Conclusions Report to Informal Consultation on Entry Capacity Substitution.

10th July 2009

nationalgrid

Executive Summary

Introduction

National Grid Gas plc ("National Grid") is the holder of the Gas Transporter Licence (the "Licence") in respect of the National Transmission System (the "NTS"). The Licence is reviewed periodically (every five years) in the Transmission Price Control Review ("PCR"). The review is concerned with setting, principally, National Grid's allowed revenues as the owner and operator of the NTS in Great Britain. At the time of the PCR National Grid's rights and obligations are reviewed and may be amended. The 2007 PCR introduced new obligations on National Grid in respect of the substitution of NTS Entry Capacity. This new obligation has been the subject of much industry debate.

Following initial work during 2007 and 2008 National Grid has run a series of workshops to develop understanding of substitution, to consider how it should be implemented and to identify issues and potential solutions. Details of these workshops can be found on the Joint Office website.

On 15th May 2009 National Grid initiated an informal consultation on the "entry capacity substitution" obligation. This informal consultation sought views on the proposals developed and the issues which require resolving before National Grid is able to present formal proposals to the Authority. The consultation document can be found on National Grid's website at http://www.nationalgrid.com/uk/Gas/Charges/statements/transportation/ecms/

Responses received to this informal consultation are intended to provide National Grid with information on the views of industry players to assist in the formulation of an entry capacity substitution methodology. A statement of the methodology will then be formally consulted upon and subsequently proposed to the Authority in accordance with the timelines specified in the Licence[1]. Copies of the responses can be found on National Grid's website[2].

This conclusions report summarises representations received. Due to the rate of developments with entry substitution National Grid's response to this informal consultation has been covered in the substitution workshop on 7th July 2009[3]. In addition Ofgem gave their views on the Mechanical Approach in their letter dated 3rd July 2009[4]. Hence, this report only contains a summary of responses and no additional comments from National Grid are provided in this report.

[1] As amended by the Authority's direction dated 17th December 2008.
[2] Found www.nationalgrid.com/uk/Gas/Charges/statements/transportation/ecms/
[3] Found www.gasgovernance.com/Code/Workstreams/TransmissionWorkstream/2009/
[4] Found www.ofgem.gov.uk/CustomPages/Pages/Publications.aspx

Responses

Representations were received from 15 respondents listed below:

Scottish and Southern Energy	SSE
BP Gas Marketing Ltd	BP
Oil & Gas UK	O&G
Chevron North Sea Limited	Che
E.On UK for E.On group companies	Eon
Canatxx Shipping Limited	Can
RWE group of companies	RWE
Excelerate Energy	EE
GazProm Marketing and Trading	GMT
Wingas Storage UK Limited	Win
Statoil (UK) Limited	Stat
Total E&P UK Ltd	TEP
Centrica (British Gas Trading)	BGT
BG International Ltd	BG
Centrica Storage Ltd	CSL

Summary of Responses

The informal consultation provided a background to the entry capacity substitution Licence obligation and the development of potential options for its implementation. Specific questions were raised on the "Base" methodology which National Grid consulted on in 2008. Three potential options have been developed through a series of industry workshops. Views on how, and whether, these approaches should be progressed were sought.

The consultation document discussed a number of key and related issues with substitution. Additional questions sought industry views on these issues.

A worked example was presented to help inform respondents on the potential benefits and impacts of substitution.

The table below reproduces the questions raised. Individual industry responses are copied for each respondent. A brief summary of the responses for each section has been provided by National Grid.

In order to keep this report to a manageable length responses have been edited. Some respondents have chosen to expand significantly on issues of specific concern to them and have included detailed comments. Again, these have been curtailed. Interested parties are advised to read the full responses found on National Grid's web site www.nationalgrid.com/uk/Gas/Charges/statements/transportation/ecms/

Section 2: The Base Entry Capacity Substitution Methodology	
a. **Are there any other factors that National Grid should include in the Base Methodology?**	
Respondent	Comment
SSE	"more transparency regarding the capability and limits of the network" "models/information should be made available to Ofgem or to an independent third party to validate data & assumptions."
Eon	"there is little detail on what "no material increase in risk [cost]" really means in practice, and the discretion as to whether to substitute rests entirely with National Grid and their 'black box' network risk analysis. How strictly this licence wording is interpreted by National Grid will directly affect how much capacity is substituted."
O&G	"currently, all market participants are dependent on NG's calculations…an independent audit is required"
GMT	"One basic premise underlying Substitution is that it assumes that because capacity is not booked in a QSEC auction, this means that capacity is "unwanted" ……. . However it is not definitely the case; there may be projects that are unable to make capacity bookings 2 years in advance of requirements because of other timing issues and uncertainties. ….. Such factors need to be taken into account when reducing capacity at a donor ASEP …… …… there is inevitably an element of judgement required when deciding if substitution of capacity from a particular ASEP is in the best interests of the system, and UK gas consumers, overall. ……. We suggest that Ofgem, meeting its statutory obligation to protect consumers, should have the right to review proposed substitutions prior to implementation."
CSL	"against the view that if capacity is not booked in a QSEC auction it is "unwanted" . …NGG's base methodology should recognise the need to maintain the flexibility to accommodate different Users' requirements: CSL

	would not support the arguments presented for the unconstrained approach to substitution." "…… risk that unintended outcomes will result.. ….. this threat is best mitigated through providing Ofgem with the discretion to veto undesirable proposals." " we would add "securing the reliability of energy supplies' to the criteria used to assess the substitution options."
BG	"Consideration be given to how much flexibility will be left in the system …for example on days of high demand…of operational constraints…"

b. Are there any aspects of the Base Methodology that should be excluded or amended?

Respondent	Comment
SSE	"concerns regarding the single quarter booking & exclusion rule…….something more robust is required."
BGT	Yes – "consideration of a more severe test e.g. 1 in 50 winter." "giving Ofgem/DECC rights to consider and veto proposed substitutions……still consider the ability to intervene to be a vital safeguard…."
TEP	Yes - "the Base Methodology …. is too extreme. It fails to protect expected future flows at existing entry points ….. By failing to apply a sensible exchange rate for substitution."

Section 2: Summary

Some respondents thought the base methodology too harsh in application and provided insufficient protection to future capacity needs. More transparency and an external audit were favoured in calculating the quantity of capacity to be substituted.
Several comments were made regarding an additional role for Ofgem in approving or vetoing substitution proposals even where the methodology has been adhered to.

Section 5.1 Efficient Use of Capacity Available for Substitution – Exchange Rate Cap

c. Should the substitution methodology use an exchange rate cap to limit the impact of substitution on donor ASEPs?

