

National Grid Gas plc, all those
with an interest in capacity on
the gas transmission system

Email: Gas.TransmissionResponse@ofgem.gov.uk

Date: 3 June 2019

Dear Colleagues,

Informal consultation on the proposed modification of National Grid Gas plc's gas transporter licence: (i) to allow new entry and exit points with zero baseline capacity to be maintained in tables outside the Licence, (ii) to make changes to the consultation process required by Article 18(4) of EU Gas Regulations for new zero baseline capacity points.

Summary

This consultation invites views on the proposed modification to National Grid Gas plc's (NGG) gas transporter licence ("the licence")¹. We² are proposing that all new entry and exit points with zero baseline capacity are added to the entry/exit baseline capacity tables contained in a report called the "Long Term Summary Report"³ and not added to the licence. All other entry and exit points will be treated in the same way as at present.

We also propose that NGG should be responsible for conducting the consultation required under Article 18(4) of the EU Gas Regulation⁴ for all new zero baseline capacity points. NGG shall then send us all of the responses to the consultation. We will continue to approve the classification of all new entry and exit points under Article 18(4).

The reasons for these changes are to simplify and shorten the process for new small connections to the National Transmission System (NTS), which have zero baseline capacity (e.g. biomethane production facilities and smaller exit loads). Removing the need for a statutory licence consultation for adding a new entry or exit point with zero baseline capacity to the licence will reduce the regulatory burden and help make smaller connections faster. The background and proposed process is explained below.

Background

¹ National Grid Gas Plc (NTS), Gas Transporter Licence, Special Conditions.
<https://epr.ofgem.gov.uk//Content/Documents/National%20Grid%20Gas%20Plc%20-%20Special%20Conditions%20Consolidated%20-%20Current%20Version.pdf>

² The terms 'the Authority', 'we' and 'us' are used interchangeably in this document. The "Authority" means to GEMA, the Gas and Electricity Markets Authority.

³ The "Long Term Summary Report" is an existing report providing a summary of long-term capacity obligated to be made available, sold and unsold, at all points. It is currently used by industry on a regular basis and is maintained by NGG and published on their website.

⁴ Regulation (EC) No 715/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the natural gas transmission networks <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:02009R0715-20150525&from=EN>

Currently, each NTS point is individually named and recorded in the licence. Adding a new entry or exit point to the licence requires a licence modification under Section 23(2) of the Gas Act 1986. When NGG identifies new points to be added, it notifies the Authority. We then begin the statutory consultation process to modify the licence. At the same time, we carry out the consultation required under Article 18(4) of the EU Gas Regulation to approve whether the new points are to be classified as 'relevant points'⁵ for transparency requirements. The licence changes and the Article 18(4) consultation can take around six months to complete before the changes come into effect.

Points with a zero baseline attract no revenue driver⁶ as there is no capacity release obligation. If a point requires baseline capacity then current processes would continue to apply. A change of baseline due to substitution or increased incremental capacity would require a full consultation on changes to the licence.

NGG expects that there will be more requests for smaller NTS connections in the future. NGG recently concluded a project, Customer Low Cost Connections (CLoCC), which aims to simplify the process and reduce the timescale and cost, for small new connections. This can deliver real benefits for NGG customers but the current process for adding new points to the licence is lengthy and not consistent with the aims of a shorter and simplified connections process. The purpose of these proposed licence changes is to simplify and shorten the connection process for new sites with zero baseline capacity.

Proposed Process

Zero Licence Baseline Entry/Exit Capacity Tables

We are proposing all new entry and exit points with zero baselines are added to the Zero Licence Baseline Entry/Exit Capacity Tables contained in a document called the "Long Term Summary Report". NGG will maintain these tables and inform Ofgem and industry of new points. This will remove the requirement to modify the licence as part of the connections process for new zero licence baseline capacity entry and exit points.

We are proposing to amend the licence to add reference to the tables sitting outside of the licence for points with zero baseline capacity from a date on or after the licence amendment making this change comes into effect.

Consultation under Article 18(4) of the EU Gas Regulation

Under Article 18(3)⁷, classification as relevant points requires NGG to make information on the technical, contracted and available capacity available to the public on a regular and rolling basis.

Under Article 18(4) of the EU Gas Regulation, a consultation must be held on whether new entry/exit points are relevant points for transparency requirements. The Authority is required to approve whether any new entry/exit points are to be classified as relevant

⁵ 'Relevant point' is defined in Paragraph 3.2 of Chapter 3 of Annex 1 to the EU Gas Regulation. <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:02009R0715-20150525&from=EN>

⁶ Where additional investment is anticipated, revenue drivers provide a means of calculating the applicable additional funding allowances, in accordance with Special Conditions 5F and Special Condition 5G of NGG's gas transporter licence.

⁷ Regulation (EC) No 715/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the natural gas transmission networks <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:02009R0715-20150525&from=EN>

points. Currently, we carry out a consultation and approval on relevant points at the same time as the licence modification consultation and decision.

