National Grid Gas Transmission Stakeholder Engagement Consultation

There are a number of areas where our stakeholders have asked us for further explanation, or we would like to discuss a topic in more depth with stakeholders in order to be able to develop our business plans. We would welcome your thoughts on the questions listed below.

We request that you provide your answers by **5pm on Friday 18th November**. Responses received by this time will be taken account of in our business plan development. When responding can you please provide us with your name, contact details, the name of the organisation you represent and whether your response is confidential.

We have scheduled a workshop for 10th and 11th November, where we will be discussing the topics surrounding the questions below. We would be pleased to welcome you at this workshop where you will have the opportunity to discuss the topics below with National Grid staff, in order to aid your responses to these questions.

If you have any queries please email talkingnetworkstransmission@uk.ngrid.com or call Graham Frankland on 01926 653667 or Claire Spedding on 01926 655915.

Responder's Details

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Is your response confidential? **No**

Business Plans

Q1-3. Did you find our business plan documentation easy to navigate? Did you find the content contained within our documentation easy to understand? What did you particularly like/dislike about the presentation of our plans?

The comments which follow are those reflecting a common view among GSOG members who may also have specific issues to raise in their individual responses,

Overall, GSOG appreciates the effort made by National Grid Gas (NGG) in publishing the documents which comprise this Business Plan including different levels of detail.

However, we struggled to link the many sections of the initial plan with RIIO set of outputs; NGG documentation does not follow the same structure of "Ofgem Decision on RIIO Strategy" (31 March 2011).

In certain areas, like "customer connections" and "network flexibility" NGG has not provided sufficient information for stakeholders to fully understand and assess the proposals. On a number of occasions essential information has been referred to the "detailed plan" annex, which was published 12 weeks later. This split of information made it difficult to assess the overall effectiveness of the proposal.

Q4. What improvements could be made in terms of content, structure or format?

NGG could align the structure of the plan to the one adopted by Ofgem's RIIO Strategy, as divided into the following parts: primary outputs and secondary deliverables, uncertainty mechanisms and financial issues. This make it easier to consider the NGG and Ofgem documentation.

Q5. In terms of the business plans themselves did we represent your views and previous feedback correctly? And do you think we have incorporated it into our plans correctly?

GSOG appreciates the effort made so far by NGG in addressing stakeholders' issues in the initial business plan. However, we believe that the following areas have not been completely addressed yet and require further development:

- ***customer connection***: the proposed framework, as reported in the detailed plan, is not comprehensive in a number of areas which are necessary to

assess whether it has the potential to deliver new connections in a timely and efficient manner.

- ***network flexibility***: it is not clear how the current set of NTS capacity products (commercial measures) can support the level of flexibility forecast for the RIIO period.

Managing risk and uncertainty

Q6-7. Do you agree that uncertainty mechanisms should be employed to adjust allowed revenues where the associated costs are uncertain and outside of our control? If not, what other mechanisms do you consider could be appropriate? Do you believe that the range of the uncertainty mechanisms proposed is appropriate?

We understand that a lot of effort has been made by NGG in trying to assess the appropriate level of investment that is required during RIIO period. We also understand that the *uncertainty analytic model*[1] aims to quantify the eventual divergence from forecast to actual cost of delivering each output subject to uncertainty. We are confident that NGG and Ofgem are in the best position to judge the validity of such a statistical exercise, especially by taking into account eventual cost optimisation across reinforcements due in the same area, e.g. South-East.

Overall, we believe that a sustainable business plan should focus equally on assessing the right level of investment as well as setting a proper mechanism that adjusts such a level in due course. In particular, we did not understand how the proposed specific *re-opener for entry/exit incremental capacity* would practically work in the proposed phased-approach[2]. We expect NGG to provide further details during the development of a governance framework for new connections (see answers 19-21).

[1] as presented at the Stakeholder event on 8-9th Nov

[2] Initial Business Plan, Managing Risks and Uncertainties, §68; AND Initial Business Plan, Detailed Plan Annex, §60

Moreover, it is not clear whether the *Income Adjustment Event* mechanism[3] has been considered to be rolled-over in the RIIO control period. If it has, it would be useful to understand how this process will fit within the proposed *incremental capacity re-opener* and *capacity buyback incentives*?

Charging

Q8-10. Are predictability and transparency your key concerns in relation to charging? Why? Changes to tariffs can be caused through changes to the methodology that dictates how tariffs are calculated, changes to the inputs to that methodology and new products being offered. Which of these factors are of most concern to you? Charges are made up of a residual element, changes to which alter the charges all customers pay, and a locational element, changes to which change the relative signals between customers. The predictability of which of these elements is most important to you and why?

