



Formal Consultation on Capacity Methodology Statements

Conclusions Report

24th May 2019

Executive Summary

Introduction

National Grid Gas plc's ("National Grid") Gas Transporter Licence in respect of the NTS ("the Licence") sets out obligations to develop and modify the:

- Entry Capacity Release Methodology Statement ("ECR"); and
- Exit Capacity Release Methodology Statement ("ExCR"); together, the capacity release methodology statements defined in Special Condition 9B, and
- Entry Capacity Substitution Methodology Statement ("ECS");
- Exit Capacity Substitution Methodology Statement ("ExCS"); and
- Entry Capacity Transfer & Trade Methodology Statement ("ECTT"); together, the Capacity Methodology Statements defined in Special Condition 9A.

We have been working closely with industry to develop the processes for the release of NTS Entry / Exit Capacity.

On the 16th April 2019 we invited all interested parties to comment on the proposed revisions to the methodology statements through a formal consultation process. This followed the preliminary consultation held on the 16th January. Thank you to all stakeholders who responded through this process.

This document sets out our conclusions on the formal consultation for the proposed methodology statements. It provides a summary of the representations received, our response to those representations and an indication of whether, as a result of such representations, any changes will be made to the proposed statements which will be submitted to Ofgem for approval. The responses received were not marked as confidential and can be found on our web site at: <https://www.nationalgridgas.com/capacity/capacity-methodology-statements>.

Responses

Representations were received from five respondents listed below.

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| • Centrica Plc | CEN |
| • Cadent Gas Ltd. | CAD |
| • South Hook Gas Company Ltd. | SHG |
| • Interconnector UK | IUK |
| • Energy UK | EUK |

The main themes identified (i.e. raised by more than 1 party) relate to:

- The balance of governance between the UNC and the methodology statements, particularly with regards to the economic test.
- The withholding of daily NTS Exit Capacity for constraint management purposes.
- Further review of User Commitment.

Detailed comments from respondents and our responses are provided in the following table. But please note that for pragmatic reasons then it may have been necessary to cut or paraphrase the response for the purposes of this report. Please refer directly to the responders submission to understand the full response.

We also take this opportunity to highlight additional minor changes that have been identified in addition to the formal responses. These do not change the intent of any text, and can be considered administrative in nature, and therefore we have added them into the final proposals.

- An explicit reference to zero reserve price for off-peak capacity has been removed from the ExCR and replaced with a more general reference to prices in the charging methodology.
- Paragraphs numbered 204 and 205 in the ExCR v12.2 have been moved to now be paragraphs 203 and 204 in versions v12.3.

Centrica Plc Response

Party	Reference	Response Quotes	NG NTS Response
CEN	NPV test	Should the [667] modification be implemented then the ECR should subsequently be modified to reference the NPV test in the relevant section of the UNC.	We agree that should UNC modification proposal be implemented then further changes to the ECR would be necessary, and we would launch a new ECR review to that end.
CEN	Daily NTS Capacity	National Grid has previously attempted to introduce a rule that permits it to withhold (from auction) day-ahead firm exit capacity if a system constraint, potentially affecting the delivery of gas to relevant exit points, is anticipated. Centrica objected to the proposal and does so here again. Further, Centrica is of the view that the ability of National Grid to withhold day-ahead firm entry capacity (from auction) should be removed. In short, National Grid should fully meet its licence obligations with respect to offering firm system capacity.	For clarity then we have previously consulted on, but never formally submitted a proposal regarding this rule. The rule within the ECR allows us to withhold capacity where a constraint scenario arises, and we believe such an action would save industry money and be within consumers interest. The logic applies equally to Exit as well as Entry in our view and so our proposals reflect that, and the long established rule within the ECR provides a strong precedent to do so. The use of such a mechanism would not be used lightly, and can be seen as part of a package of tools (detailed in the System Management Principles Statement) that we can use to efficiently and economically manage the system in exceptional circumstances.
CEN	User Commitment	It would be helpful if National Grid were to create a formal industry review group to assess the effectiveness and appropriateness of these rules holistically and to develop new user commitment proposals where this would likely give rise to more efficient and fair access to NTS entry and exit capacity.	Your feedback is noted, and we shall consider and share our next steps regarding this matter in due course.

Cadent Gas Ltd (CAD) Response

Party	Reference	Response Quotes	NG NTS Response
CAD	Exit Capacity Substitution	In summary, Cadent is of the opinion that requests for increases to Enduring levels of NTS Exit (Flat) Capacity made during the Annual Application Window place Users at a disadvantage as capacity can be substituted away without the Donor being given the opportunity	As you have stated then this re-iterates one of the points you made in the preliminary consultation, and we also note that you have expressed a view that our response to the point in our preliminary consultation was not thorough enough.

