

**National Grid Gas NTS response to the Ofgem consultation  
“Initial thoughts on the reform of interruption arrangements on gas  
distribution networks”**

**Executive Summary**

We welcome the opportunity to respond to Ofgem’s consultation on “Initial thoughts on the reform of interruption arrangements on gas distribution networks”. This response is written on behalf of National Grid Gas plc in its capacity as the holder of a gas transporter licence in respect of the National Transmission System (“National Grid Gas NTS”).

We support Ofgem’s desire to reform the current DN interruption arrangements to allow GDNs the choice to decide whether they require interruptible services and to encourage users to provide better long term signals in respect of their need for investment in network capacity. However, we consider that such reform should not be undertaken in isolation of development of the enduring NTS offtake arrangements. This will require development of coherent regimes (including NTS and DN incentives and pricing arrangements) to ensure the right balance between investments and use of interruptible services across both transmission and distribution networks.

**Chapter 2. Principles for reform**

**Question 1. Has Ofgem identified the key weaknesses of the current interruption arrangements for GDNs?**

We broadly agree with the following identified key weaknesses in the current GDN interruption arrangements, specifically that: -

- GDN’s have a lack of control of the amount and location of interruption – as a principle we believe that transporters should not be obliged to offer services that are not required;
- the ability for users to switch from firm to interruptible status at one years’ notice could, in the extreme, result in inefficient investment;
- the current regime takes no account of the value that end consumers place on being able to continue to offtake gas.

In addition, we consider a key weakness in the current arrangements is that there are limited mechanisms for GDNs to ensure efficient trade-off between interruption and investment in their own networks and purchase of NTS offtake capacity from National Grid Gas NTS.

**Question 2. To what extent do interested parties consider the current arrangements have significant strengths, and if so, what are these strengths?**

We consider that the simplicity of the current interruption arrangements has been a key strength of the regime which has been valued by shippers and consumers.

**Question 3. Do you agree with Ofgem’s key principles for reform?**

We broadly agree with the identified key principles for reform, specifically that: -

- GDN's have freedom to contract for the interruptible services that they require and that users are able to signal the terms on which they are willing to provide such services;
- users provide better long term signals in respect of their need for investment in network capacity to support efficient and economic system development by the GDNs;
- competition is promoted, where possible, in the provision of interruptible services.

### **Chapter 3. Implementing reform**

#### **Question 1. To what extent do respondents consider that the model so far developed by the GDNs meets Ofgem's principles for reform?**

We consider that the model developed by the GDNs is consistent with Ofgem's principles for reform, however we note that the model requires further development, specifically in respect of how it aligns with the NTS enduring offtake regime.

#### **Question 2. Has Ofgem identified all the key interactions with the enduring offtake reforms for the NTS?**

We consider that it is essential that changes to the GDN interruption arrangements take account of, and are compatible with, the NTS enduring offtake regime that is currently being developed as part of the Ofgem Enduring Offtake Working Group.

We note that the GDN's decisions about requirements for NTS offtake capacity and interruption services on their own networks are inter-related. In respect of the order in which GDNs undertake such activities, we consider that it would be preferable for GDNs to seek to ascertain the level of user's desire to offer interruptible services within their own network before purchasing NTS offtake capacity. This would ensure that NTS offtake capacity is only requested where DNs consider it to be efficient and economic to do so.

We note that this implies a direct interaction between the timescales for reform of the DN interruption arrangements and NTS enduring offtake reform. Depending on progress with development of the UNC Modification Proposals for such regime changes, we consider that the timescales for implementation of both regime changes should be kept under continual review.

The simultaneous development of the DN interruption arrangements and enduring NTS offtake reform is also likely to require changes to the same IT systems utilising the same resources within Xoserve. Clarity of timescales and the order of system releases will therefore be critical to the successful parallel implementation of such reforms.

We also note the important interaction of setting DN incentives in respect of the efficient functioning of the NTS enduring offtake regime, which we comment on under chapter 4.

### **Chapter 4. Incentives for the GDNs in the next price control**

**Question 1. What is the appropriate form of an incentive on GDNs for the purchasing of interruption?**

We consider that a specific incentive should be set for the costs of interruption on the distribution network rather than including a cash allowance within the overall RPI-X price control. This would allow protection for GDNs through appropriate setting of caps and collars under the incentive regime from costs beyond its control.

**Question 2. Do respondents support the continuation of a similar incentive to the transitional incentive for GDNs purchasing of NTS offtake capacity?**

We consider that GDN's purchasing of NTS offtake capacity should also be part of an incentive arrangement for the same reasons as stated above in respect of purchasing of interruption services.

We note that the current incentive arrangements are based on a single mechanism for the purchase of both NTS flat and flexibility capacity based on the prevailing out-turn price of NTS exit capacity. We consider that this aspect of the incentive arrangement will require review dependant of the finalisation of the capacity products that National Grid Gas NTS will offer and the charging arrangements under the enduring NTS offtake arrangements.

In addition, we note that the current arrangements in respect of the transitional exit regime do not apply to short term purchases of NTS offtake capacity. This includes both day ahead and on the day capacity releases. This arrangement could lead to DN's under-booking their long term capacity requirements and paying effectively a lower price than that which would reflect the cost should explicit investments be required to support such capacity provision.

Expanding the DN incentive to include all purchases of NTS offtake capacity may encourage longer term bookings and thereby provide more efficient investment signals to National Grid Gas NTS. However, we note the importance of ensuring coherence between the NTS exit product definitions, DN interruption regime, NTS and DN pricing and incentives regimes to deliver efficient outcomes reflecting both shorter and longer term consumer benefits.

We welcome the opportunity to comment on more detailed proposals in respect to DN incentives as part of the Gas Distribution Price Control.