

To all interested parties

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Dear Colleagues,

Joint response to the feedback on proposed changes to the Entry Capacity Release (ECR) Methodology Statement

Thank you for submitting your feedback to the ECR consultation. We received 8 responses; 1 in support, 6 opposed and 1 provided comments.

Although several parties acknowledged that the amended proposal is a more economic and efficient solution in comparison to our original proposal¹, they still oppose the concept of the summer capacity reductions at a principal level.

This letter should be read jointly with our previous letter dated 27th January 2023², in which we have addressed some of the concerns raised by respondents in the December 2022 consultation. In this letter we provide further clarification on some of the issues raised.

Uncertainty over capacity purchase.

We acknowledge that some parties think that the uncertainty over purchasing capacity will remain due to the potential changes to the level of capacity release in a scenario if the Gassco maintenance dates are amended. As stated in the re-consultation cover letter, we think that in our approach we tried to strike the right balance between ensuring the risk of high constraint costs is managed effectively, but at the same time providing the industry with certainty as to what level of entry capacity will be made available. We've amended our original proposal as the industry feedback received in the December 2022 ECR consultation suggested that we should commit to capacity release aligned with Gassco maintenance impacting Easington supply. It is also worth noting that this proposal does not change the physical capability of the network.

No insight is provided on whether Gassco maintenance plans often change.

We would like to give assurance that, should the proposal be implemented, we will be monitoring Gassco's maintenance plans to ensure any changes to maintenance dates will swiftly be communicated to the industry and be reflected in the level of capacity release as described in Appendix 1 of our re-consultation cover letter.

¹ <https://www.nationalgas.com/document/141626/download>

² <https://www.nationalgas.com/document/141801/download>

The historic shift in Gassco maintenance can be assessed from the data included on the Gassco website³ (please note the number which follows the Message ID indicates how many changes to the originally inserted data were made). The data captured on the website shows that the previous maintenance changes at e.g., Kollsnes (plant outage which will impact Easington supply in summer 2023) were relatively frequent e.g., in the time period 2021 – 2023 out of 20 instances Kollsnes maintenance was rescheduled on 7 occasions:

- 4 of these included a 1–3-day early finish or extension to the planned short maintenance, notification of which was published after the maintenance has already started
- 1 1-day earlier than planned finish was announced a day ahead of a 2-day maintenance window
- 1 change was published 8 days ahead of a 10-day maintenance window and lastly
- 1 change was published 45 days ahead of a 5-day maintenance window

Impact of the proposal on the wholesale market is not addressed. Less LNG delivered will affect both NBP and TTF price setting.

As stated in the consultation letter dated 27th January 2023, we recognise that there are two different consumer risks; the potential costs of constraints through the system not being able to transport the full amount of gas delivered through Milford Haven, vs the potential impact on wholesale gas prices if LNG cargoes are diverted away from GB. Therefore, we believe that as these both have different consumer impacts, a decision needs to be taken as to which carries the greater risk/benefit.

Gas undelivered would be likely to be replenished via alternative supply sources, the price of which will depend on contractual arrangements that Shippers have (or expect to have) with other terminals and producers. We are not privy to these contracts therefore don't think we are best positioned to conduct the analysis.

National Gas is shifting the risk associated with a lack of long-term investment in the capability of the network to LNG shippers and suppliers.

National Gas has identified a risk and put forward a proposal for consultation and Ofgem's decision. We have built the network around Milford Haven according to the User commitment-based signal received at the time, and effectively managed risk with the existing tools prior to the Russian invasion of Ukraine.

GB has become a transit point for EU gas which has altered the risk profile on the network and significantly increased summer network operation. Without such geopolitical factors, we could have continued with the existing arrangements to manage the network safely and effectively.

³ <https://umm.gassco.no/archive>

Suggested considerations to the existing proposal.

Fixing the period of restrictions.

We don't believe this solution will present an effective enough protection. If the Gassco maintenance dates change, our customers and end consumers would be exposed to the high constraint cost risk, which we believe should be avoided. Equally, fixing the restrictions could lead to reductions of capacity levels when it's not required.

Releasing capacity at a value between network capability and the baseline.

In our opinion this solution wouldn't offer full protection and the cost could still accumulate to a significant level. Furthermore, the proposal would be based on arbitrary number rather than be supported by network analysis, which we don't think is appropriate.

Offer weekly capacity auction products with a longer lead time (in addition, not instead of, the current suite).

This would require Gemini system and UNC change, which considering the timescales would not be feasible to be in place for this summer. Furthermore, changes to auction timings to support LNG cargo delivery timescales were discussed at the March Transmission Workgroup with very limited support from the industry.

