

Hannah Nixon

RIIO-T1 team
Ofgem
9 Millbank
London SW1P 3GE

22 November 2011

Dear Hannah

RE: GSOG views on Ofgem "Initial assessment of RIIO-T1 business plans and proportionate treatment"

The Gas Storage Operators Group (GSOG) welcomes the opportunity to provide views on Ofgem's initial assessment of National Grid Gas (NGG) RIIO-T1 Business Plan (Ref. 136(A)/11). The response is not confidential and may be published on Ofgem's website.

Please, note that GSOG views on the recently published NTS Detailed Plan¹ have been submitted to NGG in response of the related public consultation². A copy of this response is attached.

Who we are?

GSOG is a trade association which was formed in May 2006 within the Society of British Gas Industries (SBGI). The Group has fifteen members and comprises of almost all the active participants in the GB Gas Storage Market, and as such represents a wide range of interests.

The Group includes both established operators and developers of new storage projects, large multinational companies and smaller private ventures. The current members of the Group and signatories to this submission are detailed in Appendix A.

Overall quality of NGG's Business Plan

Overall, GSOG appreciates the effort made by National Grid Gas (NGG) in publishing the documents which comprise this Business Plan including different levels of detail. However, we struggled to link the many sections of the initial plan with RIIO set of outputs; NGG documentation does not follow the same structure of "Ofgem Decision on RIIO Strategy" (31 March 2011).

¹ as annex of National Grid Gas Business Plan of NTS, published on 27/10/2011

² National Grid Gas Transmission Stakeholder Engagement Consultation (Nov 2011)

Quality of specific proposals

GSOG has appreciated the effort exhibited so far by NGG in addressing stakeholders' issues in the initial business plan. While we recognise the difficulty for NGG to draft a Business Plan under the new RIIO set of strategic outputs, we agree with Ofgem decision not to retaining NGG in the fast-tracking process.

In particular, we identified the following areas need further clarity before an assessment on the proposed level of allowed revenues is carried out.

1. Governance of NTS Connections

As noted by NGG³, GSOG believes that UNC Modification Proposal 373 positively address the lack of formal governance for user's applications of a new NTS physical connections; however, it does not address the following issues:

- The development of a physical connection should be strictly linked with the **release of commercial capacity**; key milestones during the connection process should ensure that the release of capacity proceeds in parallel, as for the initial plan; this link is necessary to achieve the RIIO primary output of "customer connection", perceived in its entirety, whatever process is needed to secure the connecting operator to flow molecules of gas in/out of the network.
- The physical connection and capacity release processes should also be linked to other **third-party processes** (e.g. IPC, licencing, ...) that are relevant for the success of the connecting project; the need to run the processes in parallel is due to the time length required to secure a new connection (till 10 years): if the building of the physical connection as well as the release of commercial capacity would require no more than a couple of years overall, it may be sensible to trigger such processes after the developer has solved all planning issues and start building the facility.

In addition to Mod 373, GSOG believes that further arrangements should be included into the UNC to define a sustainable governance framework that deals with all aspects of the connection process. A new Modification Proposal to be developed in a dedicated sub-workgroup of the UNC Transmission Workstream may be the most efficient way to capture all industry relevant issues. This new Mod would need to take into account the arrangements already developed in Mod 373 (if the latter is implemented). We understand that a new Mod will be raised soon by NGG. GSOG will be happy to continue to support the development of a sustainable governance framework.

³ Gas Transmission Detailed Business Plan, §55, pag. 18

2. Revenue drivers for entry/exit incremental capacity

Overall, we believe that a sustainable business plan should equally focus to assess the right level of investment as well as to set a proper mechanism that adjusts such a level in due course. In particular, we did not understand how the proposed specific re-opener for entry/exit incremental capacity would practically work in the proposed phased-approach⁴. We expect NGG to provide further details during the development of a governance framework for new connections.

Moreover, it is not clear whether the *Income Adjustment Event* mechanism has been considered to be rolled-over in the RIIO control period. If it has, it would be useful to understand how this process will fit within the proposed *incremental capacity re-opener* and *capacity buyback* incentives?

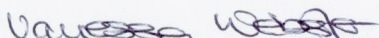
3. Investment in network flexibility

GSOG agrees with NGG that current planning of investments should take into account the expected flexibility required by the system as a consequence of an overall increase of flows volatility, in terms of both geographical and timing volatility. GSOG also agrees with NGG that the key for planning additional investments is the reasonable prediction of future flow of gas supply and demand. Giving high level of uncertainty on the latter, it seems reasonable to keep open the investment option.

GSOG believes that further clarity is needed on the release methodology of the Enduring Exit Flexibility Capacity product, as it represents a key element to facilitating short-term commercial decisions to inject gas-in-store and, in turn, supporting inter-days supply/demand flexibility.

GSOG agrees with the recent proposal to raise a UNC Modification Proposal to review current shape and methodology of system balancing alerts and safety monitors. In fact, we believe that transparent, credible timing of signals on system imbalance positions support shippers' quick decisions to divert from their standard strategy.

Yours sincerely



PP Roddy Monroe
Chairman – Gas Storage Operators Group

⁴ Initial Business Plan, Managing Risks and Uncertainties, §68; AND Initial Business Plan, Detailed Plan Annex, §60

APPENDIX 1

SBGI GSOG MEMBERS

Centrica Storage Ltd
Cheshire Cavity Storage Group Ltd
E.ON Gas Storage UK Ltd
EDF Trading Gas Storage Ltd
Eni UK Ltd
Gateway Gas Storage Company Ltd
Halite Energy Group
INEOS Enterprises Ltd
Infrastrata Plc
Scottish Power Energy Management Ltd
SSE Hornsea Ltd
Star Energy Group plc
Statoil (UK) Ltd
Storengy UK Ltd
WINGAS Storage UK Ltd