



**Review of the  
NTS Exit Capacity Release  
Methodology Statement  
in respect of the  
Transitional Period.**

**Consultation Conclusions Report**

**22<sup>nd</sup> August 2008**

## Executive Summary

### Introduction

Special Condition C18 of National Grid Gas plc's ("National Grid") Gas Transporter Licence in respect of the NTS (the "Licence") places an obligation on National Grid to prepare and submit for approval by the Authority before 1<sup>st</sup> April in each formula year an NTS exit capacity release methodology statement ("ExCR") setting out the methodology by which it will determine whether to release NTS exit capacity to gas shippers or DN operators.

In addition to the obligation referred to above, Special Condition C18 of the Licence allows National Grid to revise the ExCR at any time. Such revision is subject to the Authority not vetoing the proposal and requires industry consultation prior to submission to the Authority.

On the 7<sup>th</sup> May 2008 RWE raised a UNC modification proposal<sup>1</sup>. This proposal is intended to make Advanced Reservation of Capacity Agreements ("ARCAs") available beyond the current limited scope. If implemented, this proposal would, in addition to modifying UNC, require a change to the ExCR. In discussions with National Grid, RWE agreed that their desired outcome could be achieved more efficiently through a consultation on the ExCR without the need to modify the UNC.

On 18<sup>th</sup> July 2008 National Grid initiated its consultation on its proposed NTS exit capacity release methodology statement in respect of the Transitional Period. Consistent with the UNC modification proposal raised by RWE there are two principle changes proposed to the existing statement. These are:

1) extending the availability of ARCAs. The requirement for an ARCA remains unaltered, i.e. where specific reinforcement is required and the incremental demand is greater than 20m therms per annum. However, the changes permit a Shipper User or Developer to request an ARCA where capacity is, or can be made, available, but specific reinforcement is not required. To avoid a proliferation of ARCAs the 20m therms / annum criteria has been retained, and ARCAs will not be available if capacity can be obtained through normal UNC processes.

2) consistent with the timescales required for consultation and Authority review of the proposed ExCR National Grid has proposed an effective date of 1<sup>st</sup> October 2008 for the revised statement. As the "Interim Period" ceases on 30<sup>th</sup> September 2008 all references to the Interim Period have been removed.

National Grid invited views in respect of the proposed revised ExCR to be made by 15<sup>th</sup> August 2008.

This document sets out National Grid's conclusions on its consultation on the proposed ExCR. It provides a summary of the representations received from the organisations listed below, National Grid's response and an indication of whether, as a result of such representations, any changes have been made to the proposed revised statement.

### Responses

Representations were received from the eight respondents listed below.

British Gas Trading (BGT)	Support
Scottish and Southern Energy (SEE)	Support
RWE npower (RWE)	Support
Association of Electricity Producers (AEP)	Support
E.ON UK plc (EON)	Support
Scottish Power Energy Wholesale (SP)	Support
EDF Energy (EDF)	Support
Centrica Storage Limited (CSL)	Support

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<sup>1</sup> Reservation of Firm NTS Exit Capacity at New NTS Exit Points in the Transitional Period – proposal 0214. This can be found on the Joint Office website at [www.gasgovernance.com](http://www.gasgovernance.com)

Consultation Report - Review of the NTS Exit Capacity Release Methodology Statement in respect of the Transitional Period.

The main responses received relate to:

- Transparency of the ARCA Commitment.  
Details of the duration of the commitment and charges should be confirmed in the ExCR to remove regulatory uncertainty and risk.
- 20 mtpa threshold for availability of ARCAs.  
Although supporting the proposed ExCR three respondents questioned whether the threshold should be removed to ensure consistent treatment of Direct Connects and DN offtakes.

Detailed comments from respondents and National Grid's response to these comments are provided in the following table.