For new zero licence baseline entry/exit points we are proposing NGG conduct the consultation required under Article 18(4) of the EU Gas Regulation and inform the Authority of the responses to the consultation. Following NGG's consultation, we will review the responses and publish a decision on our website with an implementation date.

NGG's Consultation Responses

NGG published a consultation⁸ in December 2018, which explained the reasons for the proposed changes and invited views on the proposed new process. It received two responses.⁹ The responses were supportive of the change and welcomed an early implementation date.

Comments were raised about the need for the Authority being able to veto the creation of a new zero baseline entry or exit point within 28 days of receiving the licensee's notification. As the licence amendment sets out the definition of zero licence baseline capacity entry/exit points, we do not see circumstances where the authority would veto the addition of a new point where the definition is met. Therefore this veto is not included.

A drafting error was highlighted in the proposed licence text for Special Condition 5F.27, which has now been corrected.

Proposed Changes to the Licence

The proposed changes to the licence text are shown in the appendices below.

Next Steps

Please send us any views on the issues raised in this letter by 1 July 2019 to: Gas.TransmissionResponse@ofgem.gov.uk.

Any responses to the consultation will be placed on our website unless marked as confidential. You can ask for your response to be kept confidential and we will respect this subject to any obligations to disclose information, for example under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004. If you would like your responses to be kept confidential, clearly mark the document/s to that effect and include the reasons for confidentiality.

If you have any queries regarding this letter, please contact Jonathan Coe by using the email address above or telephone 0207 901 7010.

Yours faithfully,

David O'Neill

⁸<https://www.nationalgridgas.com/sites/gas/files/documents/NG%20consultation%20on%20licence%20change%20Dec%202018.pdf>

⁹<https://www.nationalgridgas.com/sites/gas/files/documents/Response%20to%20informal%20Consultation%20Dec%2018%20.pdf>

David O’Neill

Head of Gas Systems

Signed on behalf of the Authority and authorised for that purpose

Appendix 1 – Amendments to Chapter 5 headings and subheadings in the table of Contents:

CHAPTER 5: ANNUAL ITERATION PROCESS – ADJUSTMENTS TO THE NTS TRANSPORTATION OWNER REVENUE RESTRICTION AND THE CREATION OF ZERO BASELINE CAPACITY ENTRY AND EXIT POINTS

Special Condition 5F. Determination of Incremental Obligated Entry Capacity volumes and the appropriate revenue drivers to apply and the creation of Zero Licence Baseline Capacity Entry Points

Special Condition 5G. Determination of Incremental Obligated Exit Capacity volumes and the appropriate revenue drivers to apply and the creation of Zero Licence Baseline Capacity Exit Points

Appendix 2 – Amendments to Special Condition 1A.4 by adding the following new definitions in alphabetical order:

Definitions in alphabetical order

1A.4 In the Special Conditions, unless the context otherwise requires:

<u>Zero Licence Baseline Capacity Entry Point</u>	<u>means an NTS Entry Point at which there is zero Licence Baseline Entry Capacity and which, as a result, does not give rise to any funding allowance, or revenue driver.</u>
<u>Zero Licence Baseline Capacity Exit Point</u>	<u>means an NTS Exit Point at which there is zero Licence Baseline Exit Capacity and which, as a result, does not give rise to any funding allowance, or revenue driver.</u>
<u>Zero Licence Baseline Capacity Table</u>	<u>means a table called the “Zero Licence Baseline Entry Capacity Table” contained in a document called the</u>

Entry Capacity Table

“Long Term Summary Report” which is published by the Licensee on its website.

Zero Licence Baseline

means a table called the “Zero Licence Baseline Exit Capacity Table” contained in a document called the

Exit Capacity Table

“Long Term Summary Report” which is published by the Licensee on its website.

Appendix 3 – Amendments to Special Condition 5F.1

5F.1 The purpose of this condition is to set out:

- (a) the process by which the Licensee can propose, and the Authority can approve the volume of Incremental Obligated Entry Capacity;
- (b) the treatment of Incremental Obligated Entry Capacity for the purposes of the Special Conditions, including the appropriate funding allowance for that Incremental Obligated Entry Capacity; and
- (c) the obligations on the Licensee to calculate revenue drivers for NTS Entry Points where required (as set out in this condition) in a timely manner.
- (d) the means by which Zero Licence Baseline Capacity Entry Points may be created for Days after [add a date not earlier than the date on which the licence amendment making this change will become effective].
- (e) the Licensee’s obligation to consult in relation to Zero Licence Baseline Capacity Entry Points.

