



Exit Capacity Substitution and Revision Methodology Statement Formal Consultation Conclusions Report

13th April 2012

Executive Summary

Introduction

Special Condition C8E paragraph 4 (b) of the National Grid Gas plc (“National Grid”) Gas Transporter Licence in respect of the NTS (the “Licence”) sets out obligations to prepare and submit for approval by the Authority an NTS Exit Capacity Substitution Methodology Statement setting out the exit capacity substitution methodology that National Grid will use to substitute NTS exit capacity. In addition, National Grid is obliged to review the statement on an annual basis in consultation with gas shippers and other interested persons.

Special Condition C8E paragraph 4 (c) of the Licence sets out obligations to prepare and submit for approval by the Authority an NTS Exit Capacity Baseline Revision Methodology Statement setting out the exit capacity revision methodology that National Grid will use to revise the level of NTS baseline exit flat capacity. In addition, National Grid is obliged to review the statement on an annual basis in consultation with gas shippers and other interested persons.

National Grid has combined the two obligations in a single document, the NTS Exit Capacity Substitution and Revision Methodology Statement (the “ExCS”).

In accordance with Special Condition C8E paragraph 4, on 24th February 2012 National Grid initiated its consultation as part of the annual review of the ExCS. The principle changes proposed to the existing ExCS (version 1.0) were:

- **Treatment of Interconnectors**

National Grid has proposed an amendment to the definition of Substitutable Capacity. The new definition excludes all exit capacity at interconnectors, whether sold or unsold, up to the quantity of Technical Capacity (in the NTS exit / interconnector entry direction) of the connected system as determined by the interconnector operator.

This limitation to the substitution of exit capacity at interconnector exit points will ensure that issues such as downstream security of supply and capacity bundling are not undermined by substituting capacity away from these points.

- **Recipient NTS Exit Points**

Criteria for deciding which Recipient NTS Exit Point to consider first have been added.

- **Substitution Analysis**

A number of minor issues were identified when first applying the substitution methodology in 2011. Minor revisions and some added detail have been proposed.

National Grid invited views in respect of the proposed revised ExCS to be made by 30th March 2012.

This document sets out, in accordance with paragraphs 4 (b) (iv) (cc) and 4 (c) (iv) (cc), National Grid’s conclusions on its consultation on the proposed ExCS (version 1.1). It includes representations received, National Grid’s response to those representations, and indicates changes made to the proposed statement as a result.

Responses

Representations were received from the one respondents listed below.

Gaslink

Glk

The only issue raised relates to:

- The definition of Substitutable Capacity at Interconnectors.

Detailed comments from respondents and National Grid's response are provided in the following table.

No.	Party	Response Quotes	National Grid Response	Proposed changes
1 – General				
1.1	Glk	The Moffat Interconnection Point is of fundamental importance to secure deliveries of Natural Gas to the island of Ireland as well as to Stranraer in Scotland and to the isle of Man.	We recognise the importance of the Moffat exit point to ensuring secure supplies to the downstream communities. It is a key requirement that the substitution methodology is not unduly discriminatory, but we are conscious of the specific EU legislation applying to interconnectors. Hence we have proposed a methodology that provides a level of capacity at interconnectors that is not substitutable but which we believe is both justifiable to the wider community and consistent with current and anticipated regulations.	None
2 – Treatment of Interconnectors				
2.1	Glk	Gas link does not support National Grid's view that utilising Gaslink's Technical Capacity is the most appropriate method to determine protected capacity.....at Moffat. The Moffat Connected Systems Agreement....states a value of 18,057MW (Variable) – 431.574GWh. We wish to protect this level of capacity.	National Grid has considered all identified criteria to define Substitutable Capacity. We could propose the “CSA” criteria if this could be justified on the basis of necessity for security of supply or other EU obligation. However, we note the following values (GWh) apply in respect of the Moffat entry point and connected system. Technical Capacity¹ = 361 Maximum capacity made available¹ = Technical Cap = 361 Max forecast demand² = 358 Peak sold (Y+4 and later) capacity¹ = 110 And for the Moffat NTS Exit Point. Baseline capacity = 433 Obligated level (baseline plus previously release incremental) = 530 Physical connection size (from CSA) = 431	None

¹ From Gaslink website at <http://web1.bgegtms.ie/index.html>

² From Joint Gas Capacity Statement 2011: table A1-1 – 1 in 50 Winter Peak Demand worst of three scenarios presented.

			We find it difficult to justify making unavailable for substitution a quantity of capacity (431) which is significantly higher than the quantity (361) that that party is prepared to make available on the other side of the connection and is also significantly higher than the regulator's forecast to meet peak demand (358). National Grid's proposal to prevent substitution of baseline capacity below the downstream Technical Capacity will ensure that in the short term there will remain at least 458 GWh (361 protected baseline + 97 previously release incremental) of capacity at the Moffat exit point. We believe that even after the 97 GWh of incremental capacity becomes substitutable baseline, the level of capacity not available for substitution is sufficient to satisfy the demands based on the detailed forecasts. Hence, in the absence of additional evidence to suggest an increase in gas offtake from Moffat beyond the published forecast we do not believe that the industry would support a proposal that excludes a higher quantity of capacity from substitution than our proposal as to do so might lead to unnecessary investment. In the event that incremental capacity is required in the vicinity of Moffat, investment would not be necessary if Moffat capacity was made available for substitution. The cost of any unnecessary investment would ultimately be funded by NTS Users and their customers. It should also be noted that any booked capacity is not substitutable. Currently, the level of NTS Exit Capacity booked at Moffat is in excess of forecast requirements.	
2.2	Glk	Our understanding is that this would be implemented through incorporation of provisions in the Exit Capacity Substitution and Revision Methodology Statement to the effect that: An amount of capacity (the "Minimum Baseline") equal to the Capacity for Moffat Entry Point (as	Any changes to the definition of Substitutable Capacity will be incorporated in the ExCS. Although we are not proposing to introduce a term called "minimum baseline", this is effectively what happens when defining Substitutable Capacity through identification of capacity that is not substitutable.	None

		stated in the CSA) would not be Substitutable Capacity under the methodology; and As a consequence, the NTS baseline exit capacity at the Moffat NTS Exit Point may not be reduced under the methodology to a level less than the Minimum Baseline. We appreciate that the exact wording in the statement might be different from the above, but we would be grateful if you could confirm that we have understood the intended effect of the provisions correctly.		
2.3	Glk	Finally, we believe that the approach to determining the protected capacity as proposed by Gaslink is more consistent with EU requirements, including those with respect to the requirement for sufficient cross border capacity and best protects security of supply.	National Grid is committed to ensuring that exit capacity substitution is not implemented in a manner that is inconsistent with EU requirements; including those that relate to cross border capacity and security of supply. We note, however, that the EU regime also requires that we offer services on a non-discriminatory basis to all network users and that must be kept in mind when considering options. The exit capacity substitution obligation placed on National Grid aims to promote efficient use of the NTS by avoiding unnecessary investment. Hence if we are to support a different application of the methodology to interconnectors to that applied at other exit points we need robust reasons to put to the Authority and the GB gas industry as to why that different application is justified. We believe that we have justified National Grid's proposal to use Technical Capacity. However, as stated in 2.1 we are not convinced that we can justify your proposal to use the CSA.	None