Party	Issue	Response Quotes	National Grid Response	Proposed changes
<b>1 – ARCA terms</b>				
1.1 BGT	Individual negotiation of ARCAs.	We note that ARCAs have to date been individually negotiated and parties have had recourse to the Authority in the event of disputes. This principle has been retained for the envisaged additional use of ARCAs and should therefore remain consistent	ARCAs will continue to be individually negotiated but will be based on previous agreements and Determinations to ensure consistency. The revised ExCR facilitates escalation of disputes to Ofgem.	None
1.2 SSE	Transparency of ARCA Commitment	..... important details of the booking are not transparent and are largely at the discretion of NGG. This includes the ARCA commitment ..... It is proposed in the consultation document that “User Commitment” will be related to the quantity of capacity reserved and relevant exit capacity charges but full details will only be made available through individual ARCAs on a case by case basis. SSE believes it is necessary that the basis on which commitment will be determined should be transparent and uniform across all Users to avoid undue discrimination. Details of the duration of the commitment and confirmation that charges used will be those applying at the time the commitment is made, should be confirmed in paragraph 38 and 48 of the ExCR to remove regulatory uncertainty and risk.	<p>This issue is outside the scope of the current consultation. The requirement, or not, for greater transparency of ARCA terms applies equally to ARCAs</p> <ul style="list-style-type: none"> <li>• required by National Grid in accordance with the existing ExCR; and</li> <li>• requested by Users in accordance with the proposed revised ExCR.</li> </ul> <p>Notwithstanding this, National Grid agrees that it should avoid undue discrimination. However, this does not mean that the terms of all ARCAs should be the same. In their determination in respect of Marchwood power station the Authority stated that “it is important that NGG NTS assesses the level of financial commitment on a case by case basis”. Hence specific details cannot be included within the ExCR and there would be potential for confusion if specific assessment criteria were listed, especially as these criteria may vary between different classes of offtake, e.g. power generation, industrial, storage.</p> <p>As a protection to ARCA signatories (including National Grid) any dispute over terms, including the ARCA Commitment, can be referred to the Authority.</p> <p>National Grid will consider whether additional details can be provided on the ARCA Commitment as part of the next annual review of the ExCR.</p>	None
1.3 RWE	Transparent terms.	Modification Proposal 214 also proposed referencing the terms likely to be included in an ARCA..... However, we very much hope that in due course	In producing ARCAs for specific projects National Grid has, and will continue to, take account of relevant decisions by the Authority. National Grid will consider	None

		National Grid will consult again on the terms of the generic NTS ARCA as the current document does not reflect the decisions the Authority made in relation to recent ARCA disputes.	whether to re-consult on a generic ARCA, but this is not likely until after the Authority makes its decision on exit reform as the outcome may influence opinions on what constitutes appropriate terms.	
<b>2- Revised Scope for ARCAs</b>				
2.1 RWE	20 mtpa threshold.	Modification Proposal 214 proposed removing the 20m therms p.a. threshold National Grid applies when making an ARCA available. This was to provide NTS and GDN shippers with the same ability to reserve existing NTS exit capacity via an ARCA, recognising the fact that new requests for capacity are more likely to be below the threshold on GDNs than on the NTS. However, as GDNs currently have the ability to request exit capacity ..... out with the annual application process for any gas year in the Offtake Capacity Statement and as 20m therms p.a. is sufficient for most new NTS load, we no longer think it necessary to remove this threshold and hence support its continued inclusion in the ExCR.	Whilst supporting the ability of Users to reserve capacity in a wider range of circumstances than is currently the case National Grid does not wish to see a proliferation of ARCAs for relatively minor increases in demand. As RWE recognises GDNs have alternative mechanisms (in the Transitional period) to obtain exit capacity. Hence the revised proposals extend the availability of ARCAs only to Shipper Users (and Developers) and National Grid considers that retention of the existing 20m tpa threshold is not unreasonable.	None
2.2 AEP	20 mtpa threshold.	The ExCR seeks to retain the 20Mth p.a. threshold whereas Mod 214 sought to remove it. We consider it would be desirable to remove this threshold to ensure equal treatment of DN and direct connect customer offtake requests. However if DN behaviour in terms of requesting offtake capacity does not change, such that direct connects are not disadvantaged, then we accept that this threshold can remain. We would expect National Grid to monitor this in the absence of the publication of OCS bookings.	During the Transitional period different processes apply for DNs and Direct Connects. These differences make it unnecessary to extend the availability of ARCAs to DN offtakes. As recognised by RWE [see 2.1] a 20m tpa threshold is sufficient for most new NTS loads hence National Grid considers that retention of the existing 20m tpa threshold is not unreasonable.	None
2.3 EON	20 mtpa threshold.	we note that the proposed changes to the ExCR include a 20 mtpa threshold. This appears inconsistent with the intention behind UNC Mod 214, which was to remove this limit. As Shipper Users could be competing for existing exit capacity with DNs we consider it may be desirable to consider removing this threshold to ensure equal treatment of all DN and direct connect customer off-take requests, thereby avoiding potential undue discrimination.	See above comments.	None

