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Dear Lewis,

UPDATE CONSULTATION ON NTS FLEXIBILITY CAPACITY

Thank you for the opportunity to comment on the above consultation. This is a helpful summary on the background and developments on what is quite a complex subject.

From a GDN perspective we are naturally interested in flexibility of flows at offtakes but we appreciate this is driven by the wider system flexibility which is the subject for this consultation. With regards to the proposed system flexibility indicators they seem broadly sensible it would be helpful to understand what these imply for flexibility at offtakes.

We understand Ofgem's requirement for the GDNs and NTS to provide consideration of efficient cross interface investment in our business plans for RIIO-GD1 and RIIO-T1 respectively. I am pleased to say that the GDNs and NTS have made significant progress on this issue through the Capacity Working Group and we are fairly confident we will have a solution that meets Ofgem's requirements.

In the longer term we agree with Ofgem that arrangements may need to be developed to allow users to signal willingness to pay for incremental flex as well as the associated commercial and charging arrangements, NGN would be fully supportive of progressing this with NGG NTS and wider industry. Nevertheless we still come back to the same two key questions that were considered at the last price control review, in UNC 195AV and again in this consultation namely:

- is NTS Exit (flexibility) capacity a scarce resource? and if so
- what solutions deliver incremental capacity?

These two questions need to be satisfactorily addressed by NGG NTS and the wider industry before we pursue any further developments in terms of an NTS Flex regime. To the extent that the proposed indicators can help answer these questions they are a welcome step forward. On the second question we believe that much more explicit consideration needs to be given to operational solutions e.g. the running of NTS compressors (subject to the usual constraints e.g. environmental etc). At the moment the focus seems to largely on capital solutions e.g. pipelines etc.

Answers to the specific questions raised are set out Appendix 1

Please let me know if you would like any clarification of any aspect of this letter. .

Yours sincerely

A handwritten signature in black ink, appearing to read "Haren Thillainathan", with a horizontal line underneath.

Haren Thillainathan
Regulation Manager

APPENDIX 1

UPDATE CONSULTATION ON NTS FLEXIBILITY CAPACITY

CHAPTER: ONE

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

Yes that seems to be a sensible definition including the main factors

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?

The ability to vary flows through an offtake is an essential tool for GDNs to manage their networks. We would need to see evidence of its scarcity and cost of provision before we would consider how much value if any we would attach to this.

CHAPTER: Two

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

As mentioned in the main response these seem to be sensible in relation to the wider system but from NGN's perspective what would helpful would be to understand what they imply to exit flexibility. These indicators and the dataset behind them should be transparent to the DN's. We would welcome the opportunity to discuss these results from indicators with NGG to ensure efficient investment is undertaken to provide NTS flexibility.

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

It is possible but this is highly dependent on being able to quantify present levels of flexibility capacity and understand what drives and delivers future flexibility levels.

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?

We think most of the key factors have been identified with the exception of biomethane (and other distributed gas) at gas distribution which could have an impact on GDN flows especially if connected on in the volumes anticipated by DECC in its Strategic Pathways analysis and the 2050 Gas Futures Scenarios Project report produced by Redpoint for the ENA Gas Futures Group¹.

CHAPTER: Three

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

Yes

Question 2: Do you have any views on the effectiveness of the existing 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?

It has been generally recognised by all parties involved that the current OCS process for booking exit flexibility capacity by GDNs needs to be improved in terms of transparency, interaction and dialogue. Some changes are already proposed to address some of the interactive problems for example by extending the window for GDNs to discuss the OCS allocations with the NTS. Some of the issues regarding transparency are closely related to the general understanding of flex discussed earlier for example NGN would like to understand what interactions there are between the provision of flexibility at the offtakes in each of our LDZs and NTS compressor operation.

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

We welcome the proposal to make efficient investment across the GDN/NTS boundary. As mentioned in our main response before NGG gets to this stage we need to clearly understand:

1. to what extent NTS Exit flexibility capacity is scarce now and going forwards?
2. What solutions including operational ones can deliver incremental exit flex capacity

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?

Yes the key being as Ofgem identify “*Where significant costs are demonstrated to be imposed on the system by forecast changes in users entry or exit flow requirements...*” Once the industry is clear we are at this point further development of flex capacity arrangements may be justified.

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?

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?

Yes, to the extent the indicators can be used support this

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?

The key here as mentioned previously, is to be clear and agree that there are scarcity and costs associated with NTS flexibility capacity before looking at charging arrangements.

ⁱ http://energynetworks.squarespace.com/storage/ena_publications/ena_gas_future_scenarios_report.pdf