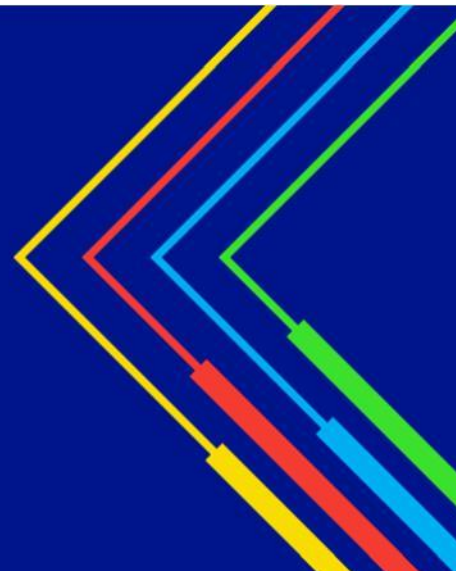


# Gas Quality Blending Service Consultation Response Form



To provide written feedback, please complete this form and email it to [box.gsoconsultations@nationalgrid.com](mailto:box.gsoconsultations@nationalgrid.com), [philip.hobbins@nationalgrid.com](mailto:philip.hobbins@nationalgrid.com) and [rachel.hinsley1@nationalgrid.com](mailto:rachel.hinsley1@nationalgrid.com) no later than 13<sup>th</sup> November 2020. Alternatively, if you wish to provide feedback verbally, please use the contact details above to make arrangements for a meeting / conference call / video conference.



Do you wish National Grid to keep any of the details of your response confidential?

## Consultation Questions

Service Concept and Link to GS(M)R Review	Response
1. <a href="#">What are your thoughts on the service concept outlined in section 3?</a>	<p>We would support the provision of gas quality blending services by National Grid, providing that they were appropriately designed. We believe that such a service could facilitate greater production from UKCS, and at potentially lower cost, than would otherwise be the case, with corresponding benefits to the UK gas market and consumers. This aligns with the broader aims of the MER strategy for UK production.</p> <p>However, there are a number of challenges that will need careful consideration before the launch of NG blending services. Many of these are highlighted in the consultation document, but include: impacts upon existing commercial blending agreements; charging and allocation arrangements; correct treatment of income vs National Grid's total allowed revenues; and accurate understanding of impacts on downstream gas quality (on both overall range of gas quality at exit points, and speed of gas quality change over time).</p>

2. Do you foresee any positive or negative impacts of NGG offering such a service on your business? If so, please explain.	<p>At present we do not foresee any significant positive or negative impact upon our business from the introduction of NG gas blending services. However, the upstream environment is very dynamic meaning this situation could change over time e.g. through production increases, field depletion, new discoveries, tie-ins, acquisition and divestment; and indeed changes to where and how NG might offer blending services, and the uptake of these services.</p> <p>All of these factors mean that we are only able to provide a snapshot view based on the prevailing situation.</p>
3. Do you consider there to be any risks that may arise from such a service?	<p>We believe that there are commercial and safety risks stemming from the introduction of blending services which will require careful design and implementation in order to mitigate. Many of these are highlighted in NG's consultation document, and in our response to Q1 above.</p> <p>There may of course, be further unforeseen risks that are identified during detailed development and further industry consultation, and indeed unintended consequences which cannot be reasonably foreseen at this time.</p>
4. Wobbe Index and Incomplete Combustion Factor are the parameters that stakeholders have so far indicated to us could be useful to have a relaxation on as a blending service. Do you see a need for this service to cover any other parameters and if so, which parameter(s) would you like to be considered and why?	<p>While blending to achieve Wobbe compliance is probably the most obvious parameter, and the one that's likely to prove most popular, at this stage we do not see a reason to exclude any parameters from the range of possible solutions offered by a blending service.</p> <p>It may not always be possible to satisfy every customer request for gas quality correction. It is therefore imperative that the allocation methodology identifies how requests for blending will be prioritised, including where competing requests identify a blending requirement for different gas quality parameters.</p>
5. Do you consider that the GS(M)R Review negates the need for a gas quality blending service or should the topic continue to be explored?	<p>We welcome the current proposals to revise GS(M)R specifications, and believe that overall they will prove to be a positive step for the UK gas industry and consumers. However, we believe that even after taking the proposed specifications into account, there will still remain a worthwhile volume of unproduced gas which sits outside of the proposed specification. This will either need treating or blending before it can be transported in the NTS. We therefore consider that development of a National Grid blending service should continue.</p>
<b>Applicable terminals</b>	
6. Do you agree with our initial views on the categorisation of NTS entry points contained in section 4?	<p>From a technical point of view we believe that National Grid is best placed assess which of its terminals are most suitable to offer blending services. Based on our limited understanding of these</p>

