

2.14. We consider that other competitive suppliers could emerge in a deregulated market in the short to medium term for the provision of gas supplies to the SIUs. We are aware of the existence of small marine tankers that could be deployed to transport LNG from alternative sources, while the investment required to build tanker loading facilities should be relatively minor. Further consideration may also need to be given as to whether there are any potential regulatory and commercial hurdles that would need to be over come to facilitate competition in this area.

2.15. With regards the economic justification for this policy, we consider that the costs to the TSO of introducing competition are negligible since it only involves running tender processes periodically, as it does for other services. The only shippers that will incur costs are those who want to participate in the tender process. Therefore, while the long term benefits to consumers might be small in the context of the overall gas market, the costs to industry of pursuing this objective are very low.

2.16. We give our view on the request for an impact assessment below.

Further objectives to consider for this price control

Ofgem's initial thoughts

2.17. We asked respondents to consider whether there were any further objectives for this price control to the ones we had already listed.

Respondents' views

2.18. A further objective proffered was that the control should allow NGG to finance the activities of its LNG business until competition had developed. It was added that Ofgem should give thought to both the level of revenue and certainty of realising this revenue so that NGG would be able to fund the on-going safe operation of the business while allowing it to fund any necessary investments.

Ofgem's views

2.19. The Authority is mindful of its duties in carrying out its functions; amongst these is "to have regard to the need to secure that licence holders are able to finance the activities which are the subject of obligations on them" (see Appendix 3). Ofgem considers that the manner by which we match the costs and revenues in this control is fully compliant with the Authority's duty and allows NGG LNG to fund the investment necessary to ensure the on-going safe operation of the business.

2.20. It should be noted that these services are partially deregulated and so there is no certainty as to the level of return NGG LNG will earn from these assets. The revenue stream tends to be variable; in recent years they have provided extremely good returns for the licensee. These factors have to be considered when assessing the likely funding requirements going forward.

2.21. However, we consider that it is not appropriate for customers to fully underwrite long term investment, as this would bring benefit to NGG shareholders following deregulation. Instead, the long-term funding is an issue for NGG's shareholders, and customers should only fund that portion necessary for the continuance of the services until competition is established.

Other issues deemed within the scope of the control

Ofgem's initial thoughts

2.22. Ofgem asked respondents to consider whether there were other issues that should be deemed to be within the scope of the control, such as an Impact Assessment (IA).

Respondents' views

2.23. Two respondents addressed this question. One respondent expressed the view that any IA should look at quantifying the costs and benefits of introducing competition in the LNG storage market. Another respondent took the opposing view by stating that an IA was not required based on the current monopoly position enjoyed by the LNG facilities to which the control would apply.

Ofgem's views

2.24. Ofgem considers that an Impact assessment on the costs and benefits of introducing competition in the LNG storage market is not required as the proposal is not 'important' in the context of any of the criteria listed in Section 5A of the Utilities Act 2000. Furthermore, the work does not impose any significant regulatory burden or costs on industry, and we consider that in the longer term the proposal would reduce the regulatory burden by deregulating facilities that are currently regulated.

Decommissioning costs

Ofgem's initial thoughts

2.25. We considered that the costs associated with the decommissioning of LNG storage facilities should be excluded from the scope of the control, and that it should be for NGG to manage and bear.

Respondents' views

2.26. The issue as to whether decommissioning costs should be included in the scope of the control or not prompted a split in opinion between the two respondents who provided comments. The respondent in support of Ofgem's view considered that such costs will have already been addressed in principle as part of the regulated asset base.

2.27. The respondent with the opposing view considered that the issue of asset stranding was an integral part of NGG's funding requirements. The same respondent also stated that they had interpreted the MMC report[6] differently to Ofgem, and considered that there was at least a significant degree of ambiguity as to whether the MMC ruled out making an allowance for stranding as a point of principle. The respondent added that the MMC in considering the issue concluded that stranding was unlikely to arise, while in reality the opposite is expected to happen.

[6] "BG Plc: A report under the Gas Act 1986 on the restrictions of prices for gas transportation and storage services", Monopolies and Mergers Commission, June 1997

Ofgem's views

2.28. We reiterate our position taken in the previous document that it is for NGG, and not consumers to bear decommissioning costs. We consider that if we were to allow such costs to be incorporated into the control, it would be in conflict with the principles of the agreement at the time of deregulation and would constitute a significant shift in risks and costs to the consumers, whilst precluding them from any historic benefits. Such a move would also prompt for reasons of consistency a reopening of the transfer of the Isle of Grain site[7] and review of asset profitability levels since deregulation.

