

## CONSULTATION REPORT

***Consultation on National Grid NTS proposal  
to adjust investment lead times in respect of  
the release of incremental capacity in the  
2006 QSEC auction – existing ASEPs***

Friday 19 May 2006

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## 1. Executive Summary

- 1.1. As part of our preparations for the next long term entry auctions to be held in September 2006, we have undertaken an assessment of the likely lead times that would be required to deliver the required investments in the event that incremental capacity was requested.
- 1.2. On 28<sup>th</sup> April 2006 we therefore issued a proposal, as required under the Incremental Entry Capacity Release (IECR) Methodology Statement, to extend the investment lead times at Milford Haven, St Fergus, Easington and Bacton Aggregate System Entry Points (ASEPs).
- 1.3. Representations were received from two respondents with one respondent in support of the proposals and one respondent against. We have not changed our proposals in light of the opposing response as we still believe such an approach, if approved, is consistent with the principal objective of the Authority under the Gas Act of protecting the interests of customers in relation to gas conveyed through pipes.

## 2. Introduction & Background

- 2.1. We are obliged (under the UNC and IECR Methodology Statement) to make incremental capacity available to a minimum of 150% of NTS SO Baseline in the long term auction from 3 years following the October after the long term auction.
- 2.2. This can be amended in accordance with the IECR Methodology Statement where National Grid NTS may, provided that it shall first obtain the written consent of the Authority, specify a revised lead time to be applied to all or part of the incremental capacity to be released in the long term auction at any Aggregate System Entry Point (ASEP).
- 2.3. Prior to making the application to the Authority to extend the investment lead times, we are obliged to undertake a consultation with Shippers and other interested parties on the proposed revisions and allow them a period of not less than 14 days to respond.

2.4. We issued a consultation paper on the proposals to Shippers and other interested parties on 28<sup>th</sup> April 2006 and requested representations by 11<sup>th</sup> May 2006.

2.5. In addition, we presented our proposals to the industry at the Transmission Workstream on 4<sup>th</sup> May 2006.

### 3. National Grid Gas's Initial Proposal

3.1. We proposed to adjust the investment lead time in the 2006 QSEC auction of entry capacity at:

- Milford Haven - from the nominal 3 years to 4 years for release of incremental capacity above 25% of the NTS baseline;
- Bacton - from the nominal 3 years to 4 years for release of incremental capacity above 20% of the NTS baseline;
- Easington - from the nominal 3 years to 4 years for release of incremental capacity above 32% of the NTS baseline;
- St Fergus - from the nominal 3 years to 4 years for the release of incremental capacity above 6% of the NTS baseline.

3.2. This would have the effect that we would release in the 2006 QSEC auction the amounts of incremental capacity as set out in Table 1 below for the periods outlined, as opposed to the minimum incremental amount that would otherwise be required to be offered under the terms of the UNC.

*Table 1. Amount of Incremental Capacity above the NTS SO baseline proposed to be released in the 2006 QSEC auction at Milford Haven, Bacton, St Fergus and Easington (expressed as percentage of the NTS SO baseline)*

Quarter	Milford Haven			St Fergus			Bacton			Easington		
	Baseline (GWh)	% above baseline	Incr Cap (GWh)	Baseline (GWh)	% above baseline	Incr Cap (GWh)	Baseline (GWh)	% above baseline	Incr Cap (GWh)	Baseline (GWh)	% above baseline	Incr Cap (GWh)
Q4 2009	950	25	1191	1677	6	1790	1745	20	2095	1062	32	1407
Q1 2010	950	25	1191	1677	6	1790	1745	20	2095	1062	32	1407
Q2 2010	950	25	1191	1677	6	1790	1745	20	2095	1062	32	1407
Q3 2010	950	25	1191	1677	6	1790	1745	20	2095	1062	32	1407

3.3. Our rationale for these proposals is set out below:

**Milford Haven – ‘Duplicate pipeline’**

3.4. Following the long-term auctions held in 2004 for the Milford Haven ASEP, work is ongoing to deliver the booked capacity. The Milford Haven project is a large and complex construction project involving some 300km of 48inch pipeline (119km of connecting pipeline and over 183km of downstream reinforcement), 10 above ground installations, one new compressor station and extensions at two existing compressor stations.

