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Our Reference SF/Ofgem/1/12

Dear James,

"Determining revenue drivers for South East exit capacity" Ofgem Consultation 19th December 2011

Thank you for the opportunity to comment on your consultation "Determining revenue drivers for South East exit capacity". It is expected that a Notice under section 23 of the Gas Act 1986 will follow the consultation as necessary to make any changes to Special Condition C8E of the National Grid Gas plc ("National Grid") Gas Transporter Licence in respect of the National Transmission System (the "Licence"). This response is made on behalf of National Grid as licensee for the Licence.

The consultation considers the determination of revenue drivers for South East exit capacity in regard to power stations and storage projects. In general National Grid agrees with the approach outlined within the consultation document.

The inclusion of new revenue drivers within the Licence is necessary to facilitate anticipated requests from developers in the SE area. National Grid welcomes the potential timeframe for implementation in the first part of 2012 as some developers have indicated that they want to submit their exit capacity applications as soon as possible.

Detailed answers in relation to the specific questions raised by Ofgem in its consultation are included in the attached addendum.

Please do not hesitate to contact Debra Hawkin (debra.a.hawkin@uk.ngrid.com) or me if you wish to further discuss any aspect of this response.

Yours sincerely,

Steve Fisher
Gas Access and Charging Development Manager

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CHAPTER: Three

Question 1: Do you agree with NGG's proposed approach of introducing a 'banded' revenue driver to meet generic CCGT incremental capacity demand in the South East?

National Grid believes that a 'banded' revenue driver provides the most flexible solution to meet generic CCGT incremental exit capacity demand in the South East. National Grid has been approached by a number of project developers concerning potential projects and it is not certain that all of these projects will materialise. This approach avoids the problem that arises when the capacity applied for is not equal to a precise quantity that may be stated within the Licence. There is also no need to know which specific sites will progress as the revenue driver would be applicable to all, or any combination of, potential sites within the SE location. The 50 GWh/day increments have been chosen to allow for such flexibility.

Question 2: Do you agree with NGG's proposed approach of introducing a separate revenue driver to meet potential storage site demand for incremental capacity in the South East?

National Grid believes that a separate revenue driver is needed to meet potential storage site demand for incremental capacity in the South East as storage sites and power stations have different ways of operating. In particular, power stations are expected to take gas off the NTS at times of high demand whereas storage sites are unlikely to want to inject gas into storage on days of high or peak demand. In addition the anticipated storage sites are in a different geographical location to the anticipated power stations and as such require different network investments.

Q3.Question 3: Do you agree with the proposed 50 GWh/day increments used in modelling the banded CCGT revenue driver?

National Grid believes that the proposed 50 GWh/day increments used in modelling the banded CCGT revenue driver is appropriate as it is uncertain at this stage how many of these potential power station projects will materialise. In addition there is no certainty as to which particular projects will materialise and therefore the precise load increases are uncertain. Using a banded approach it will be possible to ensure adequate, whilst cost efficient, remuneration to facilitate the necessary network investment for those projects that do actually proceed without requiring individual revenue driver calculation and multiple consultation with Ofgem and the wider industry. The analysis and tax banding has been capped at an increase in capacity of 250 GWh/day since, at this present time, increases above this level are considered unlikely. In the event that incremental exit capacity in excess of 250 GWh/day is requested, a revenue driver may be required for the additional amount.

Q4. Question 4: Do you agree with the network modelling approach adopted by NGG? Are there any other factors we should consider?

National Grid feels that the assessment of the likely constraints which drive the requirement for network investments must be restricted to those based on credible scenarios. National Grid believes that the modelling approach adopted does this.

Q5. Question 5: Do you agree with the data input modelling assumptions adopted by NGG?

With regards to the descriptions of the modelling assumptions, National Grid would like to note the following minor corrections to this consultation document. They are listed below by paragraph number:

Power stations

3.12 The 2015/16 base network model includes all current system infrastructure and reinforcements planned for completion in readiness for the 2015/16 gas year. This therefore reflects National Grid's best view of the network in 2015/16.

3.14 GDN flex capacity has also been included in the demand assumption for 2015/16.

3.16 The quoted forecast level of supply for Bacton is 107.66mcm/d rather than 27.5 mcm/d.

Storage sites

3.19 The 2015/16 base network model also includes all current infrastructure and planned reinforcements as noted in 3.12 above.

3.22 The following correction applies to this paragraph: **All** GDN offtakes were assumed to be at forecast levels for both the 350 mcm/d and 400mcm/d analyses.

3.22 The minimum supply flow level at Bacton is dependent on the forecast level of demand and should read 27.35 mcm/d for the 350mcm/d demand analysis level and 27.64mcm/d for the 400mcm/d demand analysis level.

Question 6: Do you agree with the 400 mcm/day demand forecast assumption for modelling the storage site reinforcement requirements?

National Grid agrees with the 400 mcm/day demand forecast assumption for modelling the storage site reinforcement requirements. National Grid considers this level of demand to be the highest credible demand level at which storage operators might consider injecting into storage. It is difficult to anticipate the necessary supplies becoming available such that storage operators could realistically inject into storage at higher demand levels than this.

CHAPTER: Four

Question 1: Do you agree that adopting the unit cost assumptions used by NGG in its TPCR4 rollover business plan submission is appropriate for deriving the revenue driver values?

Given the timing of this consultation, National Grid believes that it is appropriate to use the same cost assumptions as have been used for the TPCR4 rollover settlement and as it is currently using as part of its RIIO-T1 business plan submission.

Question 2: Do you agree that it would be appropriate to incentivise NGG to seek a contractual solution, where feasible, to meet some of the South East incremental capacity signals?

National Grid agrees with the principle that it is appropriate to consider the most efficient solution to meet additional network capability. Contractual solutions are sometimes available that are more appropriate than network investment. However, it should be noted that the operation of the revenue driver mechanism already provides an incentive on National Grid to implement contractual solutions where these are efficient and economic. This is because inefficient investments are unlikely to be approved by Ofgem for inclusion into the RAV following the completion of the 5 year SO allowance. With regard to the SE incremental signals, as the anticipated level of incremental capacity is high and due to the nature of existing supply and demands in the SE area, it is highly unlikely that sufficient suitable contracting solutions would materialise in practise.

Additional comments

The revenue driver analysis has been completed in regard to specific anticipated capacity requirements for the two storage projects considered. National Grid believes that in order to facilitate the application of an appropriate revenue driver for these projects that the licence should be drafted with sufficient flexibility such that a request for a capacity level 'close to' the stated levels should trigger the release of the revenue driver. This will avoid the need for further Licence changes should the requested capacity not exactly meet that originally anticipated.