2.29. We have been conducting on-going discussions with NGG on the issue[8], but they have not produced new evidence to support the case for customers paying or underwriting decommissioning costs. Therefore, we propose that decommissioning costs will continue to be excluded from the new control.

Duration for the control

Ofgem's initial thoughts

2.30. Although we did not specify a length of time for the application of the control, we are mindful of NG's NTS's proposed licence condition to establish competition in the provision of OM services by April 2009, and therefore a competitive environment should be established within two years.

2.31. We considered that SGN should also be able to obtain alternative supplies of gas within this timescale.

Respondents' views

2.32. The majority of respondents agreed that the control should continue as long as there remains insufficient competition. Two respondents suggested that it should be up to Ofgem to prove the degree of openness and effectiveness of competition before removing the price control. A further respondent specified that the control should continue until April 2009 as they considered that effective competition was unlikely to develop before that time.

2.33. One respondent did not consider that competition for SIU purposes would be sufficiently developed by April 2009, and therefore any proposed control should be allowed to continue for the duration of the gas distribution price control until 2013.

[7] ''National Grid Transco's proposal to transfer its Liquefied Natural Gas facility at Isle of Grain to a separate NGT group company'', Decision document - July 2003
[8] As instigated by the March 2007 open letter (Reference 1 previous)

Ofgem's views

2.34. We maintain the view that NGG NTS' compliance with its reasonable endeavours obligation to develop a transparent and robust framework for the introduction of competition should mean that the regulatory control on OM services should cease to exist by April 2009. We will revisit this topic at that time.

Determination of NGG LNG's costs

Ofgem's initial thoughts

2.35. For the purpose of determining the current price caps, Ofgem commissioned TPA Solutions to conduct an analysis of the opex and capex requirements of the LNG storage facilities in 2006. This analysis covered the next five years and we considered that rather than looking to replicate the analysis for this price review, we would instead use internal resources to update the work. We also stated that we would allow revenues to cover efficient forward looking costs based on on-going opex and short term capex. We sought views on the appropriateness of this approach and what other approaches we should consider for the determination of NGG LNG's costs.

Respondents' views

2.36. One respondent considered that the calculation of forward looking costs should also include long term capex, which is required to ensure the safe operation of the storage facilities both in the short and longer term. The same respondent also contended that the revenue allowance should include a return on historic investment based on the rolled forward RAB less the rolled forward value of Isle of Grain at the time of disposal.

Ofgem's views

2.37. We reiterate our view that the amount of revenue to determine the control will be set using efficient forward looking costs. These will be based on ongoing opex and short term capex. We do not agree with the proposition that long term capex should be included on the basis that this would relate to the period in which services should be competitive and as we have previously said, as a commercial issue it is for NGG and its shareholders to decide upon. The actual levels of investment should be decided by NGG taking into account health and safety aspects and its views of the longer term position of the facilities.

2.38. Therefore, we do not propose to include the RAB in our preferred set of calculations, nor will we include expenditure to end April 2008 to determine future funding considerations. Our rationale for this position is that as part of the deregulation settlement it was made clear that all of the upside and downside of the business was for NGG's shareholders to bear. We have been consistent on our application of this principle; for instance, when NGG converted Isle of Grain to an import terminal, Ofgem resisted calls from some shippers to claw back the benefits NGG gained from the transaction.

2.39. We also consider that it would be very difficult to establish historic values in a sufficiently robust manner to determine an appropriate value for the RAB. Such work would require an examination of the Isle of Grain transfer arrangements and historic analysis of the profitability of the LNG facilities.

Potential double counting of capex at Glenmavis

Ofgem's initial thoughts

2.40. Certain capex relating to the continuance of the tanker loading facility to the SIUs is incorporated in the NGG NTS RAB, and thereby earns a depreciation and return allowance for the NGG NTS. The cost of these facilities was not taken into account when setting the current C3 price caps. However, including this cost in the establishment of a price cap, or other form of control would mean that NGG are remunerated twice for this investment. Views were invited on how to deal with the potential double counting of capex at Glenmavis.

