Informal consultation on Exit Capacity Substitution and Revision
AEP[1] Comments

The Association welcomes the opportunity to comment on this informal consultation. The Association has been actively involved in the workgroups but would not wish this to imply support for the exit capacity substitution principles rather acceptance that National Grid is required to develop a methodology for exit capacity substitution and revision arising from its licence obligations. Whilst utilising existing infrastructure rather than undertaking further investment is a valid aim we continue to have concerns over potential impacts on system flexibility and security of supply.

We present our views in response to the questions listed below:

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

We do not fully understand why analysis should be undertaken with flows at the obligated level for exit points in the vicinity of the recipient exit point, whilst at the sold level at other points?

Section 3.1: Substitutable Capacity
c. Is this definition of Substitutable Capacity appropriate? If not, why not?

Yes but see response to question k

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.

See response to question k, in order to establish arrangements consistent with Capacity Allocation Framework Guidelines.

[1]The Association of Electricity Producers (AEP) represents large, medium and small companies accounting for more than 95 per cent of the UK generating capacity, together with a number of businesses that provide equipment and services to the generating industry. Between them, the members embrace all of the generating technologies used commercially in the UK, from coal, gas and nuclear power, to a wide range of renewable energies.

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.

Yes

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

No

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

Not applicable

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?

Yes we agree that there may be less capacity released at NG's discretion and curtailment of off-peak capacity rights may increase post substitution. In addition off-peak capacity users also face the risk that the rules under which curtailment of off-peak capacity occurs could change and perhaps the arrangements by which such capacity is made available. Such issues could affect CCGTs with back-up fuel capability and could contribute to security of supply concerns.

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

No

Section 3.2.3: Interconnectors
j. National Grid would like respondents' views of 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?

It is not clear why this point regarding the EU Gas Regulation 715/2009 is referred to in a subsection for interconnectors as our understanding is that the Regulation applies more widely than just at interconnection points.

The Association does not agree that the current arrangements are consistent with Regulation 715/2009.

Article Art 16.1 requires the maximum capacity to be made available whilst Article 18.3 requires TSOs to publish information on technical, contracted and available capacities. NG argues that it meets this by making available baseline and incremental quantities. This may meet the requirements of Art16.1 but does not meet the requirements of Art 18.3 since technical capacities are not published. Technical capacity is refined in the Regulation and means *the maximum firm capacity that the TSO can offer to the network users, taking account of system integrity and the operational requirements of the network*. As the exit baselines in the licence were based on previously booked or indicated levels it is highly unlikely that exit baselines equal technical capacity. This view if further supported by analysis presented at the workstream meetings that revealed that in some parts of the network there are significant amounts of spare capacity available which is not transparent to system users. Furthermore the recently agreed Transparency Guidelines require TSOs to publish a *detailed and comprehensive description of the methodology and process, including information on the parameters employed and the key assumptions, used to calculate the technical capacity.* We await with interest the publication of this methodology.

Also with respect to Art 16.3 we are not sure that the current arrangements allow for the sale of unused exit capacity on a dayahead basis should contractual congestion occur at interconnection points, nor that users can trade exit capacity. However we do acknowledge that the enduring exit arrangements in place form October 2012 would be more consistent with these points, but do not provide for compliance with article 14 with respect to the provision of a long term interruptible product .

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?

As a point of principle we cannot see why interconnectors should be excluded from substitution. However there are a couple of issues that NG may wish to consider in this respect and potentially exclude interconnectors from substitution until this EU legislation is fully implemented. Firstly Article 12 of the Gas Regulation 715/2009 requires TSOs to promote the coordinated allocation of cross border capacity and the Capacity Allocation Framework Guidelines which develops this into a requirement for the development of bundled entry / exit products at cross border points and for 10% of capacity being set aside for firm short term services. Also the Security of Supply Regulation which is going through the final stages of approval before being published in the Official Journal of the EU and coming into direct effect albeit with an implementation lead time on some issues. In particular, the need to consider regional co-operation between the UK, Ireland and beyond.

