

## RIIO-GD2: Exit Capacity Enhanced Obligations Annex

### Introduction

- 1.1 As set out in Chapter 2 of the GD Annex, we have decided to remove the existing NTS (National Transmission System) exit capacity incentive mechanism in RIIO-GD2. In place of an output, we are proposing to introduce an enhanced obligations framework, applying to both GDNs and NGGT (National Grid Gas Transmission), with the aim of:
- Ensuring there is no loss of efficiency in the booking of NTS exit capacity as a result of removing the existing incentive.
  - Ensuring that all aspects of the booking process are managed in a way that is to the benefit of the gas system as a whole.
- 1.2 In this appendix, we present our proposed set of enhanced obligations and explain the rationale behind them. These are intended to provide a starting point for discussions with stakeholders, and we are open to revising them as needed to reach an agreed set of requirements. To provide context for our proposed list of enhanced obligations, we think it is important to first set out our view of efficiency along with key influencing factors.

### Efficiency

- 1.3 For each year, GDNs must book sufficient exit capacity to meet the 1-in-20 peak demand obligations set out in their licence. An overbooking of capacity, however, can distort the NTS' planning, potentially leading to unnecessary investment, and can also prevent other users (such as industrial users) from making use of the existing capacity. We think, therefore, that an efficient booking is one that ultimately minimises costs<sup>1</sup>, in both the short and long term, for a GDN's customers, while avoiding any unnecessary costs or constraints on other stakeholders.

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<sup>1</sup> As proxied by network costs, such as investment and maintenance.

- 1.4 A GDN's booking strategy will cover a number of different decision areas, in particular:
- The overall volume of bookings needed to meet their 1-in-20 obligations
  - The allocation of this booking between different offtakes
  - The balance between the different capacity and pressure products available to make up this booking volume.<sup>2</sup>
  - The balance between long-term and short-term bookings.
- 1.5 On this basis, then, we consider a fuller definition of an efficient booking is one that directly reflects the forecast 1-in-20 requirements, and finds an appropriate balance between pressure commitments and capacity entitlements, distributed across any set of connected offtakes, at the latest point in time at which critical decisions can be made in both upstream (NTS) and downstream (GDN) networks.
- 1.6 In relation to timing, shorter-term bookings allow for more flexibility and greater accuracy in demand forecasting, but risk not providing the necessary capacity requirement signals in time for NGGT to be able to respond to these. We expect that the latest point in time at which products need to be booked will depend on the consequences of the booking, for example whether it triggers a requirement for investment in network reinforcement - in which case this is typically three to seven years in advance.
- 1.7 In relation to the distribution of bookings, we note that bookings are made at an individual offtake level. Because there is often connectivity in the downstream network, GDNs may have some discretion in where and to what extent they book capacity and pressures at individual offtakes. However, there are also locations where there is no downstream connectivity between offtakes; in these situations, the only trade-offs available to a GDN are the balances between pressure and capacity products.
- 1.8 We think there are two further requirements needed in order to ensure that the whole gas system works as efficiently as possible for all stakeholders.

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<sup>2</sup> The products that GDNs can make use of are:

- a. NTS Exit (flat) capacity – the right to flow a volume of gas over a gas day;
- b. NTS Exit (flex) capacity – the right to vary the rate of offtake over the course of a gas day;
- c. Assured Offtake Pressure (AOP) – the right to require a minimum pressure is provided by NGGT.

- The GDNS and NGGT should be transparent in their approach to booking, in terms of both the methodologies used, and the data that informs them.
- The GDNs and NGGT should work collaboratively to determine the arrangements that will deliver the most efficient outcome from a whole gas system point of view.

1.9 On this basis, we have developed a set of proposed enhanced obligations as follows.

**Table 1: Proposed list of enhanced obligations for RIIO-2**

| Obligation                                                                             | Applies to | Discussion                                                                                                                                                                                                                                                                           |
|----------------------------------------------------------------------------------------|------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Methodology</b>                                                                     |            |                                                                                                                                                                                                                                                                                      |
| Provide pre-forecast information                                                       | GDNs       | This information would support NGGT in producing 1-in-20 peak day forecasts. This is currently provided under the UNC.                                                                                                                                                               |
| Publish 1-in-20 peak day demand forecasts per individual 'network structure'           | GDNs, NGGT | This indicates the minimum flat capacity requirement for the network structure. This would provide transparency and highlight the need for specific justifications where capacity bookings are less than anticipated by the forecast. This would also support industry benchmarking. |
| Publish the methodology which is used to assess the requirements for NTS Exit Capacity | GDNs       | This would provide transparency and auditability of process. This would enable external challenge, evolution of the process where improvements are developed, and help establish consistent good practice across GDNs.                                                               |
| Publish the methodology used to assess GDNs capacity bookings                          | NGGT       | This would provide transparency of process. It would enable external challenge – especially by GDNs, support evolution of the process where improvements are developed, and facilitate efficient booking by GDNs.                                                                    |
| Publish the GDN network structure                                                      | GDNs       | The network structure describes groups of offtakes that are connected at LTS (Local Transmission System) level, as well as connections to other GDNs. It could also describe connections at lower pressure tiers, and                                                                |