Respondents' views

2.41. Respondents expressed opposition to the potential for double funding of NGG for capex at Glenmavis as customers would end up bearing these costs twice. Adjustment to the NGG NTS RAB to remove the LNG component or the setting of a price cap that excludes the element of capex already allowed in the RAB were cited as measures to correct the issue. The view was also expressed that any correction mechanism should apply retrospectively to the 2007/08 regulated LNG charges in order to remove the double recovery that took place this year.

Ofgem's views

2.42. In line with respondents' views we would not wish to see NGG receive funding in both the NTS RAB and the LNG price control for the same service. As stated above, these costs were not taken into account when setting the current price caps. NGG has also clarified that NGG NTS transfers the revenue it receives from the Glenmavis capex to NGG LNG's revenue stream, so that the revenues are not being double counted. As such, we no longer consider this to be an issue for concern.

3. Assessing costs

Chapter Summary

This Chapter details the cost and revenue information submitted by NGG LNG and comments on how Ofgem is treating this for the purposes of developing the Initial Proposals.

Question box

Question 1: Is it appropriate that Ofgem uses the TPA opex data despite being provided with more up to date data from NGG LNG?
Question 2: How appropriate are the forecasts of reduced revenues from provision of storage to shippers going forward? Evidence would be particularly welcome.

3.1. The Initial Thoughts document outlined our approach to cost assessment for this price control. We said that we would use the analysis conducted by TPA Solutions during the TPCR, but update the output by using updated information from NGG NTS and NTS LNG.

3.2. Since that time, we have received new data from NGG LNG on its historic and forecast costs and revenues, and this has been used to inform our subsequent analysis. We have also had updated forecasts from NGG NTS on their requirement for Operating Margins service from the four LNG sites, but this data was received too late to be incorporated into this analysis. We intend to use this in arriving at the forecast revenue stream for the Final Proposals.

3.3. As well as summarising the NGG LNG data submission below, Ofgem is releasing the TPA Solutions report concurrent with this document, so that interested parties can review and comment on their analysis.

Operating costs (Opex)

3.4. NGG LNG submitted controllable and non-controllable operating cost data for each of their four sites, for the period 2005/06 to 2011/12. In addition, there are certain central costs which are allocated across all of the sites which are reported separately. These are summarised in the table below; the breakdown of these by cost category is given in Appendix 2.

£m Nominal	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
Total controllable	18.7	26.2	19.6	28.8	29.4	30.8	30.2
Total non controllable	5.4	13.7	7.8	7.8	8.9	9.9	10.6
Total	24.0	39.9	27.4	36.5	38.3	40.8	40.8

Table 3.1: Site specific opex forecasts submitted by NGG LNG

£m Nominal	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
Total controllable	7.4	14.0	8.0	8.1	8.0	8.2	8.4
Total non controllable	0.0	0.0	0.0	0.0	0.0	1.2	1.1
Total	7.4	14.0	8.0	8.1	8.0	9.4	9.4

Table 3.2: Central and overhead costs forecasts submitted by NGG LNG

3.5. These levels of site-specific operating costs are approximately 10% greater than the submission to TPA Solutions during the TPCR (when converted into the same price base). TPA stated in their cost analysis that "…the operation of these facilities is generally efficient with no significant opportunity to reduce costs apart from investment in new liquefaction plants to reduce liquefaction costs."[9] On this basis, we propose to use the opex figures as assessed by TPA in our Initial Proposals, rather than the NGG submission. Additionally, we have raised an issue with the inclusion of pension costs, as we believe that these have been allowed in the TPCR and so their inclusion here would result in a double counting of allowances.

3.6. The site-specific non-controllable costs include capex depreciation calculated on an accounting basis. In allowing for efficient forward-looking costs, we have not allowed these depreciation levels, but instead have allowed for the recovery of our proposed levels of capex over a two-year depreciation profile.

3.7. On the issue of central costs, we are less certain that these have been assessed by TPA. We have asked for evidence that they were included in the previous analysis, and until this is forthcoming, we propose to only include two-thirds of the submitted levels in the Ofgem Initial Proposals cost scenario given in the Price Control Calculations chapter. We also wish to explore to what extent, if any, these central costs have already been allowed for in the TPCR4 settlement, so as to avoid any likelihood of double counting revenues.

[9] "Review of the National Grid LNG Storage Business", TPA Solutions Ltd, 17 October 2006, page 11

Capital expenditure (Capex)

3.8. We asked NGG LNG to provide capex plans based on three scenarios; OM contestability being established by 2009, contestability established by 2011 and the status quo continuing indefinitely. The 2009 contestability relates to the introduction of a competitive market by 2009 and the subsequent lifting of regulated prices while the 2011 contestability envisages that competition takes longer to introduce. Continuing indefinitely describes the capex investment that would be required to maintain the facilities operational in the very long term.