Respondent	Comment
SSE	"Yes"
Che	Yes - "substitution should not result in significant destruction of aggregate baseline capacity"
Eon	Yes – "to prevent the permanent "destruction" of entry capacity."
BP	No - "do not support the application of exchange rate caps"
O&G	Yes - "We support exchange rate caps… review after the benefit of several years' experience."
GM&T	Yes - "exchange rate cap is appropriate to limit the potential for capacity destruction"
Stat	Yes - "supports the use of exchange rate caps"
BGT	Yes - "application of a low exchange rate cap would be a good thing…also recognise that incorrectly set …can lead to … e.g. too much or too little substitution…..could be a role for an indicative exchange rate cap, combined with regulatory oversight and power to veto."
TEP	"Yes. We must avoid unnecessary capacity destruction."
CSL	Yes – "would limit the potential for capacity destruction".
BG	Yes-" to reduce capacity destruction and to enable a "soft landing". It might be more efficient to save some for another year that might see a new development achieving better exchange rates due to it closer proximity to an ASEP with capacity spare. This would also reduce the risks of unintended consequences from the process."

d. **Would the intended benefits of an exchange rate cap be better achieved through implementation of any of the options (Mechanical Approach, Option Approach or Two-Stage Auction) discussed in Section 6?**	
Respondent	Comment
SSE	"Appropriate for all options."
BP	No - "do not support the application of exchange rate caps."
O&G	"should apply to all options" "more applicable to the mechanical approach ……. "
GMT	"an exchange rate cap is a useful addition to the other options being considered."
TEP	"a sensible and cautious exchange rate cap is vital …. and this is better achieved through implementation of the Mechanical Approach."
CSL	"….this cap is appropriate irrespective of which of the 3 options is implemented…"
BG	"Should apply in all cases"
e. **At what level should the exchange rate cap be set? Respondents may consider that a different value is appropriate depending upon other factors of the methodology, e.g. whether any of the options discussed in Section 6 is implemented.**	
Respondent	Comment
SSE	"exchange rate cap is appropriate…..with…….. partial substitution". "no more than 2:1…..this number is arbitrary and based on anecdotal evidence from NG NTS."
BP	"do not support the application of exchange rate caps"
Che	"there must be soft-landing introduction …… including the use of 1:1 exchange rate caps"
Eon	"as close to 1:1 as possible". "we are unable to offer a view on this point. It is clear, however, that this is something Ofgem must consider as a part of its own assessment of National Grid's proposal(s)."
O&G	"Begin with 1:1 and only allow higher rates in the light of experience". "Exchange rates above 4:1 should not be allowed."
Stat	"1:1 exchange rate cap will prevent capacity destruction and the creation of a tighter system"
GMT	"low (close to 1:1)"….. "Whilst we recognise that this will limit the potential for substitution, …. this must be balanced against the adverse consequences of capacity destruction."
BGT	"…support a low cap in the order of 2 or 3:1 where this is combined with regulatory oversight and power of veto, or 1:1 where a purely mechanical approach is employed."
TEP	"the level should begin at 1:1"
CSL	"..1:1 exchange rate cap should be adopted…"
BG	"Should be no more than 2:1, to limit capacity destruction."
f. **Notwithstanding that National Grid is obliged to review the substitution methodology on an annual basis, should the exchange rate cap be set at a low level in the expectation of increasing in future years?**	
Respondent	Comment
SSE	"Yes"
BP	"The cap could initially be set at 2:1, before incrementally rising and then finally removed."
Che	"there must be soft-landing introduction …… including the use of 1:1 exchange rate caps"
Eon	"This would seem to be a prudent approach ….. would seem to fit with the UK Better Regulation Commission's … advice of "think small first."
O&G	"only allow higher rates in the light of experience"
GMT	"It does not appear to make sense to significantly reduce capacity at a donor

	ASEP for only a marginal benefit at the recipient ASEP, …… For this reason we would support the idea of a soft landing, with a tighter exchange rate cap to start, with the potential to review it in future. There should not be an automatic assumption that the exchange rate cap would be increased".
TEP	"prefer to see a cautious approach to setting the exchange rate in keeping with a soft landing implementation….. only be increased in light of actual experience….. we believe that the low exchange rates should be allowed to remain for this and next TPC period unless there is significant evidence that change would better help to achieve Ofgem's and National Grid's obligations. In any event we would not wish to see an exchange rate higher than 4:1 allowed."
BGT	"…Scope should remain for increasing the cap…."
CSL	"..1:1 exchange rate cap should be adopted for the remainder of this control period."
BG	"Yes – should be low to start and then reviewed ….as necessary."

Section 5.1: Summary

- Only 1 respondent is against an exchange rate cap.
- Generally respondents believe the exchange rate cap should apply to whatever methodology is implemented.
- The overwhelming view is for a low (at or near 1:1) exchange rate cap to apply to the initial methodology with a subsequent review and, if appropriate, a relaxation of the cap.

Section 5.2 Efficient Use of Capacity Available for Substitution – Economic Test

g. **Do respondents consider that an economic test is appropriate or necessary for the substitution methodology?**

Respondent	Comment
SSE	"No"
Eon	Yes
TEP	"unable to comment at this stage"
BG	"… Substitution is all about saving costs ….hard to see how an economic test could not be applied"

h. **Would an economic test add unnecessary complexity to the process?**

Respondent	Comment
SSE	"Yes"
Eon	"would add some complexity ……. an economic test should … seek to avoid a Shipper being able to buy entry capacity at a recipient ASEP at less than the effective value at the donor ASEP……"
O&G	"difficult to see how an economic test would work without undue complexity."
BGT	"An economic test certainly has an attraction, in principle….. However, …..additional complexities"
TEP	"the economic test would add complexity to the process."
BG	Yes. • "if applied after the methodology has been applied" • "……(.. create uncertainty….if it becomes a second although justifiable, hurdle) merit in an economic test and this test needs to properly value the existing system flexibility"

i. **What benefits, if any, would an economic test provide?**

Respondent	Comment
SSE	"None"
Eon	"An economic test would be useful to minimise uneconomic outcomes".
O&G	"better if a degree of discretion were to reside with Ofgem (and maybe also DECC)…..in order to protect the ….. security of gas supplies."
BGT	"the key attraction of an economic test – this ability to constrain substitution –

	can be largely achieved through other, less complex means"
BG	"Some value should be given to the spare/unsold capacity ..can't guarantee that it will never be needed in the future ..The higher the exchange rate cap the more likely it won't be economic"

j. What parameters should be used for the donor and recipient ASEP values?

Respondent	Comment
SSE	"None"
Eon	Reserve price, exchange rate.

k. Are there any alternative tests that should be considered?

Respondent	Comment
SSE	"None"
TEP	"where a "contentious" substitution is proposed it would be beneficial to have Ofgem and DECC involved in the substitution decision."
O&G	"better if a degree of discretion were to reside with Ofgem (and maybe also DECC).....in order to protect the ..... security of gas supplies."
BG	"A value on flexibility/having spare capacity in the NTS .."

Section 5.2: Summary

There was only one respondent specifically expressed support for an economic test, and one expressed opposition. All respondents to this issue identified additional complexity and questioned the merits of a test.
E.On outline a test based on reserve price and exchange rate, suggesting that capacity will not be substituted from a donor ASEP if the price paid at the recipient ASEP is less than the value at the donor ASEP.
Two respondents identified a role for Ofgem and/or DECC in preventing unwelcome substitutions. Others raised the same point in relation to other sections of the consultation.

Section 6.1 Limits on Capacity Available for Substitution – Mechanical Approach

l. Do respondents prefer the Mechanical Approach over the Option Approach and/or Two-Stage Auction? Why / why not?

