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Dear Jan

### **National Grid NTS Exit Capacity Release Methodology Statement**

This response has been prepared by SGN in relation to the Exit Capacity Release Methodology Statement issued by National Grid NTS on 20 October 2006, setting out the methodology to be applied by National Grid NTS in determining whether to accept applications for increases and decreases in NTS Exit Capacity under enduring NTS offtake arrangements. The document has been published in accordance with Special Condition C18 of National Grid's GT Licence, relating to release of Exit Capacity (including obligated and non-obligated capacity). It is proposed that it will be effective from 1 April 2007 (for the release of NTS Exit Capacity for use from 1 October 2010).

SGN is generally supportive of the statement. In particular, we welcome the alternative presented in relation to User Commitment. We believe Option 2 is a much more efficient and pragmatic solution. However SGN would appreciate further clarification on a number of points as detailed below.

SGN notes that Licence Conditions referred to throughout the document are still subject to consultation under the Transmission Price Control Review. Also the Modification Proposal setting out NTS's proposals for NTS offtake reform is still subject to consultation. There are now several alternative proposals also subject to consultation. SGN believes the ExCR Methodology Statement is a key component of NTS offtake reform. Comments provided by SGN in relation to the above statement have taken account of other aspects of reform as far as is possible at this stage. To the extent that the wider package of reform varies, SGN's views on the above document may also change. As a minimum, we note that changes will be required to the above document to take account of the current consultation on proposed Licence changes as part of the Transmission Price Control Review.

### **Detailed Comments**

#### **1. Release of NTS Exit (Flat) Capacity**

The methodology set out in the above document, is to be applied by National Grid NTS to determine whether to accept applications for an increase in Prevailing NTS Exit (Flat) Capacity, including capacity in excess of obligated quantities. We note that no explanation is provided in relation to expected time periods or circumstances over which non-obligated capacity may be released. We would appreciate further clarification on this point.

## **2. Release of Incremental Non Obligated NTS Exit (Flexibility) Capacity**

In relation to NTS Exit (Flexibility) Capacity, the document states that National Grid NTS will accept applications which would result in the release of NTS Exit (Flexibility) Capacity above baseline obligations at its discretion and will not be obligated to release incremental NTS Exit (Flexibility) Capacity in the long term. As above, we would appreciate further clarification in relation to the circumstances and time period over which non obligated capacity may be released. Whilst we accept that NTS Exit (Flexibility) Capacity is a constrained product and it has been determined that it would not be economic or efficient for NTS to invest to provide incremental Flexibility Capacity, we would expect that there will be circumstances where it will be possible for NTS to release capacity above the baseline level. We believe NTS should be appropriately incentivised to release such capacity where possible on an annual as well as daily basis. We believe this is essential to ensure arrangements provide the appropriate economic and efficient outcomes, further facilitating the objectives set out in the Gas Act and in respect of National Grid's GT Licence.

## **3. Investment Lead Times**

We note that consultation is ongoing regarding default lead times for investment. SGN believes this is a key component of reform. SGN will submit comments under the appropriate TPCR consultation.

Failure to deliver capacity on time is likely to have significant consequences for DNOs. As such, we believe that where NTS fails to deliver capacity in accordance with previously agreed lead times, some form of compensation should be provided to Users to act as an incentive for NTS to deliver on time or at the earliest opportunity.

## **4. Requests for Increases in Prevailing NTS Exit (Flat) Capacity**

Under Modification Proposal 0116V, requests for an increase in Prevailing NTS Exit (Flat) Capacity must be backed by financial commitment. SGN has previously expressed concern regarding proposals which required Users to enter in to a 4 year commitment for all incremental requests (irrespective of whether investment is required or not) from Gas Year Y+4 onwards, based on capacity charges over the period Gas Year Y+4 to Y+7 (inclusive). This creates significant and unnecessary risk for Users. SGN believes it is inappropriate to require Users to commit to something that is unknown at the time of entering the agreement. SGN believes this aspect of the arrangements is detrimental to the objectives set out by Ofgem and forming the basis for NTS offtake reform and DN Interruption reform, that arrangements should ensure that Transporters make informed and efficient trade-offs between alternative investment decisions. DNs would have no certainty regarding efficiency at the time of booking when costs are unknown. As such SGN welcomes and supports Option 2, included in the October document. Under this approach the financial commitment is calculated based on prevailing prices at the time the application is made. This means Users will be better placed to determine the most appropriate and efficient course of action. SGN also welcomes other aspects of Option 2 which further improve efficiency of arrangements by allowing Users to be released from any commitment earlier where actual charges are higher than anticipated at the time the User Commitment Amount was calculated. We also note that following further clarification from National Grid NTS, should actual charges be lower, the commitment will be capped at 4 years.

It is not clear from the document whether it is National Grid's intention to only retain one of the two options or whether it intends retaining both. Further clarification is required on this point. We do not believe it is necessary to retain both options. SGN would support Option 2 only. However, if it is National Grid's intention, we need to understand under what circumstances each option would be applied.

## **5. Request for a Reduction in Prevailing NTS Exit (Flat) Capacity**

User Commitment arrangements prevent Users from reducing Prevailing NTS Exit (Flat) Capacity holdings where an increase has previously been requested until the full commitment period has expired (e.g. 4 years under Option 1). Whilst SGN appreciates the simplicity of such a model, we believe there are unnecessary and potentially inefficient consequences, where no investment is required. SGN believes efficiency of arrangements could be improved by allowing capacity to be released earlier where no longer required and no investment has been undertaken by National Grid NTS. We believe Users should only be required to give 14 months notice to release prevailing capacity under such circumstances.

SGN notes that under Option 2 the effective date for any capacity reduction will be dependant on actual charges in Gas Year +4 through to Gas Year +7. As written the effective date would appear to be at the point the User Commitment Amount has been met. To allow Users to plan and manage capacity requirements efficiently, we suggest arrangements should allow

the User to specify a specific end date where required to avoid capacity being reduced earlier than anticipated where charges change.

#### **6. Timing of Application Window**

The above document refers to Modification Proposal 0116 and is based on the assumption that the Annual Application Window will be in July of each Gas Year. Under Modification Proposal 0116V National Grid NTS has indicated that this is subject to change as part of ongoing discussion on investment lead times and may require a subsequent Modification Proposal to amend arrangements. To the extent that changes are required, corresponding changes will also be required to this statement.

#### **7. NTS Exit Zones and NTS Exit Areas**

We understand that in the event that National Grid NTS needs to change the attribution of an NTS Exit Point to an NTS Exit Zone, or an NTS Exit Zone to an NTS Exit Area, NTS will provide at least 5 years notice of such changes. SGN welcomes this move. However it is not clear from the above statement what the process or timescales would be if NTS wishes to make changes to the National Maximum NTS Exit (Flexibility) Capacity deemed available, particularly beyond 2010, or the allocation across areas or zones. It has been suggested that it is likely that National Grid NTS will have a Licence obligation to produce an Exit Capacity Baseline Statement, setting out how baselines are to be revised. We look forward to further clarification and Licence drafting in due course.

We hope these comments are helpful.

Should you require any further clarification or wish to discuss any point in more detail, please contact me at the above address.

Yours sincerely

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