

Annex 1: Interconnector response to National Grid Long Term Access Review- Project Consultation Report

1. What further developments do you see happening within the energy regime (either specific to your sector or more broadly) by 2030 which could have any influence on the 2030 scenario?

We agree that at this stage there is uncertainty around future developments of the gas market which is why we would advocate a cautious and incremental approach to reforming the access arrangements. The ambition statement must include having arrangements which facilitate security of supply and maintain capacity to meet 1 in 20 peak day demand.

We believe Gas will continue to play a critical role in meeting energy demand in 2030 and will be a bridge to alternative sources of energy. New sources of low carbon gas blended and transported in the network will only occur if the infrastructure is there and access arrangements are easy and efficient.

It is fair to say that the gas industry is currently experiencing massive changes in its business environment; the legislative and regulatory objectives to reach NetZero, the introduction of additional gas vectors like H2, biomethane and CO2, a reduction in European production on the North Sea and Groningen, and the growth in intermittent renewables.

There are other elements at play, within the GB energy markets: evolutions in the charging regime, regulatory evolutions in the UNC (Energy Code Reform), policy decisions to achieve NetZero (e.g. Heat and Buildings Strategy, changes to the electricity market with more interconnectors, onshore wind, ...) all of which may be decided or significantly changed in the next 5-10 years.

The other key element is change in customer behaviour, on wholesale and retail markets. Their trading strategies and actions in response to continuously evolving commodity markets will influence the commercial environment in which NG will operate.

It is therefore important that multiple scenarios are considered rather than just one, to reflect the variety of potential outcomes on the 2030 horizon.

We will hopefully see in 2022, clearer European and UK policies on hydrogen, CCUS and decarbonisation. This can help provide more clarity on the future use of the market.

1a. What would be an early indicator of these developments taking place?

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2. What option/combination of options (outlined in Section 3c, and further detailed in Appendix C of this document) do you believe best achieve the 2030 scenario and why?

We broadly support the Ambition Statement as defined in your consultation document. The ambition should indeed be to create an agile set of arrangements which can meet and adapt to users' changing demands.

We would suggest that the ambition statement includes a reference to security of supply. A key requirement is that capacity remains available to meet 1 in 20 peak demand requirements and enables parties to secure capacity to manage their risks.

Regarding market efficiency, we suggest to include an objective on supporting the liquidity of the market. This is essential to support efficient market operation, domestic and cross border transactions, and for parties to manage their risks (security of supply).

We believe a combination of options is likely to work best. Option G (Access Rights Booked) is an important option: **Purchasing capacity products should remain the primary mechanism for capacity management and revenue collection.** This is consistent with regulatory obligations and the logic that **a pipeline system is built to provide access to capacity** – not only for the periods it is used to flow (where marginal costs to flow are limited), but year round. Therefore the ambition should remain to keep shipper's incentives and TSOs' remuneration structures aligned – i.e. a remuneration based on the capacity, and not on the flow.

Rather than changing the fundamental principle of Capacity Bookings to access the NTS, we think there is opportunity to work on the commercial arrangements and product offering. E.g. for NG to offer additional products to enable users to acquire additional products and capacity in different timescales. There needs to be a quicker mechanism to meet the evolving needs of the market. Observing the commodity market, it is apparent there are a number of additional products appreciated by the market (balance of month, weekend etc). Broadening the availability of products to marry with the commodity side, and having an agile mechanism to create new products (i.e. to cater for new sources entering the network or meet increased flexibility needs) should be explored. A move to making capacity purchasing windows wider and use First Come First Serve (where there is no congestion) would make the market more easier and efficient. It is important that these measures and new products are made available at all relevant points including interconnection points to ensure open and non-discriminatory access.

Views on other potential options outlined in the consultation

We do not believe exclusive options like Option F (Only Book Access Product for Short Duration) should be considered. Why restrict the market to just short term products when we have uncertain market scenarios? A healthy mix of long term and short term products provides the market choice and helps protect consumers. The security of longer term products may be desirable for some users (GDNs, for new sources/ users with different business risk profiles) and also for the system operator & transmission system owner as outlined above.

Long term products can also help marry to longer term commodity trades and capacity products of connected infrastructure. These products will continue to have a place in the capacity mix and provide some stability in the market. Only allowing short term products (days) may contribute to increased volatility and become a barrier to some users participation (i.e. not match business risk profiles).

Option C (Access without financial commitment) is very similar to some of the arrangements in the previous charging regime which had low capacity charges and the bulk of transmission revenue recovery from TO commodity charges. Overtime TO commodity charges became higher and were assessed by Ofgem to be a barrier to gas entering the GB market. Is there a risk the same issue could occur again? Furthermore, when buying capacity, whilst optimisation will increase further, some users (depending on risk profiles and other security of supply obligations) will still buy capacity that is not fully utilised (e.g. winter capacity as a security of supply safeguard). It would be unfair to financially penalise them for doing this – on the contrary this should be encouraged. Overall this suggests there will continue to be value in charging for capacity in order to ensure it retains a market value and is secured by those who value it the most.