Respondent	Comment
SSE	No - "Prefer the 2 stage approach, then optional, lastly mechanical".
BP	Yes - "support the use of the Mechanical Approach" • "best achieves the objective of placing the appropriate limit on substitution to avoid excessive capacity destruction."
Che	Yes - "in favour of the Mechanical Approach" • "short-sighted to focus solely on known user commitments ..... ignoring market intelligence"
Eon	No - "preference is for the Two Stage Auction". • "Shippers powerless to influence any future substitutions, with all the discretion in National Grid's hands." • "there is potential for parties to manipulate data, which could distort the whole TBE reporting process."
Can	Yes - "preferred option is the Mechanical Approach".
EE	Yes – "the Mechanical Approach represents the best option for substitution". • "Maintaining flexibility in the NTS"
RWE	Yes – "no ideal single solution. Our preference would be for a simple approach, The mechanical approach..... would provide a degree of protection of capacity". • "retaining flexibility but with progressive reallocation".
O&G	Yes - "sees merits in the mechanical approach" • "… difficulty with auctions ….there will always be companies who …. are not able to make the necessary financial commitments …tend to favour the larger, cash rich companies. This natural reluctance with respect to auctions should favour a mechanical approach to substitution."

Stat	Yes - "although not in support of the general principle of Entry Capacity substitution …… in support of the mechanical approach"
GMT	Yes - "prefers the Mechanical Approach over the Option Approach and the Two Stage Auction approach"
Win	Yes – "the Mechanical Approach is to be preferred".
BGT	Yes – "a cautious Mechanical approach, with appropriate safeguards, is the best bet for the industry"
TEP	Yes – "prefer the Mechanical Approach over the other approaches" • "However care must be taken to validate the data ….. and in that respect we would welcome the involvement of DECC in performing a "sense check" of the gas flows."
CSL	Yes – "strong preference for the Mechanical Approach. • relatively low risk and • easy for Users to understand the level and location of capacity that will be protected" "CSL believes that it would be highly regrettable if the User commitment arguments were considered to out weigh the significant benefits that are presented by this model."
BG	Yes – "BG favour the Mechanical approach • as less user commitment is required… • Assuming the levels of protected capacity are set correctly, this approach .. safest to guard against capacity being substituted inappropriately."

m. **What features of the Mechanical Approach do respondents like / dislike; e.g. simplicity, lack of User commitment?**

Respondent	Comment
SSE	**"Dislike**: "Lack of User commitment". "TBE based data open to manipulation". "May be overly restrictive...leads to unnecessary inefficient investment". **Like**: "Simplicity."
BP	**Like:** "The approach is both simple and uses data from an already well established process (TBE)". "take into account LNG and storage deliverability rates".
Che	**Like:** "simplicity and ease of implementation"
Eon	**Dislike:** too much emphasis will be placed on the accuracy of the TBE data, which fundamentally is ……. not necessarily the most accurate of possible measures.
RWE	**Like: "**Simple"
O&G	Like: "simplicity" "it relies on information gathered through the annual TBE process."
Stat	**Like: "**clear transparent approach"; "New entrants are not discouraged from participating in the regime"; "Using the TBE flow forecast data …..would ensure that capacity at an ASEP remain available to those projects which need it."
GMT	**Like:** "It is simple and easy for all market participants to understand….. The Mechanical Approach has the benefit of enabling participants to know that, irrespective of what may be happening at other ASEPs, there is a guaranteed minimum amount of capacity that will be available at that ASEP" "It enables the regime to take account of the way the UK gas market is changing with greater reliance on imports and storage….By holding back capacity to ensure there is sufficient to match the deliverability of connected facilities, the mechanism would ensure such facilities' capacities were not sterilised" "Any sensible business….will wish to ensure there is a degree of spare capacity margin to take account of unforeseen circumstances. The key is to ensure that there is not excess "spare" capacity. The mechanical approach enables such an approach to be taken, with the ability of review by the industry and Ofgem at an appropriate time if required"

Win	**Dislike:** "not free from complexity" **Like:** "easier to manage than the [other] approaches" "works in a way that does not create yet another cost to a storage developer"
TEP	**Like:** "relatively simple system to implement" "requires no system changes" and "provides risk mitigation for long term, short term and marginal players." "It provides some protection of capacity at the entry point where it is most likely to be needed". **Dislike:** "It may lead to some missed opportunities, but we believe the risk of missing a substitution opportunity is minimal".
BGT	**Like:** "simplicity"
CSL	**Like:-** • "does not rely solely on NTS Users having to take actions to protect capacity • protect capacity at the major import terminals [and] existing and proposed storage facilities • will maintain higher levels of NTS flexibility. • transparent and easy to understand • forward looking • provide certainty ahead of the long term auctions." **Dislike:-** • "will restrict the amount capacity made available for transfer ….may prevent occasional legitimate transfer opportunities."
BG	**Like:** • "Simple solution • however,…accurate method for determining the volumes to be protected isn't obvious… would seem that some judgment either from NG or OFGEM might be necessary…."
n. **What criteria should National Grid use to determine the level of protected capacity at each category of ASEP (e.g. beach terminal, storage etc)?**	
Respondent	Comment
SSE	"None of the proposals are satisfactory".
BP	"BP supports the use of deliverability data as a suitable alternative to where TBE data is limited – primarily for the use of storage sites and LNG importation terminals". "National Grid's concern that forecast values could incentivise stakeholders to overstate their TBE data, and thus devalue the TBE process, does not align with the Shipper standard licence condition 3.3"
Che	"only capacity above the peak forecast flows determined through National Grid's TBE process should be available for substitution" – "do not share the concerns … that this [mechanical] approach could incentivise contributors to …… overstate future flows".
Eon	"the risk of misreporting should place a serious question mark against the use of TBE data."
EE	"the TBE process provides the basis …… rules should be developed to maintain capacity at the "flexible" entry points located at Bacton, Teesside and St. Fergus."
Stat	"Using the TBE flow forecast data (and in the absence of TBE data, deliverability) to assess the need for capacity to be retained….would ensure that capacity at an ASEP remain available to those projects which need it."
BGT	"…National Grid should prevent substitution of capacity below the absolute maximum reasonably achievable flows…"
O&G	National Grid would need to cast a wider net when collecting TBE data…… there are more E&P operators… than there were…… a more comprehensive process would be required to ensure proper coverage of market participants".
TEP	"At Beach: peak flows At others: % of deliverability"
CSL	"do not share NGG's concerns regarding gaming of the TBE data; NGG….best

	placed to decide the levels of capacity that should legitimately be protected."
BG	"Storage and Interconnectors should be protected up to maximum possible flows…such flows will be required under GDE conditions. Beach flows should be as per TBE. Existing and new flows should be recorded separately…so NG could consider …likelihood of new developments and future supplies."
o. **Is the use of deliverability, or similar, such that substitution is limited to major beach terminals acceptable? Would this be undue discrimination?**	
Respondent	Comment
SSE	"prefer a methodology that restricted substitution to beach terminals….share concerns regarding undue discrimination."
BP	See "n" "storage sites…differ to other facilities on the NTS"
GMT	"It is not clear why it would be discriminatory"
Stat	No : see above n
TEP	"the use of full deliverability might be discriminatory and perhaps using a proportion of deliverability might be fairer".
BG	" may impact some shippers more than other, but the objective is to make efficient use of any sterile capacity, which won't be fairly spread across terminals…"
p. **Are there alternative sources of data to the TBE, deliverability that would be reliable, transparent and readily available?**	
Respondent	Comment
BP	"for the Mechanical Approach to be successful, National Grid will need to both actively widen the TBE process as well as revamp the questionnaire to improve the quality and accuracy of data".
Eon	"maximum historical flows".
RWE	"This [TBE] peak level could be subject to an annual historic two year rolling basis to reflect declining usage …….and progressively allow more capacity for substitution".
O&G	"not convinced that the 1 in 20 peak day test for security of supply is…adequate. Suggest that a longer period be considered, such as a peak month or even a 1 in 50 winter."
GMT	"……. Both Ofgem and NG could have the ability to use their judgement as to how much capacity to hold back, based on all the information available to them, and by "stress testing" the claims of different parties. Other companies, such as Woodmac, have views on likelihood of flows from fields and other infrastructure projects".
BGT	"… forecast flows from other credible industry commentators, recent historic peak flows …. more transparency around National Grid's rationalisation of TBE data received from respondents."
TEP	"beneficial to involve DECC as a source of information…….it is crucial they are involved."
BG	"… consideration could be given to an independent audit for determining capacity / transportation model validation…"
q. **How could a soft-landing be applied to the Mechanical Approach?**	
Respondent	Comment
SSE	"might be helpful….specifics need to be developed".
BP	"exchange rate cap would be a practical solution"
Che	"the use of 1:1 exchange rate caps"
Eon	"a strict 1:1 exchange rate ……. Although this could result in very little substitution, this does not necessarily mean that it is not the most economically efficient outcome".
TEP	"The mechanical approach is in itself a soft landing as it limits the possible instances where substitution can take place ……..When this is combined with a low exchange rate we believe this would be an appropriate means of implementing a soft landing."
CSL	"… NGG may wish to exercise caution on the levels made available with

