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Exit Capacity Substitution and Revision



Summary of Informal Consultation Responses

Informal Consultation

- Aim of consultation
  - To document debate on issues discussed in workshops
  - To try to identify consensus on specific issues raised
  - To identify, and subsequently address, any further issues
  - To steer National Grid's development of final proposals
    - But final decision on proposals lies with National Grid, subject to Authority approval
- Held from 30th June to 6th August
  - Nine responses
  - All responses on website
  - http://www.nationalgrid.com/uk/Gas/Charges/statements/transportation/ExCapSubMS/

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Informal Consultation – General Comments

General Comments

- Section One looked at:
  - the background to the substitution and revision obligations and the development of proposals through a series of workshops; and
  - potential benefits.
    - difficult to quantify as forward looking, but
    - likely to be less than for entry substitution.
- Selected comments that give a flavour of responses:
  - EdF Energy - Opposes the implementation of this regime….. The optimal solution might be for a derogation;
  - AEP - Would not wish this [involvement in workshops] to imply support for exit capacity substitution principles rather acceptance….;
  - NGD – benefits of bringing in the proposed regime have yet to be quantified satisfactorily… Such analysis is essential and should be published prior to or at the time [of, the formal industry consultation];
  - Gaslink - Believe the regime could operate to inappropriately reduce capacity.
  - RWE – support the principle that investment to provide incremental capacity should not be taken unnecessarily……remain concerned about the further tightening of the NTS.
  - CSL – We generally like National Grid's approach. However…..

General Comments

- Consensus is one of opposition to the policy.
  - Accept the principle of avoiding unnecessary investment, but
  - benefits are limited and/or un-quantified and do not justify the risks.
- Key concerns are a reduction in system flexibility, and impact on security of supply (SoS), especially:
  - downstream of Moffat, and
  - impact on Storage Operators.
  - Also possible impact on the electricity regime due to increased off-peak capacity curtailment.
- No responses quantified the risks associated with reduced flexibility and SoS.
  - National Grid believes that Shippers and downstream operators are best placed to undertake any analysis of the frequency of curtailment as this requires knowledge of future incremental signals (location and size), capacity reduction requests, storage operation strategies, etc.

General Comments

- These concerns relate to the principle of the policy.
  - This is outside the scope of the consultation.
  - National Grid will put forward proposals for exit capacity substitution and revision that comply with the licence and, subject to compliance, best meets the needs of all industry parties.
  - A decision on whether to implement or not will rest with the Authority following Ofgem's impact assessment in early 2011.
- However, there is general agreement for simplicity provided that this is not at the expense of efficient solutions.

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Criteria for Substitution and Revision

Criteria for Substitution and Revision

- Section Two looked at the fundamentals of the process to identify substitution opportunities, e.g.:
  - Validation through network analysis
  - No material increase in costs

- National Grid asked whether other criteria should be considered.
  - Three issues were raised:

Criteria for Substitution and Revision

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1. Impact on security of supply should be considered, and capacity up to the maximum injection rate of storage facilities should be protected.
    - To exclude capacity at storage facilities from substitution may be discriminatory. To the extent that SoS is impacted this may justify different treatment. However:
        - it is National Grid's view that this may breach the user commitment requirement highlighted by Ofgem in workshop 1 as a key requirement of any proposal;
        - Substitution should not have any impact on SoS provided that Users obtain, and retain, sufficient capacity.
        - SoS could be enhanced by substitution as substitution encourages longer term capacity bookings.
    - Any network analysis to identify substitution opportunities could include an assessment of SoS. However, the process would be complex to define, resulting in reduced transparency, additional analysis requirement, increases subjectivity and potentially greater scope for challenge and dispute.
    - National Grid considers that SoS should not form a specific part of the substitution analysis. However, the Authority will be able to reject any substitution proposals that it considers contrary to its wider obligations, including SoS.

Criteria for Substitution and Revision

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2. Clarification of timings of substitution and revisions; revisions seem to be delayed too long.

- National Grid recognises that the consultation and draft methodology statement lacked detail on the timing of capacity substitutions taking effect (*timing of revisions considered in later slides*). This will be corrected in the methodology statement produced for the formal consultation.
- National Grid's current view is that substitution will be assessed:
  - following the July annual application window, and;
  - following receipt of a capacity request via an ad-hoc application or ARCA.
  - The timeline for submission of proposals will be consistent with UNC and licence requirement, as shown in paragraph 81 or the consultation.
- Substitution will only occur in response to signals for enduring annual exit flat capacity.
- Subject to permits, applications in the annual window are effective no earlier than Y+4. Substitutions will be assessed for, and effective from, the incremental capacity release date.
- Ad-hoc and ARCA applications may be effective as early as M+7. Although substitution is intended to avoid investment, it would be unreasonable to reject an incremental application that could be accepted with substitution merely because it is within the default investment lead time. This could however, extend the lead time for Users at the donor exit point to recover the substituted baseline.
- Where there are competing recipient exit points, e.g. for Y+4 and Y+6. The recipients will be selected according to defined criteria. This criteria may include for earlier releases (i.e. Y+4) to be considered first. This will reduce risks associated with late infrastructure projects (see also slide 28).

Criteria for Substitution and Revision

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3. Clarification of offtake flow rate setting for analysis purposes.

- It is expected that network analysis for exit capacity substitution will commence with offtake flows in the vicinity of the recipient exit point being set to obligated level (i.e. baseline plus any incremental). Flows at other exit points will be set at sold levels.
- In order to avoid increasing the risk of constraints, all exit points should initially be set at obligated levels. However, it is likely that this would result in aggregate demand well in excess of realistic levels. Hence increases will be limited to the more interactive exit points.
- From this initial set up condition, the flow at the recipient exit point shall be increased by the incremental quantity and the flow at the donor exit point reduced to a level that avoids increased constraints.
- Hence any exit point, not “in the vicinity” cannot be a donor exit point as this would require flows to be reduced below sold levels. National Grid will reconsider the definition of “vicinity” to ensure that it captures all exit points that could reasonably be expected to be a donor exit point when following the methodology.

