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3rd December, 2010

Re: Consultation on “The Exit Capacity Substitution Methodology Statement”

Dear Andrew,

Thank you for the opportunity to respond to “The Exit Capacity Substitution Methodology Statement” as published on 5th November, 2010. Gaslink makes this response in its capacity as the Transmission System Operator of the network downstream of Moffat which is responsible for all natural gas delivered to the Isle of Man, Northern Ireland and 94% of gas demand in Ireland.

Response Overview

Gaslink retains serious concerns regarding the application of the proposed exit substitution methodology at the Moffat cross-border interconnection point. We believe that the proposal is inconsistent with EU requirements including the provisions of Regulation (EC) 715/2009. It could also operate, in conjunction with the reformed exit booking regime, to inappropriately reduce the capacity available at Moffat and thereby prejudice security of supply standards for the island of Ireland and the Isle of Man.

We therefore cannot support implementation of substitution at the Moffat Interconnection Point. We do, however, believe that the issue is capable of a mutually satisfactory resolution and offer below our views on an appropriate way forward and confirm our willingness to work with you to resolve this issue, involving joint development of more appropriate capacity booking arrangements for Moffat, taking into account EU requirements and security of supply issues.

Below we explain our reasoning in more detail and provide responses to other issues raised in the consultation cover letter.

Security of supply concerns

We do not believe that the consultation cover letter properly frames the issues that have been identified with regard to the treatment of interconnectors. More specifically, we note that the consultation cover letter does not acknowledge that concerns over security of supply are a key issue for Moffat. Our arguments, made consistently throughout the workshop process and in previous consultation responses, are summarised below:

- (1) The reformed NTS exit regime is reliant on capacity demands signaled solely by NTS users. We believe this regime is inappropriate for cross-border interconnection points such as Moffat, where there needs to be a linkage between capacity arrangements and users on both sides of the interconnection point, as under the existing “ticket to ride” arrangements. It is clearly difficult for individual NTS users to make a reliable assessment of, and commitment to, the collective requirement for future Moffat capacity to meet downstream security of supply standards.
- (2) It is therefore possible that the level of Moffat capacity booked by NTS users could fall below the required level. The substitution arrangements as currently proposed could then operate to remove unsold capacity from Moffat and reduce the baseline such that the physical availability of Moffat capacity is below that required to ensure downstream security of supply.

We would ask National Grid to review its substitution proposals in light of both the potential impact on security of supply downstream of Moffat, and EU legislation

concerning cross-border capacity and security of supply. TSOs (and indeed regulators) have important obligations in these areas which have been significantly strengthened in the “Third Package”. For example, Article 13 of Directive 2009/73/EC (Tasks of transmission, storage and/or LNG system operators) requires that “Each transmission system operator shall build sufficient cross-border capacity to integrate European transmission infrastructure accommodating all economically reasonable and technically feasible demands for capacity and taking into account security of gas supply”.

Capacity allocation at Moffat

In our view the root cause of the security of supply problem at Moffat is the application of the reformed NTS capacity allocation mechanisms, which provide no linkage between upstream and downstream arrangements. Whilst addressing this issue might lead to different arrangements for Moffat compared to other NTS exit points (most of which are not Interconnection Points to other European jurisdictions), this in our view would not be unduly discriminatory – a concern frequently raised by National Grid – as the different treatment would be justified by the nature of the Moffat exit point as part point of interconnection meeting 94% of the requirements of the down-stream system.

Treatment of Distribution Network (DN) offtakes

We also note in this context that under the reformed exit regime NTS exit points to DNs are treated differently from other NTS exits, in that DNOs (rather than Shippers) book the NTS exit capacity. Our understanding is that these arrangements were developed because of concerns that downstream security of supply (within the DNs) could be compromised if NTS shippers were to be solely responsible for capacity booking at these points. There is a clear analogy with the Moffat situation, although a different solution in terms of capacity booking arrangements would be required.

EU Requirements

As stated previously in our response of 5th August, 2010 to National Grid’s “Informal Consultation on Exit Capacity Substitution and Revision” we do not agree that the

proposed substitution methodology is consistent with Regulation (EC) No 715/2009. The need for linkage between capacity products on either side of interconnection points is well recognised by ERGEG and has been the subject of consultation during 2009 and 2010, culminating in the submission of the Pilot Framework Guideline for Capacity Allocation on European Gas Transmission Networks to the European Commission on 21 June 2010. This guideline applies specifically to cross-border interconnection points between two or more Member States (as well as certain other interconnection points). The Pilot Framework Guideline for Capacity Allocation states that “transmission system operators determine the firm and interruptible capacity¹ they jointly offer at each interconnection point”.

Suggested way forward

We emphasise that our concerns over security of supply arise as a result of the combined effect of (1) the reformed exit booking regime and (2) the substitution proposals.

Taking the exit booking regime for Moffat first, we repeat the offer made in our previous consultation response, that we are willing to work constructively with National Grid to establish appropriate capacity allocation solutions which accommodate the special needs of Moffat as a cross-border interconnection point and which are aligned to ERGEG’S Pilot Framework Guideline for Capacity Allocation on European Gas Transmission Networks.

However, we do not believe that a revised capacity allocation regime for Moffat can be properly developed within the timescales contemplated for exit substitution implementation. Further, we cannot be sure at this stage that such a revised regime would operate appropriately in conjunction with the substitution regime as currently proposed.

If it is your intention to proceed with exit substitution then the exit substitution methodology should include provisions precluding substitution of capacity away from Moffat (and any other equivalent exit point) to the extent necessary to maintain downstream security of supply standards. The forecast Moffat demands set out in the

¹ As defined in Art. 2 of the Gas Regulation (EC) No. 715/2009

Joint Capacity Statement, issued annually by the Commission for Energy Regulation and the Northern Ireland Authority for Utility Regulation, may provide a helpful basis for setting substitution limits at Moffat. If you wish to receive a copy of this document please contact us. We understand that the Joint Capacity Statement is discussed with your representatives at bi-lateral meetings.

If you would like to discuss any aspect of this submission further, please do not hesitate to make contact.

Yours sincerely,



Celine Hayes

Market Arrangements Manager - Acting