| Obligation                                                                                                                                                                    | Applies to | Discussion                                                                                                                                                                                                                                                                                                                                                                                                            |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                                                                                                                                               |            | may also describe planned investments. This information would enable other parties (e.g. NGGT) to produce forecasts at a granularity that can be compared with the offtake-level bookings of the GDN, which should facilitate some independent scrutiny of GDNs' capacity bookings.                                                                                                                                   |
| <b>Engagement</b>                                                                                                                                                             |            |                                                                                                                                                                                                                                                                                                                                                                                                                       |
| Work collaboratively with other networks to establish the booking pattern that maximises efficiency                                                                           | GDNs, NGGT | This would encourage collaboration and problem solving. Situations may arise where the networks need to agree the efficient allocation of scarce NTS resources. Without this obligation, decisions that are inefficient across the whole network (but which remain compliant with the Gas Act duty) could be made.                                                                                                    |
| Enter into dialogue with other relevant (connected) networks to establish efficient level of booking for AOP, flat, flex (or other products facilitated by UNC)               | GDNs, NGGT | This would enable transparency and scrutiny of decision making, and provide assurance that the dialogue between networks is working to establish efficiency. Ofgem would be invited as an observer. Potentially, other interested parties may also wish to observe. If necessary, confidential information could be communicated separately or in suitably anonymised form.                                           |
| <b>Reporting</b>                                                                                                                                                              |            |                                                                                                                                                                                                                                                                                                                                                                                                                       |
| Produce a report detailing the outcomes (i.e. pressure/capacity bookings, network costs/consequences), how the outcomes have been obtained, justifications for deviations and | GDNs       | This provides transparency and auditability and provides a conduit through which any issues and anomalies can be discussed, quantified and justified. It provides assurance that the end-to-end process has been followed, and provides advance notice of the emergence of or growing shortage of network capability (be it upstream in the NTS or downstream in the GDN). This could be a collaborative publication. |

| Obligation                                       | Applies to | Discussion                                                                           |
|--------------------------------------------------|------------|--------------------------------------------------------------------------------------|
| discrepancies (e.g. different 1-in-20 forecasts) |            | There is potentially a linkage to or overlap with the networks' Ten Year Statements. |

## Methodology

- 1.10 A methodology should ensure the transparency of underlying factors and assumptions (eg forecasts, network structure) and describe the steps taken to establish a booking strategy based on these.
- 1.11 Our initial thinking is that the methodology for assessing booking requirements should always consider, inter alia:
- Whether the Assured Offtake Pressures for year T-4 can be reduced
  - What additional flex requirements would be needed to enable a reduction in AOP
  - Whether AOP, flat and/or flex bookings for years T-3, T-2, and T-1 can be reduced (which we would expect to be linked to any reduction in 1-in-20 demand forecasts for those years)
  - The cost implications of different (T-4) capacity booking patterns
- 1.12 We would expect that the booking methodology should establish a number of scenarios. We would expect the definition of a default position, e.g. that an increase of capacity at any particular NTS offtake, from T-3 levels, is not available in T-4<sup>3</sup>, and the identification of the consequences of this (i.e. opex and/or capex, or if no operating or capital solution, the nature of the consequential non-compliance). This would form a baseline counterfactual against which other scenarios could be considered. Other scenarios would be generated to facilitate the discovery of efficient outcomes.

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<sup>3</sup> Where driven by 1 in 20 demand growth, we note the obligation to provide such capacity extends to NTS (subject to their interpretation of 1 in 20).

## Engagement

- 1.13 Our initial thinking is that these meetings would be held annually between each GDN and NGGT, to discuss developments on both networks that could impact on:
- the GDNs' requirements for pressure and capacity; and
  - the ability of the NTS to provide these requirements.
- 1.14 In the absence of price information (recognising that such price information is difficult to produce), we consider that an efficient booking of these products can be achieved by GDNs if they have access to relevant information from NGGT. Whilst the focus of the meetings is to generate efficient pressure and capacity bookings pursuant to the UNC, the meetings should also provide an opportunity to consider a holistic assessment of wider capacity requirements.
- 1.15 It may be necessary to hold multilateral meetings where there are interactions between different GDNs' capacity requirements. These meetings should allow Ofgem to attend as an observer, and it may also be constructive to allow other third parties to attend in a similar capacity.

## Reporting

- 1.16 Our initial thinking is that an annual report would be produced by each GDN, detailing the outcomes of the application of its methodology. The intent of the report would be to provide transparency and auditability around the decisions being made. The report would constitute three parts:
- analysis,
  - interaction with other networks, and
  - final outcomes.
- 1.17 The report should contain explanation and justification of decisions, therefore demonstrating the efficiency (as considered across the gas transportation network) of the final decisions (pressure and capacity bookings).

- 1.18 In respect of the scenarios examined, we would expect to see discussion of the consequences of the scenario in terms of impact on capex, opex, risk and compliance.
- 1.19 Increases in pressure requirements and/or capacity bookings, or not reducing these elements where there is a reduction in 1-in-20 forecasts, would need clear explanation and justification, with appropriate quantification.
- 1.20 We have considered whether NGGT should also produce its own report setting out how the GDNs' bookings have informed its assessment of NTS capacity and the need for any additional investment or other costs. We are interested in views on whether there is a need for this. Framework structure
- 1.21 As set out in the GD Annex, we are proposing to introduce a new licence condition requiring the GDNs to publish an annual report setting out how they have complied with our requirements for efficient booking. The list of enhanced obligations (as agreed on through our engagement with network companies and other stakeholders) would be contained in an accompanying guidance document (to be published by Ofgem) specifying what should be included in the reports.