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Dear David,

**Informal consultation on removing user commitment for Gas Distribution Networks (“GDNs”) booking exit capacity up to and including baseline**

National Grid Gas (NGG) welcomes the opportunity to contribute to Ofgem’s “*Informal consultation on removing user commitment for Gas Distribution Networks (“GDNs”) booking exit capacity up to and including baseline*”. Our organisation sits at the heart of Britain’s energy system, connecting millions of people and businesses to the energy they use every day. We recognise that we have a crucial role to play to ensure efficient commercial arrangements exist in the operation of the gas network to ensure efficiency for end consumers.

Reduction / removal of user commitment for baseline capacity on the Enduring Annual NTS Exit (Flat) Capacity product has been the subject of much discussion in the Gas industry over recent months as part of UNC 0705R “NTS Capacity Access Review”. Therefore, in this response, we initially summarise the background to set the context of the changes proposed to date. Given the subsequent developments in this area we welcome consideration of further change and provide comment in this response on the implications.

**Background**

NGG have been reviewing the user commitment requirements for capacity within baseline contained within the Exit Capacity Release methodology statement over recent months as part of UNC Request 0705R “NTS Capacity Access Review”. User commitment is required when booking the Enduring Annual NTS Exit (Flat) Capacity product to increase the likelihood that efficient network planning decisions are made by having Users make a financial commitment when signalling network requirements. Prior to the review, user commitment was applicable for 4 years, meaning that if capacity is booked through the Enduring Annual NTS Exit (Flat) product, it cannot then be reduced for 4 years following the commencement of the booking subject to the financial value being met earlier. We received feedback, particularly from GDNs that 4 years of user commitment is restrictive, prevents capacity bookings aligning with demand forecasts and therefore inhibits efficient NTS capacity bookings being made.

Historically, in order to meet their 1 in 20 obligations, GDNs have booked the Enduring Annual NTS Exit (Flat) Capacity product to mitigate the risk of the capacity at the exit point at which they are active, being utilised to meet another User’s request for Exit capacity via substitution. In accordance with the Gas Transporter Special Licence Condition 9.17.9, when identifying donor point(s) in response to a request for substitution (which can be triggered through the Enduring Annual NTS Exit (Flat) Capacity product), capacity indicated as being required in the future through Users making a financial commitment is not be considered as available. Therefore, in order to protect capacity at an exit point

which a GDN is active at being used to fulfil a substitution request, GDNs would book this as Enduring Annual NTS Exit (Flat) Capacity in order to ensure their 1 in 20 obligations can be fulfilled. However, the 1 in 20 obligation does not specify that it must be Enduring Annual NTS Exit (Flat) Capacity that is purchased, Annual NTS Exit (Flat) Capacity product could be purchased which does not attract user commitment but which does not afford the same protection against substitution.

In November last year we proposed a reduction to the user commitment required for capacity within baseline from 4 years to 2 years for the following reasons;

- NGG require consistent capacity signals for network planning purposes;
- It provides an element of protection from inefficient substitution;
- 2 years user commitment period will be in line with substitution timescales;
- It will have less negative impact on volatility of charges.

This change is currently being progressed through the review of the methodology statements which is expected to be implemented prior to the Enduring Annual NTS Exit (Flat) Capacity application window in July 2021. This is consistent with our obligations to review the methodology statements every 2 years and in accordance with customer feedback.

In December 2020 Ofgem developed and published their consultation on the Exit Capacity Planning Guidance (ECPG) which post-dated the proposal to reduce user commitment applicable to baseline exit capacity to 2 years. The ECPG introduces a new Licence condition for Gas Transporters to collaborate to ensure efficient NTS capacity bookings are made. Part of this process requires the GDNs to submit demand forecasts with the expectation that these will result in capacity bookings where it is economical and efficient to do so. However, GDNs suggested that with user commitment remaining applicable for capacity within baseline it wouldn't be economic and efficient for them to book the Enduring Annual NTS Exit (Flat) Capacity as bookings could not be reduced if demand forecasts change. Therefore, they are likely to move towards booking the Annual NTS Exit (Flat) Capacity product which is not classified as capacity with associated user commitment, moreover the commitment is to the booking made.

Furthermore, GDNs also questioned the value of the information provided through ECPG if NGG continue to only take into account financially backed information when carrying out substitution analysis. Ofgem guidance stated that the Gas Transporter Special Licence Condition 9.17.9 also includes an "economic and efficient" element, meaning that information provided through ECPG should also be taken into account when carrying out substitution analysis. Following this guidance, and the additional rigour which is now placed around GDN demand forecast through the introduction of ECPG, an addition was made to the Exit Capacity Substitution and Revision methodology statement to state that non-substitutable capacity would also include that indicated as being required through the ECPG processes.

These developments have led to a situation whereby GDNs can protect the capacity at the exit point at which they are active from being used to fulfil a capacity request via substitution through providing demand forecasts as required by the ECPG. However, other Users are required to continue to book the Enduring Annual NTS Exit (Flat) Capacity to protect capacity at the exit point they are active at being used to fulfil a capacity request via substitution.

