

Andy Burgess
Office of Gas and Electricity Markets
9 Millbank
London
SW1P 3GE

Helen Campbell
Head of Commercial Frameworks -
Gas

helen.campbell@nationalgrid.com
Direct tel +44 (0)1926 65 3296

www.nationalgrid.com

23 September 2014

Consultation on changes needed to implement new arrangements for incremental gas transmission capacity (PARCAs)

Dear Andy

Thank you for the opportunity to respond to your consultation on changes needed to implement new arrangements for incremental gas transmission capacity (PARCAs). 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.

We agree with your consultation that if Ofgem were to approve either UNC Modification 0452v (raised by ourselves) or 0465v (raised by Scottish and Southern Energy) then Ofgem will also need to make related policy and licence changes for them to work. We support the implementation of either of those UNC Modifications and consider them to be alternate proposals.

In addition to responding to the consultation questions, we thought it prudent to also detail our thoughts on some specific other aspects from the consultation document itself.

Methodology statements

We agree that NGG will need to revise several capacity release methodologies once there is greater certainty about the changes that Ofgem will make and the associated revised licence text. The capacity methodology statements that require changing are as follows:

- Entry Capacity Release Methodology Statement ("ECR")
- Exit Capacity Release Methodology Statement ("ExCR")
- Entry Capacity Substitution Methodology Statement ("ECS")
- Exit Capacity Substitution Methodology Statement ("ExCS").

Through an informal consultation in September 2013 we sought industry views on the changes to the methodology statements that we believed may be necessary should the PARCA arrangements be implemented.

In the event of an Authority decision to implement either of the PARCA UNC Modifications, we will need to formally consult with industry on our proposed changes to each of the methodology statements and then submit the revised methodology statements to Ofgem for approval. Dependant

on any further changes to the methodology statements being required, those formal consultations would occur shortly after an Authority decision to implement either of the PARCA UNC modifications.

We consider that the PARCA suite of changes needs to be effective from the same date and therefore the timelines for the methodology statements consultation and approval processes need to be taken into account in determining the appropriate implementation date for the PARCA suite of changes. That implementation date also needs to be cognisant of the March 2015 QSEC process. In accordance with UNC we will issue the March 15 QSEC invitation letter in February 15 (at least 28 days prior to the first QSEC bid window opening). The invitation letter will inform industry of the incremental capacity quantities being made available at each ASEP and from when.

We welcome your recognition that other changes (for example, changes to the licence as a result of the EU CAM code) may be needed to the licence within similar timescales to the PARCA arrangements. This equally applies to the methodology statements and hence the planning of the respective licence and methodology statement change processes needs to be sufficiently robust in order to mitigate the risk of any issues that could arise from the interactions of different change drivers within similar timescales.

Incremental Capacity

We agree with the references to “incremental capacity” within your consultation letter, but would like to point out that the PARCA arrangements also allow users to reserve long term “non-incremental” capacity through, for example, potential substitution from another location.

Construction works

Your consultation letter states that:

“Phase two covers work by both parties to secure planning approval. If this is granted, NGGT will also undertake construction works to deliver the capacity in phase three”.

We agree with this scenario; however there are other scenarios to also consider. Where demand for incremental capacity is signalled we assess alternative options (or a combination of options) in determining how to deliver that signalled capacity. For example the use of commercial contracts and/or existing system capability (including substitution of unsold capacity from another location) are options which can potentially reduce the magnitude of, or negate the need for, construction works.

User commitment and security

Your consultation letter states that:

“At present, NTS users take on the user commitment after they have signalled for incremental capacity and passed the relevant economic tests. Under PARCAs NTS users will not take on this user commitment until after planning permission for all necessary reinforcement work has been granted and the capacity is allocated to them.”

And

“The user will also need to put in place security to underwrite the planning and consents activities should a PARCA be terminated in certain circumstances.”

We wanted to clarify that the PARCA proposals do not change the trigger point at which NTS users take on the user commitment to capacity (i.e. upon allocation of that capacity to the relevant user). In addition the PARCA proposals do not change the “relevant economic tests”.

It is our view that the PARCA arrangements make it easier for our customers to signal, secure and make a commitment to capacity earlier in their own project lifecycle which in turn enables us to carry out any necessary planning activities ahead of the allocation of that capacity. The PARCA arrangements also build in obligations on our customers to demonstrate that any planning activities needed for their own project are progressing in line with expectations. Capacity will not be allocated unless any necessary planning consent for both the customer and NGG is granted.

We would also like to clarify that, although security is required ahead of capacity reservation (and therefore ahead of any planning and consent activities we carry out); the PARCA security requirements detailed in either of the UNC modifications do not underwrite the planning and consent activities. Feedback during the development of the PARCA solution was that directly linking security to the potential costs of works could be considered as a barrier to entry. As a result of this feedback, the solution was changed so that the security required under both UNC modifications is instead derived from a notional capacity value.

