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Our Reference:
Your Reference:

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Dear Tim,

Informal Consultation on Exit Capacity Substitution & Revision

Thank you for providing SSE, with the opportunity to comment on the above consultation our responses to the individual questions are listed below.

a. SSE are not aware at this time of any other factors that should be included in the analysis of exit substitution.

b. SSE believe the sections of the consultation concerning Baseline capacity, a methodology to define determination of system capability, treatment of interconnectors and Collars should be developed further.

c. The definition of substitutable capacity which is defined as "Any unsold NTS baseline exit flat capacity at an NTS Exit Point" is appropriate. However, we disagree with the treatment of interconnectors; please see the response to questions j & k.

d. At this point in time SSE cannot identify any additional factors that should be included to limit the definition of Substitutable Capacity. Paragraph 19 of the Draft Exit Capacity Substitution and Revision Methodology defines it fully. However, we disagree with the treatment of interconnectors; please see the response to question j & k.

e. The industry believe that the effect of flow swapping arising from the exit capacity substitution is low and hence not significant.

f. No special arrangements or exclusions are required due to there being no additional risk to flow swapping.

g. Not applicable.

Interruptible Sites:

h. SSE agrees with NGG's assessment of the risk to off-peak / interruptible gas flows. There might be less off-peak capacity rights available post substitution. However, all parties have the opportunity to book firm NTS baseline exit flat capacity.

i. No special arrangements that exclude points from substitution are justified. The risk of curtailment to off-peak flows is a predictable consequence of favouring low (zero) cost off-peak capacity rather than purchasing firm capacity. Any risk to interruptible sites will only arise as a result of a definite decision by Shippers to relinquish firm capacity rights

j. SSE does not believe that the current proposals will be consistent with Regulation 715/2009. We do not agree that interconnectors should be treated as a special category of exit points and that the Regulation applies more widely to all exit points.

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. NGG argues that it meets this by making available baseline and incremental quantities. This does not meet the requirements of Art 18.3 since technical capacities are not published. Technical capacity is defined 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 levels it is 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 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 question if substitution should be introduced without the publication of this methodology.

k. SSE believes that special arrangements to exclude interconnectors from the scope of exit capacity substitution are not justified.

Partial Substitution:

l. Partial substitution is preferred as any incremental capacity shortfall can be satisfied through partial investment. This will lead to reduced costs and improved efficiency and be consistent with the aims of the substitution obligation.

m. Partial substitution complexities are described below:

- The incremental quantities for which funding is required will not be known until after substitution analysis is complete.
- Capacity allocation could be delayed until after the revenue driver is agreed and the substitution proposals approved.

However SSE believes that these can be mitigated by taking the following actions.

- Introduction of banded and/or generic revenue drivers
- The employment of more resources by NGG.
- A revenue driver to be agreed in advance of an application for the anticipated incremental signal and any partial investment level.

n. The issue of banded revenue drivers is a debate for NGG 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.

Donor NTS Exit Point Selection:

o. The Donor NTS Exit Points selection should be as transparent and predictable as is practicable and should result in the most efficient capacity substitution being proposed. This would mean the most efficient donor point would be the one that can be substituted at the lowest exchange rate and should be on the same pipeline as the recipient NTS Exit Point. It should also be the furthermost downstream available exit point.

However, SSE wants to comment on not considering donors when upstream of a compressor boundary. In such a scenario a longer term view could be taken so that when future flows fall back to the current level through demand reduction then the incremental cost of increased workload on the compressor for a few days a year might be more efficient that building a new pipeline.

p. Yes, as this will simplify the methodology of moving substitutable gas along the NTS system more efficient.

q. Yes, by moving flows from downstream to upstream of an off take point gas will travel shorter distances and will experience a lower pressure drop. However this should be done without a collar.

r. Points 75 to 78 clearly define the hierarchy based on which Donor points will be considered.

s. Yes they provide a clear outline of gas flows and enable better determination of the substitution opportunities. As in a complex system such as NTS, it might not always be apparent what is downstream and upstream. Hence the production of a diagram to show each substitution will aid understanding.