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.

The Association considers that it has not been provided with sufficient information to express a view on this issue. It may be for instance that the cost difference between laying a smaller pipe as opposed to a larger one is small compared to the overall cost of the project, such that it may be appropriate to opt for the large pipe to provide for future developments, enhancing system flexibility and potentially avoiding the need for further impacts on the environment of pipe laying.

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

Possibly

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

No. Delays to capacity allocations would not be acceptable. The issue of revenue drivers is a debate for NG and Ofgem and should not delay capacity allocation under any circumstances where a signal for incremental capacity has been given by a User or developer either in the July Application window or via an ad hoc application.

However If NG continues to insist that revenue drivers need to be agreed prior to capacity allocation we would urge NG and Ofgem to progress this work with some priority so that Users and developers can have confidence in capacity being made available when required and in consistent timescales with their project plans. Currently this issue adds risk to project development plans.

Section 3.4: Donor NTS Exit Point Selection

AEP supports the principles of transparency, predictability and efficiency with respect to the proposed substitution methodology not just the selection of donor exit points.

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

We support these proposals, with one comment regarding upstream analysis stopping at a compressor boundary. In such a scenario we would suggest that a longer term view is taken so that if future flows were likely to fall back to the current level (as energy efficiency development might suggest) then the incremental cost of increased workload on the compressor for a few days a year for a few years might be more efficient that building a new pipeline.

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

Yes

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

Yes – but not with a collar

r. Should any other criteria be considered?

NG should consider if a more efficient process may be achieved by requests to users to release sold capacity whether or not this has a user commitment associated with it.

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

Yes the flow direction diagrams add to transparency and predictability of the methodology. Variations to the published flow directions that may lead to substitution should be fully explained to support the principles of transparency.

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 by National Grid?

No – further scrutiny of NG's proposals is appropriate

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?

This would need full consideration of the issues and consequences

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

NG could engage more actively with parties requesting incremental capacity to anticipate their bookings and particularly DN's to understand the likely impact of rejection of their flexibility applications. NG could assess and report on whether it considers it is adequately resourced to meet the expected workload and what steps it could take to make additional resources available.

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?

We consider this is not a clear cut issue. It would seem rather odd if NG's substitution proposals to be submitted at the end November were not based on current information so we believe that any proposals should be mindful of ad-hoc or ARCA applications received after 1st October.

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

Enhanced transparency when the capacity allocations are made at the end of September concerning the likelihood of substitution in certain areas, without disclosing the specific exit points, may prompt parties to bring forward ad-hoc applications or at least flag their intentions to do so, so that potentially inefficient substitution might be avoided.

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?

We consider such rules should be incorporated into the UNC to provide for governance arrangements accessible to all users.

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?

Yes at least initially whilst the parties gain confidence in the process. As part of this, after the event NG should explain to the industry the how the substitution may have been different if a cap did not exist.

If an exchange rate cap is used:

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

We appreciate that any cap is arbitrary but 3:1 would seem a reasonable starting point

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?

This may be an appropriate way to proceed

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?

No, NG should employ more resources in the area of network analysis. If a 1:1 collar were applied this would by definition increase the amount of spare capacity on the network about which there is currently no transparency.

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

If no:
ee. What alternatives / simplifications could be considered for reducing the amount of analysis required?

NG should ensure it is properly resourced in this area to ensure an efficient process

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?

A methodology that is repeatable and auditable is important to the industry. There needs to be more discussion on what would be considered 'clearly inappropriate' substitution before the Association can express a view on this. NG provides an example of substitution away from interconnectors being potentially unacceptable, however if this were an accepted principle this could be incorporated in the methodology as a rule providing the required transparency.

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

Yes – so long as its decisions are clearly explained to the industry and based on sound evidence.

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?

Ofgem's statutory duties require it to act in the best interests of consumers so we would not expect licence conditions to inhibit 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 may be appropriate if the industry could be assured that the outcome and rationale of any discussions was shared with the industry.

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?

