

To all interested parties,

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Dear Colleague

National Grid Transmission's Consultation on System Management Principles Statement

National Grid Gas plc's ("National Grid") Gas Transporter Licence in respect of the NTS ("the Licence") sets out obligations to carry out a consultation on changes proposed to the System Management Principles Statement (SMPS).

This letter identifies the proposed amendments to SMPS following Authority's decision¹ to approve changes to the Entry Capacity Release (ECR) Methodology Statement. Below are the reasons for the change proposed which have also been captured in the NGG's ECR consultation letter and the joint response to the feedback received in the consultation².

Drivers for change

Geopolitical situation in Europe

The current geopolitical situation developing in Europe has the potential to create a significant impact on the energy sector and markets across the continent, including the UK. The unprecedented high gas prices and the desire of European countries to reduce dependency on Russian gas are leading to changes in strategies in relation to future sources of energy. The UK market has a part to play in supporting Europe in transitional arrangements to the extent this is possible. This might mean that larger than anticipated quantities of LNG could be delivered to the UK shores this summer, with an intention of being transported to Europe via the interconnectors to Belgium and the Netherlands. Additionally, EU storage levels are close to historic lows and therefore the summer refill period has the potential to further increase demand on the Interconnectors to help refill EU storage.

UNC 0752S Introduction of Weekly Entry Capacity Auction

During the development of UNC Modification 0752S no one foresaw the current geopolitical events and consequential market impacts which may lead to a greater need and focus on GB as a market to transport higher levels of LNG through the NTS to Europe. With this current market dynamic we have concerns around increased risks from releasing weekly capacity and we now believe action is needed to mitigate the potential consequences the release of Weekly firm capacity may cause, this has the potential to also extend to the Monthly auctions. UNC 0752S will be implemented on the 24th April 2022 and the first bid window when weekly capacity can be purchased will be on the 20th May 2022. This period is also when National Grid has high levels of maintenance activity on the network to meet legislative requirements and to prepare for the following peak demand season.

Capability and Maintenance Plans

Capability on the NTS is linked to supply and demand, specifically locational supply and demand patterns, asset availability, local linepack and pressures. The NTS in normal operation is not expected to be able to deliver the baseline at Milford Haven during the summer. Lower national demand impact our ability to move gas away from the area. Of particular impact is demand from nearby NTS directly connected assets and LDZ demand in South Wales.

¹ <https://www.ofgem.gov.uk/publications/decision-entry-capacity-release-methodology-statement-held-national-grid-gas-plc>

² <https://www.nationalgrid.com/gas-transmission/capacity/capacity-methodology-statements>

We have reviewed the maintenance plan and have already deferred, cancelled or rephased maintenance activities at the critical compressor stations of Felindre, Wormington and Churchover that we are able to ensure that maximum capability will be available in the Milford Haven part of the network throughout the summer.

In the period 2019-2021 we have seen an average summer flow at Milford Haven of ~6mcm a day. However, the maximum flow seen was 55mcm. If this were to be repeated, we believe that the NTS would have sufficient capability to accommodate this. However, considering the geopolitical events and the market impacts there is the potential that more LNG will be delivered to the UK including Milford Haven. National Grid is concerned about its ability to accommodate flow at levels above historic high levels for prolonged time during the summer period.

The current long-term capacity bookings between June to September is 350GWh/day (32mcm), while October booking stand at 855GWh. Releasing Obligated Entry NTS Capacity up to the Baseline of 950GWh in shorter term (monthly/weekly) auctions would mean making available and potentially selling capacity in excess (circa 20 to 25 mcm/d) of the forecast network capability for this period. If Shippers then flowed above the capability levels then this would lead to National Grid having to take constraint management actions to manage and reduce the increase in pressure. Given the current market and the potential for flows to consistently be greater than the capability this could result in costs being incurred by customers and ultimately end consumers.

As a part of our Entry Capacity Methodology review proposal and based on our capability assessment, the quantity of entry capacity at Milford Haven which we are committing to make available is in excess of any summer capacity flows we have seen historically. Furthermore, the current sold long term capacity level stands at circa 32mcm for the June to September and circa 77mcm for October indicating that for most months there is still a significant quantity of unsold capacity available to be utilised.

The feedback we have received regarding the capability assessment following the ECR Consultation indicated that the capability results would potentially be more accurate if we had considered five years of the demand data (as opposed to three). This is because two out of three years of data could have been skewed by the pandemic. We have re-calculated the demand based on a 5 year period and the table below shows the outcome. We propose that for each month, we release capacity equivalent to the maximum median³ capability observed in the 5-year period.

