

By email: National Grid – [box.gsoconsultations@nationalgrid.com](mailto:box.gsoconsultations@nationalgrid.com)

13<sup>th</sup> January 2023

Dear Sir/Madam

**RE: National Grid Transmission’s Consultation on Entry Capacity Release Methodology Statement**

Thank you for the opportunity to respond to the above consultation on proposed amendments to the Entry Capacity Release Methodology Statement (“**ECR**”) as published by National Grid Gas plc (“**NGG**”) on 9 December 2022 (“**Consultation**”). This letter comprises the response to the Consultation from South Hook Gas Company Ltd. (“**SHG**”).

SHG strongly opposes the ECR amendments proposed in the Consultation to restrict the firm capacity available in Monthly and Weekly System Entry Capacity auctions at the Milford Haven Aggregated System Entry Point (“**MH ASEP**”). SHG believes implementation would have a negative impact on the GB wholesale gas market and is likely to increase costs for GB consumers over the relevant period. SHG’s response to this Consultation should be read alongside SHG’s response<sup>1</sup> to the NGG’s consultation of 19 April 2022 on ECR amendments in respect of Summer 2022<sup>2</sup>.

SHG does not agree that the drivers for change suggested in the Consultation justify an amendment to the ECR of this magnitude at a time when the importation of LNG is of critical importance to GB Security of Supply. Given the current geopolitical situation, SHG has seen increased demand for LNG deliveries to the South Hook LNG terminal over the past 12 months and we anticipate that this will continue for the foreseeable future. However, this does not mean that deliveries into Milford Haven will be at a level which creates a risk of an enduring gas send out constraint, much less resulting in gas flow constraints of 22mcm as suggested in the Consultation. Since commencement of commercial operations of the two LNG terminals at Milford Haven in 2009, aggregate send out above 900 GWh/day has never occurred in summer and only on 11 days in winter. Fundamentally, LNG importers do not benefit from constraints - constraints impact scheduled gas send out and cause shipping delays which have adverse impacts upstream. It is widely understood that there is a lack of capability at Milford Haven at certain demand levels and these can occur in either summer or winter<sup>3</sup>. Therefore, as a prudent operator, we estimate likely send out from the Dragon LNG terminal and seek to schedule our deliveries in a way that avoids NTS constraints.

SHG considers it very unlikely that a constraint would occur at the levels NGG are indicating in the Consultation, and even more so that such a constraint would occur on an enduring basis. If NGG is correct that high LNG deliveries into GB will persist given the external factors referenced in the Consultation, this increased gas supply would be expected to exert downward pressure on NBP prices. The low NBP price would incentivise LNG suppliers to look at diverting excess LNG cargoes away from GB, which would consequently help avoid the constraint. This LNG and GB gas market interaction, with LNG being delivered or diverted based on price indications, is the likely explanation as to why there has been a low level of constraints at Milford Haven due to network capability (i.e., not due to unplanned asset outages) since commissioning of the two LNG terminals. Short-term constraints (e.g., days) may occur, however these are extremely unlikely to be at levels of 22mcm and should be handled by way of the existing effective constraint management tools. As there is little risk of a constraint of the magnitude envisaged in the Consultation, it follows that the rationale for the proposed ECR amendments should be re-evaluated as

---

<sup>1</sup> <https://www.nationalgrid.com/gas-transmission/document/139521/download>

<sup>2</sup> <https://www.nationalgrid.com/gas-transmission/document/139546/download>

<sup>3</sup> <https://www.nationalgrid.com/gas-transmission/document/135991/download> Figure 19, Page 27

the existing inputs for any cost-benefit analysis or other impact assessment that has been conducted would need to be revisited.

In SHG's view, the Consultation paints an extreme picture of the risks to customers and consumers of a constraint as it does not fully take account of the wider market impacts of the proposed ECR amendments (although NGG do note that there are likely to be wholesale gas price impacts as result of the change). The analysis in the Consultation is based on the worst-case scenario, which is very unlikely to occur during the summer for numerous operational reasons that have not been accounted for in the Consultation. As noted above, the two LNG terminals at Milford Haven have never sent out gas at an aggregate rate of 900GWh/day during the Summer months (i.e. April to September, inclusive), let alone at 950GWh/day (which is the Milford Haven Obligated Baseline). There have also been only eleven days since 2009 on which aggregate send out from Milford Haven has exceeded 900GWh in Winter months. While we appreciate why a worst-case scenario has been used for conservative reasons to justify the proposed solution for Summer 2023, SHG considers that this is an inappropriate basis for analysis and decision-making as it does not provide a realistic view of constraint costs for assessment of the wider market impacts of the NGG proposal.