3.9. The reasoning for requesting these scenarios is that consumers should only be funding capex that is necessary to continue the operation of the sites until competition is introduced for the provision of OM gas. NGG LNG can decide to invest at levels above this so that it is in a position to supply these services in the competitive environment, but the decision to do so should be made on a commercial basis and the extra costs and rewards borne by NGG's shareholders.

3.10. NGG LNG's submissions for each scenario are given below.

£m Nominal	05/06	06/07	07/08	08/09	09/10	10/11	11/12
2009 Contest	16.3	21.4	18.7	9.2	-	-	-
2011 Contest	16.3	21.4	18.7	10.0	8.5	5.7	-
Continue	16.3	21.4	18.8	12.6	21.2	17.4	20.8

Table 3.3: Capex forecasts for each scenario (05/06 & 06/07 are actual)

3.11. In contrast, the TPA report suggested that the efficient forward looking capex for operation up to 2011/12 would be as in the table below.

£m 04/05 prices	06/07	07/08	08/09	09/10	10/11	11/12
4-year operation	16.0	0.55	0.55	0.55	0.55	0.55

Table 3.4: TPA Solutions proposed levels of capex for a 4-year efficient operation scenario

3.12. We raised the issue of the large discrepancy between the proposed levels of capex with NGG LNG, who responded with a detailed breakdown of the forecast capex by driver category, eg safety, environmental, regulatory, etc. This suggested that about two-thirds of this capex was required for either safety or regulatory reasons.

3.13. However, a desktop study of this analysis by Ofgem indicated that a more reasonable four-year total for the 2010/11 contestability scenario is of the order of £7.5m (Nominal), rather than the £42.9m proposed by NGG. Whereas we recognise that there will be some margin for discussion around this figure, we do believe it to be a more credible estimate of the required capex. We also note that this is still an order of magnitude greater than the level of spend proposed by TPA. We therefore have doubts as to the suitability of the capex submission by NGG LNG in relation to the proposed scenario.

Revenue forecasts

3.14. NGG LNG has provided site specific analysis of the projected revenue streams up until 2011/12. We present the information here in aggregate form.

£m Nominal	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
Operating Margins	10.5	11.9	14.9	12.1	12.5	12.9	13.3
SIU	1.7	0.0	2.4	2.5	2.6	2.7	2.9
Glenmavis TO RAV	0.0	0.0	1.9	1.9	1.9	1.9	1.9
Shipper	59.8	63.2	21.9	13.9	12.2	11.9	9.9
LNG Road Fuel	0.0	0.2	0.0	0.1	0.1	0.1	0.1
Constrained LNG	0.2	3.2	1.5	1.5	1.5	1.5	1.5
Total Capacity Income (£m)	72.2	78.6	42.5	31.9	30.8	31.0	29.5
Total Commodity Income (£m)	3.3	6.5	1.6	8.4	8.5	8.5	6.8

Table 3.5: Forecast revenue stream by activity (05/06 and 06/07 are actual)

3.15. The key issue with this data is the variabilty in shipper revenues. In recent years, these facilities have been extremely profitable and returned high double digit percentage profit figures. The revenue contribution going forward is projected to be at about one fifth/one sixth of the levels in the recent past. NGG LNG believes that this is likely due to a number of new entry points becoming available to the market and a favourable supply/demand balance. The volatile nature of such revenue streams is characteristic of these assets and this feature is part of the risk for accommodating the large potential for upside in returns.

3.16. Obviously, not all market participants agree with this pessimistic scenario, and one respondent considered that revenues from commercial storage activities would continue to be strong over the next two years at least. This is an important issue in relation to the calculation of the price caps, because underestimation of these revenue levels will result in significant gains for the licensee. We would welcome any further views and evidence on this point.

3.17. Another feature to note about the revenue forecast is the commodity income. This relates to revenues arising from the injection and withdrawal of capacity from storage, and is mirrored by commodity costs in the operating costs section, so that they net each other out.

4. Price Control Calculations

Chapter Summary

This Chapter sets out the Authority's Initial Proposals for the LNG Storage price control and presents some related data sets to indicate the sensitivities around these Proposals.