3.5. It is feasible that the scope of certain aspects of such existing planned works could be expanded to deliver amounts of incremental capacity up to an additional 25% of the NTS SO baseline i.e. 1191 GWh/day (110 mcmd) from October 2009. However, in the event that incremental capacity is offered and allocated above this level, National Grid NTS would be required to deliver further additional investment to increase the network capability in the Milford Haven area. This would include the design and construction of a duplicate of the connecting pipeline that is currently under construction to extend the National Transmission System.

3.6. In addition to the generic construction challenges associated with such a large pipeline project, there are project specific challenges associated with the topography of the route required for the duplicate pipeline. The work requires planning permissions, consents and land acquisition typical for such construction projects.

3.7. There are inherent risks with delivery of the duplicate pipeline within a nominal 3 year investment lead time, including the potential for the project to be affected by significant external factors beyond National Grid NTS's control associated with delivering elements of the duplicate pipeline. These external factors are principally the timescales associated with obtaining consent under the Environmental Impact Assessment regulations, planning permissions and easements from landowners.

3.8. In addition to considering the risks associated with delivering the new duplicate pipeline, National Grid NTS is mindful that Ofgem must have

regard to the potential costs that shippers (and potentially customers) may be exposed to through capacity neutrality in the event of any buy back of capacity offered for sale and sold. Accordingly National Grid NTS has also considered the potential costs associated with having to buy back the full amount of incremental capacity at Milford Haven, were it to be offered and allocated, should the gas be restricted from flowing. The potential costs of buying back the capacity could potentially be significant should some of the project risks materialise. These costs could ultimately be passed to customers with any financial incentives on National Grid NTS for this period (which is outside the current transmission price control) being subject to a future licence modification.

3.9. Given the above, we therefore consider that the most economic and efficient course of action is to only offer for sale up to 125% of the NTS SO baseline at Milford Haven from October 2009, and then up to 150% of the NTS SO Baseline from October 2010. We believe such an approach, if approved, is consistent with the principal objective of the Authority under the Gas Act of protecting the interests of customers in relation to gas conveyed through pipes.

#### **Easington / Bacton / St Fergus – ‘Greenfield Compressor Site’**

3.10. In the event that incremental capacity is offered, above the levels stated in Table 1, and allocated in the 2006 QSEC auction for any of these ASEPs, National Grid NTS will be required to deliver additional investment to increase network capability in the appropriate area. This will include the design and construction of a “greenfield” compressor station.

3.11. Experience to date has demonstrated that we have not been able to complete the design and build of any greenfield compressor within a three year lead time due to significant external factors beyond our control. Our best estimate of the time required from auction gate closure to commercial availability of a greenfield compressor is approximately 44 months. Our reasons for this are explained below.

3.12. Compressor reinforcements projects require local authority approval for the required planning consents. This approval can be challenging to obtain,

especially where there is a requirement to construct on a greenfield site. Where significant local objection is experienced the consents process can entail full public enquiry. Any approaches to local authorities or other groups will require sufficient time for due consideration of the issues at a local level.

3.13. In addition, compressors require a substantial design period in addition to extensive lead times for building and then installing complex rotating machinery.

- In order to achieve a 44 months lead time, a number of risks are recognised including:
- 5-months has been allowed to complete a public enquiry. This duration could be longer (or shorter) depending upon the degree of local opposition.
- A HV electric power supply is granted approval within 17 months of a DNO starting its consents identification and application process.
- Design and planning and some construction work before environmental consents have been granted for the station and for any lines supplying the HV electric supply.

3.14. A considerable amount of parallel working is conducted for the design and planning process and the main works construction. This carries a risk that certain construction work that is carried out could be inappropriate for the final design. Careful prioritisation and co-ordination is required across these activities.

In order to deliver the investments within the nominal 36 months lead time for the full release of incremental capacity from October 2009, the following would have to be achieved:

- Full consents would have to be obtained within 3 months. In reality such an aggressive timescale is not considered plausible; and
- All other work packages would need to start immediately following the planning consents process. This would involve much parallel working and in practice could not start until land acquisition has been finalised.

