



Entry Capacity Release Methodology Statement Consultation Conclusions Report

12TH September 2013

Executive Summary

Introduction

National Grid Gas plc (“National Grid”) is the holder of the Gas Transporter Licence (the “Licence”) in respect of the National Transmission System (the “NTS”). Special Condition 9A of the Licence requires National Grid to prepare an Entry Capacity Substitution methodology statement (ECS).

National Grid is also obliged, under the Licence, to review the ECS at least once every two years in consultation with relevant Shippers and interested parties.

In accordance with the above Licence Condition, on 02nd August 2013 National Grid initiated its consultation on the proposed Entry Capacity Substitution methodology statement and invited views in respect of the proposed revisions to be made by 30th August 2013.

This document sets out National Grid’s conclusions on the consultation. It provides a summary of the representations received, National Grid’s response and an indication of whether changes have been made to the statement as originally proposed.

Responses

Representations were received from three respondents listed below.

- EdF Energy (EdF)
- BBL Company V.O.F. (BBL)
- Interconnector (UK) Limited (IUK)

The main area of concern raised through this consultation relates to the perceived conflict between potential substitution at Interconnection Points and compliance with the forthcoming CAM Regulation obligations, which amongst other, necessitates the need to provide a bundled capacity product to Users.

Detailed comments from the respondents and National Grid’s response to these comments are provided in the following table.

Party	Issue	Response Quotes	National Grid Response	Proposed changes
1- General.				
EdF	Revised Licence	We note that in its consultation covering letter NGG NTS indicated that it proposed changes to align the ECS references and terminology with the revised Gas Transmission Licence.	Noted	No changes proposed
EdF	Capacity Terminology	We welcome the retention of the capacity terminology section within the ECS. It helps to provide industry with clarity over the Licence terms and illustrates how substituted entry capacity is treated.	Noted.	No changes proposed
2- EU Regulations				
IUK	Substitutable Capacity	We believe it is wrong to assume 740.8 GWh/day of NTS entry capacity can be substituted away from the NGG Bacton terminal as at 01/10/17.	Subject to the exceptions detailed in the ECS, Substitutable Capacity is defined as any unsold Obligated Entry Capacity. This reflects the principle that if capacity is required it will be bought by Users. If it isn't, it can be substituted to other ASEPs to where it is required. On this basis, currently 740.8 GWh/day of Substitutable Capacity exists at Bacton ASEP. It should be noted that the values given in Appendix 1 are indicative. If capacity is sold in the QSEC auctions, the quantity available for substitution will be reduced accordingly. Users are also able to purchase retainers which would also reduce the amount available for substitution. Hence Users have the option to protect capacity from being substituted by choosing to purchase or retain it.	No changes proposed
BBL	Substitutable Capacity	We note that in Appendix 1 of the proposed ECS (v4.1) it is assumed that 740.8 GWh/day of the total baseline capacity of the Bacton terminals of 1783.4 GWh/day is substitutable capacity as of 01-10-2017.		
BBL	Substitutable Capacity	Whilst not fully conversant with the Capacity Substitution process we believe it is inappropriate for NGG to suggest that Substitutable Capacity at Bacton can exceed the total Bacton entry capacity minus the total exit capacity of the BBL and IUK pipelines. We believe it would be unhelpful if gas that shippers wished to nominate into the NGG system from the BBL pipeline was denied entry because capacity had been substituted to another entry point.	We agree that it would be unhelpful if gas that shippers wished to nominate into the NTS from any location was denied entry because previously available capacity had been substituted to another entry point. Equally, it would be inefficient if National Grid invested in new infrastructure to provide additional capacity when there was unsold capacity available nearby. Entry capacity substitution tries to balance these differing	No changes proposed