A sustainable Business Plan should set out the prerequisites for developing a charging methodology that addresses price predictability, stability and transparency. These three attributes are essential to enable storage operators develop *bundled products[4]:*

- *predictability:* indicative transportation charges should be known enough in advance (at least one year) to allow storage operators to shape bundle products and arrange the necessary booking of NTS capacity rights;

[3] as currently set by Special Condition C8C 3 (b) of the Gas Transporter Licence

[4] in this context, we refer to storage products that incorporate storage rights (withdrawal, injection and space) and transportation rights (entry/exit capacity), so that the delivery of the product occurs at the NBP instead of the storage facility. The development of such products is consistent with art. 15(1)(b) of the "Regulation (EC) No 715/2009" (3rd Energy Package) and Guideline C of the "Amendment of the Guidelines of Good Practice of Storage System Operators" (ERGEG, Feb 2011)

- *stability*: once the products have been allocated to the market, material changes in the transportation charges may undermine the value of the products themselves;
- *transparency*: both charges and charging methodology should be easily accessible and understandable by both storage operators and customers.

Q11-12. Can we do more to help you understand and predict NTS charges? Do you have any suggestions as to how we can improve predictability/transparency?

We believe that current arrangements[5] provide a good level of transparency. However, current licence obligations prescribe the publication of an estimate of eventual changes in an "Indicative Notice" published only 150 days in advance. Although GSOG recognises the effort demonstrated by National Grid to beat this obligation by publishing indicative charges in advance of the minimum requirements[6], we believe that additional work is still necessary to develop a sustainable methodology in respect of Enduring Exit Capacity Charges[7]. The sooner the methodology is set, the sooner network users will be provided with the required level of predictability on charges.

Q13. Changes to the SO related costs can be caused by the cost of services required by the system operator or the number of those services required. How well are the SO related costs communicated to you?

Since a number of different elements affect the neutrality pot and, therefore, final invoice items, we believe that a better explanation of the interaction between SO costs and invoiced charges may help shippers to understand the costs of SO services. A charging guideline/tutorial to the industry made jointly by National Grid and Xoserve may fit this purpose.

[5] as subject to the UNC governance of the Transportation Charging Methodology Forum.

[6] we refer to the multiple publications made in advance of July Application Windows for Exit Capacity in the Enduring period.

[7] as currently under developed by UNC Modification Proposal 356

Q14. Our current understanding is that funding for the provision of incremental capacity will be provided via the TO control and therefore will be subject to the RIIO principles relating to fast/slow money. What impact does this have on you?

It will depend on the governance framework of NTS connections to be implemented (see answers 19-21).

Network Flexibility

Q15. Do you agree or disagree that we should retain the investments in our plan that relate to supplies in Scotland?

No comments; our understanding is that this is a matter of NGG's licence obligations

Q16. Do you agree or disagree with our proposal that for all other network flexibility investments we continue to do the initial low cost development work, to keep the investment option open. However, with a strong recognition that actual significant investment would only take place if our analysis/ further stakeholder discussion demonstrated that it was the right option (given the range of other rules and tools that might be considered?)

GSOG agrees with NGG that current planning of investments should take into account the expected flexibility required by the system as a consequence of an overall increase of flow volatility, in terms of both geography and timing. GSOG also agrees with NGG that the key for planning additional investments is the reasonable prediction of future flow of gas supply and demand. Giving high level of uncertainty on the latter, it seems reasonable to keep open the investment option.

Q17. Do you agree or disagree that our uncertainty mechanisms should provide the industry with sufficient comfort that investment will only go ahead if it has truly been shown to be the best option for UK plc., whilst also enabling options to be kept open at this time?

NGG should ensure that shippers do not face inefficient network constraints when meeting unexpected patterns of demand and supply by withdrawing gas previously

secured in storage facilities. The level of investment in network assets needed to address such issue should ensure that the NTS has the flexibility required to reliably deliver gas under agreed scenarios. Financial allowances have to be set accordingly to ensure that NGG will be fairly remunerated for the capital employed at the given level of risk.

Q18. How should we take the topics of wind intermittency and developing the 1 in 20 planning obligation forward as an industry?

Continuous engagement with the industry on future demand and supply forecasts as well as monitoring ongoing projects should ensure that NGG has the necessary information to run all the necessary statistic exercises to get the most confident forecast. We believe that the TBE process proved to be a useful tool in this sense.

We also feel that there should be the maximum possible coordination (subject to constraints of commercial confidentiality) between the gas and electricity control centres to ensure that NGG has as much advance warning as possible of anticipated significant changes in gas demand.

Q18-bis. Further suggestions

1. GSOG believes that further clarity is needed on the release methodology of the Enduring Exit Flexibility Capacity product, as it represents a key element to facilitating short-term commercial decisions to inject gas-in-store and, in turn, supporting inter-days supply/demand flexibility.
2. GSOG agrees with the recent proposal to raise a UNC Modification Proposal[8] to review current shape and methodology of system balancing alerts and safety monitors. In fact, we believe that transparent, credible timing of signals on system imbalance positions support shippers' quick decisions to divert from their standard strategy.

[8] as decided during the Transmission Workgroup (Issues) of 11th October 2011

Connections and Capacity Processes

Q19. What is most important to you – having capacity available in defined timescales or having a physically firm product?

