

11th March, 2011

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Dear Lewis,

Gas Transmission Exit Capacity Substitution and Revision Methodology – Initial Impact Assessment

Thank you for the opportunity to comment on this consultation document which was published on 11th February, 2011. Gaslink makes this response in its capacity as operator of the network downstream of Moffat which is responsible for all gas delivered to the Isle of Man, Northern Ireland and 94% of gas demand in Ireland.

You will appreciate from our earlier responses to the National Grid consultations that our key concern is that the proposed methodology could operate, in conjunction with the reformed exit booking regime, to inappropriately reduce the capacity available at Moffat and thereby prejudice security of supply standards for the island of Ireland and the Isle of Man.

We note that Ofgem is aware of this issue – the Impact Assessment acknowledges that if the proposed methodology were to be implemented, it could become necessary for the Authority to veto a substitution proposal if it considered security of supply of either GB or another member state would be adversely affected. We also note that the Impact Assessment recognises the need for introduction of a bundled capacity product at interconnectors – we have consistently argued the need for linkage between capacity products on either side of interconnection points such as Moffat, and that the unilateral

withdrawal of the existing “ticket to ride” arrangements at Moffat under the reformed exit regime gives rise to serious difficulties.

However, in our view the proposed exit substitution methodology remains inconsistent with EU requirements, in particular those elements of the Third Legislative Package concerning cross-border capacity and security of supply, where the obligations of TSOs, and indeed regulators, have been significantly strengthened. For example, Article 13 of Directive 2009/73/EC (Tasks of transmission, storage and/or LNG system operators) requires that “Each transmission system operator shall build sufficient cross-border capacity to integrate European transmission infrastructure accommodating all economically reasonable and technically feasible demands for capacity and taking into account security of gas supply”.

The Impact Assessment notes that National Grid has indicated that there “would appear to be a very small risk of capacity being substituted away from Moffat...or ... [of] insufficient exit capacity being available at Moffat to meet reciprocal entry capacity needs on the other side”. In our view it would be inappropriate and inconsistent with EU requirements to implement the methodology in the knowledge that it could, albeit at small risk, prejudice downstream security of supply, notwithstanding Ofgem’s power of veto over specific substitution proposals. Maintaining security of supply standards involves dealing with low probability, but high impact, risks, and the exit substitution methodology as currently drafted clearly introduces an additional risk to downstream security of supply that is not present today.

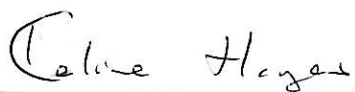
We do not believe that the application of different exit substitution rules for Moffat (and other equivalent interconnectors) would be unduly discriminatory – a concern frequently raised by National Grid – as the different treatment would be justified by the nature of the Moffat exit point and the downstream security of supply issues which are clearly evident. We note in this context that under the reformed exit regime NTS exit points to DNs are treated differently from other NTS exits, in that DNOs (rather than shippers) book the NTS exit capacity. Our understanding is that these arrangements were developed because of concerns that downstream security of supply (within the DNs) could be compromised if NTS shippers were to be solely responsible for capacity booking at these points. There is a clear analogy with the Moffat situation, although a different solution in terms of capacity booking arrangements may be required.

In summary, we believe the proposed exit substitution methodology requires amendment to ensure there can be no adverse impact on security of supply standards for the island of Ireland and the Isle of Man. This could readily be achieved through provisions precluding substitution of capacity away from Moffat (and any other equivalent exit point) to the extent necessary to maintain downstream security of supply standards. The forecast

Moffat demands set out in the Joint Capacity Statement, issued annually by the Commission for Energy Regulation and the Northern Ireland Authority for Utility Regulation, could provide a helpful basis for setting substitution limits at Moffat. We do not believe such an approach would be unduly discriminatory as the different treatment would be justified by the overriding priority to ensure downstream security of supply standards are not compromised.

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.