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Dear Lesley,

RE – Informal Consultation on NTS Exit Capacity Substitution and Revision

British Gas Trading welcomes the opportunity to respond to this informal consultation and do so by providing answers to the questions set out in the consultation document. This response is on behalf of the Centrica Group of companies excluding Centrica Storage. Our comments are based on the information and results of analysis provided by National Grid during the substitution workstreams; we have no way of validating much of the information or results.

Section 2: The Exit Capacity Substitution and Revision Methodology

a. Are there any other factors that National Grid should consider in the analysis of exit capacity substitution and revision opportunities?

It would help to clarify over what projected time period the substitution analysis will be carried out and how potentially competing demands for substitutable capacity will be dealt with – for example, there may be a request for additional capacity at exit point A from year X and for additional capacity at adjacent exit point B from year X+3 – how would National Grid propose to efficiently allocate substitutable capacity – by looking at the short term requirement first, or, if more efficient, by looking at both requirements over the longer term?

Likewise, if National Grid unduly delays the release/ revision of NTS Exit capacity this could lead to sub-optimal decisions by users in where and when to invest in capacity.

b. Are there any aspects of the analysis that should be excluded or amended?

We agree that the approach should be consistent with other, related forms of analysis.

Section 3.1: Substitutable Capacity

c. Is this definition of Substitutable Capacity appropriate? If not, why not?

Paragraph 81 of the consultation document links substitution to the annual application window. Paragraph 25 of the Methodology Statement refers to the consideration of substitution following Ad Hoc or ARCA applications for capacity. It would therefore be helpful to include in the definition, for the avoidance of doubt, the circumstances under which substitution will be considered, i.e. in respect of any application for Enduring Annual NTS Exit (flat) Capacity.

Otherwise, the definition is, on the whole appropriate, but would be enhanced by the inclusion of any sold exit capacity that users might be willing to release, regardless of whether the sold capacity has a user commitment associated with it. The downside of this would be to add some complexity to the process of identifying and substituting capacity but it ought to provide scope for more efficient utilisation of capacity.

d. Bearing in mind other issues raised in this consultation document, are there any additional factors that should be included to limit the definition of Substitutable Capacity? If so, please justify such inclusion.

We have not identified any additional factors.

Section 3.2.1: DN Flow Swapping

e. Do respondents agree that the risk presented by exit capacity substitution to DNOs' ability to flow swap is not significant? If not, please quantify.

On the basis of the evidence presented at substitution workshops, we agree that the risk would appear to be low.

f. Are special arrangements that would exclude some/all DN offtakes from the scope of exit capacity substitution justified?

If exit capacity substitution has the potential to provide benefits to some DN offtakes then DN offtakes should not be excluded. As with other users, DN users will be responsible for procuring sufficient capacity to meet their needs and should therefore apply for capacity in a prudent manner.

g. How would the DN offtakes to be excluded from exit capacity substitution be identified?

We do not believe that DN offtakes should be excluded or given preferential treatment. We understand that National Grid might benefit as much from DN flow swapping as the DNOs and it might be argued that any special treatment for DNOs could therefore disguise capacity constraint problems. If flexibility in capacity management is seen as desirable then we would expect National Grid to make proposals that would embrace all categories of exit point, e.g. some form of zonal treatment of exit capacity.

Section 3.2.2: Interruptible Sites

h. Is National Grid's assessment of the risk to off-peak/ interruptible gas flows correct? If not, what have we failed to include and what are the implications?

We agree with the arguments set out by National Grid.

i. Are special arrangement[s] that would exclude NTS Exit Points using interruptible capacity from the scope of exit capacity substitution justified?

We have identified no justifiable reason for such an exclusion. Users had the opportunity to apply for Enduring Annual NTS Exit (Flat) Capacity form 1 October 2012 in July 2009 and should reasonably have been expected to foresee the potential risk of a higher incidence of curtailment arising from substitution.

Section 3.2.3: Interconnectors

j. National Grid would like respondents' views on the development of European Regulations, and specifically Article 16 of Regulation (EC) 715/2009. Is National Grid's interpretation of the regulations correct? Is National Grid correct in stating that existing processes comply with the Regulations as envisaged?

The main point of contention arising in the workshops was National Grid's interpretation of "technical capacity". It is our view that National Grid has not persuaded the industry that exit baseline capacity adequately correlates with technical capacity. Also, we believe that there remains the issue of the requirement for a long-term interruptible product and whether exit arrangements comply with it.

k. Are special arrangements that would exclude interconnectors from the scope of exit capacity substitution justified? If yes, what is the justification and should this be a permanent or temporary feature?

Interconnectors require significant quantities of exit capacity for the export of gas and their exclusion from exit capacity substitution might severely limit National Grid's ability to efficiently manage capacity. In the absence of any clear requirement/ European Regulation to the contrary, interconnectors should be included for substitution.

