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Informal Consultation on Proposed Changes to Capacity Methodologies
– Response from National Grid Distribution

Dear Sarah,

Further to the publication of the proposed revised Capacity Release Methodology Statements and Capacity Methodology Statements on the 18th December 2014, we welcome the opportunity to provide feedback.

We note that the proposed changes relate to a number of UNC modifications raised to ensure compliance with EU Regulation 984/2013. Whilst National Grid Gas Distribution (NGD) has no concerns with these proposed changes, there are other areas of concern within the Statements, in particular the requirement for User Commitment (and the associated liability) where there is likely to be no significant increase in risk or cost to National Grid Gas Transmission (UKT) whether through capital expenditure on the NTS, contractual alternatives or constraint management actions. In addition, current rules prevent Distribution Network Operators (DNOs) moving capacity allocations between NTS Exit Points (UKT does have some discretion to facilitate this, but, crucially, the DNO does not).

As Gas Transporters, we have licence obligations to facilitate 'the efficient and economic operation of the pipe-line system', and 'the coordinated, efficient and economic operation of (i) the combined pipe-line system, and/or (ii) the pipe-line system of one or more other relevant gas transporters' (Standard Special Condition A11 1(a) and (b)). NGD is of the opinion that the current User Commitment rules prevent DNOs from reacting promptly to pricing signals and hence cannot flex the operation of the Distribution Network as efficiently as would otherwise be the case. This then limits the extent to which we can operate the pipe-line system in the most economic and efficient manner.

NTS Pricing Signals

UKT issues the NTS charges annually in the Spring via the Statement of Gas Transmission Transportation Charges (and at different times of the year through adhoc changes). Changes in the way (i.e. the location) that gas supplies are input to the NTS is resulting in new

charging patterns. For example, NTS Exit Points to the South of an area may have lower exit capacity charges than more Northerly NTS Exit Points. Previously, the opposite was the case. Users, and consumers, could, therefore, benefit by moving capacity bookings. However, where a User Commitment is in place, rules may prevent capacity reductions. Even in the absence of a User Commitment, matching increase and decrease nominations at different NTS Exit Points could only be accepted at UKT discretion. This lack of choice to the user applies even where there would be no increased risk or cost to UKT.

NGD recommends the amendment of the Exit Capacity Release Methodology Statement (ExCR) to allow DNOs to fully respond to the pricing signals sent out by UKT. This would lead to the creation of greater flexibility across the whole of the UK Gas Network to the benefit of Customers.

System Flexibility

As mentioned above, changes have been occurring in gas supply patterns. As a consequence, NTS flexibility has been a discussion point since before the start of the RIIO-T1 period, and more recently through the Industrial Emissions Directive (IED) consultation. NGD believes that the issue of greater NTS system flexibility is not limited to the provision, modification, and operation of NTS infrastructure (mainly compressors) but also presents risks and opportunities for Users. This is further complicated by the lack of clarity in describing System Flexibility in the UNC and EXCR. We believe that minor changes to the NTS Exit Capacity regime (either the ExCR or UNC TPD Section B) would allow these risks to be managed and the opportunities taken.

Regime Inconsistencies

At an LDZ level, new connections are assessed on a 'first past the post basis', meaning that capacity is allocated until the final connection triggers investment. The cost is then determined for the latest connection and they may then incur a specific charge.

At NTS level, any increase to a User's allocation of Enduring Annual NTS Exit (Flat) Capacity will trigger a User Commitment regardless of whether or not the release of Incremental Obligated Exit Capacity is required. Even where the release of Incremental Obligated Exit Capacity is required and there is no cost or risk to UKT (e.g. capacity substitution) a User Commitment is created.

Although we accepted the justification for universal application of User Commitment at the time of "Exit Reform", we believe that a review of the User Commitment rules is now appropriate and changes are necessary.

For clarity, we are questioning the circumstances under which a User Commitment will or will not apply and where applicable, what is an appropriate length of commitment.

Customer Benefit

User Commitment can, in some cases, lead to the sterilisation of capacity which ultimately, the Customer will pay for. We feel that where this is unnecessary, the relevant DNO (who purchases capacity on behalf of the Customer) should not be held to the four year commitment, but instead should be free to flex their requirements, resulting in a positive or neutral outcome for all parties concerned from the NTS all the way through to the Customer.

In those instances where, as a result of the capacity increase request, the release of Incremental Obligated Exit Capacity is required, Exit Capacity Substitution will be considered. NGD proposes that discussions are held with the relevant parties giving them the opportunity to put forward reductions at viable sites. Adopting this approach would help to maintain balance both on the NTS and for the downstream parties.

NGD would like to facilitate the development of a regime where the movement of capacity is enhanced and encouraged. We are not looking to lock in capacity (to effectively sterilise it), but would seek to ensure the overall balance is maintained through appropriate efficient Increases and Reductions to Enduring Annual NTS Exit (Flat) Capacity allocations.

To minimise the need for multiple reviews and consultations, NGD would like to take the opportunity to work with UKT and other industry parties to carry out a prompt review of the User Commitment (and related capacity reduction) rules. Any potential changes to the ExCR (and, if necessary, the UNC) can then be proposed alongside the formal consultation needed to introduce the proposed European changes.

Whilst there may be a number of complexities to be resolved, NGD would like to progress this matter as promptly as possible and so would welcome your opinion as to what the next steps may be.

Please contact Shiv Singh [e-mail: shiv.singh@nationalgrid.com and tel: 07580 999 287] if you would like to discuss any of the above.

Yours sincerely,

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