

National Grid Gas Quality Consultation Response Template

To provide written feedback, please complete this form and by email it to box.gas.market.devel@nationalgrid.com and philip.hobbins@nationalgrid.com no later than Friday 17th November 2017. Alternatively, if you wish to provide feedback verbally, please use the contact details above to make arrangements for a meeting / conference call / video conference.

Name:Graham Jack.....

Company:.....Centrica.....

Do you wish National Grid to keep the details of your response confidential?.....No.....

Questions for Consultation

Existing NTS Entry Connections

1. Do you expect the number of requests by existing NTS entry parties to amend gas quality limits in their Network Entry Agreements (NEAs) that are within GS(M)R but outside GTYS limits to increase in the coming years? Please provide your rationale.

We do not have any information to indicate whether there may be an increase in such requests but we should be ready and willing as an industry to manage any justifiable requests in an efficient, yet thorough, manner.

In anticipation of future change requests, it would be worthwhile conducting a review of the GTYS limits to consider whether they are unduly restrictive, with particular attention being given to oxygen and carbon dioxide content.

2. Do you believe that National Grid's current method of assessment for individual NEA parameter changes is appropriate? If not, how could our approach be improved?

Individual reviews can be very time-consuming but have resulted in thorough explorations of the likely consequences of allowing changes to NEA gas quality parameters. The level of engagement in the UNC modification workgroups assessing proposed changes testifies to the importance attached to the outcomes. A review of the GTYS limits might, if the prohibitions were to be slackened, help to minimise or accelerate future requests for change.

Extending assessments to cover all NEAs would add complexity and would probably narrow down the scope for change. If an increase in a limit were requested for any given NEA then the likelihood of success would be constrained by a consideration of the impacts of allowing the same changes to occur elsewhere. "Heat Map" analysis by National Grid to study the penetration of affected gas into the network would likely result

in a greater number of concerns being raised by end users. It would therefore be unreasonable to prohibit a change to gas quality parameters for a specific NEA by requiring the same changes elsewhere (and where they may not be needed).

The current approach therefore seems reasonable to us.

We note, however, that it may also be possible for National Grid and a terminal operator to agree changes to gas quality parameters at a terminal/ sub-terminal on condition that all relevant gas shippers holding NTS entry capacity at the relevant terminal/sub-terminal first agree with the proposed changes. There is limited transparency for this process that perhaps ought to be reconsidered.

3. Which of the NEA change options detailed in section 7.0 for individual limit parameters do you prefer and why? Are there other options that should be considered?

Option 2, “Window for other requests”, would help to overcome any charge of discrimination that might be laid against National Grid and is something we suggested during UNC Modification 0607S workgroup discussions. The approach is similar to the one used for the reservation and release on capacity under the PARCA process which has been endorsed by Ofgem. If the window were set at, say, 4 weeks then this would be unlikely to lead to any significant delay in progressing the initial request for change.

Option 1, “Status Quo”, has worked well in our opinion. Although no formal “window” exists for inviting similar requests for change to that of the original request, the process for developing solutions, exploring alternatives and considering the possible impacts of change has been thorough and very transparent. When UNC Mod Proposal 0498 was raised in respect of one of the Teesside entry points it was very quickly followed by an identical request for another entry point at Teesside with the result that both requests for change were considered in tandem. Option 1 remains a reasonable approach in our view and we are concerned that a compromise solution was reached between National Grid and the proposer of UNC Mod 0617S to fend off the former’s concerns about possible discrimination as this will give rise to contractual and regulatory uncertainty if the proposal is implemented.

The “Lowest Common Denominator” approach, Option 3, would be far too restrictive in our view and could result in significant quantities of gas not being delivered economically to the NTS. This would be in direct conflict with the OGA’s Maximising Economic Recovery Strategy and could lead to a much higher and earlier dependence on gas imports with implications for gas wholesale prices and NBP liquidity. It is interesting to note that the proposer of UNC Mod 0607S has stated that a significant cessation of gas supplies delivered to the NTS at St Fergus will occur unless the modification proposal is implemented. A lowest common denominator approach would most likely have brought this about because of restrictions in the delivery of gas with high CO₂ to the IUK exit point, i.e. a very bad outcome.

