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Gas Charging and Access Development
National Grid
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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 a response to this consultation.

Introductory Comments

As expressed in previous correspondence on the subject, we are concerned about the introduction and development of business rules within this document.

The document should focus on describing and explaining National Grid's approach to implementing, and ensuring compliance with, NTS exit capacity requirements set out in the Uniform Network Code (UNC); it should avoid developing rules, processes and procedures that more appropriately belong to the more rigorous and open UNC modification process. Whilst it is within the gift of Users to raise UNC modifications to address this concern (as the ExCR correctly states the UNC rules will always take precedence over those of the ExCR) there would still be instances where, pending UNC changes the UNC is silent on certain issues and the ExCR arrangements would prevail in relation to them.

There are some specific examples of this which we will comment on later but one general area that we believe should be brought into the UNC is the suite of rules, largely developed within the ExCR, on User Commitment. The Supplementary Consultation in Appendix 2 of your letter accompanying the consultation document clearly illustrates how disjointed and ill-considered some of the User Commitment developments have been. Arguably, had those developments (e.g. on the creation and application of the User Commitment Amount) been considered more carefully under the scrutiny of the UNC modification process, a more transparent and rigorously assessed set of rules would have been delivered. We will comment on the Supplementary Consultation later in this response.

We ask whether National Grid would oppose, or be willing to promote, a UNC modification proposal to bring the User Commitment section of the ExCR under the governance of the UNC.

Specific Comments on the General Introduction Section

The newly suggested paragraphs 11 and 12 illustrate the disjointed processes that National Grid has for enabling on the one hand new physical connections or new connection facilities and, on the other hand the provision of additional NTS exit capacity. Further, we note in paragraph 12 that the entering into a Preliminary Works Agreement (PWA) to try to resolve problems arising from the disjoint will be at the discretion of National Grid. As a possible temporary solution this is unacceptable – we would expect National Grid to be required to enter into a PWA should an applicant request one in order to align the connection/ capacity dates. This will provide transparency on how these agreements will be offered and help National Grid to avoid the charge of acting in a discriminatory manner.

It would be helpful if National Grid could publish a generic form of PWA for the industry's consideration.

We referred to National Grid's new proposal as a possible temporary solution because we believe more needs to be done to rationalise or combine the connection and capacity provision processes. Discussions have been held between National Grid and shippers to assess what might be done to improve these matters but to date nothing definite has been proposed. This is another area where a structured UNC modification proposal may be required to deliver a transparent and enduring solution.

Specific Comments on Part A

New paragraph 6 refers to the need to include NTS Exit Points in the Licence in advance of the release of capacity. We want to see a clearly articulated process for enabling the necessary consultation by Ofgem to introduce new NTS Exit Points to the licence.

A new footnote to Table 1 refers to RIIO-T1 and the possible release by National Grid of NTS Offtake (Flexibility) Capacity where investment is required. We consider that it is very premature to introduce this concept to the ExCR. We are not convinced by the arguments put forward by National Grid at its recent Talking Networks workshop with respect to this.

The ExCR does not appear to provide for the cessation of the CSEP sub-certification process that underpins applications for NTS exit capacity at Connected System Exit Points. Currently, applications are restricted such that a year's worth of capacity is registered. Any such applications after September 2011 would be for registrations (under the transitional arrangements) for less than a year (the new, enduring regime commencing on 1 October 2012). We ask that National Grid clarifies the uncertainty on this point and promote a UNC modification, if required, to remedy it.

Specific Comments on Part B

Paragraph 38 refers to a methodology by which National Grid and the Authority will determine revenue drivers for incremental releases of capacity. This proposal has been in existence for a considerable time and we are disappointed that nothing has yet been put forward for consultation by the industry. Whilst we acknowledge that this will rely on the Authority's willingness to progress it we would still expect National Grid to keep this objective in clear sight. Ideally, a target date for implementing the revenue driver methodology should be included in the ExCR. In the event that the Authority disagrees with the thrust of paragraph 38 we would expect it to be amended or removed in advance of this version of the ExCR going live.

New paragraph 41 is of great concern in that National Grid admits the 38-month lead time for releasing NTS obligated incremental exit flat capacity will be "extremely challenging". To declare this, following root and branch review and years of development on exit reform, is perplexing and we are forced to infer that National Grid will be incapable on certain occasions of fulfilling its Transporter Licence and UNC obligations to provide incremental capacity within defined timescales and in response to pre-determined User Commitment.

