The voice of the energy industry

National Grid Gas Transmission's Consultation on Entry Capacity Release Methodology Statement

16 January 2023

About Energy UK

Energy UK is the trade association for the energy industry with over 100 members - from established FTSE 100 companies right through to new, growing suppliers, generators and service providers across energy, transport, heat and technology.

Our members deliver nearly 80% of the UK's power generation and over 95% of the energy supply for 28 million UK homes as well as businesses.

The sector invests £13bn annually and delivers nearly £30bn in gross value - on top of the nearly £100bn in economic activity through its supply chain and interaction with other sectors. The energy industry is key to delivering growth and plans to invest £100bn over the course of this decade in new energy sources.

The energy sector supports 700,000 jobs in every corner of the country. Energy UK plays a key role in ensuring we attract and retain a diverse workforce. In addition to our Young Energy Professionals Forum, which has over 2,000 members representing over 350 organisations, we are a founding member of TIDE, an industry-wide taskforce to tackle Inclusion and Diversity across energy

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Energy UK welcomes the opportunity to respond to this consultation and notes more time has been provided than in April last year, albeit this straddles the Christmas period.

Energy UK agrees with the high-level discussion of the risks presented in the consultation document and that there are diverse views on the balance of these risks across the industry. We are however disappointed that the document does not contain more analysis and insight, especially given industry feedback since the intervention in April 2022 that more analysis is required to reach an informed view. This should include details of the calculation of the estimated potential £20M per day constraint cost, the route by which such costs are incorporated in charges and reflected in customers' bills, distillation of the Gassco maintenance plans, with comparison against historical flows and consideration of increased LNG supply to Germany in 2023. These are largely factual considerations which would make the consultation more complete. Whilst we accept other analysis such as the probability of constraints occurring, potential for increased imports at Grain, impacts on wholesale prices, UK and North West Europe market dynamics and the attractiveness of the GB market impacted by regulatory uncertainty require a greater degree of judgement. It seems that a view has been formed without a more in depth consideration of these issues., but we consider that is needed to reach an informed decision to find the appropriate balance between constraint risk and market disruption through regulatory intervention. .

We also agree that LNG operators and shippers at Milford Haven are best placed to provide more detailed comment on the impact on cargoes, but there do seem to have been cargo cancellations in summer 2022 due to the restricted capacity at Milford Haven, even though flows out turned below capability levels. Perhaps more headroom would help here without leading to physical constraints. Such cancellations of cargoes may occur again even if on the day flows can be accommodated, since releasing additional capacity in the very short term does not really help the situation when cargoes are booked ahead of those timescales. An issue that has not been explored is whether other LNG terminals may benefit from withholding capacity at Milford Haven and whether this approach could be discriminatory even recognising the interaction of the commercial regime and physical capabilities.

Energy UK also has concerns over the estimate of potential constraint costs, given there is limited experience of costs when constraints do occur, utilising data from 2006 for buybacks when wholesale prices were substantially lower and applying a percentage uplift to the forward gas price may not be appropriate at current pricing levels. We note that Ofgem also has concerns over the approach to the calculation of constraint costs based on a 50/50 split between buybacks and location actions as detailed in its Wormington Compressor Emissions - Final Preferred Option document[1]. This shows that buyback is a more expensive option, so we think the Milford Haven analysis should be reworked, using a range of assumptions rather than a single set of parameters.

National Grid has helpfully provided an extract of the specific Gassco maintenance plans[2] which may impact supply to GB and seem to be the main driver for its proposal to limit capacity release at Milford Haven. This is based on the assumption that additional LNG may be delivered to Milford Haven to support high levels of export flows at Bacton during these maintenance periods. There are many variables here which need more assessment. However, we observe that flows via Versterled in summer 2022 were at relatively low levels, with market conditions in 2023 likely to be similar to 2022, with strong demand from the EU to refill storage. With respect to fields that contribute to supply into Easington the situation is more complex given offshore infrastructure capable of directing flows to the UK or EU. In any case we observe that maintenance at these fields only covers a period of a few weeks not the whole summer period, although straddling months. In our view this does not justify limiting capacity release for the whole summer.

[1] https://www.ofgem.gov.uk/publications/consultation-wormington-compressor-emissions-final-preferred-option section 4.5

[2] https://www.gasgovernance.co.uk/sites/default/files/ggf/2023-01/2.0%20Milford%20Haven%20Jan%2023.pdf

Energy UK would also like to reflect on the concept of baselines, which were introduced as a defined output of the price control settlement a few iterations ago so that industry and Ofgem had certainty of what capacity would be made available, for the revenue National Grid is allowed to recover. With baselines and revenue being adjusted when signals for investment are provided. At both entry and exit the aggregate baselines far exceed peak demand, but this was an accepted feature of the arrangements. Seasonality of baselines was not explicitly considered but buyback tools (capacity and energy) with appropriate incentives on National Grid were put in place to manage constraints should they arise. Yet it seems when those tools may be needed to manage a potential constraint, it now seems unacceptable to use them. This kind of regulatory intervention is damaging for GB's reputation for having a stable regulatory regime and risks impacting investment in GB. It sets the risk of precedent for other constraint events, yet unforeseen at other terminals or other points on the network. We note that GB remaining a competitive destination for gas is an objective in Ofgem's Forward Work Programme[3] for 2023/24 so we hope that if Ofgem approves any proposal to limit capacity release it explains how it is consistent with this objective.

There are also further questions about 2024 and beyond. It seems the issue can be broken down into two elements; network capability which will be below baseline in the summer unless investment is made and the risk of flows exceeding capability. This would suggest that a solution is required to the former on an enduring basis, irrespective of the likelihood of it being an issue. This would avoid this being an annual consideration. Until there is an enduring solution, can a longer-term view be provided soon? We are aware that the Western Gas Project may impact capability in 2024. The situation is very unsatisfactory and further compounded by regulatory inconsistencies within and across National Grid's licence, the UNC and methodology statements. From a shipper perspective the UNC is its contract with transporters, but this is not inline with the rest of the regulatory framework with respect to the release of capacity. This is clearly not a sustainable situation; a review is required to address these points to provide confidence in the regulatory framework.

Given the lack of further analysis and insight, it is difficult to provide an informed view, but at this time we would lean towards avoiding further intervention to restrict capacity release, due to the wider market and longer-term risks this carries, accepting these are difficult to quantify and a balance needs to be struck between the possible costs of constraints, the impact of regulatory intervention and providing for efficient utilisation of the pipeline form Milford Haven. If intervention is considered necessary, a more detailed assessment of the cost impact to shippers is needed to weigh against the wider impacts or an alternative approach considered as in discussions at the Transmission Workgroup on 5th January 2023, which we consider warrant further exploration.

[3] Ofgem's draft Forward Work Programme for 2023/24

- Release capacity at a value between that proposed and the baseline to provide headroom to support cargoes being contracted but which is unlikely to lead to a physical constraint
- Amend the timetable for capacity allocation to support LNG contracting
- Commit to release capacity monthly / weekly more consistent with the Gassco maintenance plans.

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