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Exit Capacity Substitution and Revision

Substitutable Capacity

Substitutable Capacity

- Section Three looked at a number of key issues; the most fundamental being the definition of Substitutable Capacity.
  - The proposed definition essentially equates to any unsold baseline capacity.
- National Grid asked whether this definition is appropriate.
- There was a clear majority in support. However, a number of exceptions were raised for Substitutable Capacity to:
  - exclude exit capacity at storage sites up to maximum injection rate. Addressed earlier, see slide 9.
  - exclude exit capacity required to maintain security of supply. Addressed earlier, see slide 9.
  - be extended to include sold capacity.
    - If a User does not require capacity they are able to, and presumably will, submit a reduction request. Hence this suggestion relates to sold capacity with a User Commitment. National Grid believes that this could be a sensible addition to the substitution regime. However, this would require extensive alteration to current processes.
    - Ad-hoc reductions may, in future, be possible in response to ad-hoc increases (ExCR Part B para 75)
    - As this falls outside of the licence obligation National Grid considers that this approach should only be considered after exit capacity substitution has been implemented.

Substitutable Capacity

- Section Three looked at a number of key issues; the most fundamental being the definition of Substitutable Capacity.
  - National Grid asked whether this definition is appropriate.

- A further comment was made that unsold capacity is not necessarily unwanted capacity.
  - National Grid appreciates this view, but is unable to identify a satisfactory approach that will protect unsold capacity from substitution whilst meeting the user commitment requirement set out by Ofgem in workshop 1.

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Exit Capacity Substitution and Revision

Special Sites

Special Sites

- Section Three went on to look at issues that may arise in respect of specific types of offtake.
- National Grid asked for comment on the analysis and whether special arrangements should be put in place for any of these categories of offtake.
  - There is no support for special treatment of DN offtakes as a result of potential impact on DN flow swapping. However, a wider issue was raised regarding the interaction between flow swapping, overruns and deemed applications. This issue is out of scope and is being considered elsewhere.
  - Only one respondent supported different treatment for interruptible sites. This response related to storage facilities. A further respondent agreed that there should be no special treatment, but that this agreement is subject to consideration of SoS impacts.
    - National Grid believes that it is inappropriate to exclude storage facilities (or any other site reliant on “off-peak” capacity) from substitution. If they feel that off-peak does not provide adequate protection, Storage operators could obtain sufficient firm exit capacity to prevent substitution having any impact on their operations and hence SoS. National Grid acknowledges that this may impact on the economics of some storage facilities, but such issues are outside of the scope of this consultation and should be raised in response to Ofgem’s impact assessment.

Special Sites

- National Grid asked for comment on the analysis and whether special arrangements should be put in place for any category of offtake.
  - There was a mixed response in respect of interconnectors. As discussed at the workshops there was recognition of the circumstances relating to the Moffat offtake, but also a feeling that special arrangements should be avoided unless to comply with specific legislation.
  - The main concern related to downstream SoS obligations. However, DNOs have similar downstream obligations, with some areas dependant upon a single NTS offtake.
  - Currently the Moffat offtake is sold out so there should be no risk of substitution of capacity from Moffat unless capacity is relinquished.
  - However, there are some differences:

	Moffat	DN Offtakes
Capacity purchaser.	NTS Shippers	DNO
Requirement to coordinate allocation of capacity	Through EU Reg 715/2009	No

Special Sites

- National Grid asked for comment on the analysis and whether special arrangements should be put in place for any category of offtake.
  - In their response Gaslink identified a number of concerns. However, these relate primarily to the enduring exit capacity regime, with substitution exacerbating the problems. This is outside the scope of this consultation.
  - They point out that Shippers are not best placed to signal capacity requirements at Moffat given the dynamics of the downstream markets. In addition, current "demand" for capacity is about double peak demand forecasts.
    - Whilst this may be a quirk of the initialisation process for the new regime (Shippers may be delaying reduction requests to the last opportunity) it suggests that Shippers are over-buying capacity rather than under-buying. Hence, there should be no scope for substitution of capacity from Moffat and no concerns over SoS.

Special Sites

- National Grid asked for comment on the analysis and whether special arrangements should be put in place for any of these categories of offtake. In respect of Interconnectors we also asked for views on our interpretation of EU regulation 715/2009.
  - National Grid recognises that the regulation applies to all offtakes although some aspects relate solely to interconnectors.
  - The majority of respondents disagreed with National Grid's interpretation. The following areas were identified:
    a) Publication of Technical Capacity and an associated methodology;
    b) A long-term interruptible product.
    c) Retention of 10% of available capacity for firm, short term requirements.
    d) Linkage between capacity allocation arrangements either side of Moffat
    e) Cross border cooperation in respect of SoS.

Special Sites

a) Publication of Technical Capacity (Article 16) and an associated methodology.

- National Grid recognises that:
  - industry is not convinced that the Technical Capacity of the NTS has been made available;
  - knowledge of the physical (and hence “spare”) capacity provides additional transparency to capacity allocation processes, i.e. spare is allocated before substitution before investment.
- National Grid has asserted that it has satisfied the requirement to publish Technical Capacity. However, it does not believe publication of Technical Capacity is fundamental to substitution processes, only to external scrutiny of these processes. This should not be essential to implementation of substitution due to Ofgem oversight of any substitution proposals.
- National Grid is looking at EU Regulations to see whether changes are required. This is being undertaken independently from the development of exit capacity substitution.

b) A long-term interruptible product (Article 14).

