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Storengy UK answer to the Review of the Fleetwood entry point in gas transmission

Dear Pete,

Storengy UK welcomes the opportunity to comment on Ofgem's proposals following the review of the Fleetwood entry point in gas transmission.

Storengy UK is supportive of the open and transparent methodology applied for new connections to the gas grid, governed by the Uniform Network Code. This has proved effective, ensuring new infrastructure can be built.This, in turn, fosters the liquidity of the NBP and contributes to the security of supply of GB, thus benefiting the end users of the gas system.

Whilst the connection of new infrastructure to the National Grid gas transmission system is generally positive for the wider market and benefits the end users, the costs of reinforcing the network should be assessed in the context of declining gas demand and balanced with a sufficient user commitment to fund it.

Storengy UK fully supports the user commitment principle. The trigger for the release of new entry capacity currently involves a user commitment to pay capacity charges that exceed at least 50% (over 8 years in NPV terms) of the cost of investment. In light of declining gas flows on the gas network, this trigger must be reviewed. We consider the assumed cost of investment should be entirely covered by some form of user commitment, in order to protect the consumers from paying for remaining sunk costs.

We wish the evolution of the Regulated Asset Base, which feeds into the Allowed TO Revenue to be more closely aligned with the underlying GB gas demand. The discrepancy between gas demand growth and TO Revenue growth, which can be observed over the RIIO-T1 Price control period, eventually leads to significant increases in the transmission component of the consumer price.

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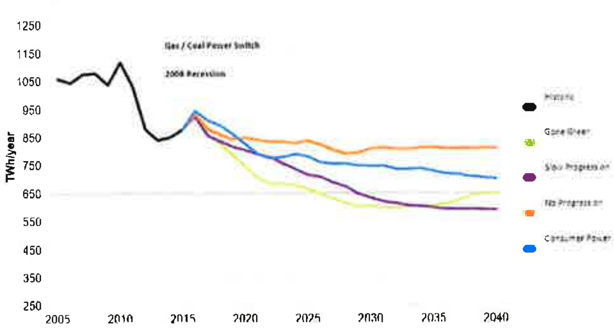

GB annual demand overview
(source: National Grid Future Energy Scenarios 2017)

Investments in the gas grid feed into the transport tariffs for a long period. Considering the uncertainty of the direction of future gas demand and flows, we are mindful of the consequences of network expansion being funded essentially by existing network users. The potential adverse impact of assets becoming stranded before they are fully amortized should be carefully assessed. Whenever possible, investments must be compared with alternative market-based solutions, as they will avoid long lasting effect on the gas transmission costs. Additions to the Regulated Asset Base should be decided only when their net contribution to the end consumer is positive.

Chapter 1, Question 1: Do you have any views on our proposal to "true up" NGGT's funding for Fleetwood now?

We favour option 2: "*true up now the price control allowances for the £227.5m to actual and currently forecast expenditure over the RIIO-T1 period*".

NGGT has not reported any expenditure so far against these allowances and does not expect the planned investment to be needed over the remainder of the current price control period. There is no point in passing to consumers – even for 4 years – the cost of large network investments where it is already known that they will not take place and that are not backed by a reasonable level of additional TO revenue.

Chapter 2, Question 1: What are your views on our proposed options for the capacity obligation at Fleetwood?

We favour option 2: "*Remove the capacity obligation at Fleetwood now*".

It is clear that the current capacity obligation at Fleetwood does not stem from a valid trigger for the release of entry capacity. The situation must be clarified so that the market can express a fresh interest on the capacity requirements at Fleetwood. Given the current booking level, the conditions for the release of new entry capacity, even only 350 GWh/d, would still be far from being met.

Sincerely,

Catherine Gras

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