	<p>terminals, we would tend to agree with National Grid's initial assessment.</p> <p>However, looking beyond these technical considerations, we believe that the development of optimal blending services is likely to require significant input and cooperation from a number of other parties in the value chain including: upstream producers, offshore pipeline operators and upstream terminal operators.</p> <p>Taking account of the individual positions of these other parties may reveal a set of circumstances which are particularly favourable or unfavourable, which may in turn influence the categorisation of terminals. We have no insight to offer in this respect, and suggest that this would need extensive engagement with those respective parties in order to determine their positions.</p>
7. Teesside and Easington would require additional infrastructure and components to be able to offer a gas quality blending service, which would mean additional time and costs to implement. Would you support NGG further exploring this?	We would support further investigation of the potential for blending services at these terminals, providing that this additional exploratory work did not incur excessive costs for network users, and was subject to regular assessment about the likelihood of a successful outcome. Exploratory work should stop if and when it becomes evident that, on balance, the prospects for a successful blending service were limited.
8.	
9. Do you think that the service is more suited to UKCS terminals rather than interconnectors?	We see no objective reason to differentiate between UKCS and interconnectors. We recognise that interconnectors may have more technical and commercial problems in managing gas that is out of UK specification if it could not be accepted at the reception terminal due to blending constraints. However, we believe that interconnector operators are best placed to decide whether a blending service is right for them and their customers and whether or not to avail themselves of the service.
<b>Regulatory Treatment</b>	
10. In your view, which regulatory mechanism should NGG pursue to	We have no specific views at this stage, but believe that certain principles should apply. Where National Grid employs assets that

obtain regulatory approval for this service?	<p>have been/are being funded by network users, network users should benefit from excess revenues resulting from blending services.</p> <p>Where additional investment is required to develop a new blending service (e.g. Easington or Teesside), these additional costs should be targeted at the beneficiaries of the new service.</p> <p>An additional consideration is the impact on any existing commercial blending services. Where these exist, they might have required investment and the introduction of a competing service by National Grid risks this investment becoming stranded, especially where National Grid is able to offer a competing service at a lower price (e.g. by using network-funded assets). Care needs to be taken, therefore, not to leverage National Grid's unique position to distort the competitive environment.</p>
11. The DFO contract with NGG may need to be amended to offer the service, do you believe this should be changed via the NEA or a different contract put in place?	<p>We like the transparency that accompanies changes to NEAs, where network user typically have visibility and are consulted. We therefore lean towards the NEA solution.</p> <p>However, we believe that this point should be subject to broader industry discussion.</p>
12. What are your views on the suitability of UNC TPD Section I3.5 'Special Delivery Arrangements' to serve as UNC basis for NGG to offer the service? Are there additional changes you believe will be required within UNC?	<p>Amendments/additions to TPD I3.5 appears to be an appropriate way to accommodate blending service arrangements within the UNC. However, it is not clear how this arrangement would work if blending services were available to DFOs who were not also UNC shippers (and therefore not subject to the rules of the UNC). In this case, care must be taken to ensure equivalence of contractual rights, obligations and transparency between users of blending services.</p>
<b>Charging</b>	
13. Who should NGG's customers be – UNC shippers or DFOs, or potentially both?	<p>We believe that both UNC shippers, and DFOs who are not UNC shippers, should be eligible for blending services, subject to contract equivalence.</p>
14. If the DFO, this would create a commercial relationship that is currently purely operational. Do you envisage any problems with this?	<p>We do not believe that this would cause an issue. We do not foresee that the availability of a blending service would introduce any perverse incentives on DFOs to act inappropriately. We believe that DFOs should be capable of managing the commercial processes necessary to engage in blending service arrangements with National Grid. Where DFOs are not willing or able to do so, opening up blending services to UNC shippers (as set out above) would allow another route for offshore producers to benefit from those services outside of their DFO relationship.</p>
15. Do you agree that NGG should charge for this service?	<p>Yes. Charges should reflect National Grid's incremental operating costs associated with providing this service. Where additional capital expenditure is required to deliver blending, this should be targeted at the beneficiaries of the service.</p>