- This is not a requirement of 715/2009 although it may be included in a future code.
- In the event that a long-term interruptible product is made available, the substitution methodology would need to be reviewed to assess/reflect the impact of such a product.

Special Sites

c) Retention of 10% of available capacity for firm, short term requirements.

- Reference: Capacity Allocation on European Gas Transmission Networks, Pilot Framework Guideline E10-GWG-66-03, section 2.2
- Similar to entry processes.
- Also not a requirement of 715/2009, but may be in future.
- Difficult to see how this would be achieved where exit points are sold out, but 10% could be “held-back” if unsold.

d) Linkage between capacity allocation arrangements either side of Moffat

- Obligation to coordinate using market mechanisms.

e) Cross border cooperation in respect of SoS.

- NG has an obligation to consider SoS in investment decisions and Capacity Allocation Mechanisms / Constraint Management Procedures.

- Although not necessarily the view of National Grid, these three criteria may present justification for different treatment of Moffat (and any other interconnector).
- **National Grid would welcome views from workshop participants.**

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Exit Capacity Substitution and Revision

Partial Substitution

Partial Substitution

- In section three “partial substitution” was discussed. National Grid considered this concept to be beneficial but identified some issues.
- National Grid asked for views on whether partial substitution should be excluded from substitution arrangements due to the complexities identified.
  - There is clear support for the inclusion of partial substitution within the methodology as this meets the aims of avoidance of unnecessary investment.
  - The cost difference between a smaller pipe (for partial investment) and a larger pipe (for full/future investment) may be small such that the larger project may be considered more appropriate.
    - NG would only install a small pipe where this was economic. This may result in re-working the substitution analysis. (This will not unwind any previously implemented substitutions). However NG would not install a larger pipe on the basis of speculative future incremental demand.

Partial Substitution

- National Grid asked for views on whether partial substitution should be excluded from substitution arrangements due to the complexities identified.
  - The problem with “partial revenue drivers” was acknowledged as an issue.
    - Most respondents considered that mitigating actions should be taken;
    - there was no support for a delay in capacity allocations whilst partial revenue drivers are agreed; this is an issue for National Grid and Ofgem to resolve. Generic and/or banded revenue drivers should be produced;
    - if this issue remained, one respondent supported exclusion of partial substitution. Another was concerned that partial substitution should be undertaken in a timely manner.
  - National Grid believes that partial substitution is necessary to maximise the benefits of substitution, but is uncomfortable with progressing incremental capacity without satisfactory understanding of funding arrangements. However, it is expected that Ofgem will soon be consulting on generic revenue drivers.
  - Hence National Grid is considering excluding partial substitution, but drafting the methodology such that if/when suitable arrangements are in place for partial revenue drivers, partial substitution will be included without the need to revise the methodology.

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Exit Capacity Substitution and Revision

Donor and Recipient Exit Point Selection

Donor and Recipient Exit Point Selection

- In section three National Grid asked for views on the proposals for selecting donor exit points.
- Although not covered specifically in the consultation, the draft statement accompanying the consultation presented a possible method for selecting recipient exit points.
- There was wide support for National Grid's proposed method for selection of donor exit points, but two respondents questioned why donor exit point selection should stop at an upstream compressor boundary.
  - National Grid believes that this criteria provides a valuable simplification to the substitution process with minimal downside. Substitution across upstream compressors increases complexity (and time) for analysis, e.g. impact on linepack and compressor operating boundaries need to be considered,
  - Notwithstanding that it is incentivised to reduce compressor costs, National Grid would not be funded for any additional opex required as a result of increased workload on compressors.
  - An upstream compressor boundary acts to ensure compliance with the substitution objective to avoid material increase in costs, provides greater certainty of the limits of substitution in respect to any incremental capacity release, prevents excessive capacity destruction (in the absence of a cap).

Donor and Recipient Exit Point Selection

- In section three National Grid asked for views on the proposals for selecting donor exit points and the use of schematic NTS diagrams showing gas flow direction.
- Whilst supporting National Grid's proposals, additional comments were made:
  - Consideration of donor exit points with sold capacity – addressed earlier.
  - Avoidance of exit points where capacity is needed for SoS – addressed earlier.
  - Flexibility is required to select the most appropriate donor. National Grid should be able to demonstrate this has been achieved.
    - National Grid believes that the proposed methodology will ensure that the most appropriate donor is selected. However, where this is not the case, flexibility to deviate from the methodology may be desirable to produce more efficient outcomes, but would result in National Grid discretion which is not favoured by most industry players.
- There was mixed views regarding flow diagrams. Most accept that they add little, but some, benefit.
  - National Grid anticipates including a full set of diagrams in its final proposals and that these would be updated annually.

Donor and Recipient Exit Point Selection

- Although not covered specifically in the consultation, the draft statement accompanying the consultation presented a possible method for selecting recipient exit points.
- A comment was made questioning the criteria for selection of recipient exit points, specifically why the exit point with lowest revenue driver should be selected first.
  - National Grid believes that the order that recipient exit points are considered is largely irrelevant. A higher revenue driver indicates a higher possible investment avoided. However, this will also take up a greater amount of the available substitutable capacity, leaving a greater number of smaller residual investment projects. This may cost more overall and may require more revenue drivers to be agreed. Conversely, considering the larger substitutions first may limit workload if substitutable capacity is used up quicker, and should limit the potential for partial substitution.
  - What is important to National Grid is that a sequence of recipient exit point consideration is identified. Due to the interaction between specific points it is necessary to consider only one recipient exit point at a time.
  - On balance National Grid anticipates proposing highest revenue driver first. However, we will review and clarify the criteria for recipient exit point selection where there is no revenue driver.

