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Dear Robert,

## **Response to Ofgem Information Request on the availability of NTS exit flexibility capacity**

Thank you for the invitation to respond to the Ofgem note on the information request on the availability of NTS exit flexibility capacity as published on 29<sup>th</sup> January 2008. We note your comment that there will be further opportunities to comment through the Mod 0116 Assessment process. However we would like to make some comments at the earliest opportunity, although in the short time available these have had to be necessarily brief. The response is sent on behalf of National Grid Gas Distribution.

We have structured our response to include some high level comments and then covered four broad areas:

- a) The projected availability of flow flex
- b) the projected demand for flow flex capacity
- c) the projected utilisation of flow flex
- d) the tools that could be used to resolve the problem.

### **High Level Comments**

At the outset we would like to state that in our view the note presents an unnecessarily pessimistic outlook for the demand, utilisation and availability of flow flexibility. Our concern is that an artificial assessment of scarcity would drive unnecessary investment in networks which would result in increased costs for customers.

We have two other concerns that are not directly related to the published document, but are included for completeness. Firstly, there is a risk that this artificial scarcity will be exacerbated if a regime materializes (from as early as 2008) whereby flow flexibility could become available at a very low (zero) price and that there will be little incentive not to hoard this capacity. We commented on this in our response to the GDPCR Updated Proposals on 22 October 2007 and this is discussed further under the heading of projected demand for flow flex capacity.

Our second concern is with flow flex as presently defined and the perversity this creates. We understand that the product is being defined to prevent undue NTS linepack depletion and yet by taking actions (especially within day – see section on tools) in response to flow flex over-runs, it can be seen that utilization will actually increase. This perversity raises fundamental concerns about the definition of the product and how its use affects the NTS.

### **The projected availability of flow flex**

The analysis takes a narrow view of the availability of flow flex. For instance it does not take account of the flow flex that could be made available if LNG plant were incentivised to flow in the early part of the day. Such a regime would have the benefit of being able to provide a credible reference price for flow flex. Also, there must be considerable amounts of flow flex that could be provided if the linepack in offshore pipes and plant could be accessed. Clearly, it is in the interests of customers that the required storage is obtained in an economic manner and no assets should be deemed "out of scope" in providing storage.

We note that the analysis suggests that the backloading of supply flows can reduce the availability of flow flex. Whilst we can see that this can cause a problem this is really outside of the control of the DNs and we believe any costs arising from this behaviour should be focused on to those causing the problem. Ultimately this issue could be solved by a within day balancing regime or the introduction of an analogous product to flow flex i.e. terminal operators could be incentivised to profile flows.

### **The projected demand for flow flex capacity**

We feel that the data presented in response to question 3 has been misunderstood and has led to an inaccurate conclusion. Whilst we cannot comment on the data supplied by the other DNs we feel our experience in the OCS process could account for some of the discrepancies in this section. Our comments are summarized in bullet point form:

- Our July 2007 OCS submission to NTS was misunderstood and as result we were overallocated flow flex - in itself this overallocation would tend to indicate that flow flex is currently not scarce
- We did not submit a revised request but clarified the misunderstanding and received a (lower) full allocation
- The data presented in the graphs in Appendix 4 shows the misunderstood request and therefore an inflated requirement for flow flex capacity
- We do not understand the figure of 28.49 mcm for 2011/12 presented as a revised UNC Section B request. Our submission was in line with that for the previous years 2007/8 – 2010/11. Having discussed this with NTS since the publication of this information we can confirm that our request has been overstated by some 6 mcm – again we cannot comment for the other DNs
- Having established the 28.49 mcm figure for 2011/12 is incorrect we can also confirm that we have not altered our bookings due to interruption reform, which NTS suggested might be the cause of the increase.

In terms of demand we also have a high level concern at the proposed regime for 2011 onwards. As we understand it the proposal is that flow flex will be made available at a low (zero) price to DNs in the 2008 booking round for 2011. Whilst we understood that this might be the case we also believed that there would be an anti-hoarding mechanism e.g. that DNs could not request an increase of flow flex of more than 10% year on year. If this is not the case this is likely to result in a rush to acquire flow flex as free storage. Whilst the present incentive regime has limitations it does provide a price for flow flex that penalises inefficient booking and therefore hoarding.

### **The projected utilisation of flow flex**

We are concerned that part of the evidence supporting the view of scarcity of flow flex at 2012/13 has been arrived at by projecting forward six years historical data to 2016/17. We would question the statistical validity of this analysis and feel it would benefit from further scrutiny. NTS argue that the winters have been warm and that the projection would be more severe to account for a 1 in 20. However, the mild weather of recent years suggests that it may be timely to review whether it is still appropriate to base the 1 in 20 standard on data going back to circa 1928. We are also concerned at the accuracy of a projection forward for 9 years based on only six years data.

Also, the data does not take account of within day demand variations because the present definition of flow flex does not take account of this. If DNs reduce their intakes within day due to a falling demand forecast then this is currently deemed to be flow flex. However this action does not deplete NTS linepack and it is the action that NTS would expect i.e. DN intake flows to follow demand.

We believe that utilisation could be looked at more fundamentally. Namely that, given fairly static demand levels, there are two main drivers for flow flex bookings: the closure of gas holders and CCGTs closing down overnight. Both of these drivers have an upper bound i.e. all gas holders have been closed and the whole daily swing in electricity consumption is taken on CCGTs. Therefore, rather than projecting forward on the graph, we suggest looking at the worst case scenario and considering what additional storage would be needed on the gas system. This is likely to be a one-off process and hence it may be more appropriate to accommodate it via a planned approach rather than a market mechanism.

### **The tools that could be used to solve the problem**

Our overriding concern in this area is that out of the tools presented only OCM locational trades would help to relieve a flow flex capacity constraint. The adherence to NExA terms do not apply to DNs. Furthermore, it should be noted that whilst interruption and load shedding (within day) will help manage falling NTS pressures, perversely they will actually tend to increase the amount of flow flex deemed to have been taken by DNs. This latter point highlights the doubt that must be placed on the flow flex product as defined.

In terms of Offtake pressures DNs are only really concerned that they have their own linepack systems fully pressurised at 0600. Therefore NTS could allow offtake pressure to fall at peak and this would only affect the DNs if the pressure fell so low as to limit the volume of gas that we were able to take off the NTS.

An important additional point in this area is that in planning time scales it is not clear whether the scale back of requests refer to just incremental flex or that already pre-booked. We would strongly oppose the latter as we could lose capacity that had already been allocated to us and we needed to demonstrate 1 in 20 compliance.

I hope you find this response helpful. If you wish to discuss any of these comments any further, please do not hesitate to contact me.

Yours sincerely

***By Email***

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