	agreement from Ofgem"
BG	"By limiting the exchange rates"

Section 6.1: Summary

There is a clear majority (13 out of 15) in favour of the Mechanical Approach to substitution. This is due to its simplicity, transparency and lack of User commitment. However, some regard this as the least bad option. The absence of a User commitment is also given by one respondent as a reason for opposing this approach.

Section 6.2 Limits on Capacity Available for Substitution – Option Approach

r. Do respondents prefer the Option Approach over the Mechanical Approach and/or Two-Stage Auction? Why / why not?

Respondent	Comment
SSE	No - "Prefer the 2 stage approach, then optional, lastly mechanical".
BP	No - "does not support the …. Options Approach"
Che	No - "not supportive of the Option Fee Approach"
Eon	No – "preference is for the Two Stage Auction".
Can	No – "preferred option is the Mechanical Approach".
Win	No – "Mechanical Approach is to be preferred."
EE	No – "the Mechanical Approach represents the best option for substitution"
RWE	No – "no ideal single solution" "we do not support further development of the option approach …..at this time".
O&G	No - "although we can see merit in providing a degree of optionality. Maybe options could be used in conjunction with the mechanical approach."
Stat	No
GMT	No – "prefer the Option Approach compared to the Two Stage Auction Approach, but we do not believe it is the best way forward".
BGT	No – "has merits and should remain as a possibility …. following a future review" "goes against our underlying desire for a lower risk start to the substitution regime".
TEP	No – "prefer the mechanical approach". "Option model would be a valid choice if shippers could effectively actually reserve this amount of capacity for their own use."
CSL	No – "prefers the Option Approach to the Two Stage Auction Approach but does not believe it to be a sensible way forward."
BG	"No- Mechanical approach is preferable….provided capacity is protected to the correct level."

s. What features of the Option Approach do respondents like / dislike?

Respondent	Comment
SSE	**"Dislike:** **Like:** User commitment, but very limited……. and then refundable".
BP	**Dislike:** "unnecessary complexities and financial burdens" "high level of uncertainty that the mechanism will create"
Che	**Dislike:** "complexity" "data indicates that a single quarter booking would actually be more economic at certain ASEPs"
Eon	**Like:** "opportunity to influence the outcomes of substitution" **Dislike:** "significant up-front costs but confers very few rights" "potential that Shippers take out Options which are subsequently found to be unnecessary, but cannot be refunded".
GMT	**Like:** "enables shippers to prevent capacity being substituted away without the need to pay the full cost" **Dislike:** "shippers will still have to pay the cost of the option, even though

	the option does not give the right to actually buy capacity" "shipper will still have to fund the cost of the option"
Stat	**Dislike**: …"add additional complexity"…"an additional cost burden on Shippers and developers".
BGT	**Dislike**: "could lead to parties making mistakes … due to unfamiliarity with a new …..regime" "scope for game playing by shippers" "arbitrariness of the Option fee" **Like: "**removes the role for National Grid and/or another party to try and forecast where shippers may require capacity ".
TEP	**Like**: "having some form of user commitment" **Dislike**: "still much uncertainty over several aspects of this methodology."
CSL	**Dislike:** "require Users make an assessment of the risk that their entry capacity is exposed to. As this level of risk is dependent on other Users actions it will be near impossible to predict". "rate at which capacity destruction will take place" "the endemic level of risk that all Users will be exposed to if…. an option is not taken out to protect capacity"….. "the option cost is …… not trivial."
BG	**Like**:could be beneficial, giving shippers back some control over what should be held back "not clear … whether shippers should each bid for the full amount to be protected or just their share"
t. **Bearing in mind the substitution objectives do respondents believe that it is appropriate that capacity can be protected from substitution with only a relatively small commitment from the User?**	
Respondent	Comment
SSE	"The user commitment does appear low"
Eon	No - "the full User-commitment …… is the most appropriate approach."
GMT	"The driver behind the option approach is to ensure that there is some form of User Commitment. It is not clear why there needs to be a long term User Commitment for all capacity"
TEP	"it is correct that the price is lower than the price that would be paid in the Long Term Auction."
BG	Yes
u. **Should the Option Approach be made available to non-Users? If so how should it be applied?**	
Respondent	Comment
SSE	"Yes, not known"
Eon	No – "this may present regulatory difficulties as it would allow parties who are not signatories to the UNC to potentially subjugate the rights of Users who are contractually bound by it's terms. ….. if a party wished to take out an Option, it would seem most appropriate that they accede to the Code before doing so."
TEP	"If the option is non transferable we believe that it should be open for non users. But we believe that access to options should be restricted to shipper licence holders."
BG	No
v. **Is the option fee set correctly?** ***i. Is it correct to have the same fee for all ASEPs?*** ***ii. Are the minimum reserve price and 8 year period appropriate parameters for setting the option fee; i.e. is a fee set at approximately £300,000 for 10 mcmd correct?*** *iii.* ***Are refunds in the circumstances described appropriate?***	
Respondent	Comment
SSE	"This values all capacity the same ……not correct as …..reserve prices differ