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Process Timelines

Process Timelines

- In section three National Grid described concerns, articulated in the workshops, with the available time for substitution analysis. Whilst not a part of the methodology itself, the available time is key in defining the methodology by restricting what is feasible in the limited time available.

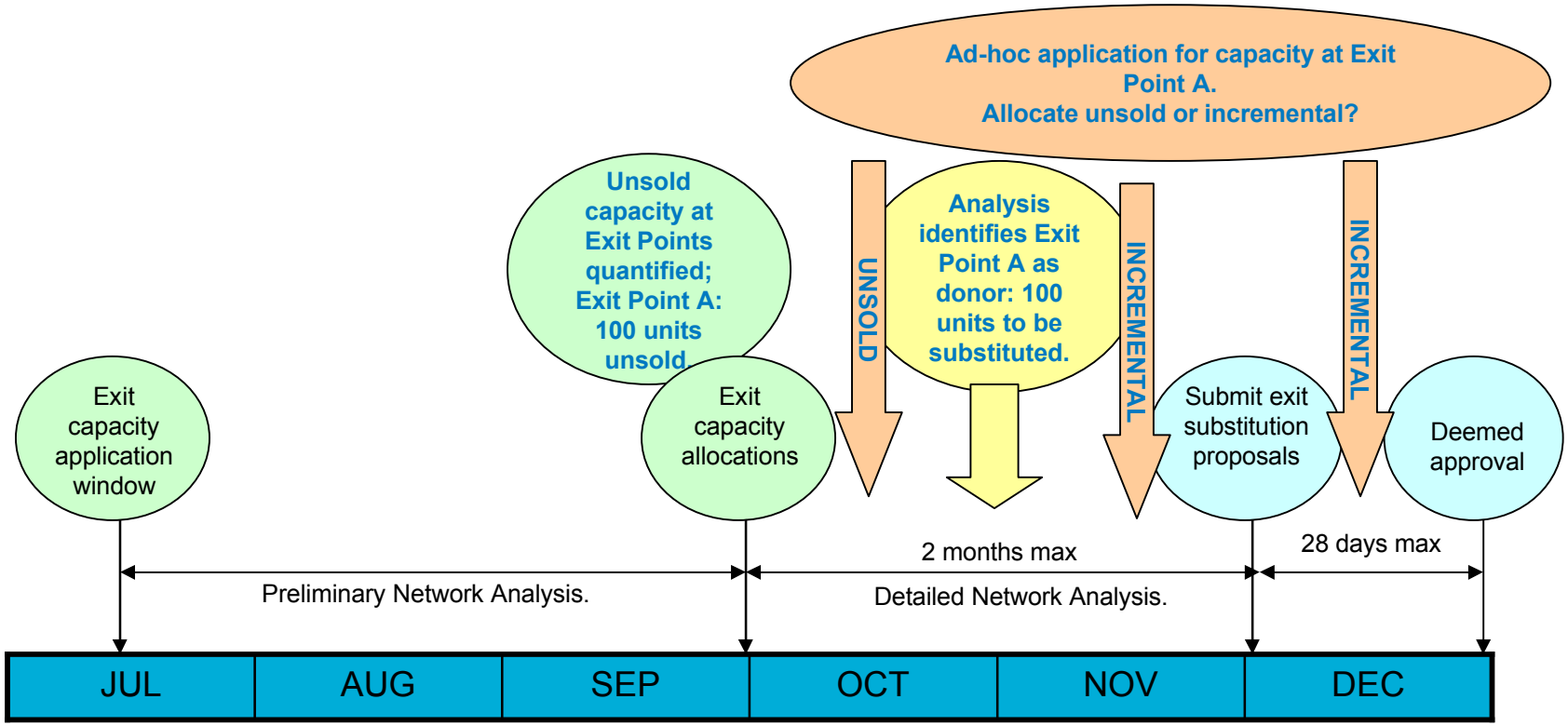
- Two options were put forward that could free up time for additional substitution analysis. However, there was no support for:
  - removing Ofgem's right to veto National Grid's substitution proposals;
  - removing / limiting the ability of DNOs to re-submit capacity applications following the July application window. However, some respondents felt unable to comment and that this issue should be considered further, and one suggested that completing the OCS process by 1st Sept would be advantageous.

Process Timelines

- National Grid sought further proposals in addition to those identified in the consultation
  - Several respondents suggested increased resource for network analysis.
    - National Grid is looking to increase its number of network analysts. However, resources need to be aligned to known requirements; substitution workload is still largely unknown. National Grid will continue to monitor resource requirements and increase where this can be justified.
    - In this instance, additional resources would provide little benefit because analysis needs to be undertaken in sequence. More analysts would not necessarily reduce the duration of analysis.
  - Improved dialogue with Users to identify requirements earlier was suggested.
    - This is an area National Grid wishes to improve. Early and frequent dialogue will assist National Grid in meeting customer requirements.
    - However, early knowledge of intended applications would provide little benefit in managing substitution analysis timelines as this analysis could not be undertaken until all applications (and reductions) have been received.
      - There may, however, be some benefit in respect of ad-hoc / ARCA applications.

Process Timelines

- In section three National Grid also described the uncertainty around available capacity for ad-hoc / ARCA applications whilst substitution analysis is being undertaken or proposals considered by the Authority (see diagram below).



Process Timelines

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- Views were split on this issue. However, of those not supporting National Grid's proposal:
  - One believes that National Grid should be mindful of any ad-hoc / ARCA applications when undertaking substitution analysis. National Grid agrees that it should bear in mind any ad-hoc / ARCA applications when undertaking substitution analysis. However, this is a timing issue.
    - Unsold capacity, the subject of an application received early in October, could be excluded from substitution analysis as such analysis may be in its early stages.