Question box

There are no questions on this Chapter

Price control calculations

4.1. The previous chapters have set out our views on the policy issues arising from the Initial Thoughts document and set out the data submitted by NGG LNG in response to our information request. This chapter sets out our proposed format for the Initial Proposals and explains the underlying calculations.

4.2. We are also presenting alternative outcomes, based around NGG's data submissions, to demonstrate the sensitivities around the regulated prices and to allow respondents to asses the impacts of how changes in the underlying assumptions impact on prices.

Calculation principles and underlying assumptions

4.3. The basic principle of the price control calculation is that forecast revenue should equal costs for the period under consideration. NGG has provided revenue and cost forecasts for each year until 2011/12, under a variety of investment scenarios. The net present value of the revenue and cost streams are compared and any mismatch has to be recouped from/returned to customers by an appropriate scaling of the revenues from the provision of operating margins services. This scaling is in turn applied to the existing C3 prices to arrive at the appropriate prices going forward.

4.4. As discussed in the previous chapters, we are proposing to continue with a price cap for C3 prices.

4.5. We consider that NGG NTS should still endeavour to meet its licence obligation to promote competition in the provision of operating margins services by 1 April 2009. However, we recognise that this is challenging and that some respondents have expressed reservations as to the likelihood of competition being developed within this timeframe. Therefore we have performed the revenue and cost analysis over a three year timeframe (to 2010/11).

4.6. On this basis, the resulting C3 prices would be lifted in 2009 if it was demonstrated that competition had been established for the provision of OM services. However, if this were not to be the case, the prices would endure either until competition is established or until the Authority sees fit to revise them some time after 2009.

Cost data - opex

4.7. We have used the operating cost data from the TPA Solutions assessment as the controllable cost input to our Initial Proposals calculations. These costs were given in the report in 04/05 real prices, and so have been indexed by 6.46% to inflate them to 06/07 prices, in line with the growth of the retail price index over the two years.

4.8. NGG LNG has argued that its most recent cost submissions represent a more informed view of costs going forward, but we consider that these have not been subjected to the same scrutiny as their earlier submissions and we are not satisfied that the subsequent increases are justified. We also believe that there is a degree of double counting of pension allowances within these opex figures since an allowance for at least a portion of the pension deficit attributable to NTS LNG was included in the NGG NTS TPCR allowance; we intend to explore this further before the Final Proposals.

4.9. The cost submission from NGG LNG has included an element of central costs, which do not appear to have been included in TPA's previous analysis. While we are considering the appropriateness of their inclusion and whether they include any degree of double counting of revenues, we have reduced their submission by one third in calculating our Initial Proposals position. The alternative scenarios which are presented include the full amount of the central costs submission by NGG.

Cost data - capex

4.10. The previous chapter highlighted the significant discrepancy between NGG LNG's capex submission and both Ofgem's and TPA's views on the efficient levels of capex going forward. Whereas we believe that consumers should not have to pay for the complete capex program identified by NGG LNG, we consider that the £0.6m pa allowance proposed by TPA represents a rather aggressive position in respect of the capex required to maintain the facilities until 2010/11. Accordingly, we have adopted our own view based on a desk-top assessment of required capex, while recognising that this in itself is likely to change following further review.

4.11. We consider that we are fulfilling our duties by remunerating the efficient forward looking costs, which is in the best interest of consumers. In relation to capex, that constitutes providing depreciation and return allowances.

4.12. In the normal regulatory context, assets would be depreciated over a substantial time period; for instance, NGG NTS's RAB in TPCR is partly depreciated on a straight-line basis over 45 years. In view of the fact that we are proposing to deregulate the assets within a short time, we have taken the line that the company needs to be remunerated for efficient forward looking capex in the period between investment and the establishment of contestability following the investment.

4.13. To allow for the time lag between the licensee's investment and its subsequent remuneration through the depreciation allowance, the licensee receives a return allowance of the cost of capital times the average RAB. In this calculation, the cost of capital used is the pre-tax rate of 6.25% as used in the TPCR. We would expect the rate used for the forthcoming Gas Distribution Price Control Review (GDPCR) Final Proposals to inform the cost of capital used in our Final Proposals.

Price control Initial Proposal

4.14. The calculations based on the above assumptions are laid out on the following page. The net effect is **a proposed 29% reduction** in the current C3 prices.