With respect the implicit Options A and B, they may indeed provide challenges to network planning and constraint management, particularly if there is a need for greater flexibility (i.e. to meeting larger swings in demand). There is also the question of what charges would apply to a flow based or maximum nomination access mechanism and whether these charges, if high, could end up deterring gas flows in the GB market (e.g. when a marginal source of gas has the option to entering the GB market at a high flow/nomination based charges versus

going to a neighbouring markets which has low capacity charges, or where it already has existing entry bookings and therefore treats capacity is as a sunk cost).

Finally, INT agrees that option H (NTS Used as Storage) should not be considered any further as part of the 2030 access review. We believe the NTS will, in 2030, remain a crucial transportation infrastructure to meet consumer needs.

2a. Do you have any preference on an option(s) to develop further?

Option G with consideration of Option D and E (subject to market interest).

3. When should further development and implementation of the preferred option take place?

The merits of new products, wider purchase windows and additional sales channels like FCFS can commence now.

3a. Do you have a view on the prioritisation of the development of the options?

As per answer above.

3b. Do you have a preference towards whole scale or a more incremental approach to change?

An incremental approach. At this time there is considerable uncertainty about the future needs and optimal design of the access arrangements in 2030. There is considerable security of supply risk to consumers if wholesale changes based on one scenario proves to be incorrect. It is therefore not prudent to make fundamental changes now. Rather, it is appropriate to identify and address problems with the current regime and take an incremental approach. It is also important to ensure that when changes are being made, they are flexible and adaptable enough to evolve with the market.

4. Are there any other options which should be considered? Please provide any details of how you would see the options working at a high level.

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5. Do you have any other comments?

As outlined above, a transmission system is built to provide access to capacity, not only for the periods it is used to flow, but year round. We note, as booking behaviour turns increasingly short term (whether encouraged by regulation or commercial design), the value of the capacity system may go underappreciated. Stakeholders (shippers, authorities, connected parties) may assume that it is always there, always on, which cannot be guaranteed. One should therefore carefully consider the alignment between the remuneration model (short term, uncertain, volatile) and costs (debt service, maintenance and operations even when not flowing). With reduced visibility on the revenue side, it becomes harder for a TSO (and for a regulator) to develop investments and maintenance plans.

The other issue is that booking patterns may not truly reflect the capacity the system provides. Said differently, seeing an utilisation well below peak capacity for a prolonged period, may lead some parties to think that the peak capacity is not required and does not need to be maintained. As we have seen in recent periods, market circumstances change, booking behaviour changes, and volatility is here to stay (LNG to GB yes/no, UKCS decline, unplanned asset interruptions, intermittent renewables...). Booking patterns and scenario planning based on historical numbers or 'averages' may therefore not be adequate to

support reflections on capacity need. Peak capacity remains a key design parameter for a well-functioning market, and to provide security of supply to consumers and connected parties.

The NTS charging structure should also be assessed in combination with future access arrangements. The pricing structure and incentives will influence behaviour. There is recognition for example, that, as indigenous gas sources decline, there will be a need for additional gas imports. Whilst the degree to which this is needed will be dependent on the degree to which gas makes up the supply mix, we can agree the access/charging arrangements should be designed to make the GB market an attractive destination for gas and investment. Reviewing the 50%/50% entry/exit split is therefore an important element in this context. A lower revenue allocation to entry points can help attract gas into the market at a lower wholesale price, benefiting consumers and justifying a higher allocation to exit points¹. Such an adjustment can be the difference between the success of options such as pay when flow i.e. in terms of encouraging gas into the market through low flow charges or being a barrier to entry (through higher commodity under a 50/50 exit/exit split regime).

Additionally, there is need to take into account European policy, regulatory and market developments. These change will have a big influence on both imports into and exports out of the market. It is important that arrangements remain compatible and adaptable to this changing environment.

Lastly, we suggest a cautious approach when considering changes to the access regime. We also make reference to the NTS charging review, where certain choices (postage stamp, changes in the charging structure from flow based to capacity based) have had major impacts on the market dynamics, the competitive landscape and the stability of the GB gas market. Changes to the capacity access regime may also have significant consequences on the behaviour by market participants, as well as on market efficiency, affordability and security of supply.

¹ The benefits of a change to the Entry/Exit split (allocating a lower % of allowed revenue collection from Entry) was demonstrated in a study by CEPA https://www.cepa.co.uk/news-insights/view/IUK_BBL_Consideration_of_adjustments_to_the_NTS_Charging_Regime