      But note that if the offer to this application is subsequently rejected, a substitution opportunity will have been missed and unnecessary investment may have been committed.
    - Unsold capacity, the subject of an application received late in November, could not be excluded from substitution analysis as it would be impossible for National Grid to revise its analysis, with the capacity excluded, in the time available.
    - Unsold capacity, the subject of an application received in December, could not be excluded from analysis as proposals would have been finalised and awaiting a decision from the Authority.

Process Timelines

- Views were split. However, of those not supporting the proposal:
  - One believes that ad-hoc and ARCA applications only apply for increases above baseline so National Grid will need to invest or use system capacity. Hence there should be no conflict or need to delay.
    - National Grid disagrees with this point. Ad-hoc and ARCA applications can be made for existing unsold capacity. An application for existing unsold capacity may result in simultaneous demands for the same capacity:
      - via the (unconfirmed) ad-hoc application;
      - to support, via substitution, a (confirmed) July application.
  - 2 respondents suggested that NG should provide 2 offers in response to the adhoc application, with and without the relevant capacity available.
    - NG believes that this is impracticable because there may be several adhoc applications which would require more than 2 offers. The applicant would be unclear as to what they were accepting.

Process Timelines

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- National Grid's proposal aims to manage this timing issue. For clarity, the proposal is that:
  - Any unsold NTS baseline exit flat capacity at 30th September (i.e. after the July application cycle) will not be made available if National Grid believes that the capacity may be required for exit capacity substitution in respect of a July incremental request. Such capacity will be made available when National Grid identifies that the capacity is not required for substitution or the Authority vetoes the substitution proposals.
  - However, where any unsold NTS baseline exit flat capacity is the subject of an application received before National Grid has identified that the capacity may be required for exit capacity substitution in respect of a July incremental request such capacity will not be substitutable capacity regardless of whether the application results in an accepted offer.

Process Timelines

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- National Grid asked that if its proposal for managing the issue between substitution analysis and ad-hoc / ARCA applications progresses, where should such rules be located.
  - All three suggested options received support:
    - ExCR – main reference for consumers wishing to connect to the NTS
    - UNC – governance arrangement accessible to all.
    - Substitution methodology statement plus UNC.
    - Possibly all three.
  - National Grid agrees that detailed rules on the quantity of capacity available for release should be stated in the UNC. However, on further review, National Grid believes that
    - a change to capacity allocation and availability rules in the UNC is not required, because ad-hoc and ARCA applications will always, subject to existing UNC & ExCR rules, be accepted in the quantity requested (see UNC B3.2.10); it is the potential released date that is affected by this issue.
  - National Grid believes that the possible amendment amounts to no more than a clarification of the way existing rules will be applied, and that the most appropriate place for this is within the ExCR.
  - Notwithstanding this, National Grid may, in future, raise a UNC modification proposal, but implementation would not be essential to the implementation of exit capacity substitution.

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Exit Capacity Substitution and Revision

Exchange Rate Cap and Collar

Exchange Rate Cap and Collar

- In section three National Grid asked for views on whether the proposed methodology should include an exchange rate cap and an exchange rate collar.
- Of those expressing a preference only one opposed a cap as this limits efficiency of substitution. However, this respondent conceded that it might be appropriate for a cap initially.
- Of those expressing a preference all except one supported a cap set at 3:1. Several noted the arbitrary nature of this value. The one exception supported a cap at 1:1 to ensure no capacity destruction and the current size of the NTS is maintained.
- One respondent requested that results, without a cap, should be published, even though a cap should be applied.
  - National Grid believes this would require additional resources for minimal benefit.
- National Grid agrees that any cap will limit the scope of substitution and could, therefore, lead to unnecessary investment. However, several respondents have expressed concerns over a tightening of the NTS resulting in problems for SoS. It should be noted that a cap set at 1:1 should not totally inhibit substitution as for most (if not all) downstream donor to upstream recipient substitutions should be achieved without breaching a 1:1 exchange rate.
- However, a 3:1 exchange rate cap seems a sensible compromise and can be reviewed annually.

Exchange Rate Cap and Collar

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- National Grid asked for views on an exchange rate collar.
  - Only one expressed support for a collar, a second provided support as a temporary measure.
    - Those opposing referred to loss of efficiency and transparency.
  - National Grid
    - agrees that substitution can be made at less than 1:1 exchange rates and that a collar would reduce transparency by increasing “spare” capacity.
    - disagrees that the application of a collar loses efficiency. Applying a collar would result in a bigger decrease in baseline at the donor exit point than would be required. However, this capacity would still be available for future applications; at the donor, recipient, or other exit point. There is no net reduction in available capacity.
  - A major concern for National Grid is whether there is sufficient time to undertake the necessary analysis work for substitution. Applying a collar simplifies the process significantly. This may be an area for reconsideration in the annual review.
  - Views were sought on other ways to enable analysis to fit the available time.
    - Adequate resources was the only suggestion received. This is unlikely to provide significant benefit (see slide 31).

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National Grid / Ofgem Discretion

National Grid / Ofgem Discretion

- It was recognised in the workshops that because exit capacity substitution is a new concept it may have unforeseen consequences with the movement of baseline capacity that is undesirable to the industry as a whole. A transparent, and hence rigid, methodology limits National Grid's ability to respond to these situations: unless the methodology gives National Grid the ability to deviate from the methodology to avoid "inappropriate substitutions". National Grid sought views on where any discretion to deviate should lie.
- There was a mixed response to whether National Grid should have discretion. Where there was support, this was subject to transparency and Ofgem scrutiny.
- Some respondents asked for clarification on what "inappropriate substitutions" means.
  - National Grid believes that this is not possible; to the extent that inappropriate substitutions can be identified in advance, solutions can be built into the methodology. Discretion to deviate from the methodology, may be considered necessary to mitigate against **unforeseen** outcomes.
- All respondents supported Ofgem discretion.
  - Some suggested that Ofgem should audit National Grid's analysis.

