



Making a positive difference
for energy consumers

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Dear Chris,

Decision on the Entry Capacity Release Methodology Statement ('ECR') (Special Condition 9.18 of National Grid Gas plc ('NGG') Gas Transporter Licence¹ (the 'licence'))

Thank you for submitting the proposed modifications to the ECR to us² for approval on 27 January 2023.³ The proposed revisions were submitted in your consultation report⁴.

We have decided not to approve the proposed revisions to the ECR, and we have outlined our reasons for doing so in this letter.

Revision of the ECR in accordance with Special Condition 9.18.10 of the licence

Special Condition 9.18.10 of your licence provides that you must, if so directed by the Authority, and in any event not less than once in every period of two regulatory years,

¹ The link to the National Grid Gas Plc ('NGG') Gas Transporter Licence is here: <https://epr.ofgem.gov.uk/Content/Documents/National%20Grid%20Gas%20Plc%20-%20Special%20Conditions%20Consolidated%20-%20Current%20Version.pdf>

² The terms "the Authority", "Ofgem", "we", "us" and "our" are used interchangeably in this letter

³ This includes NGG's consultation report.

⁴ The consultation with relevant stakeholders ran between 9th December 2022 and 13th January 2023, and nine responses were received. The responses and the revisions proposed (pursuant to Special Condition 9.18.11(c)) are available at the following link: <https://www.nationalgrid.com/uk/gas-transmission/capacity/capacity-methodology-statements>

review the ECR. As part of this review, you have proposed changes to reflect the risks of potential high constraint costs at Milford Haven over Summer 2023 and have requested the ability to withhold capacity where, in respect of any given gas flow day, circumstances arise in which NGG foresees a capacity constraint occurring.

Special Condition 9.18.11(d) requires that before revising an ECR statement, the licensee (NGG) must submit to Ofgem, alongside its report, a statement from an Independent Examiner:

- a. confirming that the Independent Examiner has carried out an examination, the scope and objectives of which were approved by Ofgem; and
- b. giving an opinion on whether the capacity release methodology statement as revised would be consistent with the licensee's duties under the Gas Act 1986 and with the licensee's obligations under the Licence.

We note that you have not provided such a statement, nor requested a derogation from the need to do so as provided by Special Condition 9.18.16.

Background and reasons for change

Last year, changes were introduced⁵ to limit the amount of capacity released at the Milford Haven entry point over the summer of 2022. These changes were intended to mitigate against what was suggested could be extremely high potential constraint costs that might have arisen if constraints did occur as a result of high LNG flows.

Despite high levels of export of gas to Europe throughout summer 2022, Milford Haven flows were significantly below the restricted level of capacity. NGG has calculated that on average 30% of the restricted quantity of capacity remained unsold in the period between beginning of June and end of September when capacity was withheld⁶.

NGG has said that it has no certainty of flows in summer 2023, nor any firm capacity bookings placed in that time period. Whereas very high LNG flows did not materialise last summer, NGG thinks that there are additional reasons to believe that the risk it identified in 2022 will persist into Summer 2023.

⁵ <https://www.ofgem.gov.uk/publications/decision-entry-capacity-release-methodology-statement-held-national-grid-gas-plc>

⁶ See NGG's consultation cover letter: [Formal Consultation Cover Letter Substitution 1.0 \(nationalgas.com\)](#)

Exports to Europe have remained high since April 2022 and NGG believes that Great Britain ('GB') will continue playing an important role in supporting Europe in filling storage ahead of winter 2023/24. It thinks it is likely that we will continue seeing more LNG being delivered to GB to support interconnector flows to Europe. The supply of gas from Norway and the UKCS also increased during the summer in 2022 to facilitate the additional European demand.