	at ASEPs. Arguably this is not cost reflective". "The user commitment does appear low" "By refunding the option fee, the option not to substitute effectively becomes free".
Eon	"we have no view on the most suitable fee level, other than to note that the level seems high given the limited rights it confers on the User."
GMT	"the relative high cost of the proposed Option Price may still cause problems for shippers who are not yet in a position to make a final commitment to their projects. As such the option price simply raises the hurdle for such projects, and may therefore favour larger players with deeper pockets. For this reason consideration should be given to making the option fee a smaller, more nominal amount"
BGT	"concerned…prior to implementation is developed in order to remove the arbitrariness of the Option fee"
TEP	i) "Yes" ii) "We agree with a minimum reserve price but see no rational for the 8 year period….. would support a shorter period." iii) "Yes".
CSL	"concern….Option price….is arbitrary and bears no relationship to the value of capacity at the entry point".
w. **Should the option fees and refunds be dealt with through TO charges? If not, how should they be accounted for?**	
Respondent	Comment
SSE	"TO entry charges seem appropriate although more price volatility will be created".
Eon	"This is an issue for National Grid NTS to deal with"
TEP	"we do not see another option"
Section 6.2: Summary	
No respondents favoured the Options Approach as their first choice however it was a popular second choice. Respondents took views that the option fee is either too high and would be onerous or is too low.	
Section 6.3 Limits on Capacity Available for Substitution – Two-Stage Auction	
x. **Do respondents prefer the Two-Stage Auction over the Mechanical and Option Approaches? Why / why not?**	
Respondent	Comment
SSE	Yes - "Prefer the 2 stage approach, then optional, lastly mechanical".
BP	No - "does not support the Two Stage Auction"
Che	No - "not supportive of ……. the Two-Stage Auction". • "do not agree ….. that if capacity is unsold it means it is unwanted" – "it is not commercially viable ….. to procure entry capacity ….. prior to project sanction" • "perceive a risk that the Two-Stage Auction could result in West of Shetland gas reserves becoming stranded".
Eon	Yes – "preference is for the Two Stage Auction" • "gives Shippers a genuine opportunity to minimise any perceived adverse outcomes" • Is "the "least worst" approach".
Can	No – "preferred option is the Mechanical Approach".
EE	No – "the Mechanical Approach represents the best option for substitution"
RWE	No – "no ideal single solution" "we do not support further development of the ……. Two-stage auction approach …..at this time".
O&G	No – • but "Two stage auctions potentially have merits" "perhaps …be

	considered in conjunction with the mechanical approach"
Stat	No - • "add additional complexity" • "an additional cost burden on shippers and developers"
GMT	No
BGT	No – • "should be retained as a possibility for the future" • "additional complexity that would be introduced to the QSEC process, and the uncertainties of what information would be made available between the auction stages"
TEP	No
CSL	No "least preferred option"
BG	No – "likely to .. restrict capacity for gas flows … expected on a day….forcing shippers to purchase this capacity in advance is likely to lead to higher gas prices being passed through to consumers."
y. **What features of the Two-Stage Auction do respondents like / dislike?**	
Respondent	Comment
SSE	"**Like**: Full User commitment, but only commit once incremental capacity signalled".
BP	**Dislike:** "unnecessary complexities and financial burdens" "high level of uncertainty that the mechanism will create"
Che	**Dislike:** "need for financial commitment ahead of project sanction. Possible issues around incremental capacity post- sanction of upstream project if substitution has been undertaken."
Eon	**Dislike:** "complicated" "may force Shippers to commit earlier in order to avoid capacity being substituted away" **Like:** "user commitment is required if substitution is likely".
O&G	**Dislike: "**time consuming and they will require substantial financial outlays"
GMT	**Like:** "enables a shipper to buy capacity at a potential donor ASEP once it is clear there is a threat of substitution". **Dislike:** "because NG does not propose to give any information between the two stages of the auction regarding which ASEPs will be donors…..the utility of the two stage auction approach is severely reduced." "it does not remove the need for shippers to pay the full cost of capacity to safeguard it".
BGT	**Dislike**: "additional complexity that would be introduced to the QSEC process, and the uncertainties of what information would be made available between the auction stages in order to inform shippers of where baselines were under threat"
TEP	**Dislike**: "appears to be time consuming" "does not guarantee that Shippers will have the right signals to react if incremental capacity is required." "assumes that shippers are ready to make the long term commitment for entry capacity which is not always the case".
CSL	**Dislike:"** "require Users make an assessment of the risk that their entry capacity is exposed to. As this level of risk is dependent on other Users actions it will be near impossible to predict". "Inefficient: ... force Users to acquire entry capacity ahead of when they would normally do so …" "uncertain; once an incremental signal for new capacity has given, potentially all unbooked capacity will be at risk of transfer" "high risk; if capacity is unintentionally not acquired at the second auction it will not be protected from transfer."
BG	**No-** • having to judge if .. ASEP is at risk creates significant uncertainty

	• requires full user commitment.. • is complicated with tight deadlines
z. **Bearing in mind the substitution objectives, do respondents believe that it is appropriate that capacity can only be protected from substitution if the Shipper makes a commitment to buy the capacity?**	
Respondent	Comment
SSE	"Yes"
BP	Support Mechanical Approach
TEP	"by working under the premise that "unsold means spare" NG and Ofgem may approve substitutions which may be very detrimental and inefficient, and may be forced to do so even whilst having knowledge of the risks created. ….. The security of UK gas flows relies on the balance between long term and short term flows. Whilst we promote long term commitment and are active participants in the LTA we understand that flexibility in the system is key for the security of gas supplies to the UK market. If all shippers were forced to buy all their capacity needs LT, this would create unrealistic investment signals, which after some substitution takes place may lead to inefficient investment and increased costs passed on to consumers……. Spare capacity provides swing flexibility which shippers use to increase flows to the UK when there is uncommitted gas and there is a strong price signal from the UK. Moreover, the Emergency Procedures from NG state that in the Amber Status National Grid has to seek additional gas supplies from shippers …….How is capacity going to be available for shippers who have available gas to comply with this obligation is hard to imagine if we move into a system where the NTS is squeezed out of any spare capacity…… It is the ability to respond quickly that will ensure such scenario does not evolve into National Grid declaring a Gas Deficit Emergency".
CSL	No – "do not believe that it is appropriate that capacity can only be protected ..if a User makes a commitment to buy the capacity."
BG	Commitment is being sought for the long term for capacity that may not be required….. passing on increased costs to the consumer..
aa. **Do respondents consider the timeline to be an issue, e.g. would five (or less) stage 1 auction bid windows create a problem?**	
Respondent	Comment
SSE	"No less than 5"
BP	"If the two stage auction process is combined with the credit arrangements……. result would be an unsuitably short number of bid windows ….. to the detriment of the efficiency of the auction process".
Eon	"five or less stages would present a serious problem for Shippers ……. could undermine the effectiveness of the [QSEC] auction. In addition, it is not clear how the substitution proposals fit with UNC Modification Proposal 0246 for QSEC credit security, which requires one working day between each round: …… the comment in para 105 about possibly having to reduce the number of stage 1 windows further is worrying and something we would object to strongly."
TEP	"We do not see a problem with reducing the auction window period to 5 days. But we do…..with this methodology as a whole".
BG	It would create uncertainty for participants
bb. **Bearing in mind the level of commitment required, do respondents think that this proposal would encourage Shippers to obtain capacity for a discontinuous quarter? If so, is this a problem?**	
Respondent	Comment
SSE	"might be an issue…..Bookings within the spirit of the shipper licence will be difficult to prove/disprove and something more robust is required".
Eon	"we do not believe action is required at this stage."