Appendix 4 – Amendments to Special Condition 5F.27

~~5F.27 Licence Baseline Entry Capacity is set out in Tables 4A and 4B. For Gas Days prior to 1 November 2015 (or such other date as the Authority may direct in writing), Table 4A shall apply. For Gas Days from 1 November 2015 (or such other date as the Authority may direct in writing), Table 4B shall apply.~~

5F.27

(A)

- (a) Table 4A below sets out Licence Baseline Entry Capacity and zero Licence Baseline Entry Capacity for Days prior to 1 November 2015,
- (b) Table 4B below sets out Licence Baseline Entry Capacity for Days from 1 November 2015 and, zero Licence Baseline Entry Capacity from 1 November 2015

until [add a date not earlier than the date on which the licence amendment making this change will become effective],

- (c) The Zero Licence Baseline Entry Capacity Table sets out a list of any Zero Licence Baseline Capacity Entry Points created for Days from [add a date not earlier than the date on which the licence amendment making this change will become effective].
- (B) A new Zero Licence Baseline Capacity Entry Point shall be created when the Licensee records the existence of the new Zero Licence Baseline Capacity Entry Point in the Zero Licence Baseline Entry Capacity Table.
- (C) The Licensee shall promptly inform the Authority of the creation of any new Zero Licence Baseline Capacity Entry Point.
- (E) The following shall apply in relation to the tables in (A) above:
- (a) Any new Zero Licence Baseline Capacity Entry Point shall not be recorded in Table 4B below,
- (b) Any new Zero Licence Baseline Capacity Entry Point shall be removed from the Zero Licence Baseline Entry Capacity Table if Licence Baseline Entry Capacity is created at the NTS Entry Point by virtue of an amendment to this licence,
- (c) Any NTS Entry Point at which there is zero Licence Baseline Entry Capacity listed in Table 4A or Table 4B below before [add a date not earlier than the date on which the licence amendment making this change will become effective], shall continue to exist in Table 4A or Table 4B below, and shall not be transferred to the Zero Licence Baseline Entry Capacity Table because of the creation of the Zero Licence Baseline Entry Capacity Table.

Appendix 5 – Addition of Special Condition 5F.28

5F.28 The Licensee shall, unless otherwise directed by the Authority, conduct the consultation required by Article 18.4 of Regulation (EC) No 715/2009 of the European Parliament and of the Council of 13 July 2009 in relation to any Zero Licence Baseline Capacity Entry Point and inform the Authority of the responses to this consultation.

Appendix 6 – Amendments to Special Condition 5G.1

5G.1 The purpose of this condition is to set out:

- (a) the process by which the Licensee can propose, and the Authority can approve the volume of Incremental Obligated Exit Capacity;

- (b) the treatment of Incremental Obligated Exit Capacity for the purposes of the Special Conditions, including the appropriate funding allowance for that Incremental Obligated Exit Capacity; and
- (c) the obligations on the Licensee to calculate revenue drivers for NTS Exit Points where required (as set out in this condition) in a timely manner.
- (d) the means by which Zero Licence Baseline Capacity Exit Points may be created for Days after [add a date not earlier than the date on which the licence amendment making this change will become effective].
- (e) the Licensee's obligation to consult in relation to Zero Licence Baseline Capacity Exit Points.

Appendix 7 – Amendments to Special Condition 5G.31

5G.31 ~~Licence Baseline Exit Capacity is set out in Table 8.~~

5G.31

(A)

- (a) Table 8 below sets out Licence Baseline Exit Capacity and zero Licence Baseline Exit Capacity for Days until [add a date not earlier than the date on which the licence amendment making this change will become effective].
- (b) The Zero Licence Baseline Exit Capacity Table sets out a list of any Zero Licence Baseline Capacity Exit Points created for Days from [add a date not earlier than the date on which the licence amendment making this change will become effective].

(B) A new Zero Licence Baseline Capacity Exit Point shall be created when the Licensee records the existence of the new Zero Licence Baseline Capacity Exit Point in the Zero Licence Baseline Exit Capacity Table.

(C) The Licensee shall promptly inform the Authority of the creation of any new Zero Licence Baseline Capacity Exit Point.

(E) The following shall apply in relation to the tables in (A) above:

- (a) Any new Zero Licence Baseline Capacity Exit Point shall not be recorded in Table 8 below,
- (b) Any new Zero Licence Baseline Capacity Exit Point shall be removed from the Zero Licence Baseline Exit Capacity Table if Licence Baseline Exit Capacity is created at the NTS Exit Point by an amendment to this licence,

- (c) Any NTS Exit Point at which there is zero Licence Baseline Exit Capacity listed in Table 8 below before [add a date not earlier than the date on which the licence amendment making this change will become effective], shall continue to exist in Table 8 below, and shall not be transferred to the Zero Licence Baseline Exit Capacity Table because of the creation of the Zero Licence Baseline Exit Capacity Table.

Appendix 8 – Addition of Special Condition 5G.32

5G.32 The Licensee shall, unless otherwise directed by the Authority, conduct the consultation required by Article 18.4 of Regulation (EC) No 715/2009 of the European Parliament and of the Council of 13 July 2009 in relation to any Zero Licence Baseline Capacity Exit Point and inform the Authority of the responses to this consultation.