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			<p>criteria. As a result transparent rules have been developed to treat all Users at all ASEPs in a non-discriminatory manner which should encourage Users to buy capacity (or take out a retainer) if they are concerned that capacity at that ASEP might be substituted away.</p> <p>If substitution proposals were to be based on the capacity requirements at Interconnector Points (IPs) it would be necessary to take account of the existing level of sold capacity at these IPs. It is therefore worth noting that whilst there is a quantity of unsold capacity at the Bacton ASEP a substantial quantity has been sold. Some of this sold capacity may have been bought to flow at IPs. As National Grid is unable to establish which individual System Entry Point (SEP) the capacity has been purchased for substitution proposals cannot be developed at SEP level.</p>	
IUK	CAM / Bundled Capacity	The European Capacity Allocation Mechanisms 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.	<p>National Grid is aware of the CAM Regulation and the future requirement, amongst other obligations, to offer a bundled capacity product.</p> <p>A fundamental requirement of a bundled capacity product is that there is a match between the capacities at either side of the Interconnection Point. Where there is more capacity available at one side of the Interconnection Point, the surplus can be made available as an unbundled product. Hence there is no requirement (other than through an obligation to cooperate) to retain NTS Entry Capacity at Bacton if there is an apparent lack of demand for it.</p>	<p>Insert new paragraph 87. "In the event that the application of the methodology detailed in this Statement results, in National Grid's opinion, in proposals to substitute Non-incremental Obligated Entry Capacity that may reasonably put National Grid in breach of its obligations with respect to EU Regulations (in particular the obligation to offer bundled capacity at Interconnection Points as required by the Capacity Allocation Mechanisms) National Grid will discuss with</p>
IUK	CAM / Bundled Capacity	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 will be matched. Substituting National Grid's NTS entry capacity away from Bacton may reduce the amount of capacity available to be matched with IUK. The resulting residual IUK capacity would be less attractive to the market.		
BBL	CAM / Bundled Capacity	You will be aware that a number of European network codes are being introduced over the next few years; in particular the CAM code requires bundled capacity to be made available between adjacent TSOs. This means that BBLC and NGG will need to offer all available capacity to the market as bundled capacity units.	<p>Should substitution of Bacton capacity occur, the remaining capacity will be available to IUK Users, and equally to Users at the other Bacton SEPs. It is not possible under the current Bacton arrangements to isolate capacity for IUK/BBL (the same applies to sold capacity as detailed above).</p>	
BBL	CAM / Bundled Capacity	Substituting more entry capacity at the Bacton Terminals than the sum of exit capacity of the BBL and IUK pipelines, could lead to the possibility of non-compliance by both NGG and adjacent TSOs in respect of the CAM network code and	<p>National Grid will comply with all applicable legislation and will work with adjacent TSOs as necessary to ensure compliance.</p>	

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		might also have security of supply implications for the UK in times of high gas demand.	<p>National Grid is aware of the concerns expressed by interconnector operators. Like all TSOs we intend to comply with CAM Regulation when this comes into force. However, we do not consider changes to the substitution methodology are appropriate at this time. We believe that currently the risk of non-compliance with CAM, related to the current substitution arrangements, is better addressed at the stage of National Grid submitting substitution proposals to the Authority. At this stage an assessment can be made of the risk of non-compliance presented by a particular substitution proposal. The Authority may then veto any such proposals.</p> <p>To implement the CAM Regulation within GB National Grid believes that the Bacton ASEP will need to be split (discussions with all parties will be required) and it should then be possible to isolate IP capacity within the substitution methodology where appropriate.</p>	Ofgem whether it is appropriate for this element of its proposals to be vetoed by the Authority.”
IUK	Technical Capacity	The new rules will require the technical capacity to be maximised on each side of the interconnection point (IP). This means, 807 GWh/day of IUK exit/NTS entry capacity will be required for the IUK/National Grid bundled product and in total 1301 GWh/day of NTS entry capacity will be required to match both BBL and IUK’s capacity.	In respect of the NTS, the Technical Capacity is not defined for individual SEPs, but is aggregated for the whole Bacton ASEP. Additionally, the NTS is an integrated network rather than a less complex single pipeline and hence the determination of the capacity at any given point is not straightforward. Therefore, National Grid’s methodology for the determination of Technical Capacity differs from that of IUK and others.	No changes proposed
BBL	Technical Capacity	We believe that, together with capacity already sold, the total available NGG capacity at Bacton must not be lower than the maximum of the BBL exit capacity of 494.4 GWh/day to comply with the CAM code. The same arrangements will also apply in respect of IUK which, we believe, will create a total capacity requirement at Bacton significantly higher than the proposed non substitutable capacity of 1042.6 GWh/day.	Whilst, it is not our intention to decrease the capability of the NTS such that we might be in breach of the CAM Regulation, under current arrangements Bacton capacity cannot be retained for the sole use of BBL/IUK Shippers. Capacity that is not sold is available equally to all Users at Bacton ASEP whether it is for UKCS or Interconnector purposes. Hence it is not only substitution that has an impact on CAM, it is also the aggregation of BBL/IUK SEPs within the Bacton ASEP. Hence no additional changes to those mentioned above are proposed.	
IUK	Security of 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	We agree that reducing capacity at ASEPs can limit the ability of Users to land supplies at those ASEPs. This concern applies at all ASEPs with the possible exception	No changes proposed