Process Timelines:

t. SSE is not in favour of a change to the Licence removing the Authority's right to veto. There is support for a process that provides Ofgem with oversight of proposals to ensure that inappropriate substitutions are not progressed.

u. SSE believes further clarification and industrial debate is required on this as modifying the UNC proposal will take away the rights of DNOs to reapply for flat capacity if their flexible capacity applications are rejected. On the other hand removal of the iteration will have an implication whereby unnecessary investment is undertaken.

v. NGG could engage more proactively to understand User's incremental flex and flat capacity requirements.

~~w.~~ SSE agrees with NGG that until the Authority's decision on substitution is known capacity from potential donor points should be not be offered for sale.

x. At this time SSE is unable to offer a solution.

y. Any arrangements should be covered in the exit capacity substitution methodology statement and in the UNC. SSE would always prefer industry methodologies to be included in the UNC, as this enables better governance.

Exchange Rate Cap:

z. A cap should exist, at least in the short term. This will ensure that inefficient substitution of capacity would not be permitted.

aa. SSE believes that a further discussion is required within the industry to find out an optimum exchange rate cap. SSE takes the view that any cap is arbitrary but 3:1 would seem to be a reasonable starting point.

bb. SSE believes that further discussion is required within the industry to agree a level of this cap. A low level e.g. 3:1 cap should be set initially, subject to review.

~~ee.~~ **Exchange Rate Collar:**

SSE believes that using an exchange rate collar to simplify the analysis of substitution proposals will not be beneficial. If a 1:1 collar were applied this will increase the amount of spare capacity on the network about which there is no transparency. Only NGG have knowledge of what the network can deliver and until the model and assumptions are made available to the industry or to Ofgem we have no proof that the capabilities of the network are being disclosed.

dd. No collars should be employed; this creates a lack of transparency of capabilities of the network.

ee. More resources need to be employed in the area of network analysis.

National Grid / Ofgem Discretion:

ff. As detailed in point 100 of the consultation, National Grid should not have discretion to deviate from the approved methodology. Deviation from the methodology would result in inappropriate substitution proposals as this removes transparency, repeatability and audibility and would lead to challenge.

gg. The discretion should lie with the Authority to reject inappropriate substitution proposals as a final check against unforeseen consequences that result in inefficient substitution.

hh. In a similar manner to the changes implemented on 23rd October 2009 for entry capacity substitution, under section 23, SSE believes discretion should lie with the Authority to reject inappropriate substitutions.

ii. At this time SSE is unable to offer a solution.

jj. Criteria should discourage effects of unforeseen consequences and inefficient substitution.

Transitional Rules:

kk. As substitution is a new concept SSE believes there may be merit in transitional rules. However, these rules have not been specified and further discussion within the industry would be required. As a starting point we would support an exchange rate cap of 3:1, but not a collar unless there was transparency over the spare capacity created.

Key Issues with Exit Capacity Revision:

ll. As detailed in point 111, exit capacity revision will only apply where physical investment in new entry infrastructure occurs.

Process Timelines:

mm. SSE do appreciate NGG's concern but we note this could mean very long delays between an entry signal being made and any associated exit capacity revision being made. This would not make the most of the capabilities of the network and is a very risk free position for NGG.

nn. At this time SSE is unable to offer a solution.

Recipient NTS Exit Point:

oo. SSE agrees with NGG that notional exit points should be created as the only recipient exit point for capacity revision as it simplifies the methodology.

pp. SSE agrees with the use of notional exit points, hence doesn't propose any other method for selection of recipient exit points. However SSE believes that it will be difficult to define in any non-discriminatory, simple and transparent methodology. Any allocation to specific exit points may then lead to restrictions of future substitution if exchange rate caps and collars are introduced.

qq. Yes it simplifies the methodology. After accounting for any capacity revisions, where incremental exit capacity is needed, any remaining capability can be placed at 'this' notional exit point. This quantity can be publicised and would be used in respect of any future exit capacity requests by substituting from the notional exit point to the incremental location.

rr. Use of notional exit point will not require a licence change as it is a temporary step in the process to modify NTS baseline exit flat capacity at one or more NTS Exit Points. National Grid states, that it would not be inconsistent with the current licence.

Please do not hesitate to contact me if you wish to discuss any of the responses to this consultation further.

Yours sincerely

Jeff Chandler
Head of Gas Strategy
Energy Strategy