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Gas Charging and Access Development
National Grid
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23 March 2009

Dear Andrew,

RE – Consultation on the NTS Exit Capacity Release Methodology Statement (ExCR) in respect of the Transitional and Enduring Exit Periods

British Gas Trading welcomes the opportunity to provide this response to the above consultation.

The ExCR Statement has an important document which defines the processes for the release of exit capacity and this review will now help to clarify how exit capacity will be managed and released as the industry moves through a transitional period towards an enduring exit regime commencing on 1 October 2012.

Overall, the document is well organised and contains a considerable level of detail on a range of possible scenarios requiring capacity management and release. We expect that there will be on-going evolution of this document as first we enter the transitional period and perhaps encounter issues that had not been previously considered and second, as thoughts turn ever more to planning for the enduring period, there will be a need to better articulate some of the UNC business rules such as the treatment of overruns and the deemed application for enduring capacity. The intimated development of business rules for interruption and flexibility capacity will most likely also lead to a requirement to further amendment of the Statement.

Our specific comments on the current draft of the Statement are as follows:

Covering Letter - User Commitment Issues with Initialisation

We understand the issue described in the covering letter and agree that the proposed solution is appropriate.

However, this solution may not be sufficiently broad to capture all such transitional problems and further consideration of how the User Commitment is applied and/or fulfilled would be worthwhile. We make 3 suggestions for improvement as follows:

1. Put back the latest date for assessing a user's historical capacity holdings to 31 March 2009.

This would mean enduring capacity applied for in July 2009 that

(a) does not require a revenue driver and

(b) is below or equivalent to the transitional firm capacity at that exit point allocated before 1 April 2009

would not attract a User Commitment.

Since the new ExCR has a planned implementation date of 1 April 2009 it would be reasonable to extend the latest capacity holding date to the end of the current ExCR document's applicable period, i.e. 31 March 2009.

We acknowledge that the change would not alter the rules for allocating initial enduring capacity but would contribute to the more sensible approach for the application of User Commitments that is being developed through this ExCR consultation process.

2. Allow Capacity Payments in the Transitional Period to Contribute to the User Commitment Amount

In the event that a user is required to apply for enduring capacity in July 2009 to make up any shortfall between its capacity holding measured at 31 March 2009 and its initialised level, then

- the User Commitment Amount will be based on either best forecasts of charges for the next 4 years or 4 years' worth of charges based on the prevailing rate at 1 April 2009 and
- the user's contributions towards the User Commitment Amount will commence with capacity charges paid on 1 April 2009.

Therefore, monetary contributions towards fulfilment of the User Commitment would begin on 1 April 2009 and not be delayed until 1 October 2012. This will ensure that a user is not unfairly allocated a prospective User Commitment as a result of the initialisation rules and acknowledges the user's commitment to holding and using the capacity by virtue of its capacity payments during the transitional period. Otherwise, a 7-year user commitment would effectively apply.

3. National Grid to Proactively Facilitate Capacity Assignments

This would enable a user wanting to secure enduring capacity to require National Grid to enquire whether or not current or prospective holders of enduring capacity at an exit point are willing to release capacity by means of assignment. In the event that a release is available, National Grid would facilitate the assignment.

We believe that such a process would provide for efficient management of existing capacity and possibly avoid the need for National Grid to unnecessarily invest in incremental capacity. We note in particular that the differing lead times for applying for and releasing enduring capacity could give rise to inefficient capacity usage and provision (for example, users might seek to have enduring capacity assigned to them from 1 October 2012 rather than apply for enduring capacity in July 2009; National Grid might have to wait until July 2011 to be certain of the release of initialised capacity and have to invest, possibly unnecessarily, in incremental capacity to meet the capacity signalled in July 2009.)

ExCR - Part A

Taken in isolation we are not persuaded that an ARCA should necessarily impose a 4-year User Commitment. Whilst this may be consistent with the enduring period, the transitional period should be considered separately and retain a 1-year commitment. However, a 4-year commitment would be more acceptable if National Grid were to accommodate the 2nd suggestion made above to afford essentially the same rules to capacity applications made as a direct result of capacity shortfalls following the initialisation exercise.

ExCR - Part B

In paragraph 11 a reference is made to an “unambiguous User Commitment” for triggering release of incremental flat capacity. This is necessary to protect the investment made by National Grid and also to protect all other Users from having to subsidise any such investment in the event of a User (or Developer) default. UNC Modification Review Group 221 (Review Proposal 221 – Review of Entry Capacity and the Appropriate Allocation of Financial Risk) is currently addressing the implications of such defaults for entry capacity and how more appropriate credit arrangements and safeguards can be put in place. We trust that any developments to improve the safeguards for entry capacity will also be applied, as a holistic solution, to exit capacity.

Paragraphs 34 and 35 describe the need for pre-planning and discussion to ensure that the necessary foundations are laid to enable a successful application for enduring flat capacity where the successful application would result in the baseline level being exceeded. We are not convinced that this is the only route to success and question the length of time suggested as necessary to complete the pre-application process in addition to the lead time defined within the process for incremental capacity. We ask that National Grid considers the extent to which lead times can, by agreement with the Authority, be minimised and whether conditional prices or terms can be produced such that some activities could be operated in parallel rather than in sequence.

Given the introduction of a User Commitment Amount, it is important that the process for applying to reduce capacity is clear. We suggest that paragraph 67 (c) be more explicit such that it says “...at which point any associated User Commitment must have been, or **is forecast by National Grid to be, satisfied**”. This change will ensure that a user can have confidence that its application for a reduction will be unconditionally accepted, based on National Grid’s assessment of forecast prices and not therefore subject to any actual price changes that could result in the user Commitment not being met in full.

Yours sincerely,

Graham Jack
Commercial Manager