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		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 simply dilutes the ability of shippers to use existing supply sources such as BBL, IUK and UKCS to supply the GB market.	of de-commissioned sites. The suggestion is therefore, that substitution should apply only at ASEPs where it is known with certainty that capacity won't be needed in future. Whilst this might aid security of supply, it might be inefficient by leading to unnecessary investment. It can also be argued that if someone is willing to buy capacity this is an indication that they are likely to "use" the capacity and therefore this increases security of supply. As such one way that National Grid can assist in security of supply is by encouraging Users to buy long term capacity. Substitution may encourage Users make such longer term capacity purchases.	
IUK	Consistency with Exit	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 third package requirements in terms of making maximum capacity available cross border. Under this approach, as a minimum, the interconnector capacity would be protected from any substitution.	Where practical and appropriate we aim to propose rules and processes that are consistent across entry and exit capacity. We believe that applying a similar rule to define Substitutable Entry Capacity as is used for Exit (i.e. we will not substitute to below the adjacent TSO's Technical Capacity) is currently not practicable because of the aggregation of several SEPs within the Bacton ASEP. Any possible future disaggregation of the Bacton ASEP to create stand alone ASEPs, will enable this issue to be re-visited.	No changes proposed
3- Drafting / Editing Issues				
NG	Typing error		Team name in contact details is incorrect.	"Transmission Network Services" changed to "Transmission network Service".
EdF	Minor drafting error	Page 4: Title: About the Statement.	Agree.	"Document" changed to "Statement"
EdF	Minor drafting improvement	Page 4: Define NTS as per paragraph 1.	The reference to NTS on page 4 is part of the definition of the Licence, i.e. the licence uses the abbreviated "NTS". Hence, we believe a definition within the main text, as for paragraph 1 is inappropriate. However, we believe that a footnote can be added here.	Page4, line 3. Footnote added to define NTS. Note: We believe it is useful to retain the duplicate definition in paragraph 1.
EdF	Improved clarity	Para 10: Add the Licence reference for Legacy TO Entry Capacity (Special Condition 5F. Determination of Incremental Obligated Entry Capacity volumes and the appropriate revenue drivers to apply - Table 8).	Agree	End of paragraph 10: Licence reference added.

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EdF	Improved clarity	Para 13: To assist stakeholders to find the document, can NGG add either a specific link or describe further exactly where the document could be found.	A link to the area containing all National Grid's capacity methodology statements is given in paragraph 6. We believe this is sufficient. National Grid will soon be refreshing its website. When this change is implemented we will review all the links (and consider including more) within all our capacity statements.	No changes proposed.
EdF	Terminology	Para 32: Amend Network Code to UNC for consistency across document.	We believe that the current reference is correct as Users sign individual transporter's Network Codes, not UNC. However, we accept that this section could be improved.	Paragraph 32 amended to clarify that the requirement is for a party to accede to NG NTS's Network Code.
EdF	Improved clarity	Diagrams 2 and 3: Update example dates from 2013 as Statement will be valid from January 2014.	Diagram 2: Agree Diagram 3: Disagree. This diagram looks at future allocations, hence has been drafted for a 2015 QSEC.	Diagram 2 dates amended.
EdF	Improved clarity	Appendix 1: For clarity to industry, it would be beneficial if NGG inserted a footnote for 'Obligated Capacity' stating "This figure is made up from Licence Baseline Entry Capacity and Legacy TO Entry Capacity that has been adjusted for substitution".	We added the diagram in paragraph 8 to demonstrate how capacity is categorised for Licence purposes, and thereby to avoid repeated, often lengthy, detailed definitions. For the avoidance of doubt, in addition to the terms mentioned by EdF, Obligated Capacity also includes previously released Incremental Obligated Entry Capacity that has not yet been classified as Non-incremental Obligated Entry Capacity.	No changes proposed.

Summary

Only one significant concern has been raised by consulted parties. National Grid is not proposing a fundamental change to the substitution process to address this issue, but is proposing that in certain circumstances it may be appropriate for substitution proposals to be vetoed by the Authority. We welcome the additional points raised which correct minor errors or add greater understanding for readers. Other significant amendments being proposed to the ECS, in excess of those raised as a result of this consultation are detailed in the consultation cover letter.