2.4 SP	Requirement for capacity	<p>We support the inclusion of the methodology that will allow a user to secure exit capacity with a lead time request greater than 6 months, should there be a need for that capacity release.</p> <p>We also believe the use of ARCAs should be limited to where they are actually required in this period.</p>	National Grid agrees that ARCAs should only be available where there is a genuine need for the capacity. Hence the inclusion of the requirement on the Shipper / Developer to demonstrate, when requesting an ARCA, a genuine requirement for the capacity.	None
2.5 EDF	Removal of perverse incentives	<p>Under the current arrangements any "spare" exit capacity on the NTS is allocated on a first come first served basis ..... This creates a perverse risk to developers that wish to connect to the NTS where there is "spare" exit capacity as the spare capacity may not be available when the development is complete as it has been acquired by another development .....This therefore creates a potential barrier to any new developments that wish to connect to areas where there is spare capacity.</p> <p>However if a developer wishes to connect to the NTS where there is no spare capacity, and so investment is required to support this additional load, then they are able to sign an Advanced Registration of Capacity Agreement (ARCA). ....., the developer benefits from the knowledge that the capacity will be made available when required. This therefore creates a perverse incentive on developers to connect to the NTS where there is no spare capacity as they are able to secure their capacity requirements. EDF Energy does not believe that it is efficient or economic to have arrangements in place that discourage developers from utilising spare capacity.</p>	National Grid recognises the issue described. Hence National Grid has proposed revisions to the ExCR which we believe address the problem.	None
<b>3 – General</b>				
3.1 AEP	Drafting	We think the drafting of the ExCR could be simplified by amalgamating Chapter 2 and Chapter 3A, it is not clear to us what the difference is between existing capacity and incremental capacity that does not require investment and therefore by definition already exists?	National Grid will review this at the next annual review.	None
3.2 EDF	Benefits	The proposed change to the ExCR overcomes these issues [see full response] ..... This will remove the	Agreed	None

		<p>risk that the capacity is not available when required ..... remove a barrier to entry for new CCGTs ..... and so also remove the perverse incentive to locate where spare capacity is not available. Further by reducing a barrier to entry this proposal can be seen to be beneficial to security of supply and have environmental benefits. In particular we would note that this proposal:</p> <ul style="list-style-type: none"> <li>• Facilitates competition by removing arrangements that favour developments connecting where there is no spare capacity, .....</li> <li>• Encourages the efficient and economic operation of the pipeline system, with its associated environmental benefits.</li> <li>• Improves the UK's security of supply.....</li> <li>• Reduces the likelihood of capacity hoarding by requiring developers and Shippers to demonstrate that they will be able to utilise the capacity when it is made available.</li> </ul>		
3.3 EDF	Demonstration of need for capacity	<p>the ExCR is not clear on what evidence would be acceptable to demonstrate that the capacity will be required. Whilst the ExCR does identify that planning applications and Section 36 consents may be acceptable, National Grid also notes that this will vary by project. We therefore believe that it would be beneficial for National Grid to produce a guidance document outlining what evidence would probably be acceptable. This will provide developers and Shippers wishing to reserve capacity with transparency on the hurdle that they will have to meet in order to secure the capacity. We recognise National Grid's opposition to including this within the ExCR as it may constrain them, and so believe that a guidance document outside of the ExCR would be beneficial, reducing a barrier to entry.</p>	<p>Whilst National Grid agrees that transparency of rules are important to give Shippers and Developers certainty of what they need to do to secure an ARCA National Grid is concerned that being too definitive in what is required may unduly limit the availability of ARCAs.</p> <p>Different types of downstream parties have different hurdles to overcome in developing their project, so what is an appropriate rule for making an ARCA available for a CCGT may not be appropriate for an interconnector. However, National Grid will consider whether additional guidance can be provided, without creating unnecessary constraints, in either the ExCR (at the next annual review) or in a separate document.</p> <p>See also response to 1.2.</p>	None