



Consultation on Capacity Substitution Methodology Statements

Conclusions Report

17th November 2016

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 following Capacity Methodology Statements defined in Special Condition 9A:

- Entry Capacity Substitution Methodology Statement ("ECS"); and
- Exit Capacity Substitution Methodology Statement ("ExCS").

Following requests from the industry to review the substitution lead times (for both NTS Entry and Exit Capacity) and to consider the prioritisation of disconnected donor points within the substitution process, changes have been made in these documents. The substitution lead time has been shortened to 1st October Y+2 and disconnected points can now be prioritised, where appropriate, within the substitution process.

On the 6th October 2016 National Grid invited all interested parties to comment on the potential revisions to the substitution methodology statements through the formal consultation process.

This document sets out National Grid's conclusions on the formal consultation for the potential methodology statements. It provides a summary of the representations received, National Grid's response to those representations and an indication of whether, as a result of such representations, any changes have been made to the proposed statements.

Responses

Representations were received from seven respondents, one was marked as confidential. The respondents are listed below:

- | | |
|------------------------------------------|------|
| • National Grid Gas Distribution Limited | NGD |
| • Energy UK | EUK |
| • Centrica | CEN |
| • Confidential Respondent | CONF |
| • RWE | RWE |
| • Wales & West Utilities | WWU |
| • Interconnector (UK) | IUK |

The more substantive issues raised relate to:

- Substitution Lead Times
- Donor order - disconnected points
- Retainers

Comments from respondents and National Grid Transmission's responses are provided in the following table. In order to keep this report to a manageable length, responses may have been edited. Interested parties are advised to read the full responses found on National Grid's web site at:

www2.nationalgrid.com/uk/industry-information/gas-capacity-methodologies/

Responses

Party	Response Quotes	National Grid Response	Proposed changes
1- Substitution Lead Time			
EUK	Energy UK agrees that a reduction in lead time to Y+2 is consistent with the PARCA release lead times and is therefore an appropriate change. Their support for this is linked to the continuation of the current off-peak capacity and charging arrangements. They note that in PARCAs that have progressed to the end of phase 1 the capacity requirement for the time before substitution can occur is usually managed by National Grid releasing non-obligated capacity. They believe that facilitating earlier substitution will reduce risk for National Grid but potentially increase the risk of securing capacity for sites that are donor sites	Thank you for your comments. We note that your position is based on the continuation of the current regime arrangements and would anticipate that further reviews of the methodologies will continue hand in hand with any future regime change. With regard to any potential increase in risk relating to securing capacity at donor sites we believe that reducing the lead time does not materially impact this and may be outweighed by the benefits for the recipient site. It is possible that a donor point may in subsequent years become a recipient site.	No change proposed
RWE	RWE agrees that the substitution lead time for both entry and exit capacity should be reduced to 1st October Gas Year Y+2 from 1st October Gas Year Y+4, as this is more consistent with the PARCA timeline.	Thank you for your comments in support of the proposed changes to the substitution lead time.	No change proposed
CEN	Centrica believes that following the introduction of PARCAs, the lead times are no longer meaningful and it is therefore appropriate that the linkage to capacity substitution lead times is reconsidered. Under a PARCA, the “investment lead time” is essentially the time taken to perform physical works for the provision of incremental capacity and this is expected to be up to 2 years. They believe that it is logical to amend the capacity substitution lead times to more closely align with this 2-year period. Such a change will help to promote more efficient access to the NTS for new projects (or growth in existing projects) and will reduce the likelihood of capacity being sterilised. Although capacity substitution presents some risk for Donor sites, these sites will still have access to shorter-term capacity products that will go some way to mitigating the risk of their not being able to flow gas when required. Should access to such shorter-term capacity products change in future then it would be appropriate to reconsider lead times for substitution.	Thank you for your observations in support of the proposed changes to the lead time. We agree that any risk for donor sites may be managed by access to shorter term capacity products. It is also possible to use the retainer process on entry. We agree that any future regime change should occur hand in hand with reviews of the methodologies.	No change proposed
WWU	WWU supports the reduction in lead time to Y+2 on the basis that it has potential to reduce the risk of investment in new capacity and increase efficient use of available capacity which would otherwise remain allocated to offtakes where there is no requirement for it.	Thank you for your comments in support of the revised lead times.	No change proposed

