



Gassco AS
P O Box 93, N-5501 Haugesund
Visitor address:
Bygnes, N-4250 Kopervik
Phone: +47 52 81 25 00
Fax: +47 52 81 29 46
www.gassco.no
No 983 452 841

Ofgem
9 Millbank
London
SW1P 3GE

Att: Bogdan Kowalewicz
Senior Manager
Gas Transmission Policy

Your ref.:
Our ref.: OP20-NR.KB-09.33616

Bygnes, 01.12.09

RE: Gas Entry Capacity Substitution Methodology - Initial Impact Assessment

We welcome the opportunity to comment on the Impact Assessment as drafted by Ofgem.

Ofgem appear not to have valued the many arguments voiced regarding the introduction of this methodology and its' impact on the future requirements of the UK market, the National Transmission System and the repercussions on connected importation systems.

We note that there has been no analysis of the effect that constrained capacity will have on gas prices, which was discussed as several workshops and we understood was to be included in the Impact Assessment.

The proposal will lead to a shrinkage in capacity of the National Transmission System (NTS). Also it will reduce the capacity of interconnecting systems from the Continent and Norway.

We note the argument from Ofgem to force shippers to invest in long term capacity but see no measures to address the problem faced by developers who have neither the rights to purchase capacity nor have shippers to purchase capacity since until a project has been sufficiently matured there are no shippers. Even if a shipper group were to be formed then it would require collusion between those shippers to purchase sufficient entry capacity to avoid its substitution elsewhere.

In our opinion the increased cost to end users by not having a substitution mechanism is extremely small since the avoided investments are a fraction of National grids tariff rate base and represent a small fraction of the cost of gas supplied to end users with the commodity (ie the cost of gas) being a greater proportion. The potential loss of gas transportation infrastructure flexibility, risk to future pipeline connections and risk to security of supply, in our opinion far outweighs an increase in cost of delivered gas, which is significantly below 1%.



Arguments put forward at the workshops have not been sufficiently taken into account. These will result in unintended consequences that have not been considered. We must reiterate these points since they have the potential to frustrate gas transportation in general and future gas transportation infrastructure developments.

1. The potential cost of eliminating flexibility in the NTS is high.

We believe that the drive for renewables, which in the UK is likely to be predominantly wind power will require significant back-up generation capacity, which is expected to be in the form of gas powered turbines. To enable switching of power generation from renewable sources to gas fired, the NTS will need to be flexible. However, substitution of entry capacity will in our view remove much of this flexibility and threaten security of supply.

There is also a possible pricing impact. When the LNG market begins to tighten the low prices currently enjoyed will be replaced by much more aggressive pricing made worse by the reduction in interconnector capacity due to the substitution of capacity from Bacton, Theddlethorpe and St Fergus entry points in particular.

2. The process of substitution also has a consequence for existing interconnector pipelines where the capacity is required for either swing gas or for pipelines with bidirectional flows. This also reduces flexibility and security of supply.
3. No evaluation is presented showing how future entry tariffs could be affected
4. With reference to paragraph 4 above, even if it were possible to retain entry capacity there is no guarantee of it being allocated when the time comes for booking. A third party could step in and book capacity that has been retained by other parties. Thus the developer may commit to considerable expenditure without significantly reducing the risk of entry capacity being unavailable when required.
5. We are concerned that there are several amendments, reviews and studies ongoing, which are to some extent inter-related. (eg off-spec gas, entry point base lines, flexibility within the NTS and the transfer of assets to CO2 transportation). To our knowledge these have not been fully taken into account in the Impact Assessment
6. The exchange rate cap of 3:1 is a soft landing measure and as with all previous soft landing measures it is likely to be relaxed after the introduction of substitution, which has the potential to make the mechanism much more destructive. We suspect that the capacity exchange rate cap will completely disappear in time.

It is within the gift of National Grid to propose and Ofgem to sanction their proposal but we feel that it is necessary to place on record the above.

Yours sincerely
Gassco AS


Thor Otto Lohne
Executive Vice President



Copy:
Alison Kay
Commercial Director – Transmission
National Grid House
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA

Paul McIntyre
Dept of Energy and Climate Change
Floor 2
3, Whitehall Place
London
SW1H 2AW

David Turner
Advisor
Gassco AS
P O Box 93
N-5501 Haugesund