### **Future change**

Following the recent developments in this area, including the introduction of the ECPG, we recognise the impact of user commitment associated with capacity booked through the Enduring Annual NTS Exit (Flat) Capacity product up to and including baseline levels. It would be useful to understand from Ofgem whether any amendment to the user commitment arrangements would amend user commitment requirements for capacity currently booked or whether it would be limited to future bookings?

Removing user commitment from baseline capacity booked through the Enduring Annual NTS Exit (Flat) Capacity carries the risk that Users may overbook capacity (up to 6 years ahead of the effective date) and then reduce their booking immediately prior to it becoming active with no consequence. This would result in the sterilisation of that capacity and creates a risk to other NTS customers of inefficient substitution decisions being made. The introduction of the ECPG mitigates the risk of this behaviour by GDNs to an extent by requiring demand forecasts to be shared and scrutinised but we recognise that the ECPG contains no consequence for these forecasts being incorrect or for capacity booking not being reflective of demand forecasts. The risk of directly connected customers overbooking capacity and subsequently reducing their booking prior to the capacity becoming effective is user

commitment to baseline capacity was removed for all parties is more acute as there is no driver otherwise. Currently, circa 60% of NTS directly connected customer capacity holdings have been made through the long-term products. Additional uncertainty around capacity bookings and potential increased scope for fluctuations could present challenges around forecasting capacity bookings that underpin capacity reserve prices which need to be set in advance of the Gas Year.

An alternative may be to reduce the user commitment for baseline capacity booked through the Enduring Annual NTS Exit (Flat) Capacity product to 1 year. This would be akin to the Annual NTS Exit (Flat) Capacity product whereby capacity is purchased for an annual period and can be adjusted in the July window year on year according to demand forecasts (i.e. if a User increased their capacity booking in July 2021 for October 2021, they can decrease again in July 2022 for October 2022). Furthermore, 1-year user commitment would tie into the substitution timescale whereby any non-incremental obligated exit capacity that is unsold after 1<sup>st</sup> October Y+2 is deemed substitutable capacity.

By user commitment providing a financial obligation to that capacity, a more stable position regarding sold capacity levels can be established without large variations year on year. 1 year of user commitment would mitigate the risk of Users overbooking capacity to prevent it being used to fulfil a substitution request and then subsequently reducing immediately prior to the booking becoming effective due to the financial obligation which isn't there if user commitment is removed.

In both the Gas Act 1986 and the Gas Transporter Licence there are provisions to ensure there is no undue discrimination. These are relevant if different rules for different Users are considered (i.e. reduction / removal of user commitment for baseline capacity for GDNs only).

Paragraph 9.2 of the Gas Act 1986 states;

*"(2) it shall also be the duty of a gas transporter to avoid any undue preference or undue discrimination –*

- (a) In the connection of premises or a pipe-line system operated by an authorised transporter to any pipe-line system operated by him; and*
- (b) In the terms of which he undertakes the conveyance of gas by means of such a system".*

Standard Special Condition A6, applicable to NTS, states;

*"The licensee shall conduct its transportation business in the manner best calculated to secure that neither –*

- (a) The licensee or any affiliate or related undertaking of the licensee (including, for the avoidance of doubt, any other relevant gas transporter which is also owned by the holder of this licence, the licence for which is held in the same legal entity);*
- (b) Any gas shipper or gas supplier; nor*
- (c) Any DN operator (who has entered into transportation arrangements with other relevant gas transporters)*

*Obtains any unfair commercial advantage including, in particular, any such advantage from a preferential or discriminatory arrangement, being, in the case of such an advantage accruing to the licensee, one in connection with a business other than its transportation business".*

These conditions ensure there are no undue discriminatory arrangements. There are differences between GDNs and directly connected customers, namely;

- GDNs do not have a commercial interest per se;
- GDNs have a 1 in 20 obligation with an implication on security of supply if NTS Exit capacity cannot be obtained whereas there is a commercial implication for directly connected customers if they are unable to obtain required NTS Exit capacity;
- There are currently differing rules for GDNs as opposed to directly connected customers (e.g. flexibility and pressure arrangements)
- GDNs are subject to the ECPG requirements to provide demand forecast and justifications for changes which directly connected customers are not.

However, removing or reducing user commitment solely for GDNs would mean different rules are applied to GDN connected customers as opposed to NTS connected customers. For example, a GDN connected power station would be protected from capacity being used to fulfil a substitution request as per the ECPG process, whereas an NTS connected power station would be required to book capacity to protect against substitution. This could impact future investment decisions (i.e. it may become more attractive for a new party to connect to the GDN rather than NTS).

If Ofgem did deem it appropriate to apply different rules to different classes of Users in the context of user commitment applicable to baseline exit capacity, we would encourage Ofgem to consider the implications of this interpretation of the non-discrimination provisions in the context of the wider regime.

If there are any queries regarding this response, then please contact myself or Jennifer Randall (Jennifer.randall@nationalgrid.com).

Yours sincerely

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