Section 3.3: Partial Substitution

l. National Grid would welcome views on whether substitution should only be applied where the whole incremental quantity can be satisfied through substitution or whether partial substitution is preferred.

National Grid should ideally utilise partial substitution where this provides for the most economically efficient provision of exit capacity.

m. Do you think that partial substitution is an added complexity that is disproportionate to the potential benefits?

The envisaged complexity would appear to relate to National Grid obtaining a revenue driver from Ofgem in the event that investment is required. We would expect National Grid and Ofgem to find a pragmatic solution to this so as not to inhibit efficient use of substitution. For example, National Grid might request a revenue driver for an investment-only approach (i.e. excluding substitution) at an early stage which would then be reduced by some prescribed mechanism should the inclusion of substitution provide a less costly solution.

n. Would respondents accept a delay to capacity allocations and release (subject to UNC modification) pending agreement of partial revenue drivers if banded revenue drivers are not available?

It is vitally important that allocations and release are notified to users/applicants at the earliest possible opportunity. We do not believe that delaying the provision of this information would be satisfactory. The regulatory risk identified by National Grid needs to be resolved through dialogue with Ofgem.

Section 3.4: Donor NTS Exit Point Selection

o. National grid would welcome views on its proposals for selection of donor NTS Exit Points.

The proposals seem reasonable on the whole. However, it is not possible for us to comment on whether the suggested approach provides a reasonable balance between delivering efficient solutions and reducing complexity without greater sight of the analysis and methodology.

p. Do respondents agree that selection on the basis of same pipeline first is appropriate?

It is not possible for us to comment on whether the suggested approach provides a reasonable balance between delivering efficienct solutions and reducing complexity.

q. Do respondents agree that selection on the basis of downstream donor points first is appropriate?

This approach does seem sensible to us.

r. Should any other criteria be considered?

More efficient solutions might be possible if National Grid were to invite users to release sold capacity that they no longer require, even if the capacity had a user commitment associated with it.

s. Bearing in mind their indicative nature, does the flow direction diagram add value to the methodology?

This information is helpful for users whilst not necessarily adding value to the methodology per se.

Section 3.5: Process Timelines

t. Would you be in favour of a change to the Licence removing the Authority's right to veto substitution proposals put forward to National Grid?

We believe that independent scrutiny of National Grid's analysis and proposals is essential and would therefore not be in favour of such a change.

u. Would you support a UNC modification proposal that seeks to remove or limit the additional application processes for DNOs following closure of the July application window?

DNOs' ability to efficiently apply for and obtain exit capacity should not be diminished as a result of capacity substitution.

v. Are there any other alternatives that could be considered that would extend the available time for analysis of substitution opportunities?

It would be helpful if National Grid could assess and report on whether it is adequately resourced to meet the envisaged workload and whether additional resources could be justified.

w. Do you support National Grid's proposal to not make available capacity, which may be subject to substitution away from an NTS Exit Point, from sale until the Authority's decision on substitution proposals is known?

This seems like a reasonable approach so long as the process and timescales for withholding the capacity are transparent.

x. What alternatives are available to manage the uncertainty of capacity availability for ad-hoc/ ARCA applications during the Oct-Dec period?

On the basis of a first-come first-served rationale, National Grid should assume that capacity identified for substitution would not be available for Ad Hoc applications made in the October to December window. However, if possible, could National Grid provide 2 options to an Ad Hoc applicant – one based on the substitutable capacity not being available, the other contingent on it being available? In the latter case, perhaps the applicant could be afforded more time to take up the offer?

y. Is it appropriate to cover such arrangements in the exit capacity substitution methodology statement or should it be specified in the ExCR methodology statement and/ or UNC?

Our preference is to have any new rules contained within the UNC, under governance arrangements accessible to all parties.

Section 3.6: Exchange Rate Cap

z. Should the exit capacity substitution methodology use an exchange rate cap to limit the impact of substitution on donor NTS Exit Points?

In principle, a cap should not be used if this limits the efficiency of substitution. However, there may be some merit in having a cap for a limited period of time from the introduction of ext capacity substitution to allow assessment of how well the methodology is working.

If an exchange rate cap is used:

aa. At what level should the exchange rate cap be set?

We suggest that the cap established for entry capacity substitution is used for exit.

bb. Notwithstanding that National Grid is obliged to review the substitution methodology on an annual basis, should the exchange rate cap be set initially at a low level in the expectation of being revised/ increased in future years?

We would prefer a "sunset clause" in the UNC that would remove the cap after, say, 2 years from the introduction of substitution.

Section 3.7: Exchange Rate Collar

cc. Should the exit capacity substitution methodology use an exchange rate collar to simplify the analysis of substitution proposals?