Scenario	2011 contestability
Data source	Ofgem view
Capital costs allowed	From 2008/09
Opening RAV	0
Cost of capital	6.25%
Asset Depreciation (years)	2

Year ending 30 April £m 06/07 real	**2009**	**2010**	**2011**	**2012**
Capex forecast	4.50	1.40	1.00	0.00
Cost breakdown				
Opex	23.9	23.9	24.3	24.3
Central costs	5.0	4.8	5.5	5.3
Rates	1.5	1.7	1.7	1.7
Depreciation	0.0	2.3	3.0	1.2
Return on RAV	0.1	0.3	0.2	0.1
Total	30.5	32.9	34.5	32.5
Net Present Value of total	26.23	26.58	26.29	23.31
Total for inclusion in NPV calc	26.23	26.58	26.29	0.00
Scenario NPV				**79.10**
Revenue Forecast				
NGG LNG forecast	37.52	35.34	34.49	30.85
NPV of NGG LNG forecast	32.2	28.6	26.3	22.1
Total for inclusion in NPV calc	32.24	28.58	26.25	0.00
Scenario NPV				**87.08**
Revenue less Cost				
PV of Revenue less costs				**7.98**
NGG LNG income from OM services				
NGG LNG OM services income	11.24	11.27	11.29	11.30
NPV of NGG LNG OM services income	9.66	9.11	8.60	8.10
Total for inclusion in NPV calc	9.66	9.11	8.60	0.00
Scenario NPV				**27.37**
Percentage change to C3 prices req'd				**-29%**

Alternative scenarios

4.15. To allow interested parties to gauge the effects of changing the inputs to the price control calculation, we have included two alternative scenarios; firstly, that in which NGG LNG's full opex and capex submissions from 06/07 are accepted as being efficient costs and the capex depreciates over the normal 45 year lifespan, and then the same scenario but with the addition of straight-line depreciation and return on NGG LNG's proposed historic asset base.

Scenario	2011 contestability
Data source	NGG LNG
Capital costs allowed	From 2006/07
Opening RAV	0
Cost of capital	6.25%
Asset Depreciation (years)	45

Year ending 30 April £m 06/07 real	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Capex forecast	21.36	17.97	9.29	7.70	5.02	0.00
Cost breakdown						
Opex	18.7	18.8	26.7	26.5	27.0	25.7
Central costs	14.0	7.6	7.5	7.3	8.3	8.0
Rates	1.8	1.3	1.5	1.7	1.7	1.7
Depreciation	0.0	0.5	0.9	1.1	1.3	1.4
Return on RAV	0.7	1.9	2.7	3.2	3.5	3.6
Total	35.2	30.1	39.3	39.7	41.7	40.3
Net Present Value of total	34.11	27.52	33.78	32.09	31.71	28.87
Total for inclusion in NPV calc	0.00	0.00	33.78	32.09	31.71	0.00
Scenario NPV						**97.57**
Revenue Forecast						
NGG LNG forecast	85.10	42.30	37.52	35.34	34.49	30.85
NPV of NGG LNG forecast	82.6	38.6	32.2	28.6	26.3	22.1
Total for inclusion in NPV calc	0.00	0.00	32.24	28.58	26.25	0.00
Scenario NPV						**87.08**
Revenue less Cost						
PV of Revenue less costs						**-10.50**
NGG LNG income from OM services						
NGG LNG OM services income	11.90	14.29	11.24	11.27	11.29	11.30
NPV of NGG LNG OM services income	11.54	13.05	9.66	9.11	8.60	8.10
Total for inclusion in NPV calc	0.00	0.00	9.66	9.11	8.60	0.00
Scenario NPV						**27.37**
Percentage change to C3 prices req'd						**38%**

