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Dear Bob

Information request on the availability of NTS exit flexibility capacity

I am writing in response to your letter dated 29th January which accompanied the publication of National Grid Gas (NGG) National Transmission System's (NTS) response to Ofgem's information request on the availability of NTS exit flexibility capacity (flex).

We welcome the publication of the analysis and believe that it is a helpful step towards gaining a better understanding of the issues surrounding the forecast availability of flex. It would also be helpful to have further, detailed analysis on a zonal basis. However, we are conscious that NGG is the only party that has access to historical and forecast flow patterns and capacity utilisation as well as their own detailed forecast investment plans that enables it to carry out this analysis. As such, it is very difficult for third parties to comment meaningfully on the analysis that has been provided. Our comments, and we believe those of other third parties, are therefore necessarily limited which mean that scrutiny of the analysis by Ofgem and appropriate independent external experts will, in our view, play a vital role in Ofgem's consideration of the various NTS exit reform Uniform Network Code (UNC) modification proposals.

As a general observation, we note that the various scenarios indicate a potential wide ranging availability of flex with the distribution of both demand and supply being significant influencing factors. The worst case scenarios certainly seem to indicate that flex availability could be an issue in the future. However, no particular indication of how likely or credible the various supply and demand scenarios used in the analysis has been provided and, therefore, it is difficult to make any meaningful assessment of the analysis.

We note that the analysis indicates that the flow patterns and location of gas entering the NTS is particularly influential on the subsequent availability of flex, a factor that has not (in our view) been so explicitly expressed in previous analysis. We also believe that the complexity of the NTS gas entry arrangements in terms of capacity substitution, trades and transfers will exacerbate the uncertainties surrounding the flows of gas onto the NTS that will have consequential impacts on the availability of flex. Therefore, to the extent that the availability of flex is determined to be an issue that warrants reform of the existing capacity arrangements, it would appear that consideration would need to be given to flex at both entry and exit points.

The discussion on the use of flex by the Gas Distribution Networks (GDNs) raises a number of points. First, the table on page 9 shows considerable variation in the aggregate volumes of flex requested through the initial and final OCS requests. Given that the data is in aggregate for all of the GDNs it is difficult to comment further although for SGN's networks there was not a significant variation between the two requests. We also note that the NTS was able to meet the final aggregate OCS requests in full and no shortage of flex was actually experienced. However, as the NTS has indicated later in its report, to aid transparency and understanding of the GDN's flex bookings, Ofgem is in the process of introducing licence obligations on the GDNs to provide information on their initial and final OCS requests with a requirement to flag NTS exit zones where increases in flex are greater than 10%.

The NGG NTS has in particular commented on Ofgem's final proposals for the Gas Distribution Price Control Review (GDPCR) and the fact that Ofgem has disallowed a number of flex-related investments on a number of GDN networks. This implies that there will be a greater dependence on the NTS than can perhaps be met. This is surprising given that we understand Ofgem reached its conclusion on these investment issues following discussion with the NTS on the availability of flex during the next GDN price control period. That said, we recognise that there is some uncertainty surrounding the volumes of flat and flex capacity that the GDNs will request through the OCS process later this year for 2011/12 and beyond given the introduction of revised GDN interruption arrangements. However, Ofgem has made provision for a GDN capex reopener if the outcome of the interruption tenders this summer triggers incremental investment over and above that which has been allowed by Ofgem through the GDPCR process. We would expect this to include any consequential investment for flex where the NTS is unable to meet the volumes that have been requested through the OCS process. We therefore believe that as far as the GDNs are concerned, there will be greater clarity on their NTS flex requirements once the outcome of the GDN interruption tenders this summer and any capex reopening events that may be triggered.

To conclude therefore, we welcome the information that has been provided. However at this stage we remain unconvinced that there is likely to be a genuine shortage of flex going forward. We therefore believe additional information would be beneficial particularly on a zonal basis together with on-going monitoring of flex usage and availability.

We hope that you will find these comments useful.

Yours sincerely

Rob McDonald
Director of Regulation