In principle, a collar should not be used if this limits the efficiency of substitution. However, there may be some merit in having a collar for a limited period of time from the introduction of ext capacity substitution to allow assessment of how well the methodology is working.

If yes:

dd. Is a collar set at 1:1 appropriate? If not, what alternative level should the collar be set to?

We suggest that the collar established for entry capacity substitution is used for exit.

If no:

ee. What alternatives/ simplifications could be considered for reducing the amount of analysis required?

We are not persuaded that a collar is required.

Section 3.8: National Grid/ Ofgem Discretion

ff. Do you believe that National Grid should have discretion to deviate from the approved methodology where the methodology would result in clearly inappropriate substitution proposals?

The answer to this question depends on what might be viewed as "clearly inappropriate". Our preference is to not allow discretion to National Grid (the methodology, when established, should be adhered to) but to invest any discretion with the Authority so long as the Authority's decisions are clearly explained, evidence based and capable of scrutiny.

gg. Do you believe that discretion should lie with the Authority to reject inappropriate substitution proposals?

This would be advisable, and preferable to vesting discretion with National Grid. This would be even more preferable if the Authority were to provide for independent scrutiny of National Gird's network analysis and adherence to the substitution methodology, thereby allowing some transparency for users.

hh. Do you agree that the Licence and Ofgem's statutory duties provide enough protection for the Authority to apply sufficient discretion to reject inappropriate substitutions?

We would expect the Authority to act in the best interests of consumers (existing and future) and do not envisage either the Licence or Ofgem's statutory duties deflecting from this.

ii. Do you agree that the methodology should allow discussions between Ofgem and National Grid to identify and eliminate inappropriate substitution proposals before they are submitted?

This would be sensible provided that the content, outcome and rationale of any such discussions is transparent and shared with users in a timely manner.

jj. Do you believe the Licence should be amended to make clearer the criteria by which the Authority will reject National Grid's substitution proposals? If so, what criteria should be included?

It is probably too early to ask/answer this question but it would help to identify those parts of the Licence to which Ofgem would make reference when making a decision.

Section 3.9: Transitional Rules

kk. Do you believe that any transitional rules should be included for the initial exit capacity substitution methodology? If so, what areas should be covered?

We agree that it may be sensible to have time-limited caps and collars in place from the introduction of exit capacity substitution. We do not believe that interconnectors should be excluded from substitution as suggested in the consultation document.

Section 4: Key Issues with Exit Capacity Revision

ll. Do you agree that exit capacity revision should only apply to the release of funded incremental obligated entry capacity where investment has been made in new infrastructure?

This is a reasonable view but one that needs to be backed up by a guarantee from National Grid that exit baselines will not be reduced as a result of changes to entry baselines, e.g. through entry capacity substitution.

Section 4.1: Process Timelines

mm. Do you agree with National Grid's proposal that exit capacity revision should be applied only when reliable gas flows are established and/or can be confidently assumed?

We are concerned that National Grid might choose not to release additional exit capacity in good time following a QSEC entry capacity signal, waiting several years to see whether the anticipated gas actually flows. This suggests a lack of confidence, on the part of National Grid, in the QSEC process and its effectiveness in providing meaningful and efficient investment signals. We would therefore like some further debate on this area and for National Grid to quantify the extent to which, historically, gas flows have failed to materialise when signals for entry capacity have been provided (blatant anomalies resulting from flawed UNC and Licence shortcomings, such as for Fleetwood, should be excluded). Furthermore, it is not clear when the exit baselines would be increased, allowing users to apply for increased quantities of annual or daily exit capacity before enduring exit capacity can be obtained.

nn. Is there an alternative that could allow revision to be applied earlier following entry capacity release in the QSEC auction?

If National Grid were confident in the QSEC process then the exit capacity baselines could be revised in line with the date from which the new entry capacity becomes available. We understand that the gas might not actually turn up but, equally, it might turn up for the first 2 years and then tail off depending upon the source and possible destinations for the gas.

Section 4.2: Recipient NTS Exit Point

oo. Do you agree with the proposal that notional exit points should be created as the only recipient exit point for exit capacity revision?

The idea seems reasonable for as long as National Grid is not obliged to make the additional capacity available but the capacity should be released for both July annual window applications and Ad Hoc applications as and when required.

If notional exit points are not used as suggested, how should recipient NTS Exit Points be selected?

It would be reasonable to allocate capacity to recipient Exit Points in such a way so as to maximise the additional capacity allocated having taken into account any capacity requirements to meet Ad Hoc applications.

pp. Irrespective of question oo, do you agree with the principle of creating a notional exit point for unallocated exit capability?

Please refer to our answer to question oo.

qq. Would the use of notional exit points require Licence change?

Possibly, both to account for the capacity and to facilitate substitution. By implication, a notional exit point might need to have a baseline.

Yours sincerely,

Graham Jack
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