We again note, in paragraph 42, a proposal to allow National Grid, at its sole discretion, to enter into a Preliminary Works Agreement (PWA) to help overcome the perceived problems with the default 38-month lead time. As we have already stated, we are concerned that National Grid's exercise of its discretion will not be transparent and likely to give rise to charges of discrimination in the services it offers.

We believe that another upshot of paragraphs 41 and 42 will be to seriously undermine Ad Hoc applications that require the provision of obligated incremental exit flat capacity – the Ad Hoc process does not guarantee capacity delivery dates and Users may therefore be pushed down the road of applying for the capacity via the more rigid annual application window to “guarantee” the capacity by a 1 October date.

Failure to honour capacity applications will play havoc with applicants' plans for their projects and could give rise to serious actual or consequential loss. We therefore request information from National Grid on what compensation will be provided in the event that it fails to meet a valid application for capacity.

Turning to paragraph 61 it is our full expectation that Modification Proposal 0347V (raised by British Gas Trading Limited) will be implemented to allow full capacity assignments from 1 June 2011. Whilst an implementation date has not yet been set the proposal has been sanctioned by Ofgem and paragraph 61 should reflect this.

We disagree with and object to new paragraph 68 and the associated footnote #23. Ad Hoc applications cannot specify capacity release dates beyond 1 October in Gas Year Y+4 (as set out in paragraph 50 of the ExCR) yet paragraph 68 now seeks to provide ARCA applications the scope to enable the release of capacity no later than Gas Year Y+6. This discriminates against Ad Hoc applicants (Users) in favour of ARCA applicant (non-Users). We can see where the idea of the 1 October Y+6 date comes from (i.e. the annual application process permits applications to commence from 1 October Y+4 and/or Y+5 and/or Y+6) but it is wholly improper to propose such changes via the ExCR. We consider that this is a prime case for where the UNC modification process should be used to effect such a change and if such a proposal were to be raised we would be looking for the same extension to the Ad Hoc process.

In paragraph 71 some new text is added that would provide National Grid discretion over whether it would reject a reduction request in the event that such a reduction would give rise to a negative capacity entitlement, as a result of existing or pending capacity transfers. We question why National Grid would allow for the possibility of negative holdings and how, if it were to, it would exercise its discretion. Therefore, further clarity would be welcomed.

Paragraph 75(a) refers to requests for capacity reductions with less than 14 months' notice and such requests would be granted at National Grid's discretion assuming the capacity can be usefully utilised elsewhere to help meet the requests of other Users. We want to see a more proactive approach taken by National Grid (more proactive than suggested by paragraph 77 in the ExCR) such that capacity not required by a User can be made available elsewhere. Therefore, National Grid should be required to issue reduction requests to all potential “donors” of capacity to help satisfy associated requests for increases in capacity such that savings can be made through avoidance of investment in incremental capacity. A UNC modification proposal should be raised to secure this and we again object to the inclusion of the proposed new drafting in paragraph 77 on the basis that these rules should be incorporated in and governed by the UNC.

We are not clear on what new paragraph 94 is attempting to state and would welcome further commentary and/or some examples to explain the proposal.

Paragraphs 102 and 103 make mention of negative capacity entitlements and we would welcome some debate at the Transmission Workgroup as to the validity and appropriateness of such entitlements and whether systems functionality does or should exist to prohibit them.

Referring to paragraphs 122 and 123 we again note that we expect full capacity assignment to be available from 1 June 2011.

Our comments above under “Specific Comments on Part A” also apply to Footnote #34 on page 57.

Comments on the Supplementary Consultation in Appendix 2 of the Covering Letter

We appreciate that the remarkable potential fluctuation in exit capacity charges at Moffat (and some other exit points) is cause for concern and we are engaged in the current review of the NTS exit capacity charging methodology to explore what appropriate steps might be taken to resolve this.

In this response we have expressed, as we have in previous responses, our general concern and dissatisfaction with the introduction or modification of key business rules via the ExCR methodology statement and our strong preference for the UNC to provide the requisite governance. With regard to this we have made specific mention of the User Commitment process and rules.

Our view, therefore, is that the issues addressed in this supplementary consultation should be addressed via the UNC modification process which can also now accommodate proposals to change the charging methodology.

Yours sincerely,

Graham Jack
Commercial Manager