Special Condition 1A: Definitions

Question 1: *Do you agree with the intended drafting of each new licence definition?*

We agree that it is sensible to link some of the new licence definitions to those that would be incorporated into UNC were either of the UNC Modification proposals to be implemented. We therefore agree with the intended drafting of those new licence definitions.

Entry and Exit capacity lead time definitions.

In September 2013 we ran an informal consultation on suggested PARCA licence drafting. Our suggested drafting reduced the default lead times to 24 months from the October following the allocation of capacity to the User, whereas the definitions included in this consultation exclude the reference to the following October.

The lead time definitions included in this consultation ensure the application of uniform incremental capacity delivery lead times for each project regardless of the date the capacity is allocated on and we therefore consider the definition to be appropriate. However, we do note that this definition means we would not have a guarantee of two full build seasons to complete any physical works necessary. This could result in some risk to the delivery of incremental capacity that had not previously been considered. Quantifying the magnitude of that risk is difficult, particularly in the absence of any projects being delivered through the PARCA arrangements, and as such we would welcome a further review of the suitability of the lead time definitions as the new arrangements mature.

PARCA termination value

We agree with the definition of the PARCA termination value. Our understanding is that the licence should also allow the pass through of revenues to users where the PARCA Termination Amount recovered is in excess of the PARCA termination costs i.e. NGG stay cost / revenue neutral subject to the further licence conditions that may disallow cost recovery.

Special Condition 2A: Restricting NTS TO revenue

Question 2: *Do you agree with the proposals to adjust collected revenues to include PARCA termination amounts, but not in all circumstances?*

We agree with the proposals to adjust collected revenues to include PARCA termination amounts, but not in all circumstances. We also recognise that wider statutory duties and powers allow Ofgem to

restrict revenue recovery under the licence where we have not acted in accordance with our licence obligations.

We continue to extensively discuss and review the PARCA contract with industry and intend to publish the final draft version of the contract shortly for final consultation. The PARCA contract incorporates clauses that determine where we are and are not entitled to charge the PARCA Termination Amount.

We note and agree with the consideration in your consultation that “Calculations with this complexity might better sit within the Price Control Financial Model (PCFM) than the licence itself. This approach could allow for more straightforward handling of costs should PARCAs be terminated.” We endorse using the PCFM as a simpler approach that correctly reflects corporation tax and the time value of money.

Special Condition 5F: Determining incremental obligated entry capacity volumes and the revenue drivers

Question 3: Do you agree with the text which adds a new “Part A” to special condition 5F?

Throughout the development of the PARCA proposals we have highlighted the importance of a transparent PARCA process that incorporates timely publication and sharing of relevant information. This is reflected within the suite of PARCA change proposals which, for example, incorporate obligations on NGG to publish the progress of each stage of each PARCA.

We agree with the new “Part A” to special condition 5F of the licence which places a further obligation on NGG to publish timely information and therefore supports the importance of transparent arrangements.

We consider the following proposal to be unnecessary:

“We propose removing paragraph 5F.10(h) as it refers to permits arrangements that will be superseded by PARCAs”

Paragraph 5F.10 describes the content that must be included in an “Entry Capacity Notice” which NGG are obliged to provide to the Authority under certain scenarios. The notice explains how and when NGG intend to deliver incremental capacity that has been signalled or is forecast to be signalled and paragraph 5F.10(h) places a specific obligation on NGG to inform Ofgem of any permit arrangements. We consider, in the absence of the effective date of the PARCA arrangements being certain, that removing this obligation has no tangible benefit.

Special Condition 5G: Determining incremental obligated exit capacity volumes and revenue drivers

Question 4: Do you agree with the text which adds a new “Part A” to special condition 5G?

In accordance with the reasons underpinning our response to question 3, we agree with the text which adds a new “Part A” to special condition 5G and also consider the proposed deletion of paragraph 5G.10(h) to be unnecessary.

Special Condition 11C: Services treated as Excluded Services

Question 5: Do you agree with adding phase one as an excluded service?

Given that the primary purpose of Phase one of the PARCA process is to deliver specific outputs (the Phase 1 PARCA Works Report) to the PARCA Applicant we agree with adding phase one as an excluded service. The information contained within the Phase 1 PARCA Works Report enables the

PARCA Applicant to make an informed choice as to whether they would like to continue to phase 2 of the PARCA process or not.

Question 6: Do you agree with the wording in special condition 11C?

We agree with the proposed additional wording in special condition 11C.

Question 7: Do you agree that the financial, lead time and stakeholder notification policy changes should be implemented to allow the introduction of PARCAs?

In accordance with and subject to our responses to questions 1 to 6, we agree that the financial, lead time and stakeholder notification policy changes should be implemented to allow the introduction of PARCAs.

Should Ofgem wish to discuss any of the points raised in this response, please contact Mike Wassell at mike.wassell@nationalgrid.com (01926 654167).

Yours sincerely



Helen Campbell