The Norwegian Transmission System Operator, Gassco, released its summer 2023 maintenance plans at the beginning of November⁷. According to these plans, there are going to be periods of reduced GB gas supply in summer 2023 between Norway and St Fergus due to pipeline maintenance. Although the reduction in pipeline supply from Norwegian fields to St Fergus is likely to mean that Norway will step up the production elsewhere, NGG has stated that it is unclear whether that gas would be delivered to GB. NGG therefore anticipates that the market will respond to any potential reduced Norwegian supplies in the most commercially efficient way and as LNG operates flexibly, NGG believes it is reasonable to anticipate that any reduction in Norwegian supply will mean an increased number of cargoes being delivered to GB when the additional demand is needed.

NGG believes that the risk of LNG flows exceeding network capability at Milford Haven over the summer is therefore real and it calculates that if the flows from Milford Haven exceed physical network capability for an extended period of time, this will result in NGG taking frequent constraint management actions. It calculates that the costs of these constraint actions could quickly run up to millions of pounds in such circumstances.

NGG Consultation on revisions to the ECR

NGG submitted its consultation report to us on 27 January 2023. NGG received nine responses to its consultation, some of which were marked as confidential. The non-confidential responses are available on NGG's website.⁸ Seven respondents opposed the proposed revisions, one expressed support and one provided comments on the proposed changes to the ECR. NGG has published its joint response document in which it addresses the comments received via the responses to its consultation. This is also available on NGG's website.

⁷ [Gassco UMM](#)

⁸ www2.nationalgrid.com/uk/industry-information/gas-capacity-methodologies/

NGG consulted on introducing the following changes to the ECR, amending paragraph 74, which refers to NGG's right to withhold capacity in a scenario where it foresees a constraint:

*74. Where, in respect of any given Gas Flow Day, circumstances arise in which National Grid foresees a capacity constraint occurring at an ASEP, National Grid may withhold capacity from sale for that ASEP in DSEC auction. **Furthermore, National Grid may also withhold capacity from an ASEP in WSEC or RMTNTSEC auctions in the period between 1st May 2023 to 31st September 2023 at the Milford Haven ASEP – such quantities may subsequently be released in part or in full in the WSEC or DSEC auctions. In all cases the quantity withheld will be limited to that which National Grid considers necessary to avoid the constraint or to avoid increasing the extent of the constraint, and hence to avoid, or limit, the cost of any actions needed to manage the constraint.***

Under the proposals consulted on, NGG may withhold sale of daily capacity (which includes day ahead release) in a scenario where it foresees a constraint could arise. NGG outlined in its consultation letter the need for a temporary provision to allow NGG to extend the ability to restrict the release of capacity to the weekly WSEC and rolling monthly RMTnTSEC auctions, in a situation where a specific longer-term constraint is forecast should the full baseline be made available. NGG believes that this is only required at the Milford Haven entry point for the period between 1st May and 30th September 2023. If the specific system conditions allow, NGG 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 its system capability for its customers. This is similar to the changes to the ECR which were implemented in 2022.

Changes in your amended proposal to AMSEC, WSEC and RMTnTSEC, to allow capacity to be withheld

In its amended proposal NGG has proposed replacing paragraph 74 of the ECR with the following:

74. Where, in respect of any given Gas Flow Day, circumstances arise in which National Grid foresees a capacity constraint occurring at an ASEP, National Grid may withhold capacity from sale for that ASEP in DSEC auction. Furthermore, National Grid may also withhold capacity from the AMSEC auction and some RMTnTSEC, WSEC and DSEC auctions in the period between 1st May to 30th September 2023 at the Milford Haven ASEP on the following basis⁹:

- *In Annual Monthly System Entry Capacity (AMSEC) and Rolling Monthly Trade and Transfer System Entry Capacity (RMTnTSEC) auctions:*

⁹ In line with ECR amended proposal as published in the NGG's Joint Response to ECR Consultation

