

Sarah Lloyd
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Dear Sarah

Re: Consultation on the NTS “Entry Capacity Substitution Methodology Statement” issued 11 December 2014

Thank you for the opportunity to respond to this consultation. As adjacent Transmission System Operators, the availability of capacity in both of our systems is of utmost importance to ensure the free flow of gas within the single market for Energy.

We believe that it is wrong to assume that 835.56 GWh/day of NTS entry capacity can be potentially substituted away from the NGG Bacton terminal as of 01/10/18. The European Capacity Allocation Mechanisms (CAM) Network Code will require, from November 2015, IUK’s Bacton entry/exit capacity to be sold as bundled products combined with National Grid’s Bacton entry/exit capacity. Separately, BBL’s Bacton capacity will also need to be bundled with National Grid’s. The new rules will require the technical capacity to be maximised on each side of the interconnection point (IP). This means that 803.4 GWh/day of IUK exit/NTS entry capacity will be required for the IUK/National Grid bundled product and in total 1297.8 GWh/day of NTS entry capacity will be required to match both BBL and IUK’s capacity. Indeed we note that following extensive consultation on CAM implementation in GB, Ofgem has proposed that the amount of entry capacity available at a newly defined Bacton Interconnection Point ASEP will be equal to the sum of the technical capacities of the two interconnectors¹. We also question if the proposed Bacton IP ASEP can be compared directly with other other GB entry ASEPs in the future, noting that different allocation, incentive and potentially tariffs will be applied to the Bacton IP ASEP under European Network Code obligations.

Given that all firm capacity must be bundled at IPs under the new European rules, we are keen to ensure that capacities either side of the IUK/NGG Bacton IP can be matched. Substituting National Grid’s NTS entry capacity away from the Bacton IP may reduce the amount of capacity available to be bundled with IUK. The resulting residual IUK capacity would be less attractive to the market. This could also have a potentially detrimental impact to GB security of supply as the sterilised capacity may not be maintained as available for GB supply. With the Interconnectors alone capable of using 73% of Bacton baseline entry capacity plus sizable UKCS production flows into Bacton, any substitution of capacity away from Bacton would have a detrimental impact on GB security of supply. Alternative supply sources may be unable to deliver gas into GB. Substituting capacity away from Bacton dilutes the ability of shippers to use existing supply sources such as BBL, IUK and UKCS to supply the GB market.

¹ Ofgem’s statutory consultation on proposed licence modifications to facilitate the implementation of the Capacity Allocation Mechanisms Network Code in Great Britain, published 15th December 2014. www.ofgem.gov.uk

With a trend to more short term capacity bookings, in part due to a number of European policy initiatives designed to facilitate more short term cross border trade, a cautious approach needs to be taken when considering the future demand for capacity and whether any capacity can be substituted from Bacton, especially as flexibility in gas infrastructure will become increasingly important to GB as indigenous gas sources decline and power generation requires gas to back up renewables. It should be noted that existing Bacton capacity has been important in providing additional supplies, often at short notice, during times of supply-stress; for example record IUK flows were delivered to GB at the end of the winter in March 2013 when a combination of low storage stocks, diversion of LNG and offshore production difficulties meant that IUK alone provided in excess of 20% of GB daily gas requirement from continental gas markets.

We therefore believe it is important that the approach to NTS entry capacity substitution is consistent with the NTS exit capacity substitution methodology which correctly recognises NGG's obligations under the Security of Supply Regulation and also European Third Energy Package requirements in terms of making maximum technical capacity available cross border. Under this approach, as a minimum, the interconnector capacity would be protected from any substitution.

If you have any questions about our response please do not hesitate to contact me. We look forward to seeing the final methodology statement.

Yours sincerely,



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Senior Regulatory Economist