Scenario						2011 contestability
Data source						NGG LNG
Capital costs allowed						From 2006/07
Opening RAV						180
Cost of capital						6.25%
Asset Depreciation (years)						45
Year ending 30 April £m 06/07 real	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Capex forecast	21.36	17.97	9.29	7.70	5.02	0.00
Cost breakdown						
Opex	18.7	18.8	26.7	26.5	27.0	25.7
Central costs	14.0	7.6	7.5	7.3	8.3	8.0
Rates	1.8	1.3	1.5	1.7	1.7	1.7
Depreciation	0.0	4.5	4.9	5.1	5.3	5.4
Return on RAV	11.8	12.8	13.3	13.5	13.6	13.4
Total	46.3	45.0	53.9	54.0	55.8	54.2
Net Present Value of total	44.90	41.10	46.35	43.71	42.46	38.82
Total for inclusion in NPV calc	0.00	0.00	46.35	43.71	42.46	0.00
Scenario NPV						**132.52**
Revenue Forecast						
NGG LNG forecast	85.10	42.30	37.52	35.34	34.49	30.85
NPV of NGG LNG forecast	82.6	38.6	32.2	28.6	26.3	22.1
Total for inclusion in NPV calc	0.00	0.00	32.24	28.58	26.25	0.00
Scenario NPV						**87.08**
Revenue less Cost						
PV of Revenue less costs						**-45.45**
NGG LNG income from OM services						
NGG LNG OM services income	11.90	14.29	11.24	11.27	11.29	11.30
NPV of NGG LNG OM services income	11.54	13.05	9.66	9.11	8.60	8.10
Total for inclusion in NPV calc	0.00	0.00	9.66	9.11	8.60	0.00
Scenario NPV						**27.37**
Percentage change to C3 prices req'd						**166%**

4.16. As can be seen from the above, acceptance of NGG LNG's submissions could lead to **increases in C3 prices of between 38-166%,** depending on the degree of acceptance of the capex submissions and providing depreciation and return on the historic investments made in the LNG assets.

4.17. The percentage change in C3 prices is also heavily dependent on the revenue forecasts submitted by NGG LNG. We have already noted the sharp decline in the forecast of shipper revenues and would welcome views as to whether this is appropriate.

5. Next steps

Chapter summary

This Chapter outlines the next steps and the timeframe for the remaining stages of the price control.

Question box

There are no questions on this Chapter

5.1. This document is the second of a planned series of three documents on the LNG Storage price control. The next planned document is the Final Proposals, which are expected to be issued in the middle of December 2007. If NGG LNG agrees with the Final Proposals, licence drafting would be done in January/February 2008, with a view to issuing a Section 23 Notice in March 2008.

5.2. Ofgem will be engaging with the licensee between now and the Final Proposals to discuss any issues arising out of these Initial Proposals. Ofgem would also be pleased to consider representations from any other interested parties during this time period.

5.3. Ofgem is asking for responses to this consultation by Friday 23 November 2007. Given the tightness of the timelines, early responses would be appreciated in order to allow the maximum time for consideration of any issues raised.

Appendices

Index

Appendix 1 - Consultation Response and Questions

1.1. Ofgem would like to hear the views of interested parties in relation to any of the issues set out in this document.

1.2. We would especially welcome responses to the specific questions which we have set out at the beginning of each chapter heading and which are replicated below.

1.3. Responses should be received by 23 November 2007 and should be sent to:

- Robert Hull
- Director of Transmission
- Ofgem, 9 Millbank, London SW1P 3GE
- 020 7901 7050
- gas.transmissionresponse@ofgem.gov.uk

1.4. Unless marked confidential, all responses will be published by placing them in Ofgem's library and on its website www.ofgem.gov.uk. Respondents may request that their entire response or part of it is kept confidential. Ofgem shall respect this request, subject to any obligations to disclose information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004.

1.5. Respondents who wish to have their responses remain confidential should clearly mark the document/s to that effect and include the reasons for confidentiality. It would be helpful if responses could be submitted both electronically and in writing. Respondents are asked to put any confidential material in the appendices to their responses.

1.6. Next steps: Having considered the responses to this consultation, Ofgem intends to publish the Final proposals document in December 2007. Any questions on this document should, in the first instance, be directed to:

- Paul O'Donovan
- Transmission
- Ofgem, 9 Millbank, London SW1P 3GE
- 020 7901 7414
- paul.odonovan@ofgem.gov.uk

CHAPTER: One

There are no questions on this Chapter

CHAPTER: Two

There are no questions on this Chapter

CHAPTER: Three

Question1: : Is it appropriate that Ofgem uses the TPA opex data despite being provided with more up to date data from NGG LNG?

Question2: How appropriate are the forecasts of reduced revenues from provision of storage to shippers going forward? Evidence would be particularly welcome.

CHAPTER: Four

There are no questions on this Chapter

CHAPTER: Five

There are no questions on this Chapter

Appendix 2 – Cost submission data

Aggregated opex forecasts

1.1. The following table shows the aggregated site-specific opex forecast (and historic actual for 05/06 and 06/07) itemised by category.