The above and other suggested alternatives have been discussed with the industry in the March Transmission Workgroup where the reasons why National Gas won't consider them to further amend their proposal have been explained. Minutes and slides from that meeting can be found on the Joint Office website.⁴

What is the long-term solution?

Having received a customer request for an additional 163 GWh/d of entry capacity at the Milford Haven Entry Point, we have developed the Western Gas Network Project proposal to facilitate a ~17% increase on the existing obligated baseline. The physical investment will include 9km of new pipeline between Wormington and Honeybourne, 2km of new pipeline in Churchover, pressure uprating of the existing pipeline between Milford Haven and Three Cocks, plus related works to facilitate uprating and commissioning. The current full capacity release date associated to this investment is January 2026, with some capacity potentially being released earlier as parts of the project are commissioned.

The physical investment in that part of the network will increase the summer network capability. While the current summer capability is typically between 60-70mcm/d (depending upon local demand), this is expected to raise to approx. 80-85mcm (dependent upon local demand) in the future (while the baseline will increase from 87 to 102mcm).

⁴ <https://www.gasgovernance.co.uk/TX/020323>

Since April 2022, the GB has been consistently exporting gas to the EU via the interconnectors at Bacton (except for periods of physical unavailability). National Gas believe that the GB will continue playing an important role in supporting Europe in filling storage ahead of winter 2023/24. However, it is uncertain how long GB will play the transit role and therefore how long we might see increased LNG flows on the network.

Several projects were sanctioned in the immediate aftermath of Russia's invasion of Ukraine to increase EU LNG capability. Germany, for instance, which didn't have any regasification capacity before, now has two operational facilities which will import around 7.5 mmtpa of LNG.⁵ The growing regas capacity, as well as other market factors, will play a role in commercial decisions regarding where cargos will berth in the future. If EU gas prices continue being more favourable, we think it is likely that more LNG ships will head directly to EU, therefore with time, our transit role could be reduced. Should LNG flows be comparable to pre-Russian invasion levels (i.e., the likelihood of them going up decreasing overtime due to EU being sufficiently supplied by direct LNG deliveries), we believe the NTS can be managed with the existing constraint management tools with no need for further regime interventions.

Despite high exports of gas to Europe throughout summer 2022, Milford Haven flows were significantly below the restricted level of capacity. Furthermore, on average 30% of the restricted quantity of capacity remained unsold during the baseline reduction period between beginning of June and end of September. Following summer 2023, we will have another summer set of data i.e., booked capacity levels and flows, to consider before any further considerations regarding capacity release in the summer need to be made. Furthermore, other upstream and downstream factors e.g., offshore maintenance impacting GB gas supplies, will also play a role in the assessment of the Milford Haven summer risk in the future.

With the North Sea continental gas in decline and the likelihood of Norwegian gas seeing EU as a commercially more attractive market for the foreseeable future, we believe that LNG will play an increased role in the future of GB gas supply on longer term basis. In our RIOT3 discussions we will consider the necessary network investment to ensure resilience and strengthened capability in that part of the network is maintained on longer term basis.

We think further consideration should be given to seasonal baselines and physical network investment and look forward to hearing industry's views on this as a part of our RIOT3 customer and stakeholder engagement.

Conclusion

As mentioned in the earlier responses, we recognise the criticality of our role in ensuring the GB and European gas industry functions in an efficient and effective manner whilst meeting customer requirements. We prioritise ensuring we maximise gas flows into and out of our network, to the extent that we are physically able. In our view our amended proposal, if implemented, would successfully mitigate the risk of potential constraints at times where we see them most likely to occur, but at the same time, we think that by releasing full baseline capacity for most of the summer, we would better allow LNG Shippers and Operators to maximise utilisation of existing capacity and capability of the NTS.

⁵ Wood Mackenzie Commodity Market Report Feb 2023 *Global LNG regas project tracker H1 2023*

We thank the industry for submitting consultation feedback. We have decided not to change the proposal we have consulted on as in our view it best mitigates the potential risk of high constraint costs in summer 2023 and will submit it to Ofgem for consideration on Monday, 20th March. Our submission will be accompanied by the report produced by KPMG who acted as an Independent Examiner on the changes proposed. The scope of the examination has been agreed with Ofgem and covers compliance i.e., whether the changes proposed are in line with National Gas' obligations under the Gas Act, the Licence and UNC. Furthermore, KPMG assessed whether the processes we have mapped out to deliver the proposal internally and planned communication with the industry regarding any changes to capacity release level, are fit for purpose.

The Independent Assessment report is confidential. However, parties wishing to request a copy of the report can do so by signing a confidentiality agreement with KPMG. Please email anna.stankiewicz@nationalgrid.com if this is of interest.

In this response we have tried to address most of the issues raised by the industry in the latest consultation. We would appreciate further engagement on the topic via the industry meetings and direct correspondence.

Your sincerely

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