<p>16. What minimum and maximum service durations would be appropriate?</p>	<p>We would favour offering blending services as a daily product (minimum), to align with NTS entry capacity products. Offering a daily product would also facilitate effective anti-hoarding measures.</p> <p>We have no firm view on the maximum term. While longer term blending services suggest increased certainty and lower risk, the fact that this service is set to be interruptible suggests that no-one would undertake a significant upstream investment on the basis of an enduring blending arrangement.</p> <p>We might therefore lean towards a maximum period of one year, but would welcome further industry engagement on this point.</p>
<p>17. Please share your thoughts on whether DFOs / shippers delivering on-specification gas at a terminal where a blending service is in place should receive a share of the revenue that NGG receives from the DFO delivering off-spec gas for providing the service</p>	<p>Our primary concern would be to ensure that gas producers continue to be paid for the full value of their gas, and are not subject to any form of value reduction as a result of their product being used for blending services.</p> <p>Beyond this, a revenue sharing arrangement could be complex to design and administer.</p> <p>Where National Grid's blending service revenues are set to only recover the costs of providing the service, there would normally be nothing to share with the suppliers of on-specification gas. Therefore, revenue sharing would only be possible where revenues exceeded costs (i.e. National Grid made a profit). This might possible if a competitive allocation process was employed and demand exceeded supply, for example.</p> <p>In a situation where National Grid did make a profit, it would be necessary to identify which gas streams contributed to the blending process, and in what proportion, in order to accurately allocate funds.</p>
<p>18. What is the maximum lead-time that would be acceptable to you between signing up for the service and it becoming available?</p>	<p>This is largely driven by the contract durations available.</p>
<p>19. How should we make the service available?</p>	<p>We do not have firm views on this point but agree it could be critical to the fair provision of services, especially if demand exceeds supply. We would welcome further industry engagement on this point.</p>
<p>20. How do you anticipate the structure of the charging to work?</p>	<p>As with most other aspects of National Grid's transportation business, we believe that charges should be largely cost reflective and effectively targeted towards those incurring the costs and benefitting from the service. It may be desirable to consider auction allocations, especially where demand is likely to exceed supply. In this case, an appropriate method should be used to recycle excess revenues. We have no firm views on this but would welcome further industry engagement on this point (also see answer 17 above).</p>

<p>21. Do you consider that the service would be useful to terminal operators if it is only offered with NGG reserving the right to interrupt at short notice?</p>	<p>Short notice interruption might be acceptable to an upstream terminal. However, this probably depends to a large extent upon that upstream terminal's ability to curtail and/or manage the flows of out of specification gas that it is receiving from offshore. If this can be managed within the National Grid notice period, we believe the National Grid blending service is likely to be valued.</p>
<p>22. Do you believe that an NGG gas quality blending service would be likely to result in a benefit or detriment to security of GB gas supply? Please explain your answer.</p>	<p>Impacts to supply security will depend upon the extent to which blending services are used. We have no insight into appetite for the proposed blending services. However, if they are used, we believe this is likely to be to land gas that otherwise would not reach the UK gas market. This is likely to provide an enhancement to supply security.</p>
<p>23. If you wish to provide any other feedback on the issues raised in this consultation, please do so here.</p>	<p>We have nothing further to add.</p>