

Mr. Lewis Hodgart
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Ofgem
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4 February 2011

Dear Lewis,

RE: Update consultation on NTS flexibility capacity

Thank you for the opportunity to provide our thoughts on the proposed linepack product. This response is sent on behalf of the Centrica Group excluding Centrica Storage Limited. This response is not confidential and we are happy for it to be placed in the Ofgem public library.

Summary

This consultation has caught us somewhat by surprise, coming as it does some considerable time after the last industry workshops on NTS flexibility, and without much in the way of discussion at, for example, Transmission Workstream/Workgroup.

In the intervening year or so since the last workshop on NTS flexibility, the UK has experienced one of the coldest winters for many years. Throughout, however, we have in general seen the UK's gas transportation infrastructure and gas market arrangements cope well.

We have reviewed the published NTS flexibility data over this period, and find nothing in there which indicates that the gas transmission system was particularly stressed in terms of flexibility usage, with peak flexibility usage falling some way below National Grid's long term estimates for flexibility availability.

This consultation has also helped to crystallise a point which has been made a number of times in open debate – that being a lack of clarity around the use of the term “flexibility”. Following the industry's previous attempts at exit reform, flexibility was generally held to mean within day flow variations from a flat diurnal profile. However, the scope of flexibility now seems to extend to include the ability of the NTS to accommodate varying gas entry patterns over a period of time significantly longer than one day. We believe that clarity needs to be given to the term “flexibility” in order to avoid any confusion between within day flow variations, and the challenges faced by the system operator in accommodating changing delivery patterns.

The last year or so has also seen a significant increase in the level of concern amongst some stakeholders about the security of gas supplies to the GB market. We consider that, to some extent, these concerns have been fuelled by the very wide range of forecasts and predictions about future gas demand. However, even across the full spectrum of these demand forecasts neither we nor informed external commentators can see any plausible scenario in which diurnal flexibility is likely to become a significant constraint for many years to come.

We agree that assessing future demand is extremely difficult, given the very wide range of variables involved, and yet this is an important factor given the linkage identified by National Grid between demand and availability of system flexibility.

In summary, we do not believe that a compelling case has been made to justify significant expenditure on delivering increased flexibility on the NTS. Further, we consider that there could be a number of mechanisms for satisfying any increased requirement for NTS flexibility other than investment in pipes and compressors. Examples might include incentivising flat, or indeed profiled entry flows to better match diurnal exit flows, incentivising entry flows closer to the point of higher offtake demand, or even onshore gas storage in the area where greater flexibility was required. We accept that onshore storage developments are not necessarily quick or easy to develop, but there is still plenty of time to develop solutions since, as outlined above, there is as yet no compelling evidence of an imminent or forthcoming NTS flex constraint.

In any event, it would be quite wrong at this point to make premature assumptions as to either the solution for any flexibility constraint, were one to be demonstrated, or indeed the party who should lead on delivering any solution. Storage, for example, is a competitive market which may deliver outcomes more efficiently than a regulated monopoly.

CHAPTER: One

Question 1: Do you agree with our definition of system flexibility?

We agree that the definition put forward in the consultation document – a capability inherent in the system to manage supply and demand mismatches – accurately captures the *within day* flexibility scenario. Previous discussions around flexibility, however, have also recognised that even without additional investment the NTS is able to adapt to accommodate changes in locational supply and demand patterns over time periods in excess of one gas day. This can be achieved, for example, by changing National Grid's baseline obligations at different entry and exit points, with entry capacity substitution a real example of this.

We therefore believe there is a subtle but important distinction between these two elements of "flexibility" and consider that the latter, i.e. flexibility across time periods of greater than one day, remains undefined (although there would appear to be an interaction with the linepack product being developed by National Grid under UNC Modification Proposal 0333). Without an agreed definition it would seem to us impossible to come to any reasonable assessment about the need for more of it, and indeed the way it should be released and paid for.

It must therefore be absolutely clear which problem (if any) needs to be addressed prior to any investment taking place, with any such investment being supported by a properly quantified cost benefit analysis. This may affect who should foot the bill, and indeed the solution that may be required to any "flexibility" constraint. Indeed, the constraint identified in the consultation document in the Bacton area would at face value appear to be more of an SO investment requirement than a requirement for new funding for within day flexibility.

Question 2: Do you agree with our view that the ability to vary gas flows on entry and exit is valued by Gas Distribution Networks (GDNs), Transmission Connected Customers (TCCs), Aggregated System Entry Point (ASEP) operators and gas shippers?

We believe that most, or possibly all, types of end consumer value the ability to vary their gas offtake during the gas day whether consciously or not and, given the role of gas in supporting the UK economy (and indeed satisfying fluctuating electricity demand) and delivering convenience and comfort, believe that the ability to vary offtakes is essential and must remain.

As correctly identified within the consultation document, in order to balance out the ability to vary flows at offtakes on a sustainable basis, there must also be an ability to vary flows both at entry points and across the network.

It must also be recognised that an operational gas network, including the gas entering and leaving the network, is only possible due to significant mechanical and engineering solutions, none of which are infallible. Any flexibility regime must therefore take account of the possibility of mechanical failure leading to cessation of gas inputs and offtakes, or indeed the transporter's inability to deliver gas, which has been appropriately tendered for delivery, at the desired rate.

CHAPTER: Two

Question 1: Do you agree with the system flexibility indicators developed by NGG?

We played a full part in the original workshops which helped to refine the current indicators, and agree that there is merit in National Grid publishing this data. That said, we must once again express our concern that the only party which really knows and understands the full capability of the NTS is National Grid, and whilst the flexibility data helps to provide some clarity on flexible usage of the NTS, we remain concerned that there is a significant amount that Ofgem, shippers and customers don't understand about the usage and capabilities of the NTS.