New NTS Entry Connections

4. Do you believe that the process of agreeing gas quality limit parameters for new NTS entry connections requires reform? If so, what changes do you suggest?

With de-coupled connection and capacity processes there is arguably a likelihood that shippers could be exposed to the risk of picking up costs should non-compliant gas be delivered to the system. The current contractual framework means that the NEA is essentially an operational contract between a terminal operator and National Grid with no commercial terms, whereas the network code/ UNC contract that National Grid has with shippers is commercial with incentives or penalties to ensure that gas is delivered to the required quality specification. This means that shippers should seek to cover any gas quality exposure within gas purchasing agreements and might do so with generic contract terms. So, the exposure mentioned above may be small but it does require shippers to appreciate the disconnect in the connection and capacity processes and where the relevant commercial obligations lie.

5. Do you consider that the demand for new NTS entry connections to deviate from GTYS gas quality limits will grow in the future? If so, please provide your rationale.

We do not have any information to demonstrate whether this will or will not happen but we would not be surprised if deviations from GTYS limits will be required to support some marginal UKCS gas fields, LNG imports and most probably the onshore production of unconventional gas from, for example, shale and biomethane.

Generic Questions

6. Where National Grid's ability to agree to higher gas quality limits is limited, e.g. a higher limit could be agreed at one NTS entry point but not more widely due to an impact at NTS exit point(s), how should National Grid manage and allocate the available flexibility?

The PARCA (Option 2) approach would help to identify whether there is any valid reason for extending the provision of higher gas quality limits to entry points other than the one(s) giving rise to the initial request. A one-size-fits-all approach needs to be avoided and applicants seeking higher gas quality limits must provide justification for change.

Where simultaneous, valid requests are received for a higher limit at 2 or more entry points and it is not possible to provide the same limit or requested increase for them all, then it may be possible for the affected parties to agree a compromise solution. If this is not achievable then the focus should be on increases to existing limits with individual increases at entry points established to maximise the delivery of gas to the system under different demand and supply scenarios, thus being consistent with the OGA's Maximising Economic Recovery Strategy.

7. Do you support further consideration of National Grid providing gas quality services to process and/or blend at NTS entry points in the RIIO-2 period or do you believe that the responsibility to deliver compliant gas should continue to rest with upstream parties? Are there specific projects / locations where this type of service could be valuable?

All reasonable and economically efficient options for safely delivering gas to the NTS should be considered. The provision of processing or blending services by National Grid might be helpful but we assume that these services would be chargeable and the charges directly attributable to specific costs incurred. We would be interested in hearing more from National Grid on what services they might be able and willing to offer.

Where fortuitous co-mingling of gas can satisfy the needs at entry points then this might be used to provide qualified gas quality rules within the relevant NEAs and should not be chargeable.

8. If your business is adversely affected by variations in gas quality, how could National Grid help you to manage those issues? (Note: at this stage we are not proposing to publish real-time gas quality data measured at entry points to the NTS).

Publication of within-day gas quality information would help affected parties to anticipate likely variations in gas quality and to better prepare for anticipated problems with the operation of key plant. If this can be done at low cost and without breaching confidentiality of information, then this should be pursued by National Grid if affected parties can demonstrate a real need.

9. Is there a case to treat smaller connections that Project CLoCC seeks to facilitate differently to larger coastal terminals in respect of gas quality arrangements?

Care needs to be taken with all gas entering the pipeline system. There are not only safety considerations but also commercial ones, especially in relation to CV shrinkage. This question might best be answered via a review of the GTYS parameters as we have suggested, to explore whether there are any specific gas quality considerations where a different treatment for smaller entry connections would help them evolve without any adverse safety or commercial impacts. Individually, smaller entry connections may have little or no impact on the system but collectively there might be a significant impact; however, a PARCA-based approach for new connections should help National Grid to successfully navigate this,

10. The GTYS limit for oxygen is 200 times more stringent than that required by GS(M)R (10ppm compared to 2000ppm). Do you anticipate any adverse consequences if the GTYS limit were to be increased?

We are unable to answer this as we would need to see a heat map assessment from National Grid under different supply and demand scenarios. The current GTYS limits appear too prohibitive and National Grid should explain why this is the case.