- *Firm NTS Entry Capacity release will be reduced to network capability levels¹⁰ (less any sold Firm NTS Entry Capacity) in months affected by Gassco maintenance¹¹ (including where such maintenance is moved)*
- *Should the Gassco maintenance be rescheduled or cancelled with sufficient notice prior to the relevant auction, and the change be applicable to the whole auction period, Firm NTS Entry Capacity will be released up to Licence Baseline Entry Capacity (less any sold Firm NTS Entry Capacity) in the applicable month/s.*
- *In Weekly System Entry Capacity (WSEC) auctions:*
 - *Firm NTS Entry Capacity will be released up to Licence Baseline Entry Capacity (less any sold Firm NTS Entry Capacity) for the weeks not affected by Gassco maintenance (including where such maintenance is moved)*
 - *Firm NTS Entry Capacity release will be reduced to network capability¹² (less any sold Firm NTS Entry Capacity) in weeks affected by Gassco maintenance (including where such maintenance is moved)*
 - *Should the Gassco maintenance be rescheduled or cancelled with sufficient notice prior to the relevant auction, and the change be applicable to the whole auction period, Firm NTS Entry Capacity will be released up to Licence Baseline Entry Capacity (less any sold Firm NTS Entry Capacity) in the applicable week/s.*
- *In Daily System Entry Capacity (DSEC) auctions:*
 - *Firm NTS Entry Capacity will to be released up to Licence Baseline Entry Capacity (less any sold NTS Entry Capacity) for the days not affected by Gassco maintenance*
- *In instances when the weekly and day ahead capability assessment indicates a higher capability, then National Grid will release Firm NTS Entry Capacity up to the higher capability level (less any NTS Entry Capacity sold), for days affected by Gassco maintenance*
- *In all cases, any additional capacity released due to higher week ahead and/or day ahead assessments will be limited to a level which National Grid considers will not introduce any undue constraint risk or associated cost exposure for customers.*

Under its amended proposal, NGG may reduce the level of baseline capacity offered in the AMSEC, as well as the RMTnTSEC to the network capability levels and may also withhold capacity in the WSEC and DSEC auctions in the period between 1st May to 30th September 2023 at the Milford Haven in the manner set out. It will aim to release capacity up to baseline entry capacity levels outside the periods affected by the Gassco maintenance outages but may adjust these if the Gassco maintenance periods change. This is very different to the changes to the ECR which were implemented in 2022, and attempts to align the periods of capacity reduction to the Gassco maintenance outages rather than reducing the levels of capacity release throughout the whole summer.

Respondents to NGG's consultation expressed a number of concerns

Concerns about the impact on the wholesale gas market

¹⁰ As published in the NGG's Joint Response to ECR Consultation

¹¹ For clarity, Gassco maintenance with potential Easington impacts only i.e., where affected assets are Nyhamna and Kollsnes as per [Gassco maintenance website](#)

Some respondents stated that the Milford Haven entry capacity reductions implemented in May 2022 resulted in cargo deliveries being cancelled or diverted due to the uncertainty over entry capacity availability and associated bookings. This was further supported by comments regarding more comprehensive analysis of the impact of less LNG being delivered on the wholesale gas price to be considered against the cost of potential constraint management actions.

Concerns about NGG's analysis

Some respondents thought NGG had used flawed assumptions in its cost of constraint analysis. They argue that the calculation of potential constraint costs was unrealistic and biased towards a very worst case scenario, and that using historic data as a proxy to estimate cost of locational sell and buy actions is flawed in the current market conditions. Furthermore, a number of respondents stated that the constraint volume is unlikely to be at levels of 22mcm/d on an enduring basis. The view expressed was that the consultation lays out an extreme view, and not a realistic one.

Concerns that NGG was passing risk onto shippers and end consumers

Some respondents thought that NGG's proposal would serve to pass risk onto shippers and end consumers and queried how costs arising from constraints would be incorporated in charges and reflected in customers' bills.

Concerns about long term impacts

Respondents said that entry terminals were built on the expectation that baseline capacity would be available throughout the year. They assert that implementation of this proposal will reduce investor confidence and wanted to know how NGG is going to manage this problem in the long term.

Concerns about interactions with Isle of Grain

Respondents felt that Milford Haven terminals are being put at a competitive disadvantage compared to the Isle of Grain terminal if the proposal is implemented. Summer 2022 was the first summer period for which NGG had not published lower capability at the Isle of Grain entry point since 2016.