TEP	"we believe that nothing should be done at present."
CSL	"…….Users will have no choice but to book their full requirement…(at least for one quarter).
BG	"…maybe considered by shippers as an alternative, if this proposal is the preference… ..shippers are being forced into making a full commitment when they are not sure of their needs"
Section 6.3: Summary	
The majority of respondents did not support the Two-Stage Auction, pointing out the greater complexity of this approach, and the potential impact on auction timescales, particularly when considered with credit proposals. Only two respondents expressed support stating the need for a User Commitment and scope for Shippers to influence substitution as reasons behind their support.	
Section 7.1 Additional Issues for Consideration – Single Quarter Problem	
cc. **Do respondents believe that single quarter bookings present a problem that requires specific rules to prevent them?**	
Respondent	Comment
SSE	"Yes"
O&G	No -"if it becomes a problem it is likely to be an indicator that the substitution method is not working properly."
GMT	"The single quarter issue is a direct consequence of the additional complexity being introduced to the entry capacity regime. It is inevitable that shippers will try to manage the additional risk and uncertainty imposed by substitution in the most cost effective way possible".
BGT	No – "this could well be a legitimate course of action by reputable shipper. "view the single quarter issue as a by-product of an imperfect system….. should simply live with".
TEP	No – "Trying to prevent this behaviour could lead to complex regulation and system changes which might not be needed."
CSL	Yes- " … can offer no ideal solution to this.."
BG	"…believe they should only be permitted in the circumstances of a Two stage auction…"
dd. **Would single quarter bookings only be a problem with a specific substitution methodology, if so which?**	
Respondent	Comment
SSE	"No. believe this is an issue regardless of methodology".
TEP	"the risk exists with the option and the two stage auction methodologies."
CSL	"…if the Mechanical Approach ……. were adopted then the issues surrounding the single quarter booking would be reduced."
BG	"Two-stage" see bb
ee. **What is the preferred action, if any, to prevent single quarter bookings?**	
Respondent	Comment
SSE	"Not sure of ideal solution. Minimum booking of 1 quarter per annum? Do not agree that discontinuous single quarter bookings should be prohibited as this booking pattern may be required by seasonal storage that only books in Q1 of every year".
GMT	"rather than attacking the symptom of single quarter booking, NG and Ofgem should address the underlying cause of the nature of the substitution regime. By limiting the downsides of substitution via the Mechanical Approach and exchange rate caps, or even by the use of low cost options, the potential attractiveness of single quarter booking would be much reduced. The problem of trying to introduce rules to prevent single quarter booking is that such an approach will simply introduce yet more complexity, with the inevitable increases in the risk of unforeseen consequences, and potential for yet more "gaming".
TEP	"see how substitution works in practice, and if the problem arises deal with

	the relevant Shipper involved."
CSL	"…if the Mechanical Approach together with a limit on the exchange rate caps ... were adopted then the issues surrounding the single quarter booking would be reduced."
BG	

Section 7.1: Summary

Responses to the single quarter issue are mixed. Some regard it as an issue that could counter the aims of substitution whilst others see it, in some cases, as a legitimate Shipper action. Alternatively, it is only a symptom of an unsatisfactory substitution regime.
No potential solutions have been put forward and the clear consensus is to wait and see if the problem arises.

Section 7.2 Additional Issues for Consideration – Partial Substitution

ff. **Should the substitution methodology only allow substitution to proceed where an incremental signal can be met fully from substitution?**

Respondent	Comment
SSE	"No strongly disagree. Partial substitution is important".
O&G	Yes - "We are not in favour of partial substitution. It would be an undue complication"
GMT	Yes - "….It may be that partial substitution can help achieve this [the aims of the regime]. However, given the complexity of the system, we would support a review of partial substitution once further experience has been gained"
TEP	"Yes. Substitution is already quite complex…….. allowing partial substitution may lead to a high degree of capacity destruction on a system that is showing signals of being already tight".
BGT	Yes - "see no reason why partial substitution should not be permitted, but would much prefer to wait in order that experience can be gained from all-or-nothing substitution.."
CSL	No - "..where substitution can minimise the cost of the system whilst retaining sufficient flexibility to allow gas to enter the NTS then it should proceed."
BG	Yes

gg. **Should partial substitution be allowed for specific options outlined in Section 6?**

Respondent	Comment
SSE	Yes - "should be allowed in all cases to ensure efficient usage of the network".
Eon	Yes - "there may be merit in considering incorporating "partial substitution".
O&G	No - "not in favour ….an undue complication"
TEP	"No"
BG	"No"

hh. **Should partial substitution be considered as an element of a soft-landing to be introduced at a later date?**

Respondent	Comment
SSE	"possibly"
Eon	"partial substitution could be a means by which to achieve a "soft landing" at the beginning, it should also be considered as an approach which represents the most economic and efficient solution, on an enduring basis."
TEP	"No"
GMT	"….given the complexity of the system, we would support a review of partial substitution once further experience has been gained"
BGT	"…would much prefer to wait in order that experience can be gained from all-or-nothing substitution.."
BG	Yes

Section 7.2: Summary	
Shippers gave mixed responses, however there was some recognition that partial substitution was a more efficient approach.	
Section 7.3 Additional Issues for Consideration – Entry Capacity Zones	
ii. **Is the use of entry zones in the substitution methodology appropriate? or**	
Respondent	Comment
SSE	"intra zone exchange rates will be more efficient than inter zonal and should therefore be more efficient in determining substitution".
Eon	"we support it"
O&G	"use of entry capacity zones should be considered"
BGT	"..the use of entry zones may be beneficial in simplifying the process."
TEP	"the only criteria for deciding upon a donor entry point has to be that which leads to the least capacity destruction. Any other criteria (zone etc) will be arbitrary and may be seen as undue discrimination."
BG	Yes
jj. **Should the methodology be applied purely on nearest donor ASEP?**	
Respondent	Comment
SSE	"See comments above"
TEP	"the key is to choose that donor which provides the best exchange rate ……. …given the complexity and lack of transparency of National Grid's model it would be difficult to audit NG's exchange rates. We believe that crosschecking NG's models and assumptions is a key element of Ofgem's role and would like to see further work on this."
BG	"Substitution should be applied to the donor ASEP that will give the most efficient exchange rate, working through ASEPS that give lower Exchange rates until the cap is reached"
kk. **Do respondents favour pro-rating within zone?**	
Respondent	Comment
SSE	"Yes"
RWE	Yes – "support National Grid's proposal to base the allocation methodology on a pro rata approach rather than distance related".
BGT	"…and could support pro-rating within zone."
TEP	"If several possible donor entry points provide the same exchange rate then the capacity removed should be prorated amongst them, if not it would be undue discrimination. But if one entry point can provide capacity at a better exchange rate than others, be it within or out with zone, the least destructive one should be used."
BG	"Pro-rating can be with ASEPS that give the same exchange rate"
Section 7.3: Summary	
There is general support for using zones. Where exchange rates are the same pro-rating is preferred, otherwise the most efficient solution should be used.	
Section 7.5 Additional Issues for Consideration – Soft Landing	
ll. **Do respondents favour a soft-landing?**	
Respondent	Comment
SSE	See "mm"
BP	"BP does see merit in temporary 'softening' measures"
Che	"there must be a soft-landing"
Eon	"a soft-landing may be beneficial in terms of avoiding unintended consequences."
O&G	Yes – "favour a "soft landing" and learning through experience"