SHG believes the estimated constraints costs within the Consultation are inflated due to the assumption that 50% of constraint management actions would be managed by capacity buybacks, with the other 50% being managed by locational actions<sup>4</sup>. Capacity buybacks require NGG to buy through all capacity held by users whereas locational actions require the purchase of only the constrained volume. This means that capacity buybacks are an inefficient and expensive tool for NTS Entry Points with multiple shippers. SHG considers that NGG would therefore give priority to locational actions over capacity buybacks in a constraint scenario. This is supported by the fact that locational sales have primarily been used to manage historical constraints at Milford Haven. According to the recent consultation on the Wormington Compressor Station Final Preferred Option<sup>5</sup>, capacity buybacks have never been used to manage a constraint at Milford Haven over the operational lives of the two LNG terminals. It is also worth noting that, as part of the Wormington consultation, Ofgem suggested that a 50/50 split between locational sales and capacity buybacks is inappropriate<sup>6</sup> and leads to excessive constraints costs.

NGG argues that the proposals within the Consultation offer the most certainty to the GB gas market. SHG believes that this proposal does the opposite and creates a significant amount of uncertainty, which in turn increases the likelihood of LNG cargoes being unnecessarily diverted away from GB. Given the current geopolitical situation, which is further exacerbated by the Norwegian gas pipeline outages, proposals should be seeking to improve the frameworks and to encourage LNG deliveries into GB, rather than creating uncertainty and ultimately leading to LNG deliveries being diverted. On the last point, SHG notes that the Consultation contains no analysis of the proposals impact on the upstream LNG market. NGG appear to assume that LNG suppliers will respond to the constrained capacity releases proposed by NGG by cutting back LNG deliveries to Milford Haven terminals such that terminal utilisation matches the restricted capacity level. However, this displays a misunderstanding of the fundamentals behind LNG suppliers' delivery decisions. The fact that this proposal creates, rather than alleviates, uncertainty for LNG suppliers to the detriment of the GB market was borne out in Summer 2022, where SHG had *at least* two LNG cargoes diverted away from Milford Haven as a direct result of the capacity restrictions enabled by the ECR changes. Had these cargoes not been diverted and instead been delivered to the South Hook terminal, it is likely that the regasified LNG would have remained in GB (given that the interconnectors at Bacton were consistently exporting at high flow rates to Europe over Summer 2022) and therefore these volumes would have put downward pressure on the NBP price, directly benefitting GB consumers. However, as these cargoes were diverted away from GB (likely to Europe), any consumer benefit in this

---

<sup>4</sup> Page 3 of the Consultation; 4<sup>th</sup> paragraph of "Risk to customers and consumers"

<sup>5</sup> <https://www.ofgem.gov.uk/publications/consultation-wormington-compressor-emissions-final-preferred-option> at paragraph 4.3

<sup>6</sup> Ibid at paragraph 4.5

regard was not only lost but the required repurchase of gas already sold by Shippers in the downstream would have placed upwards pressure on the NBP prices.

SHG has determined **the delivery of a single LNG cargo could reduce the NBP price by approx. 10p/th**<sup>7</sup> (although this could be up to 50p/th) and **the overall benefit to GB of a single delivery would be approx. £10m per day**<sup>8</sup>. SHG had a further 19 LNG deliveries cancelled post-determination of Annual Delivery Plan over the period of the capacity restrictions last year and, although it is difficult to directly attribute the restrictions as the cause of diversion, SHG would have expected delivery of a number of these cargoes had the capacity restrictions not been in place. It is also worth noting that, looking retrospectively, there would have been no NTS constraints caused if these cargoes had been delivered<sup>9</sup> and therefore no constraint costs would have been incurred. This highlights the uncertainty created and negative impact caused by the changes implemented last year.

Another justification for the proposed capacity restrictions by NGG is the maintenance and subsequent outages on the Norwegian gas pipeline system into St Fergus and Easington. NGG state they believe these outages will result in increased LNG deliveries to GB which could increase the risk of constraints<sup>10</sup>. SHG questions whether this proposal may actually result in a detrimental impact on the GB gas market at a time when GB should be looking to attract LNG deliveries to counter the Norwegian gas pipeline outages, given the points that SHG has raised above around the capacity restrictions creating an increased likelihood of unnecessary LNG diversions and consequential reductions in send out utilisation levels below the restricted maximum available capacity send out rate.