Interactions between the licence, the UNC and the methodologies

Some respondents highlighted that there are potential regulatory inconsistencies within and across NGG's licence, the UNC and methodology statements. It is believed that these should be addressed in the future. There is no opportunity for parties to raise alternate solutions when changes to capacity release methodologies are proposed.

Our view

All of the respondents' views are comments on NGG's unamended proposal and we note that NGG has attempted to address some of these in its joint response document of 27th January 2023 and has also taken some comments on board in adapting its proposal significantly. As the respondents' views are not in relation to the proposal NGG has asked us to consider, these views are now outdated and hence we will not comment on these specific views. We would be very interested to hear from all interested parties on their views of the revised proposal, whether they consider it a workable solution, if not, how it could be modified to make it a workable solution and whether they have any new views or further information to inform any future decision on changes to the ECR which NGG may propose.

Our view of NGG's amended proposal

The proposed changes to the ECR that you submitted to us for approval on 27th January 2023 are materially different from those which you consulted on, namely:

- You have made changes to allow capacity in the Annual Monthly System Entry Capacity (AMSEC) to be withheld, in addition to the auctions that you included in your consultation.
- You have altered the period over which capacity is to be withheld in the rolling monthly RMTnTSEC and weekly WSEC auctions, and separated the amount of weekly and monthly capacity that you propose to make available.
- You have indicated that you may seek to change the quantities of capacity being released if the Gassco maintenance outage dates change.
- You have indicated that you still need to work up a mechanism for implementing the revised proposal and communicating the quantities of capacity to be withheld/released.

We recognise that you presented your amended proposal to industry via a webinar on 25th January 2023. Shippers and interested parties had only one day's notice of this and would have had little opportunity to form any meaningful views.

On 27th January 2023 you made available your joint response to the ECR consultation and the amended proposal and invited "further engagement on the topic via the industry meetings and direct correspondence in the near future." We note that no interested party

has had an opportunity to respond with comments on your amended proposal before it was submitted to us for decision.

The licence also requires that any proposed changes to the ECR are accompanied by a report from an independent examiner and we note that you have not submitted such a report nor sought a derogation from us on the requirement to do so.

Whereas we believe that there are some merits in your amended proposal, which is a significant improvement on the proposal you consulted on, we are unable to fully assess it given the absence of comments or views from industry and parties that may be directly affected.

We understand that a major driver of the short timescales employed submitting your proposal to us after consultation, is the upcoming AMSEC auction. We understand that there is a possibility that capacity up to baseline levels, could be bought by shippers, which would result in capacity holdings which were above the capability levels in some summer months. There is therefore a hypothetical risk of shippers nominating to flow at this level, if the capacity is sold, which could result in a constraint occurring.

In our view this risk is low. Historical flows over the summer months have not reached such levels. Critically, the experience of last summer does not support this view. In 2022, capacity released was limited to levels at or around the capability level and there was considerable pressure to increase the numbers of LNG cargoes coming to GB to support exports to Europe. Despite these unusual circumstances, the situation did not result in capacity selling out nor in flows getting very close to the level of capability in the network at Milford Haven. Discussions between ourselves and industry have confirmed that it is not in the interests of shippers and LNG operators to generate a constraint and prevent cargoes from unloading.

For these reasons we are not approving NGG's proposed revisions to the ECR.

Our Decision to reject revisions to the ECR in accordance with Special Condition 9.18.12

Following consideration of the documentation you have provided pursuant to Special Condition 9.18 of the licence, we have decided not to approve the proposed revisions to the ECR in accordance with Special Condition 9.18.12. We believe that the amended proposal you have submitted to us should be fully explored and we would urge you to:

- re-consult on the proposals for withholding capacity,
- engage with industry to identify a means of implementing such a proposal and notifying interested parties about capacity release levels in good time, and
- address the requirement for any revision to the ECR to be accompanied by a report from an independent examiner

This letter has been made available on our website. You can contact Joseph Glews or Alsarif Satti at Gas.TransmissionResponse@ofgem.gov.uk if you have any further questions about this decision.

Yours sincerely,

Dr Adrian Richardson
Head of Energy Security of Supply