National Grid / Ofgem Discretion

- National Grid sought views on where any discretion should lie, and on the suitability of the Licence.
- All those responding said that the Licence provides sufficient scope for the Authority to reject inappropriate substitution proposals.
  - Ofgem should publish reasons for any rejection;
  - however, there should be discussions between National Grid and Ofgem to avoid inappropriate proposals; these should be transparent.
- There was little response to whether the Licence needed changing (as for entry capacity substitution).
  - Depends on the methodology.
  - Need to identify the relevant sections of the Licence.
    - See Ofgem ref 103/09 for amendments made in respect of entry capacity substitution. Similar changes for exit substitution would be expected in Sp C C8E section 4 (b) sub-paragraphs (iii) & (v).

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Transitional Rules

Transitional Rules

- National Grid asked for views on whether there should be any transitional rules.
  - There was some support for transitional rules for various criteria.
  - One respondent referred to National Grid's obligation to review the methodology and believes this obviates the need for transitional rules unless there is a time bound event foreseen.
    - National Grid agrees with this statement.
    - National Grid may consider a transitional rule for partial substitution, but not for exchange rates and / or special sites although all aspects will be reviewed annually.

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Exit Capacity Revision: General

Exit Capacity Revision: General

- In section four National Grid asked for views on the proposals for exit capacity revision.
  - All but one of the respondents supported National Grid's proposal for revision to follow entry investment (i.e. not after entry capacity substitution).
    - This would ensure no negative impact on exit capacity baselines through exit capacity revision.
    - Note: the entry capacity substitution process will not impact exit baselines.
  - The one party disagreeing noted that [exit] capacity determined as being available [i.e. due to established entry flows] may be less than that of the infrastructure [incremental entry capacity],……if circumstances change and more gas is delivered….this will make more exit capacity available.
    - National Grid agrees that incremental entry flows should be monitored for changes and the exit capacity at notional exit points varied accordingly. This may be an increase or decrease. However, such monitoring should be time limited.
    - Note: any capacity allocated at actual exit points would remain irrespective of declining entry flows.

