

28th July 2006

Mr. Robert Hull,
Director, Transmission,
Office of Gas and Electricity Markets (Ofgem)
9 Millbank,
London,
SW1P 3GE

Reference: Response to Transmission Price Control Review: Initial Proposal Consultation

Dear Mr Hull,

Thank you for the opportunity to comment on the consultation document “Transmission Price Control Review: Initial Proposals”, Ref:104/06. We make these comments in our capacity as operator of the network downstream of the Moffat exit point.

Following our response to previous consultations, we remain concerned that the proposals for NTS exit reform could have adverse impacts on arrangements at and downstream of the Moffat exit point. We would urge that the generic proposals for exit reform should adequately take account of the need for robust arrangements at offtakes such as Moffat. We believe that the proposals need further development in order to help facilitate the planning and operational processes necessary for the efficient onward transmission of gas to downstream consumers under three separate regulatory jurisdictions. We welcome the continued opportunity to discuss this with you. We explain our thinking in more detail below.

The case for change – draft impact assessment

Our fundamental concern is that NTS users at Moffat are not best placed to signal forward capacity requirements and therefore the proposed user commitment model may not, in the case of Moffat, realise the intended benefits of improved security of supply and reduced stranded assets. It is obviously for Ofgem to judge whether the same applies at any other NTS offtakes.

Whilst noting Ofgem’s reasons for excluding from its quantitative analysis the costs incurred by jurisdictions external to Great Britain, we nevertheless believe that more account should be taken of the practical and efficiency implications of the proposals for cross-border trade and downstream jurisdictions.

Finally in connection with the impact assessment, we do not believe it properly takes account of the implications of a flexibility capacity product, simply because there is as yet insufficient definition to allow a conclusive assessment to be made (see later).

Timescales

We are concerned at the limited progress made in terms of adding important detail to the high level description in the March document, but appreciate some of the difficulties faced in this regard. This leads us to the view that progress towards a model from which UNC modifications can be drafted has been limited. This is of particular concern as we can only assess and mitigate the impacts at and downstream of Moffat once we have clarity on the shape of NTS exit reform. We fear that we may be left with insufficient time to develop and implement appropriate and robust downstream arrangements. We urge Ofgem to take proper account of this and develop a clear timetable, setting deadlines for finalisation of the detailed model and UNC drafting, and allowing sufficient time for parties to address the consequential changes to the downstream arrangements, in which neither Ofgem nor National Grid are directly involved. It should be clear that if deadlines are not met, then the process should be re-scheduled, rather than compressing the time available for finalising downstream arrangements.

Flexibility capacity

The document highlights the ongoing debate on product definition and places caveats in many areas (for example baselines) around amendments to the proposals resulting from resolution of the flexibility product definition issue. It highlights the benefits of a combined “expanding” product relative to a two product model but apparently does not anticipate any radical departure from the products discussed earlier.

We are concerned that the continuing industry debate over the highly complex treatment of a flexibility product is delaying the all-important task of setting baseline figures. We urge Ofgem to give

careful consideration to simpler alternative treatments of this issue. We also recommend that if the flexibility issues cannot be resolved in a reasonable time period, which allows for the necessary framework at Moffat to be established subsequently, the introduction of flexibility should be deferred.

Baseline setting

As you will appreciate, it is essential for BGE as operator of the downstream pipeline system to have a clear understanding of both long and shorter term capacity availability at Moffat. Therefore baselines, baseline substitution and capacity transfer rules are very important issues for BGE, both from an operational perspective and in terms of our downstream statutory obligations.

We support the aspiration to set baselines which mirror as far as possible the physical capability of the system at exit. However, we have insufficient information on the methodology used to determine practical physical maximum capacities to comment on the extent to which this has been achieved. We believe that National Grid should provide further detail on the methodology in order for us to comment in full. We are also concerned that the transitional baseline figures remain indicative and would appreciate confirmation from National Grid that there will not be large changes to the indicative figures as a result of the coming update to the Ten Year Statement.