GMT	"We are in favour of a soft landing approach" "the truth is no-one knows for certain how it [substitution] will impact the UK gas market, until it is in place for real. This fact recommends a cautious approach when implementing such a change".
BGT	"favour a cautious Mechanical approach because we believe that it offers …..ability to provide an appropriate soft landing .."
TEP	"Yes. We believe that when change as substantial as this is introduced, which may require behaviour/planning changes from shippers, system changes from NG etc. it is sensible to introduce the change in the most restricted application possible"
CSL	"…supports a soft landing approach"
BG	"A Soft landing approach would be viewed as a sensible precaution"
mm. **What parameter(s) should be used?**	
Respondent	Comment
SSE	"may be merit in restricting exchange rates". "do not support a soft landing based on: • Limiting substitution to within zone. • Reducing protected levels for mechanical approach i.e. 90 % of TBE"
BP	"an exchange rate cap would be a practical solution"
Che	1:1 exchange rate caps
Eon	"depends on which of the three approaches is ultimately implemented, but a measure such as 1:1 exchange rates may help achieve the objective."
GMT	"…more capacity held back, lower exchange rates, and in the case of the Option model, low option prices"
O&G	Exchange rates, use of zones
TEP	"Low exchange rates and high level of protected capacity"
CSL	"NGG may wish to exercise caution on the levels made available with agreement from Ofgem"
BG	"2:1 exchange rate cap. No partial substitution"
nn. **Over what period should a soft-landing apply?**	
Respondent	Comment
SSE	"One year"
Eon	"The ongoing suitability of a so-called "soft-landing" would be best considered as part of the annual review".
GMT	"should last for a minimum of 3 QSECs, given the long term nature of the entry capacity regime".
BGT	"…until there have been at least two real examples of capacity substitution…"
TEP	"Over this TPC and the next. As the review would start by 2015, it would allow 5 years of application of substitution."
CSL	""….ahead of the 2012 price control where the opportunity will present itself for a thorough review"
BG	"A review after the first QSEC and then decide over what period it should apply"
oo. **Are there any other ways that a soft-landing could be introduced?**	
Respondent	Comment
	No replies received
pp. **Should a transitional rule be included to ensure that substitution is introduced first to a regular QSEC auction?**	
Respondent	Comment
SSE	"Yes"
Eon	"could be a sensible way to ensure that all Shippers are sufficiently aware of, and geared up for, the new arrangements".

TEP	"It would make sense that substitution is first applied to the general QSEC auction"
BGT	Yes - unless "any ad-hoc auction is held as part of a full QSEC process".
BG	Yes

Section 7.5: Summary

Generally respondents support a soft-landing with rules being relaxed over time as experience is gained. There were mixed replies for the period over which a soft landing would apply. Respondents believe a transitional rule should be included to ensure the first application of substitution is for a full QSEC.

Section 7.6 Additional Issues for Consideration – Reserve Price Discounts

qq. **Should proposals be put forward to amend the Licence to facilitate a pricing structure which incentivises long term entry capacity bookings?**

Respondent	Comment
SSE	Yes - "very unfortunate that a pricing approach to incentivise long term booking or discentivise short term booking of capacity has not been progressed……this would have been a much simpler and effective solution to encourage long term bookings and hence rectify the current position of Entry capacity costs being recovered by commodity charges. By insisting on substitution first delays of several years have been introduced."
Che	Yes - "welcome such proposals which would seem to support a key aim of the latest TPCR, namely to encourage Users to signal their capacity requirements in long term auctions."
Eon	No - "we would have serious concerns about such a proposal."
EE	Yes – "if capacity is maintained available in this [Mechanical Approach] way it is not unreasonable for there to be a charge …… and we would support the removal of free capacity in the within day and day ahead markets."
O&G	"…might seem sensible, but we would recommend caution…….before making any changes this would need to be examined in some detail for the potential implications."
GMT	"…the use of Substitution to encourage long term bookings can be regarded as the wrong large sledgehammer to crack the wrong nut, since the reserve prices set in capacity auctions could also be thought to have an effect on booking behaviour. However Ofgem has decided to pursue the Substitution approach. It is therefore not clear what the advantage is to the industry in looking at the pricing structure now that the wrong approach has been taken."
BGT	"concerns relating to reserve prices, and the …. level of TO commodity charge. .. tend to indicate a failing of the current capacity regime.... caution against any attempt to amend charging structures solely on the basis of QSEC/substitution without full consideration of the effects of all charging policies"
TEP	Yes - "We very much look forward to working with Ofgem and National Grid to have an amendment put forward to change the current pricing structure to ensure that it incentives and does not unfairly penalise shippers who make long term capacity bookings." "we agree with Ofgem and NG that long term capacity booking should be encouraged. The most direct way of doing so is through pricing, as shippers are price sensitive. By using pricing rather than "artificial" constraints Shippers will not be forced to buy capacity ahead of project certainty, which would avoid giving false capacity signals to NG. At the same time shippers will have no incentive to wait for the short-term auction in order to pay less than Long Term Auction bidders for their capacity".

	"Because National Grid has a fixed allowed revenue the money will be collected in any event, but instead of all shippers paying for the capacity that they use in the system, some shippers will pay for entry capacity, and then all of them will pay commodity charges to complete NG's allowed revenue. This system is unfair, discriminatory, leads to cross subsidies and does not promote competition amongst shippers. If Ofgem wants to see shipper commitment, it is only reasonable that they should favour a system which rewards this behaviour. In line with this we believe long term capacity should be offered at a discount, whilst short term capacity should be offered at a premium. This is even more so now that the UNC Credit arrangements have been modified to request some form of security from shippers 16 years ahead of the capacity being utilized. We also believe that a change in National Grid's licence to end the obligation of a clearing auction is called for. In this way as soon as shippers have certainty of their flows, they will be inclined to book the capacity needed and will not have the expectation of obtaining capacity for free on the day."
CSL	Yes - "concerns relating to the current pricing structure and in particular the incentives on acquiring capacity closer to the time of need… would welcome a thorough review of the regime"
BG	"Lower reserve price in long term auctions would incentivise long term bookings"

Section 7.6: Summary
General support for a change, or at least a review of the current pricing structure.

Section 9 Summary	
rr. **Do respondents have any concerns or comments regarding aspects of the Base Methodology not discussed above?**	
Respondent	Comment
SSE	"Substitution is a difficult balance between ensuring that assets are used to their most efficient and ensuring that the capacity / infrastructure exists to enable to flow into the UK. The impact on commodity costs through inefficient substitution could be much more than ensuring that all capacity is used.
BP	"the current base methodology would lead to excessive capacity destruction and unnecessary system constraints".
O&G	".. support periodic reviews of how substitution is working in practice"
O&G	"there should be fall-back provisions to allow Ofgem and DECC the ability to ensure …security of supply is being safeguarded".

The following section covers comments received that are of a general nature. These are not in response to a specific question and hence are not captured in the preceding section and, in some cases, are outside the scope of the informal consultation. However, they tend to relate to general principles of the substitution obligation or risks and benefits and therefore have been included for completeness. National Grid has only reproduced what it believes are the key comments. To view the complete comments reference should be made to copies of responses placed on National Grid's website.

General comments	
Respondent	Comment
SSE	"SSE are supportive of substitution in principle"
BP	"BP agrees with the general principals of substitution"
RWE	"endorse the principle that investment …. should not be undertaken