	<p>to challenge. Compare this to the situation where a PARCA Application is made and the potential Donor is allowed to challenge the substitution by itself raising a PARCA Application.</p>	<p>The proposal raises interesting questions regarding the processes by which unsold available NTS capacity is efficiently made available to Users. It seems appropriate for a UNC workgroup to more fully explore the issue before any proposals are put forward. We are also happy to discuss this further on a bilateral basis.</p>
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South Hook Gas Company Ltd (SHG) Response

Party	Reference	Response Quotes	NG NTS Response
SHG	16 quarter PARCA min. duration	<p><i>Does not support.</i> <i>Note: please refer to SHGs submission for full details.</i></p>	<p>This matter has been debated extensively through the Transmission Workgroups following the preliminary consultation. We maintain our view that it is wrong in principle for user commitment requirements for existing capacity (inc. substitution) to be higher than user commitment requirements for funded incremental capacity. Any further reduction in user commitment requirements therefore needs to address the relevant rule in the UNC. We have moved as far as we can as part of this modification process by structuring the ECR so that if the relevant rule in the UNC changes then the relevant rules in the ECR for substitution and funded incremental will move in line. This ensures that principles we believe protect consumers, such as the cost of substitution not being able to exceed the cost of funded incremental, will always be adhered to. Please also refer to our recent response to UNC modification proposal 667. Any party is free to raise a UNC modification proposal to address the relevant rule.</p>
SHG	Project Cost	<p>We welcome NGG’s reversion to a more “generic” project cost calculation that is based on a simplified LRMC methodology. A generic project cost allows for greater alignment with the current PARCA methodology. However, it is widely accepted that the LRMC methodology is volatile and unpredictable which is likely to result in the estimated project costs associated with the incremental capacity changing unpredictably year on year. It is unlikely that the required NTS investment will change in lockstep with the LRMC. Therefore, we believe it would be more appropriate to fix the</p>	<p>We welcome your support on the concept of using a more generic approach for project cost determination. We can confirm we have carried this approach forwards. Please note that our proposals do indeed fix in the project cost at the end of PARCA phase 1, subject to inflation. We do not generally propose or support rules that take effect retrospectively due to the uncertainty such a practice could bring to the regime. In line with this we believe it is more appropriate that the project cost is the prevailing cost at the</p>

		<p>project cost at the end of PARCA Phase 1 and index such costs in accordance with RPI to allow for greater certainty around any investment.</p> <p>2.2. The inclusion of a transition rule is also welcomed. However, for the same reasons as above, we feel it is more appropriate to fix the project cost at the time PARCA Phase 1 is completed and the PARCA is signed.</p>	time of implementation.
SHG	Premium Price	<p><i>Supports.</i></p> <p><i>Note: please refer to SHGs submission for full details.</i></p>	Thank you for the feedback.
SHG	Capacity Commitment	<p>While we are generally not supportive of a minimum duration within the NPV test associated with incremental capacity (for the reasons set out in Section 1 above) we understand NGG’s concerns that using a premium without any minimum duration could result in a scenario where incremental capacity is released uneconomically. As such, we would consider that the introduction of a requirement to signal incremental capacity over a minimum of 4 separate years represents a pragmatic compromise. We believe this is a suitable minimum duration as it ensures there is a sustained commitment for incremental capacity, in contrast to the excessive commitment under the 16 quarter minimum duration as proposed in the Consultation.</p>	<p>Thank you for the feedback.</p> <p>Please refer to the earlier response regarding the specific point on the 16 quarter rule.</p>
SHG	Governance	<p>It is noted that in the Consultation NGG have inserted the Estimated Project Cost calculation into the ECRM. Currently this calculation is included within the UNC18 with the ECRM referencing instead to the relevant section of the UNC19. This change is not highlighted anywhere within the Consultation cover letter but is a significant change to the governance regime. Removing the reference to the estimated project cost in UNC effectively makes this section of code redundant. We do not feel this change is appropriate and highlights the governance issues associated with the capacity methodology</p>	<p>We have added a transition arrangement to the ECR that will defer any change to the Estimated Project Cost calculation until such time as a UNC modification removes the LRMC methodology from the UNC.</p> <p>The Estimated Project Cost is a fundamental part of the NPV test and the methodology for incremental capacity release. The driver to have an Estimated Project Cost is the NPV test within the ECR and so it is imperative that the ECR clearly signposts where those rules sit.</p> <p>At the moment, while the Estimated Project Cost methodology does not need to</p>