We support the concept that the enduring baselines should be consistent with the transitional baselines. However, we are concerned at the caveats placed around baseline numbers for the enduring arrangements, and the absence of any clear indication as to the likely difference between the enduring baselines and the indicative transitional baselines:

‘..it is our initial proposal that enduring baseline numbers should be consistent with the nodal baselines specified for the transitional period.....with adjustments to ...reflect the proposed product definitions for the enduring period....’¹

‘For the enduring period, baselines will have the same level, but will need to be revised to reflect the new definition of the flexibility product proposed by NGG NTS once this has been determined. Depending upon NGG NTS proposals, this could result in either a single set of baseline numbers or separate baselines for "flat" and "flexible" capacity. We propose to publish such data as soon as is possible.’²

We would appreciate an early indication from National Grid as to the likely scale of potential “adjustments” to reflect product definition.

¹ Appendix 16, Paragraph 1.69

² Appendix 16, Paragraph 1.117

Baseline substitution

It is also essential that we have clear understanding of how the baseline at Moffat, once established, may be adjusted. Our understanding of the substitution proposals is that the baseline at Moffat can only be reduced if National Grid is requested by shippers to make available capacity at another node (in excess of baseline at that node) and such additional requirement is booked by shippers. We note the current document adds some helpful indications of the high level governance processes Ofgem envisages for such changes and we request early sight of the methodology National Grid will be using. We suggest that this should include a requirement such that any reduction in the baseline at Moffat being considered by National Grid, is advised to the downstream operator well in advance of the reduction taking effect.

We believe it would be helpful if the substitution process was made as transparent as possible. We do not think this will be the case where substitution and the associated exchange rates are only considered after the long term capacity allocation processes are completed. We therefore suggest that National Grid makes information available beforehand regarding the potential for substitution, consistent with Ofgem's stated goal of 'increasing the transparency of the offtake arrangements'³ In particular we recommend that fair and transparent rules are put in place to determine from which Nodes capacity will be taken to meet any Shipper requests.

At this stage we would appreciate an indication of the likely impact at Moffat of the proposed substitution rules. Some worked examples of substitution across various sectors of the NTS would be very helpful, providing an insight into the likelihood of substitution and the associated exchange rates. Likewise, it would be helpful to review the impact of typical entry investment at various terminals on the exit capacity baselines for impacted offtakes. We take it that entry investment will only give rise to potential increases (as apposed to decreases) in exit baselines.

Pricing

We would like to understand better the basis for capacity pricing. Whilst the initial proposals set out the allocation processes for firm capacity acquired beyond and within investment lead times, and shorter term day ahead and within day firm and interruptible capacity processes, there is little detail on how the capacity will be priced.

We would like more information on the proposed basis for charging, in particular for existing and incremental long term capacity, and the reserve prices for medium and short term capacity, including

³ Appendix 16, Paragraph 1.41

non-obligated and interruptible capacities. Further, we would like to see the likely effect on prices of introducing both “flat” and “flex” capacity products. In addition to understanding the basis for the charges, we would like to see indicative prices for all products. These are required to feed into of our assessment of the impact of exit reform at Moffat.

Non obligated and interruptible capacity release

We would welcome further information on the “discretionary” basis on which National Grid will release non-obligated capacity. We agree with Ofgem that ‘discretionary release should be in accordance with transparent principles enshrined within a publicly available document’⁴ but suggest that this be extended to all non-obligated capacity, not just interruptible. We would value early sight of the principles National Grid is developing in this regard. We would also like to understand the basis for determining UIOLI interruptible release quantities.

We hope you find our response helpful. We would be happy to meet with you to discuss any aspect further.

Yours sincerely,

Jack O’Connell
Shipper Services Development Manager

⁴ Appendix 16, paragraph 1.97