£m Nominal	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
Controllable Costs							
Net staff costs (incl agency, excl pension)	4.5	5.3	5.7	5.7	6.0	6.3	6.6
Pension contributions	0.9	1.1	0.9	1.1	1.2	1.3	1.4
Maintenance	2.0	2.2	2.1	2.1	2.2	2.4	2.5
Materials - process	0.3	0.4	0.4	0.4	0.4	0.4	0.4
Non salary staff costs	0.3	0.2	0.3	0.3	0.3	0.3	0.3
Ínsurance	0.6	0.5	0.5	0.6	0.7	0.7	0.7
Rents and buildings	0.6	0.8	0.8	0.9	0.9	1.0	1.0
Internal Sales / Purchases	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Utility Costs	3.1	4.0	5.1	4.5	4.4	3.9	3.9
Commodity costs	3.7	6.6	1.9	8.4	8.5	8.2	6.5
Revenue Projects	2.6	4.3	1.7	0.4	0.3	0.3	0.2
LNG Road Tankering	0.0	0.4	0.0	0.6	0.8	2.5	2.8
Operational Gas Purchases (net)	0.0	0.0	0.0	3.6	3.7	3.6	3.7
Other	0.1	0.2	0.2	0.1	0.1	0.1	0.1
Total controllable	18.7	26.2	19.6	28.8	29.4	30.8	30.2
Non Controllable Costs	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Depreciation	3.6	12.3	6.2	5.9	7.0	8.0	8.6
Rates	1.8	1.4	1.6	1.8	1.9	2.0	2.0
Total non controllable	5.4	13.7	7.8	7.8	8.9	9.9	10.6
Total	24.0	39.9	27.4	36.5	38.3	40.8	40.8

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 European Community legislation. References to the Gas Act and the Electricity Act in this Appendix are to Part 1 of each of those Acts.[10]

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[11].

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[12]; and
- The interests of individuals who are disabled or chronically sick, of pensionable age, with low incomes, or residing in rural areas.[13]

[10] entitled "Gas Supply" and "Electricity Supply" respectively.
[11] 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.
[12] 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.
[13] The Authority may have regard to other descriptions of consumers.

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:

- Promote efficiency and economy on the part of those licensed[14] 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[15] 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.

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

Appendix 4 - Glossary

C

Capital Expenditure (Capex)

Expenditure on investment in long-lived transmission assets, such as gas pipelines

L

Liquefied Natural Gas (LNG)

LNG consists mainly of methane gas liquefied at around -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

National Grid Gas (NGG)

The licensed gas transporter responsible for the gas transmission system, and four of the regional gas distribution companies.

National Transmission System (NTS)

The high pressure gas transmission system in Great Britain.

O

Operating Expenditure (Opex)

The costs of the day to day operation of the network such as staff costs, repairs and maintenance expenditures, and overheads.

Operating Margins (OM)

In relation to gas the OM is gas in storage which is reserved by the NTS to ensure the supply of gas is maintained in the event of a network emergency.

R

Regulated Asset Base (RAB)

The value ascribed by Ofgem to the capital employed in the licensee's regulated transmission business.

S

Scotia Gas Networks (SGN)

The GT licence holder for the Southern and Scotland GDNs.

Scottish Independent Undertakings (SIUs)

Four remote towns in Scotland that receive degasified gas via road tankers loaded at the Glenmavis LNG facility.

T

Transmission Price Control review 4 (2007-12) (TPCR4)

The TPCR established the price controls for the transmission licensees which took effect in April 2007 for a 5 year period. The review applies to the three electricity transmission licensees, NGET, SPTL, SHETL and to the licensed gas transporter responsible for the gas transmission system, NGG.

Transmission System Operator (TSO)

The system operator has responsibility to construct, maintain and operate the NTS and associated equipment in an economic, efficient and co-ordinated manner. In its role as SO, NGG NTS is responsible for ensuring the day-to-day operation of the transmission system.

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:

1. Do you have any comments about the overall process, which was adopted for this consultation?
2. Do you have any comments about the overall tone and content of the report?
3. Was the report easy to read and understand, could it have been better written?
4. To what extent did the report's conclusions provide a balanced view?
5. To what extent did the report make reasoned recommendations for improvement?
6. Please add any further comments?

1.2. Please send your comments to:

Andrew MacFaul
Consultation Co-ordinator
Ofgem
9 Millbank
London
SW1P 3GE
andrew.macfaul@ofgem.gov.uk