As a combined result of all the above, SHG believes that an independent impact assessment should be conducted by Ofgem to fully understand the impacts that this proposal will have on the market and ultimately GB consumers.

SHG questions whether it is appropriate to only apply this methodology to the Milford Haven ASEP when NGG states that baselines across the whole NTS are “theoretical” and “all baselines cannot be delivered on the same day”. SHG does not believe that the Milford Haven ASEP is the only NTS Entry Point where constraints may occur during the Summer and this is evidenced by prior Summer maintenance plans, which highlight lower capability at other NTS Entry Points. For example, Summer 2022 was the first summer period for which NGG has not published lower capability at the Isle of Grain Entry Point since 2016<sup>11</sup>. SHG questions whether implementing this change is in the best interest of GB consumers given the priority to attract LNG deliveries at the best prices, as this change would put the Milford Haven ASEP at a significant competitive disadvantage and decreases its attractiveness compared to the Isle of Grain LNG terminal (which is owned by National Grid).

Other mechanisms could be implemented to help NGG better manage capability, including for longer-term constraints. For example, if NGG believed that excessive monthly capacity had been sold (due to capability or network resilience), they could seek to reduce the capacity using commercial tools. This is likely to lead to more efficient and economic actions by NGG than using the current constraint tools on a Day-Ahead or Within Day basis for enduring constraints. SHG has already engaged with NGG to propose and discuss alternative options to help mitigate their concerns. However, none of these proposals were taken forward.

The ECR changes implemented for Summer 2022 were described in the consultation document of 19 April 2022 as being “precautionary and temporary” and required to address the risks in what was then

---

<sup>7</sup> Based on December 2022 prices and LNG volumes delivered

<sup>8</sup> Based on average NTS demand for December 2022

<sup>9</sup> Based on the capability levels shown in the Consultation

<sup>10</sup> Page 2 of the Consultation; paragraph “Norwegian pipeline maintenance”

<sup>11</sup> <https://www.nationalgrid.com/gas-transmission/data-and-operations/maintenance>

highlighted as a “unique and unprecedented situation”<sup>12</sup>. NGG have had since early 2022 to develop a more appropriate medium- or long-term solution to this issue. It therefore does not seem justifiable to propose for Summer 2023 a carbon copy of the approach taken in 2022, given that the situation caused by ongoing geopolitical events cannot still be claimed to be “unique and unprecedented”. The fact that the 2022 Summer changes have been reiterated for 2023 also somewhat undermines the previous claim that they are “precautionary and temporary” in nature. Both of the 2022 references above have been omitted in the Consultation and no explanation is given for their omission. The only long-term solution mentioned in the Consultation to address NGG’s perceived issue is to invest “in the physical Network to increase the Milford Haven summer capability” but this “would take a number of years to deliver”<sup>13</sup>. SHG would be interested to learn whether any comprehensive comparative analysis has been conducted of all of the available short-, medium- and long-term options (including those raised by SHG with NGG) to address NGG’s perceived issue.

The lack of meaningful engagement on this issue also highlights concerns SHG has around the use of Methodology Statements as a governance process for changes to regulatory frameworks, especially ones of this significance. There is no opportunity for parties to raise alternate solutions and have their merits assessed alongside the original proposal. Proposals of this nature and significance should go through a more robust governance process, such as the UNC or Licence change process. SHG believes that the analysis and justification in this proposal are of an incomplete nature and questions whether it would pass thresholds set by other governance process (such as the UNC Panel) as a complete proposal.

Based on the above, SHG does not believe that any capacity restrictions below the baseline are required at Milford Haven, or any other point on the NTS, as it causes unnecessary uncertainty in contrast to NGG’s argument in support of the ECR changes. In turn, this is likely to lead to lower level of terminal utilisation versus the status quo.

We hope this response is of assistance. Should you wish to discuss further or have any questions please contact Adam Bates at [abates@southhookgas.com](mailto:abates@southhookgas.com) and +44 (0)20 7234 3505 or Andrew Sealey at [asealey@southhookgas.com](mailto:asealey@southhookgas.com) and +44 (0)7825 612 704.

Yours sincerely,

**Adam Bates**

Regulatory and Commercial Executive  
South Hook Gas Company Ltd.

---

<sup>12</sup> <https://www.nationalgrid.com/gas-transmission/document/139546/download-at-page-2>, paragraph “ECR changes required”

<sup>13</sup> Page 4 of the Consultation; penultimate paragraph