This may be necessary but would depend on the methodology

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 would support an exchange rate cap of 3:1, but not a collar unless there was transparency over the spare capacity created. Exclusion of interconnectors may be appropriate whilst EU regulations are implemented.

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?

Yes

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 flow are established and/or can be confidently assumed?

We appreciate NG's concerns here but note this could mean a lag of almost 10 years between an entry signal being made and any associated exit capacity revision being made. We consider this area warrants further analysis and debate.

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

NG could apply exit revision at the same time as the incremental entry capacity is released and manage any constraints through other means such as exit capacity surrender or buyback.

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?

Yes, even if exit capacity revision creates capacity that is then allocated to meet an exit capacity incremental request at the same point in time, this should be transparent.

In addition the Association considers that these notional points could be utilised as a 'parking place' for spare or unutilised capacity that currently exists on the network as a result of past investment. We do not consider it is necessary to distinguish between existing unallocated capacity and capacity assigned to the notional point as a result of exit capacity revision. If this were contemplated then analysis would be needed to determine the initial values based on a certain supply / demand scenario. We acknowledge that as the supply / demand situation changes that the amount of capacity held at the notional points will vary but this would be acceptable so long as variations are clearly explained. It may also be appropriate to consider if capacity held at notional points is exempted from exchange rate caps, else there may be artificial restrictions imposed on where the capacity held at notional points could be allocated. We consider this concept, if applied as described, may also be a step towards compliance with the requirements of the Transparency Guidelines regarding publication of technical capacity.

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

This would be difficult to define in any non-discriminatory, simple and transparent methodology. Also any allocation to specific exit points may then lead to restrictions of future substitution if exchange rate caps and collars are introduced.

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

Yes

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

The Association does not have a strong view on this issue

Specific comments on the Draft Methodology Statement

Recipient NTS Exit Point Order: Para 26 & 27 The Association does not fully understand this point. It would seem more consistent with the objective of reducing investment if the points with the largest revenue drivers were considered first for substitution as this would seem to maximise the investment avoided. A potential recipient point may not have a revenue driver simply because NG was not expecting to receive a signal at that point rather than it not requiring any investment if a signal is received. In the absence of a revenue driver it is not possible to say which potential recipient points should be considered first. This would seem to reinforce the points made above about revenue drivers and the need for a pragmatic process to establish them.

Footnote 4 we are not convinced it is consistent with the UNC to reject an application for NTS exit capacity due to the absence of a revenue driver.

Donor Exit Point Order – may be appropriate to say here that unallocated capacity will be allocated before substitution from notional points as per para 137 in the consultation document

Para 30 – Where flow directions used for substitution analysis change and this leads to substitution proposals which would appear inconsistent with these flow diagrams NG should provide an explanation detailing the differences from the supply / demand scenario used for charging.

Para 36 since the values of 3:1 and 1:1 for an exchange rate cap and collar are not in [] are we to assume this is NG's preferred view? See response to question cc.

Investment analysis: Para 43 see response to question b. The approach of setting flows at exit points in the vicinity of the potential recipient to the obligated level would seem to potentially prevent points in the vicinity from being donor points. There may be some logic to this if the expected donor points are some distance away and NG is concerned it will still have to offer baseline capacity at these points. However if a new exit point is in the vicinity of an extremity point that has a large amount of unsold capacity this approach may prevent what could be efficient substitution.

Partial substitution: Para 64 we are not convinced that NG should always reject partial substitution / investment, see comments under question l. However we do consider this to be a complex area.

Para 65 We do not agree that NG should be able to reject capacity applications due to the absence of a revenue driver.

Timeline the methodology provides little information on timelines, the consultation document at paragraph 81 included some commentary on this in relation to application made during the July window but there is no information on timelines for applications made via ad-hoc or ARCA applications.

Revision of NTS baseline exit flat capacity
We have no further comments on this methodology other than those which have been made in response to the specific questions above. We consider transparency over unallocated capacity in the network remains an important issue and is necessary for compliance with EU Gas Reg 715/2009.

06 Aug 2010

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