3.15. In addition to considering the risks associated with delivering the new compressor, National Grid NTS is mindful that Ofgem must have regard to

the potential costs that shippers (and potentially customers) may be exposed to through capacity neutrality in the event of any buy back of capacity offered for sale and sold. Accordingly National Grid NTS has also considered the potential costs associated with having to buy back the incremental capacity at the ASEPs, were it to be offered and allocated, should the gas be restricted from flowing. The potential costs of buying back the capacity could potentially be significant should some of the project risks materialise. These costs could ultimately be passed to customers with any financial incentives on National Grid NTS for this period (which is outside the current transmission price control) being subject to a future licence modification.

3.16. Given the above we therefore consider that the most economic and efficient course of action is to only offer for sale the incremental capacity detailed in Table 1 in the 2006 QSEC auction at the affected ASEPs from October 2009. We believe such an approach, if approved, is consistent with the principal objective of the Authority under the Gas Act of protecting the interests of customers in relation to gas conveyed through pipes.

#### 4. Summary of Responses to Proposal

4.1. We received 2 responses to the consultation, which are summarised below:

<b>Respondents</b>	<b>Code</b>
British Gas Trading	BGT
E.ON UK	EON

## 5. Detailed Responses to proposal

5.1.BGT stated "... the planning and construction of a major civil engineering project can be very complex particularly where the route may involve national parks or other environmentally sensitive areas. However, the Long Term system Entry Capacity (LTSEC) allocation process had been formulated upon a 3 year lead time being sufficient for any project."

### **National Grid's Response**

5.2.We appreciate the recognition of the complexities of managing a major civil engineering project, and while we would prefer to make available incremental capacity within the default 3 year lead time, we believe this is unachievable for the reasons stated in the proposal. If this proposal were to be rejected, then there is a potential to generate significant buy back costs which ultimately could be borne by end consumers.

5.3.BGT stated "... it is not clear whether there is scope for streamlining in order to limit or reduce the time involved at this stage of the process... there might be elements of the process that could be carried out, at little or no cost or risk to the Transporter, in advance of any formal User commitment being demonstrated."

### **National Grid's Response**

5.4.We acknowledge BGT's desire for National Grid NTS to commence any work, at minimal cost, in advance of the receipt of user commitments. In practice, however, this is unlikely to result in a reduction of the investment lead time.

5.5.BGT stated that "We have previously commented that it is preferable to publish the extent and the nature of any restriction in advance before the capacity is offered for sale... In this respect we support the publication of this information at this early stage which ensures that all market participants and potential bidders for capacity in the forthcoming LTSEC process are fully appraised of the capacity which will be available."

5.6.In addition, BGT stated that "With regard to the specific proposals contained within the consultation, it would appear prudent to restrict the quantity of capacity offered for gas year 2009/10, within the 2006 QSEC allocation as

the only alternative is to oversell available capacity which would expose the shipping community to unnecessary costs of buy-backs.”

**National Grid’s Response**

5.7. We acknowledge BGT’s appreciation of notification of the extent and nature of any restrictions ahead of capacity being offered for sale and support for not overselling capacity.

5.8. EON stated that “Ofgem stated in their initial consultation on the Transmission price control review, the importance of ensuring ‘licensees bear an appropriate share of the risk of underperformance under the price controls in relation to, for example, the cost of buying back capacity rights if investment by a licensee is not focused and timely’. The changes proposed risk undermining these fundamental incentives, through allowing NGG to tip the balance of risk, which was originally put in place to ensure focused and timely investment, away from NGG NTS and allocate more risk towards shippers, for events outside the control of shippers.”

**National Grid’s Response**

5.9. We acknowledge EON’s concern about ensuring that we bear an appropriate share of the risk in relation to timely investment in the transmission system. However, we consider that we would be unable to meet the default 3 year lead time for the incremental quantities set out in our proposal due to issues beyond our control. In such circumstances, we consider that it is not appropriate for capacity to be released and thereby avoid any risk of increased cost for consumers.

**6. Conclusions**

6.1. As a result of the representations received, we have not recommended any change to our initial proposals.