

3rd February, 2010

Lewis Hodgart
Senior Manager - Gas Transmission
Ofgem
107 West Regent Street
Glasgow
G2 2BA

Dear Lewis,

Update consultation on National Transmission System (NTS) flexibility capacity

Thank you for the opportunity to comment on this document which was published on 16th December, 2010. Gaslink makes this response in its capacity as operator of the network downstream of Moffat.

The case for considering flexibility allocation

We have carefully examined the “developments in the system flexibility debate” cited in the document as reasons for putting in place measures to ensure that NTS users’ future system flexibility needs are fully anticipated and met, including consideration of the arrangements for allocating flexibility capacity and for investing in system flexibility capability.

From the information provided there does not appear to be, in our view, a clear case for consideration of flexibility allocation arrangements of the type contemplated in the document. Our understanding is that there is no indication that flexibility is becoming scarce based on the ongoing monitoring of flexibility usage undertaken by National Grid. We accept that the potential changing supply and demand patterns referred to in the document may alter the balance of flexibility supply and demand, but we believe that an attempt should be made to quantify this before the industry is asked to consider solutions.

The document says National Grid has submitted plans to make very significant investment in the period 2012/13 to 2017/18 to provide increased system flexibility in response to changing entry flow patterns. We believe a much fuller explanation of these proposed plans is required if the industry is to make an informed judgement on the matter. This should include full details of existing flexibility availability and usage, the

reasons why National Grid believes additional flexibility needs to be provided, and details of the projects and costs associated with doing so.

The document also summarises recent trends in GDN flexibility capacity bookings, showing amounts requested up to 28 mcm/d and amounts allocated for 2011/12 onwards all in excess of 18mcm/d. These are significant quantities in the context of overall flexibility availability indicated by National Grid previously. We believe Ofgem should seek to understand better the reasons for the significant increase in GDN flexibility allocations – at the time of GDN sales flexibility allocations were only around 9 mcm/d. In our view over-booking by GDNs (and/or inappropriate decommissioning of assets providing flexibility within GDNs) may be contributing to a perception of NTS flexibility scarcity.

Flexibility capacity product

The section of the document outlining system flexibility principles and objectives refers to the benefits of an economic, efficient and non-discriminatory allocation of flexibility, and goes on to mention previous consideration of exit flexibility capacity auctions. We believe that the document should acknowledge the complexity and costs associated with introduction of a commercial product that involves continuous flow monitoring and recording into what is otherwise broadly a daily-based regime. In particular, now that the extension of flexibility allocation to entry points is being contemplated, the practical difficulties of establishing shipper level within-day entry flows should be acknowledged.

We are, however, pleased that Ofgem considers that the principles of proportionality and evidence based policy should inform the flexibility capacity debate. In our view this should include consideration of the implementation and ongoing operating costs and the practicalities of any proposed solution.

We would not support solutions involving a flexibility product of the type considered previously. We are not persuaded that flexibility can be disaggregated or unbundled from the primary peak day capacity product – in our view flexibility forms an integral part of system utilisation rights and the primary product is of little use without it.

Further, we believe the rules on product acquisition and usage considered previously would be unworkable at multi-shipper offtakes having dependent downstream jurisdictions, such as Moffat. A flexibility product of this type would also have adverse impacts both in terms of physical operations at Moffat and the potential additional costs imposed on the downstream markets, arising through the construction of rules which afford no certainty on the availability, price or exposure associated with the product. Indeed, imposition of a flexibility product could serve to actually generate an artificial flexibility shortage as users seek to offset exposure by acquiring product quantities in excess of physical needs.

Alternative solutions

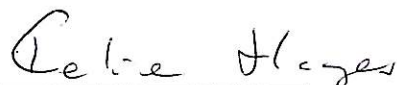
Finally, should there be a demonstrable and compelling need to address flexibility more explicitly, we would ask Ofgem to look more broadly for solutions, and to research and develop alternatives to flexibility capacity auctions.

We believe that arrangements whereby users are accorded flexibility within the primary capacity products, together with system management tools whereby National Grid could buy back flexibility should constraints arise, can meet Ofgem's objectives.

For example, GDNs could be offered the capacity products and flexibility arrangements currently available at other system points (including in particular maximum offtake rates limited to the booked capacity level). This patently non-discriminatory approach would create a "level playing field" across all system points, whilst avoiding the pitfalls of the previous flexibility proposals which involved imposition of complex and costly GDN flexibility arrangements universally across the system. To the extent flexibility did become scarce, its value would be revealed through National Grid buy-back activity. Given the difficulties in establishing shipper level within day flow rates, particularly at entry points and multi-shipper exits, it may be appropriate to consider whole exit or entry point based solutions for flexibility management tools, rather than shipper based approaches.

I hope you find the above helpful. If you would like to discuss any aspect further, please do not hesitate to make contact.

Yours sincerely,



Celine Hayes,
Manager Transportation Projects