Historic Milford Haven Capability / Monthly Capacity to be made available in RMNTnTSEC at Milford Haven Entry Point (May-Oct 2022)			
Month	Capability mcm/d	Year Observed	Capacity to be released kWh/day**
May*	68mcm/d	May 2017	N/A
June	63 mcm/d	June 2021	693,000,000.00
July	63 mcm/d	July 2018	693,000,000.00
August	62 mcm/d	August 2017	682,000,000.00
September	66 mcm/d	September 2017	726,000,000.00
October	68 mcm/d	October 2019	748,000,000.00

**We recognise that the monthly RMNTnTSEC capacity auction for May flows has already taken place. However, May capability will play a role in the level of capacity released in the first Weekly NTS Capacity auction on the 20th May.*

***Minus all previously sold Firm NTS Entry Capacity*

³ The median relates to the middle value when all end of day flows for a month are ranked in a list from smallest to largest

SMPS changes required

Authority's decision to approve proposed changes to Entry Capacity Methodology Statement will allow National Grid to withhold capacity from weekly and monthly auctions at the Milford Haven ASEP in the period between 30th May and 31st October 2022. If the specific system conditions allow, National Grid would make available any withheld capacity (in full or in part) in the weekly or daily auctions (day ahead and within day) to maximise the availability of capacity within capability for our customers.

Continues release of Entry capacity which resulted in aggregate capacity sales which would allow flows at a sustained level above that which we are able to accommodate would lead to a constraint. As a result, constraint actions would be required, potentially lasting several days. The cost of managing a constraint with buy backs could quickly lead to significant costs incurred by the National Grid, its customers and ultimately end consumers. In the scenario we have looked at at the time change to the Entry Capacity Methodology Statement was proposed (based on 30 days of constraints, a 20 mcm/d constraint and gas price at £3 therm and buy/sell differential of £1), the costs could equate from £180m (locational sells and some corresponding buys) to £500m (buybacks). We recognise that there are a number of variables that could impact constraint costs and the numbers given were illustrative to provide an order of magnitude and sense of scale associated to any potential constraint costs. We recognise that gas prices can go up as well as down, and the costs could be impacted by an ongoing constraint (likely to increase costs) which this scenario does not cover. At the current gas price the estimated costs would potentially be lower.

We are aware that our customers expectation is to purchase the rights to flow which will give them certainty that they can do so when needed. It is our intention to maximise the existing system capability / firm capacity release to be able to facilitate as much flow as possible. However, at the same time we believed that steps needed to be taken to both provide greater certainty to the market and to protect the industry from potentially high constraint management costs in this unique and unprecedented situation.

In this specific circumstances we believe that releasing Obligated capacity in line with the levels of capability on the network, where to do otherwise could have a detrimental impact on consumers, is consistent with our Licence duties to maintain an efficient and economical pipe-line system for the conveyance of gas.

The following changes to the wording of the System Management Principles Statement would align it with the recently approved changes to ECR Methodology Statement and be applicable to Part C of the document (text in bold)

- (...) NGG may use the following tools to manage localised transportation capability: Restrict the quantity of daily firm NTS Capacity made available. **Furthermore, National Grid may also withhold capacity from WSEC or RMTNTSEC auctions in the period between 30th May and 31st October 2022 at the Milford Haven ASEP – such quantities may subsequently be released in part or in full in the WSEC and DSEC auctions.** Please be aware **that restricting daily firm NTS Capacity** this will never occur prior to the scale back of off-peak/interruptible capacity;

As a prudent System Operator, we have put forward a solution which, we believe, will mitigate the risk, and reduce the potential cost exposure of both our customers and ultimately gas consumers. We acknowledge that there will be commercial consequences of this proposal to the LNG industry and agree that a longer-term solution needs to be developed to find an enduring solution.

To assist in reviewing the proposed changes to the System Management Principle Statement a comparison of the current document version 10.0 to version 10.1 is available on our website <https://www.nationalgrid.com/gas-transmission/about-us/how-were-regulated/gas-industry-compliance>

All non-confidential responses on changes proposed to Entry Capacity Methodology Statement as well as National Grid's joint response to feedback received can be found on our website:

<https://www.nationalgrid.com/gas-transmission/capacity/capacity-methodology-statements>.

National Grid would appreciate the comments of all interested parties on the draft changes to the SMPS. Responses should arrive at National Grid by 17:00 on Wednesday, 15th June 2022 and be sent by e-mail to: box.gsoconsultations@nationalgrid.com.

Responses will be placed on our website and incorporated within the consultation conclusions report. If you wish your response to be treated as confidential then please mark it clearly to that effect.

Your sincerely

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