Therefore, in summary, whilst we believe that the indicators are helpful, we do not believe that by themselves they provide nearly enough insight in order to demonstrate flexibility constraints, or to justify investment in greater flexibility. If there is a genuine desire to develop a shared industry approach to this issue, then it is incumbent upon National Grid to create a far greater level of transparency around the key drivers which lie behind it. This would seem to us to be a key output under RIIO.

Question 2: Do you consider that the system flexibility indicators are capable of identifying future system flexibility investment needs?

We agree that these indicators do provide some useful information, however questions exist about what we collectively understand by the term "flexibility" (as set out above). While there remains significant uncertainty about the true capability of the NTS, we believe that extreme caution must be exercised when contemplating further investment based upon the current range of indicators.

Question 3: Do you agree with our high-level analysis of the factors likely to affect future gas flows on the NTS? Are there important trends which we have not considered?

As we are not system operators we are only able to respond to this question based on the information published by National Grid. In this context, we agree that the main factors which we understand influence the availability of system flexibility have been captured.

In particular, however, we would highlight that a key factor driving the availability of system flexibility is demand, and there remains significant uncertainty about future gas demand due to factors such as economic recovery/growth, uptake and reliability of renewable generation, development of new nuclear, and implementation of energy efficiency measures.

CHAPTER: Three

Question 1: Do you agree with Ofgem's representation of how shippers and TCCs manage their NTS exit flow variation requirements?

We agree that the consultation document adequately captures how we as a gas shipper manage exit flow variations.

However, we do not believe the matter of system flexibility should be viewed simply as a function exit flows, but rather it should be considered as a function of both entry and exit flows.

Question 2: Do you have any views on the effectiveness of the UNC Offtake Capacity Statement (OCS) process applying to GDNs' NTS exit (flex) capacity bookings and do you consider that the UNC adequately supports shippers' flexibility capacity needs?

We believe that the rights and obligations set out in the UNC adequately support our exit flexibility needs as a shipper.

We are not in a position to assess the effectiveness or otherwise of the DN flexibility booking and management process.

Question 3: Would it be appropriate for NGG to consider investment to provide GDNs with incremental exit flexibility capacity?

We note that the DNs appear to have coped extremely well, including during the cold winters of 2009-10 and to date in 2010/11, despite having been subject to significant scale backs from their initial diurnal flexibility requests. This suggests that alternative means have been found to either satisfy or avoid the DN flexibility demands that were originally anticipated (or indeed that initial requests were inflated in anticipation of being scaled back).

We would therefore caution against any automatic assumption that further NTS flexibility is required, since we believe the case has not been made. Were a case to be made for additional *diurnal* flexibility to satisfy DN requirements (we believe this would be most likely to occur on a limited locational basis), we would expect the full range of flexibility tools to be examined in order to drive the most efficient means of flex delivery. Assuming this is an issue at all, one of these could include, for example, further incentivising of entry flows which are at least flat (or even profiled to match the prevailing exit usage) across the gas day. Another option for consideration might be delivery from production facilities closer to the demand.

We would also expect close scrutiny by Ofgem over who would pay for that increased flexibility e.g. has the need for incremental flexibility been exacerbated by poor DN management, or inappropriate removal of existing DN flexibility tools? Moreover, we agree with Ofgem's previous conclusion that flexibility issues should be considered at Entry points as well as Exits.

CHAPTER: Four

Question 1: Do you agree with our view of the principles and objectives which should apply to the further development of the system flexibility capacity arrangements on the NTS?

As with all matters of regulation, we would agree that the principles of proportionality and evidence based policy should inform the flexibility capacity debate.

Question 2: Do you agree that it would be appropriate to introduce an obligation on NGG to report on system flexibility indicators under the RIIO-T1 framework?

Given our view that the case for significant flexibility investment has not been made, we would tend to agree that greater reporting and transparency on system operation and capability would be key to proving the case for any future investment. In support of this we would add that in our view any flexibility constraints are likely to be gradual rather than sudden and reporting of key data should adequately signal an emerging investment requirement.

Question 3: Do you agree that it would be appropriate for NGG to justify any system flexibility investment proposals under RIIO-T1 with reference to flexibility capacity system indicators and specific RIIO-T1 output measures?

As set out above, we believe that reporting key data is likely to add significant weight to any arguments in favour of network flexibility investment. That said, there may be significant unexpected events in future which could signal a definite need for investment where this was not wholly supported by the extrapolation of prevailing data reporting. We would not therefore advocate reporting as the sole driver for investment, and believe that a common sense approach might be appropriate in this respect with discussions at the time about any regulated funding to be provided.

Question 4: Do you agree that the commercial and use of system charging arrangements should reflect any costs imposed on the system by NTS users' needs to vary entry and exit flows?

Since existing flexibility is effectively a by-product of building the transportation network, funding arrangements for which are already in place, we do not believe it would be appropriate to seek to carve out separate flexibility charges at present. We also note that plans to decommission parts of the NTS for carbon capture and storage purposes will have an impact on the amount of flexibility available, and this should be recognised in any future incremental flexibility requirements.

Where system development takes place specifically in order to deliver flexibility, it will be necessary to understand exactly what problem is being solved (e.g. within day flexibility, or flexibility over longer timescales). This will then provide a starting point for allocating costs towards those who have contributed to the need for such investment and those who seek to benefit from that investment. Given the extensive debates that took place in respect of the previous exit reform programme, we do not consider that this will be straightforward.

Please don't hesitate to contact me should you wish to discuss any aspect of this response.

Yours sincerely,

Chris Wright
Commercial Manager