CONF	<p>This party believes that with the introduction of PARCAs the proposed changes align well with this process and may provide a faster and more efficient way to connect to the NTS or increasing loads at existing sites. They have concerns about existing points having all unsold capacity substituted away. They note that short term capacity products may be available but believe that there may be an increased risk around securing longer term capacity should demand forecasts increase. They believe that the Y+2 methodology will not provide sufficient time for reinforcement.</p>	<p>Thank you for your comments in support of aligning the lead times with the PARCA process. We note your suggestions regarding short term mitigation options and your reservations about securing longer term capacity at points where it has been substituted away. In the longer term there is an option to invest if capacity is not available to be substituted back and there are options available to Users to signal their future requirements.</p> <p>It is still possible that a donor point may in subsequent years become a recipient site.</p>	No change proposed
NGD	<p>NGGDL recognises the benefit of facilitating earlier connection but believes that the proposal could create a risk to a DNO User meeting its 1-in-20 Peak Day obligations.</p> <p>Key issues (n.b. additional detail has provided in the full response letter):</p> <ul style="list-style-type: none"> - uncertainty surrounding demand and the factors affecting it with the potential for increased future demand levels; - the conflict this creates with the need to book capacity efficiently and the possible impact on DN transportation charges; - concerns about the reduced lead time for investment and potentially limited options to meet the DNOs requirements in the shorter term; - NGGDL believes this inefficiency could have the effect of driving up NTS exit capacity unit rates in the longer term with direct downstream impact to DN Transportation charges, which are set to recover exit Capacity costs levied by NTS. 	<p>We note your reservations in relation to the reduction of the lead time for exit capacity substitution.</p> <p>We believe that there are mitigation options available in the short term. It should be noted that a donor point may in subsequent years become a substitution recipient avoiding the need for investment. In the longer term NTS investment may be an option if capacity is not available to be substituted back and there are options available to Users to signal their future requirements.</p>	No change proposed
2 – Donor order - Disconnected Points			
RWE	<p>RWE notes that there is a discussion to be undertaken around the treatment of disconnected sites more generally, but supports the initial proposal to include capacity from disconnected sites in the selection of donor NTS Exit Points.</p>	<p>Thank you for your comments.</p>	No change proposed
CEN	<p>Centrica agree with this proposal – it will help to optimise the availability of capacity at live sites/ system points. They believe that more attention should be given to the definition of a “Disconnected” site and note the proposal to link this with the termination of a relevant NEA or NExA for system points that have been isolated. They consider that it is more appropriate to base the definition on shipper-related actions rather than site/ operator actions since shippers are the parties who are responsible for registering and paying for capacity. They recommend that a site/ system point be defined as “Disconnected” when it has been isolated and (a) for entry points, no capacity contracts remain outstanding and (b) for exit points, all shipper Users have “Withdrawn” from the site (i.e. there remain no Registered Users).</p>	<p>Thank you for your support in advocating the prioritisation of disconnected entry and exit points in the substitution process. We note your suggestions to add in the requirement for the shipper to have to withdraw from the exit point. We do not believe that this additional step should be a prerequisite in this process due to the possibility that the shipper may still have user commitments.</p>	No change proposed

NGD	NGGDL supports the proposal to prioritise the substitution of baselines from disconnected sites over live sites and makes the observation that compared to a live DNO Exit Point, the risk posed to a disconnected site of not meeting its license obligation, is extremely low.	Thank you for your comments in support of the prioritisation of disconnected entry and exit points in the substitution process.	No change proposed
EUK	Energy UK broadly supports the proposals with respect to decommissioned sites. They think that the rules around substitution from decommission sites can go further than proposed, but accept that this is a suitable first step.	Thank you for your comments. The arrangements continue to be open to review and we are always willing to engage in further discussions and development.	No change proposed
3. Retainers			
RWE	RWE notes the proposal to leave the current arrangements for retainers unchanged and supports the approach as long as the principles underpinning the retainer as a means of preserving capacity from being substituted are maintained even with shortened substitution lead times.	We note your observations in relation to retainers and can confirm that a retainer tagged in a subsequent year would still prevent substitution in Y+2 (as per ECS para 22j and para 22 diagram 1) and they will continue to work as they currently do as a means of preventing capacity from being substituted.	No change proposed
EUK	Energy UK broadly supports the proposals with respect to leaving the retainer process unchanged.	Thank you for your comments.	No change proposed
4 - General			
IUK	IUK believes that the Bacton IP entry capacity should not be substituted away. It believes that it is important that the approach to NTS entry and exit capacity substitution recognises the ongoing need for maximum cross border capacity for security of supply purposes. IUK suggests that IP capacity is ring fenced from potential substitution.	We believe that where an incremental signal has been received which could be satisfied via substitution from an Interconnection Point ASEP, it is appropriate to make the substitution proposal to Ofgem. Ofgem can then consider the merits of any such proposal and how it relates to the EU regulations. We recognise that there are broader considerations with respect to substitution involving Interconnection Point ASEPs; these would be discussed with Ofgem prior to them making a decision regarding any such proposals. It should be noted that capacity retainers may be used, which allow a User to exclude entry capacity at potential donor ASEPs from being treated as substitutable capacity.	No change proposed
EUK	Energy UK also maintains its view that the statements for capacity release and substitution should be incorporated into the UNC so that governance of changes can be managed by the UNC framework. We welcome the work that has been done to date on this and hope that in the future this transition can be completed.	Thank you for your observations and we are looking forward to continuing to work with the industry to streamline the methodology statements and to eliminate duplication.	No change proposed

Summary

National Grid Gas Transmission is not proposing any further changes to the proposed statements. Therefore National Grid is submitting, for approval by the Authority, each methodology statement without any changes from the consultation version.