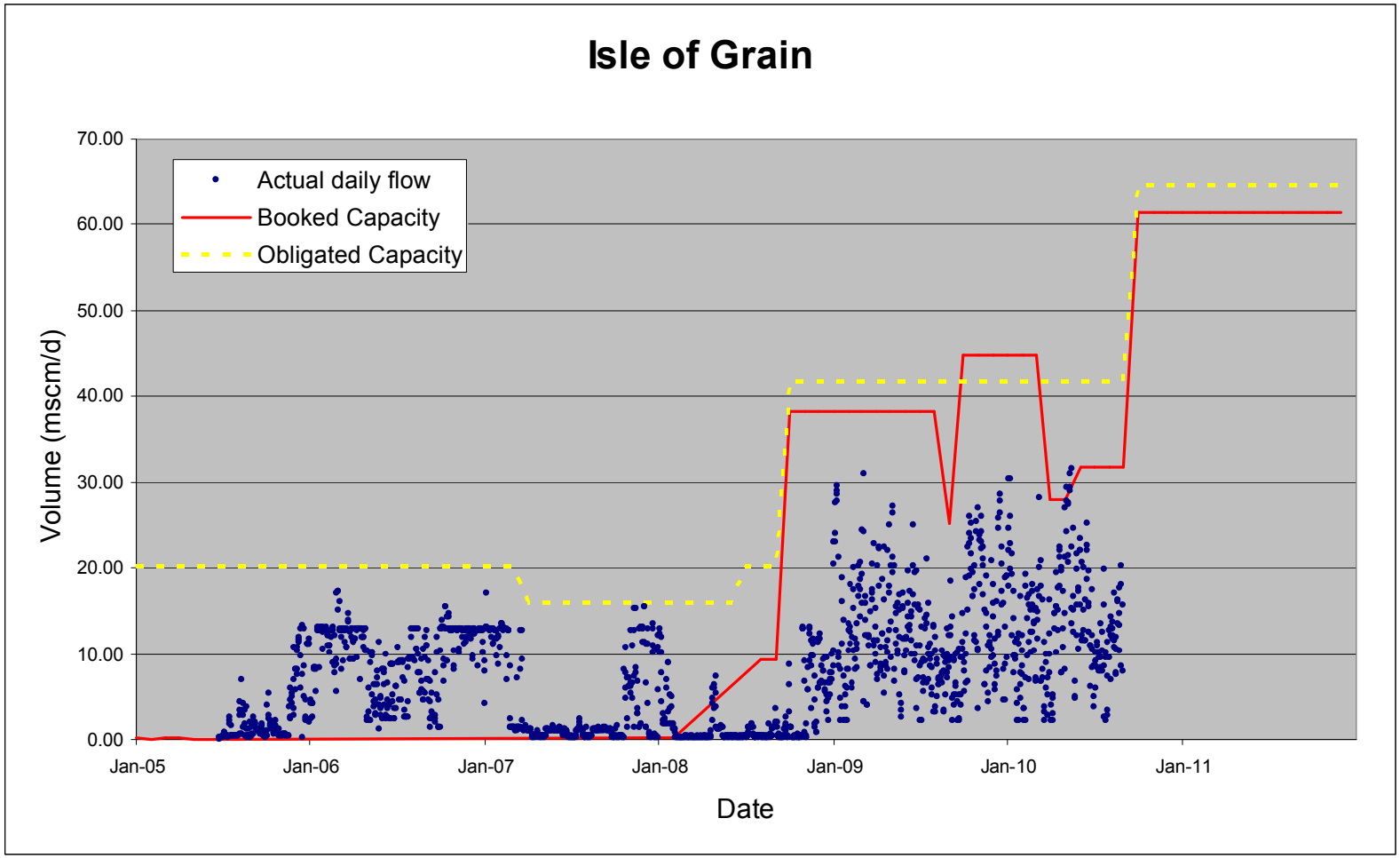
Exit Capacity Revision: General

- In section four National Grid asked for views on the proposals for exit capacity revision.
  - All respondents supported the use of “notional” exit points if there was not an immediate need for incremental capacity at actual exit points.
    - Some suggested that these notional points should be used to quantify “spare” capacity.
  - None believe the use of notional exit points needs a change to the Licence.
  - No alternatives to notional points, for recipient exit point selection order, were received.

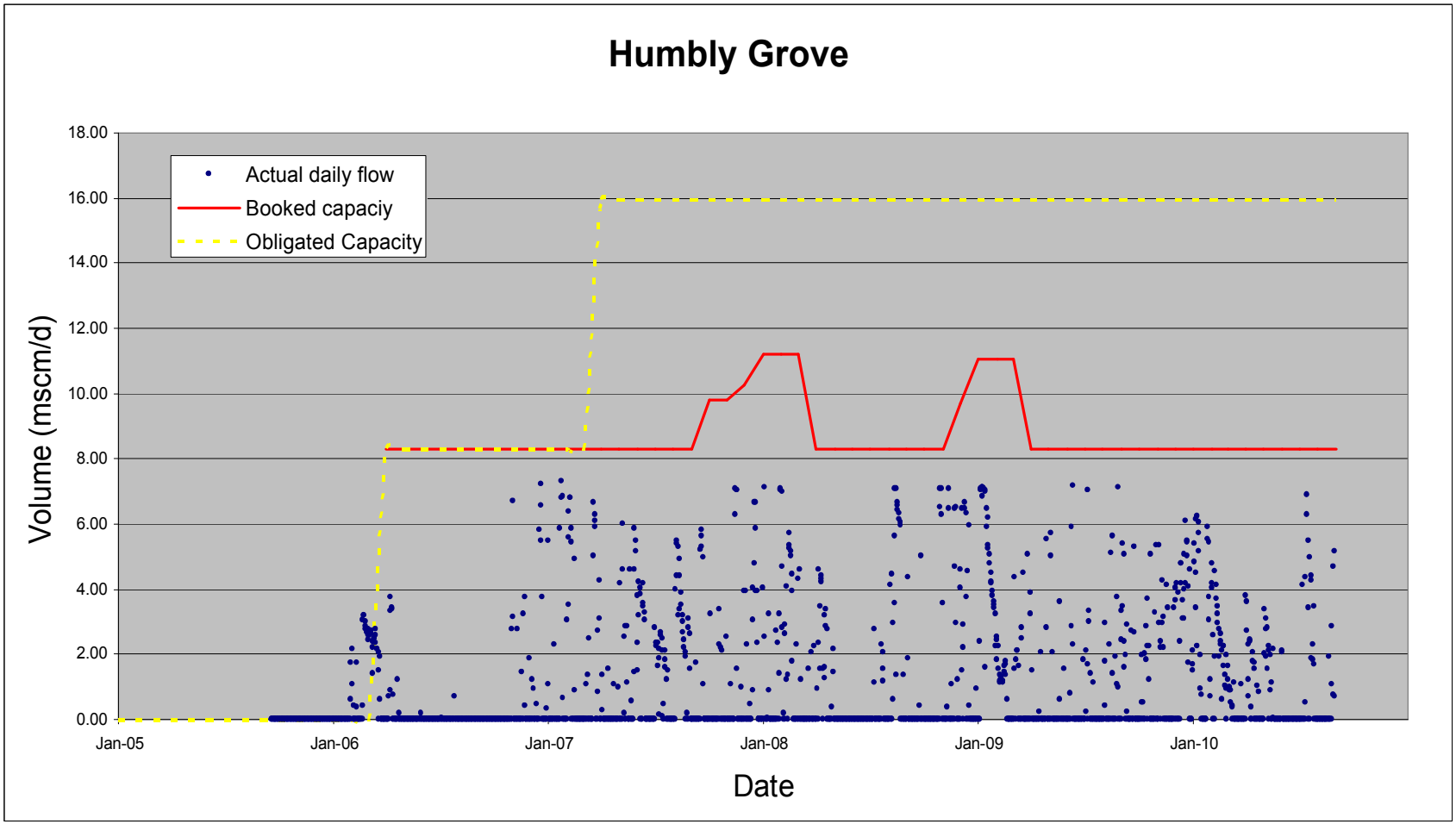
Exit Capacity Revision: Process Timelines

- National Grid asked for views on whether reliable flows should be the trigger for capacity revision.
- Generally respondents recognised the concerns expressed by National Grid but made additional comments:
  - Requiring demonstration of future entry flows suggests a lack of confidence in the QSEC process.
    - National Grid disagrees. National Grid's concern lies with the reliability of entry flows not the QSEC process. Exit capacity revision will create a permanent obligation on National Grid, 365 days per year. However, whilst peak flows may match the incremental entry capacity quantity, actual flows may vary, particular from summer to winter. National Grid needs to establish a reliable entry flow rate before exit capacity can be released.

