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Gas Security of Supply Significant Code Review – Statutory Consultation- National Grid Gas Transmission Consultation Response

Dear Anjli,

Thank you for the opportunity to respond to Ofgem's Statutory Consultation on the Gas Security of Supply Significant Code Review (SCR). This response is made on behalf of National Grid Gas's Transmission business (NGG).

Our role as the owner and operator of the GB Gas Transmission System is to ensure the safe, economic and efficient development, operation and maintenance of the system.

As we have previously highlighted in response to Ofgem's 'Final Policy Decision – SOS SCR' document NGG supports the principle of the SCR: to implement measures that may, *'reduce the likelihood, severity and duration of a Gas Deficit Emergency (GDE)'*. In order to be effective NGG believes that any measures introduced, through the SoS SCR should maintain the clearly defined roles and responsibilities in the market, such that the principle of shippers being the primary balancer, and NGG fulfilling the Residual Balancing role, are preserved.

Within Ofgem's 'Proposed Final Decision and Final Policy Decision' documents, Ofgem identified that the SCR may benefit from the introduction of a Demand Side Response (DSR) Mechanism to bring forward additional levels of voluntary demand reduction, which could, in turn, reduce the likelihood, severity and duration of GDE. Ofgem's statutory consultation confirms the decision to progress with the development of such a methodology to facilitate a centralised DSR Mechanism and that a licence condition will be placed on NGG in its role as Gas Transporter to take the development of the methodology forward.

NGG agree with Ofgem's view that working with our stakeholders to develop an additional 'route to market' through which consumers can signal their willingness to make available additional demand side volumes complements the SCR solution. Encouraging as much DSR volume to come forward, in the time between NGG issuing a Gas Deficit Warning and the announcement of a stage two Gas Deficit Emergency, may provide sufficient balancing volumes that may reduce the likelihood of moving into a GDE or progressing into stage two of a GDE. However we would like to reiterate our view that developing a "centralised" DSR Mechanism, before the incentives introduced by the implementation of the SCR have been fully assessed by industry, may minimise the appetite for consumers to engage with their shippers and suppliers to develop commercial interruption arrangements.

In our response to Ofgem's 'Final Policy Decision' document we highlighted that there will be strengthened interaction between the Gas and Electricity markets as an outcome of the developments under the Electricity Balancing SCR and the Electricity Market Reform Capacity Mechanism. We consider the commercial and competition risks associated with interactions between the Electricity and Gas Market Reforms are as significant as those considered within the individual SoS SCR and DSR developments, but agree with Ofgem's view that the Gas SCR reforms largely would not change the risks associated with the interactions of electricity market penalties feeding through into the gas market.

With regards to the inclusion of gas-fired generators within DSR Methodology, NGG note that Ofgem's decision on the eligibility of such sites to participate in the DSR mechanism has been left open for consideration during the development of the DSR Methodology. Through the recently scheduled DSR Development Workgroup we hope to work with industry to fully consider and develop an appropriate approach that may satisfy the concerns highlighted by the industry, during the SoS SCR Draft Policy Decision consultation, and meet the principles set out in the proposed licence condition.

We also recognise industry concerns regarding the potential impact of the proposed SCR changes on industry financial credit arrangements related to traded markets and the energy balancing invoicing. We would therefore look to support parties that may wish to bring forward proposals in this area of shipper and traded markets credit arrangements.

NGG are satisfied that the associated legal text meets the intent of the SCR as reflected within the business rules.

We note that there are a large number of complex industry changes scheduled for implementation during late 2015 and early 2016. We therefore believe that, if the currently anticipate delivery timeframe is to be met then a timely direction following the consultation by Ofgem is key.

Should Ofgem wish to discuss any of the points raised in this response, please contact Darren Lond at darren.lond@nationalgrid.com (01926 653493) or Claire Thorneywork at claire.l.thorneywork@nationalgrid.com (01926 656383).

Yours sincerely



Helen Campbell