		<p>statements.</p>	<p>sit within the charging methodology (there is no obligation for it to do so), it is perfectly sensible for it to reside there as the determination of project costs is integrated in the LRMC methodology for producing charges.</p> <p>It should be noted that the preliminary consultation also proposed to have the determination of project cost elsewhere. The earlier consideration was to use the rules within the Generic Revenue Driver Methodology (GRDM), in which case the ECR would point to the GRDM statement rather than the UNC. In short, then we believe the rules should be wherever it makes most sense for them to sit but the default is for them to reside within the ECR.</p> <p>The context to this change proposal is that the implementation of the charging review, will almost certainly end up with the removal of LRMC from TPD Section Y, on the basis that none of the 678 UNC modifications propose to retain it. This means that the Estimated Project Cost methodology will also disappear from the UNC - again none of the 678 UNC modifications propose anything to replace it with. It is therefore not just appropriate, but necessary, for the ECR to contain the calculation so that there is clarity on what the rules are, continuation of an applicable methodology at all times, and it allows for rules that are ‘all weather’ with regards to the outcome of the charging review.</p> <p>We accept it will be cleaner for both the UNC and ECR to move together at the same time to avoid any redundant part of the UNC, and therefore the newly proposed calculation for the Project Cost Estimate will not take effect until the relevant UNC modification also takes effect.</p> <p>We also note that legacy method for determining the Estimated Project Cost will become sub-optimal once LRMC is no longer being used to produce charges, and therefore we have proposed amendments to streamline LRMC to its residual purpose of producing Estimated Project Costs.</p>
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Interconnector (UK) Limited Response

Party	Reference	Response Quotes	NG NTS Response
IUK	Competing Auctions	<p><i>Does not support additional text.</i></p> <p><i>Please refer to IUK submission for full details.</i></p>	<p>We accept we could have been clearer that this is not proposing any changes to the underlying procedures that have been in place at IPs since the introduction of CAM 4 years ago.</p> <p>This text has been added as a confirmation of the arrangements that already exist at Moffat (Exit) and Bacton IP (Entry), and therefore addresses an omission in the current Statements.</p> <p>This omission was brought to our attention after a stakeholder flagged up to us that they could not confirm from the available publications whether competing auctions could or could not currently take place at Moffat.</p> <p>Nothing changes as a result of this clarification.</p> <p>For the avoidance of doubt this includes no resulting change to the situation at our Bacton Exit points. As the Bacton Exit Points are separate points in our Licence, any change to introduce competing auctions requires an explicit policy decision to amalgamate them in some way (e.g. through a Licence change or UNC modification) before any such arrangement could occur. Furthermore, any such arrangements could only be implemented through engagement and cooperation with the relevant TSOs.</p> <p>We have also added ‘at the designated point’ to the relevant ECR / ExCR text to help make this clearer.</p>

Energy UK (EUK) Response

Party	Reference	Response Quotes	NG NTS Response
EUK	Governance	<p>We maintain our long-held view that it would be more efficient and provide for better governance if the capacity release and substitution rules were incorporated into the UNC. Ofgem has</p>	<p>Given that the obligation to have these rules within a methodology statements sits in the Licence, then our preference is for any such change in framework to first be decided at that level.</p>

		<p>flagged that it wishes to have a reduced role in these processes and we would support that.</p> <p>An example that is contra to this, is that the ECRM proposes to no longer reference the estimated project cost calculation in the UNC, rather include this in the ECRM. However, this is not explicitly stated in the cover letter so may be missed by respondents.</p>	<p>Regarding the Project Cost, then please refer to one of our earlier responses to SHG around governance.</p>
EUK	User Commitment	<p>There are currently two UNC modification proposals in progress that seek to address issues identified with the methodology statements and in particular user commitment. Whether these proposals are implemented or not we think it would be appropriate for there to be a general review of user commitment, particularly when requests can be met by substitution. This should consider exit capacity as well and entry capacity.</p>	<p>Your feedback is noted, and we shall consider our next steps regarding this matter in due course.</p>
EUK	Daily NTS Capacity	<p>National Grid raised the issue of not releasing daily capacity into a constraint a couple of years ago. We did not support it at that time nor do we now.</p> <p>National Grid should follow the rules in the UNC and its licence for the release of capacity at exit and entry, we do not believe it is appropriate that capacity release should be limited, by a methodology statement, in the event of a constraint as National Grid receives funding to manage such constraints. If National Grid wishes to pursue this change it should raise a UNC proposal so it can be fully considered.</p>	<p>In this circumstance we do not believe that a UNC modification could effect the change proposed. National Grid’s release obligation sits within the Licence and so any rules regarding that release obligation must sit within the Licence itself or a Licence governed document such as the ECR / ExCR.</p> <p>We believe that such action can be justified as being in consumer interest under exceptional circumstances, and we note that the equivalent rule has been in the ECR for a considerable period of time creating a strong precedent.</p>