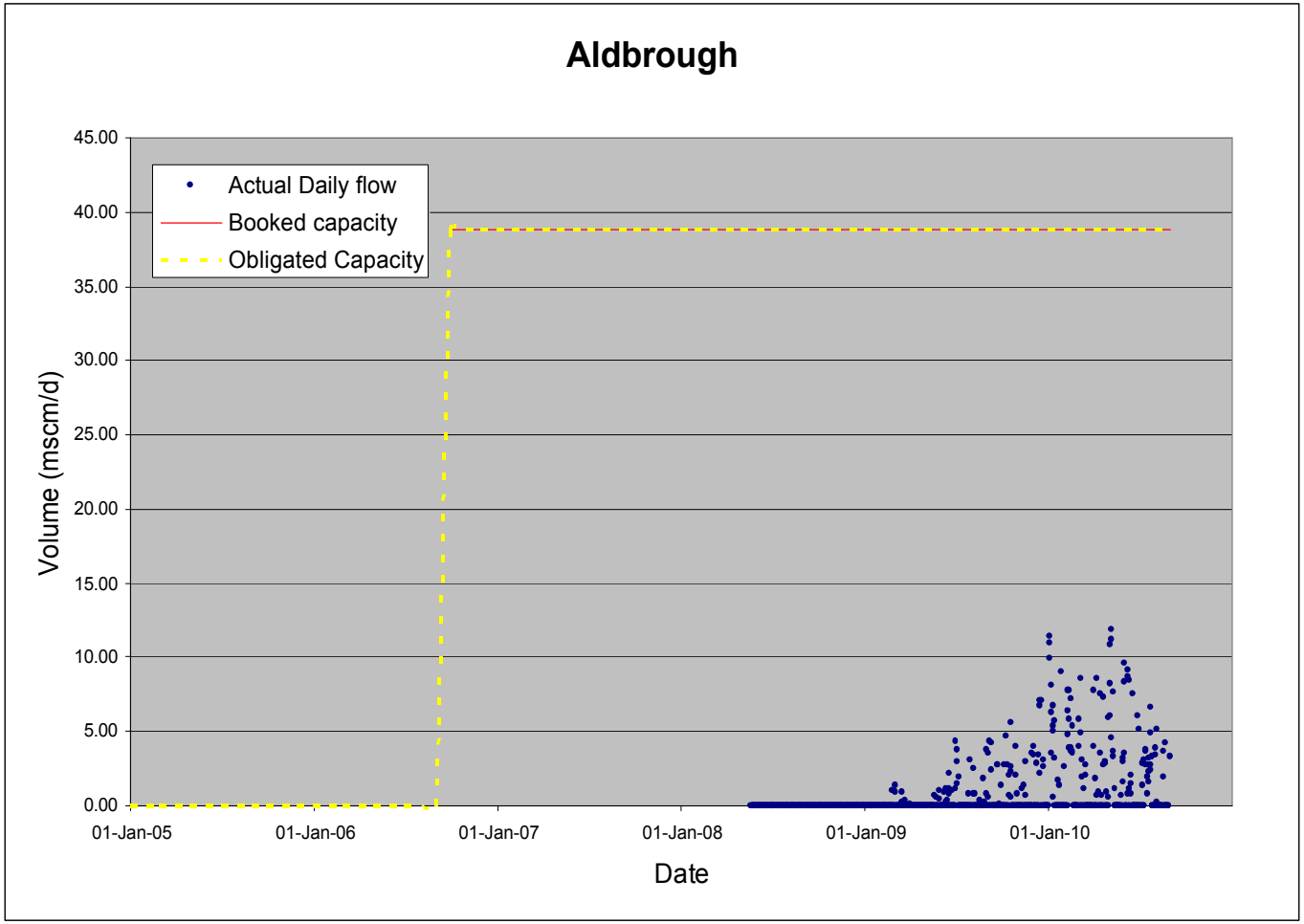
Entry Capacity and Flow Rates



Entry Capacity and Flow Rates



Entry Capacity and Flow Rates



Exit Capacity Revision: Process Timelines

- National Grid asked for views on whether reliable flows should be the trigger for capacity revision.
- Generally respondents recognised the concerns expressed by National Grid but made additional comments:
  - Requiring the demonstration of entry flows could delay release of exit capacity for 10 years after the QSEC auction.
    - National Grid believes the maximum delay would be eight years, assuming two years to demonstrate flows and three/four for entry capacity delivery.
    - We acknowledge this is into the long-term. However, National Grid would release exit capacity immediately entry flows are established (five/six years). This may be as annual or daily capacity or enduring annual (via an ad-hoc application). Also the two year criteria may be reduced if confidence in flows are gained earlier.

Exit Capacity Revision: Process Timelines

- Generally respondents recognised the concerns expressed by National Grid but made additional comments:
  - By the time that entry flows have been demonstrated those flows may be in decline.
    - National Grid agrees that exit capacity revision creates an indefinite (at least until the following PCR) exit capacity obligation on National Grid even though entry flows may not be as long-term. It may be appropriate for exit capacity revision to not be applied where National Grid, through TYS processes, identifies such an issue, and hence to reduce capacity at notional exit points accordingly.
    - Notwithstanding this, National Grid will have to manage the risks associated with any declining entry flows. This would apply to longstanding entry points as well as new ones.
  - As an alternative to delaying capacity release National Grid could release exit capacity consistent with the incremental entry capacity signal,
    - i.e. Mar 11 QSEC, entry capacity release Oct 14, so exit capacity available July 11, release Oct 14.

    with any constraints occurring as a result of low entry flows being managed through exit capacity surrender / buyback.
    - National Grid believes that this would be inconsistent with the Licence (substitution objectives).

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Exit Capacity Substitution and Revision

Next Steps

Indicative Timeline.