	unnecessarily and agree that some form of transparent substitution mechanism …… can achieve this objective."
Eon	"E.ON UK has remained broadly supportive of the principle of capacity substitution, provided it can be demonstrated that the process offers genuine long-term system benefits rather than short-term fixes."
Stat	"not in support of the general principle of Entry Capacity substitution"
SSE	"Substitution is a difficult balance between ensuring that assets are used to their most efficient and ensuring that the capacity/infrastructure exists to enable gas to flow into the UK. The impact on wholesale costs through inefficient substitution could cost much more than ensuring that all capacity is used."
BP	"By removing flexibility from the market, both competition and supply security will be seriously harmed"
Eon	"the risk under any of the three potential solutions for substitution is the loss, on a permanent basis, of sufficient flexibility in the system to permit the required diversity of gas supplies to come to the UK".
EE	"maintaining flexibility in the NTS …….. an important objective for the efficient functioning of the gas market. By 2015, the UK will have developed a significant reliance on LNG and pipeline imports and the UK must be able to attract these gas supplies. The ability to buy firm NTS capacity is important in securing the flexible gas that will be increasingly important."
RWE	"Removing the flexibility in the NTS by excessive substitution seems inconsistent with wider policy goals"….."it is important to maintain investor confidence in the UK as a place to land gas, including LNG, import pipelines and marginal UKCS fields."
BP	"Enabling deliverability data to be used would also aid in developing the necessary investment climate for storage sites; gas storage is a vital pillar in security of supply as the dynamics of the GB gas market evolve."
BP	"Important in designing the substitution process is the preservation of the 10% of baseline capacity held back at ASEPs for short term users"……..."the 10% capacity held back complements the mechanical substitution process in recognising the diverse needs of shippers, and thereby enhancing GB's security of supply."
Che	"we consider it imperative that Ofgem undertake a comprehensive Impact Assessment covering all aspects of the entry capacity regime and any interaction with the current carbon capture and storage proposals."
Eon	"the case for change is not particularly compelling and it is disappointing … that a fourth option of "do nothing" is not at least being considered. …… However, considering the pros/cons of the *status quo* may be something more suitable for …. a Regulatory Impact Assessment."
BGT	"we …..look for analysis that set out the potential reduction in transportation costs …… and compare that to the risks…... such analysis does not appear to exist. A full RIA could help to rectify this deficiency. In undertaking an RIA, we would look for a clear and honest demonstration that this is the right time to implement substitution…….rather than this being a case of simply "ticking a box" because there happens to be a transporter licence obligation to do so." "Against this background…….our intuition is that ……the downside risk has the potential to massively outweigh the upside benefits…….We therefore err strongly towards a cautious commencement to any substitution regime."
RWE	"extremely concerned if the substitution methodology had the potential for unlimited capacity destruction……where there was no restriction on the amount of unbooked capacity at donor entry points that could be used to satisfy incremental capacity requests at other entry points".
RWE	"We accept that introducing constraints on substitution may lead to over-investment …….. However, Ofgem is already considering relaxing the extent of user-commitment required to underpin investment in the electricity transmission network…….We see no strong argument why a similar approach

	is not appropriate for gas entry capacity……..a degree of over-investment far outweighs the financial impact on consumers of worsening the security of gas supply."
O&G	"essential for substitution… to be considered in conjunction with the other components of the entry capacity regime; it should not be treated in isolation".
O&G	"there should be more information published by NG about the possibilities for new capacity at entry points, with times and costs for providing such new capacity."
O&G	"an impact assessment should be undertaken by Ofgem"
O&G	"the outcome of the current review of the European Directive relating to the security of natural gas supplies will have to be taken into account"
O&G	"Security of supply requires …flexibility in the NTS… substitution will tend to do the opposite"
Stat	"STUK is interested in the maintenance of a stable, efficient and economic entry capacity regime. With security of supply high on the agenda…believe that care should be taken to ensure that any changes …. do not make the UK an unattractive prospect for investment."
Stat	"STUK have concern … the level of proposed changes to the UK entry capacity regime and believes that high number of concurrent changes will make it difficult to assess the impact of any individual development".
GMT	"Whilst we support the aim …….. we also remain concerned that Substitution could adversely affect the UK gas market if incorrectly implemented. There is a clear balance to be maintained between ensuring that National Grid does not invest in additional capacity unnecessarily, and ensuring that there is sufficient capacity."
GMT	"It is very important that NG and Ofgem recognise that Substitution represents a major change to the current entry capacity regime, and introduces a significant additional level of risk and uncertainty for all market players. For these reasons we believe caution in the early implementation of substitution is justified, as it is usually easier to improve a mechanism over its lifetime, rather than attempt to reverse the damage done by an initial poor design and implementation. Whilst Ofgem and NG can reasonably point to the degree of discussion that has taken place on the issue of substitution, the truth is no-one knows for certain how it will impact the UK gas market, until it is in place for real. This fact recommends a cautious approach when implementing such a change."
GMT	"industry has repeatedly asked for an assessment of the benefits of substitution to be weighed against the potential impact on the wholesale gas market, and such an issue should be addressed in any Impact Assessment undertaken by Ofgem."
BGT	"…. no sense in maintaining NTS capabilities, and associated entry baselines, if in the future it could be demonstrated conclusively that current baseline levels were excessive and unlikely ever to be used again. To do so will lead to inefficient investment and unnecessarily inflated transportation costs…." "The corollary…..removing capacity from ASEPs where it may potentially be required in the future brings immense risks of stranding gas offshore, impacts on security of supplies to GB customers, and elevated commodity prices…"
BGT	"….. the gas supply mix is becoming much less predictable, for example with importation and or storage facilities …….. Wind intermittency ……. . The NTS needs to be flexible enough to cope with these scenarios"
BGT	"substitution may serve to further discourage investment in the further development and exploitation of UKCS supplies."
Win	"substitution….a material threat and where a project in the UK is competing for funds from international companies with alternative projects elsewhere, such a threat, could tilt the balance of preference away from the UK."
TEP	"fully supports the principle of a transmission system which is appropriate to demand for entry capacity and which is run in a cost efficient manner."
TEP	"We believe however that there is an unintended consequence with the

	current substitution proposals …... When this is combined with the current perverse entry capacity charging regime where it is possible to buy entry capacity "short term" at a discounted price we believe that there is no incentive for shippers to secure entry capacity on a long term basis."
TEP	"concerned to ensure that any proposal which might substitute entry capacity …… takes into account …. future gas flows."
TEP	"We would like to take the opportunity ….. to put forward the issues we believed need to be addressed by Ofgem's Impact Assessment. Substitution's impact can not just be valued by the amount of funding that has been avoided in providing the capacity needed at the recipient entry point by substitution rather than investment. The costs are much greater than this avoided investment, and involve security of supply, ability to cope with gas constraint events, stability of the NTS framework and regulatory certainty." "We would also like to understand Ofgem's views on the possible effects of a tighter gas transmission network on security of supply and how this policy fits in with the current review of the Security of Gas Supply Directive." "The Impact Assessment should try to quantify the cost for consumers if capacity is not available to bring gas into the UK on a peak day if the system is too tight to allow this."
BGT	"We also note the current discussions about use of parts the NTS for CCS purposes. That initiative also has the potential to constrain the NTS, in much the same way as substitution could."
CSL	"…this policy will inevitably lead to the destruction of the overall level of NTS capacity, and hence flexibility. Herein lies the dilemma: network efficiency versus network flexibility; to what extent should 'spare' capacity be used to offset NTS investment at the expense of present and of future NTS flexibility?..." "CSL believes that transmission flexibility will play a crucial role in mitigating the risks that accompany uncertain gas supply……..and urge both Ofgem and NGG to consider the wider picture of the future requirements that will be placed on the NTS when considering the extent to which efficiency gains are pursued through this policy."
BG	"BG supports the concept of entry capacity substitution as a way of avoiding unnecessary investment…"
BG	"Not protecting capacity at terminals such as Bacton for IUK and Easington for Rough flows, and hence restricting the ability for peak gas flows could endanger the ability for the system to respond on days of high demand or in times of gas supply deficits & emergencies….lead to gas prices rising…."
BG	"…Users are not always in a position to make the necessary financial commitment at the appropriate time to protect against the potential negative effects of substitution…"
BG	"…remain to be convinced that the true savings from future avoided incremental investment are greater than the value of lost system flexibility."