A storage developer who applied for a connection to the NTS would expect to be able to flow, from the first day of commercial operations and in both directions (entry and exit), any amount of gas up to the maximum per day, as signalled during the application process (both connection and capacity release processes). A percentage of the signalled capacity may be needed on the exit side only but some months in advance of commercial activities in order to inject into the reservoir the required amount of cushion gas[9].

Q20. Do you agree that the development of a suitable connections process (such as UNC Modification 373) should be prioritised ahead of address the capacity process?

As noted by NGG[10], GSOG believes that Mod 373 positively addresses the lack of formal governance for user's applications of a new NTS physical connections; however, it does not address a number of outstanding issues (see paragraph Q20-bis). We do not believe that the development of any of these "sub-frameworks" (connection, capacity or other processes) should be prioritised ahead of the others; instead, it is important that the resulting governance framework ensures the most efficient implementation of the relevant RIIO primary output.

Q20-bis. Further relevant suggestions

- The development of a physical connection should be strictly **linked with the release of commercial capacity**; key milestones during the connection

[9] "*cushion gas*" is the volume of gas needed as a permanent inventory to maintain adequate reservoir pressures and deliverability rates throughout the withdrawal season

[10] Gas Transmission Detailed Business Plan, §55, pag. 18

process should ensure that the release of capacity proceeds in parallel, as for the initial plan; when any process is delayed, the other should accommodate such delay, so that capacity and connection will be made available on the same day (or period) designated for starting the operations; this would avoid circumstances where the developer has to bear the cost of any element (connection or capacity) without having the chance to start the operations, because the other key element has been delayed for any reason.

This link is necessary to achieve the RIIO primary output of "customer connection", perceived in its entirety, whatever process is needed to secure the connecting operator to flow molecules of gas in/out of the network.

- In addition to being linked together, physical connection and capacity release processes should also be **linked to other third-party processes** (e.g. IPC, licencing, …) that are relevant for the success of the connecting project. Key milestones during the connection process would check the current status of the various processes, ensuring they all proceed as initially planned.

  The need to run the processes in parallel is due to the time length required to secure a new connection (up to 10 years[11]). If the building of the physical connection as well as the release of commercial capacity would require no more than a couple of years overall, it may be sensible to trigger such processes after the developer has solved all planning issues and start building the facility.

Q21. What is your preference for taking these discussions forward for future development? Through a transmission workstream group, an alternative or new industry group, or via another route?

In addition to Modification Proposal 373, GSOG believes that further arrangements should be included into the UNC to define a sustainable governance framework that deals with all aspects of the connection process. A new Modification Proposal to be developed in a dedicated sub-workgroup of the UNC Transmission Workstream may

[11] Gas Transmission Detailed Business Plan, §57, pag. 19

be the most efficient way to capture all industry relevant issues. This new Mod would need to take into account the arrangements already developed in Mod 373 (if the latter is implemented). We understand that a new Mod will be raised soon by National Grid[12]. GSOG will be happy to continue to support the development of a sustainable governance framework.

System Operator (SO) and Transmission Operator (TO) Interaction

Q22. Do you believe there is sufficient depth and long term certainty in the provision of commercial services to negate the need for large-scale physical reinforcements of the network?

See answer 17

Q23-25. Commercial solutions have the potential to create volatility charges, whereas investment solutions allow greater certainty. To what extent should theis be taken into account in deciding on the optimal solution? Should we consider investment to mitigate environmental impacts beyond that which is required by legislation? Should network security (including 1 in 20 obligations) be met through physical/asset solutions only, or should we consider greater risk through SO/commercial solutions?

No comments

SO Incentives

Q26-28. Would in-house trading of the electricity Shrinkage requirement be appropriate for National Grid Gas, as Gas System Operator, to consider as a means to procuring Shrinkage electricity for the RIIO-T1 period? What is driving these

[12] as discussed at the Stakeholder event on 8-9th Nov

increasing levels of imbalance? Do you consider that a maintenance incentive would have value? If so, what behaviours should any incentive drive?

No comments

Future Engagement

Q29. What have you liked about our Talking Networks engagement?

GSOG appreciates the organisation of stakeholder workshops dedicated to gas transmission issues. We believe that many useful suggestions have been made by the industry at previous events and captured by NGG Business Plan. We suggest NGG continues to engage with its stakeholders in this profitable manner.

Q30. What could we have done better?

Future events and consultations related to gas transmission should focus on topics that shippers are in a position to reply on. In other words, we believe that certain questions posed in this and previous consultations fall outside the scope of network users' interest, e.g. questions around NGG's internal risk management practices or investment options in Scottish assets to comply with GT licence obligations.

Q31. What do you like / dislike about the day-to-day stakeholder engagement activities we carry out? For example, the SO Incentives consultation, new transmission route consultations. What else could we do?

No comments

Q32. How would your organisation like to be consulted in the future?

GSOG will be happy to continue to be involved in future stakeholders' engagements. In particular, we hope that the views resulting from GSOG workgroups on RIIO-related issues will continue to provide useful suggestions to help National Grid improving the drafting of National Grid Business Plan.