

We would like to invite our customers and stakeholders to complete a short survey to provide views regarding best way to limit the risk of potentially high constraint management costs being incurred at Milford Haven entry point in summer 2023. Below we've summarised the background of the risk identified in April this year and described the changes we have implemented ahead of summer 2022. You will find the link to the survey at the end of this document.

Introduction

Due to the unprecedented global events in February and March 2022, in April 2022 a risk was identified which increased the likelihood of consumer costs being incurred in summer 2022 at the Milford Haven entry point. This was due to abnormal market conditions and was brought to the attention of industry and Ofgem via a proposed change to the Entry Capacity Release (ECR) methodology statement.

The risk identified was in relation to the developing geopolitical situation in Europe and the potential for larger than anticipated quantities of LNG being delivered to the UK's shores in the summer, with the potential for higher flows via the Bacton exit point. We believed that an increase in LNG cargo deliveries might lead to **unprecedented capacity sales and energy flows, exceeding physical network capability** at that time of the year. As a consequence, we could deploy constraint management tools, which could lead to very **high customer and end consumer costs, with estimates suggesting costs in the region of £180-£500m over the course of a month.**

The NTS in normal operation is not designed to deliver the baseline capacity at Milford Haven during the summer as lower national and local demands impact our ability to move gas away from the area. This is true of some other entry and exit points on the NTS and not specific to Milford Haven. The ECR proposal was to **restrict the release of Obligated Weekly NTS Capacity and Obligated Monthly NTS Entry Capacity at Milford Haven ASEP between May – October 2022**, with a commitment of releasing a level of capacity in excess of any summer capacity flows that we had seen historically via weekly or daily auctions if the specific system conditions allowed. This was to maximise the capacity available to customers whilst limiting the release of entry capacity above the physical network capability, and reducing the risk of incurring consequential costs for industry.

As a reminder, we have various tools and options in place to resolve a constraint (please see [link](#) for a detailed explanation on existing commercial constraint management tools), each with different cost implications for the industry, and ultimately end consumers. These include initially scaling back interruptible or off-peak capacity (at no cost), and if necessary, then taking locational actions and buybacks. To encourage us to resolve constraints efficiently and maximise capacity release NGG is incentivised under its Gas Transporter Licence via the Capacity Constraint Management (CCM) incentive scheme.

The CCM scheme is a traditional target, cap and collar scheme. Performance is measured by summing up several cost and revenue components over an incentive year, comparing the value to the target and applying a sharing factor (subject to a cap and collar). The RIIO2 scheme collar (and cap) is set at £5.2m per annum. This means that **any constraint management costs above £5.2m will be passed through to Shippers in their entirety and ultimately to end consumers.**

In the scenario we looked at ahead of proposing the change to the methodology:

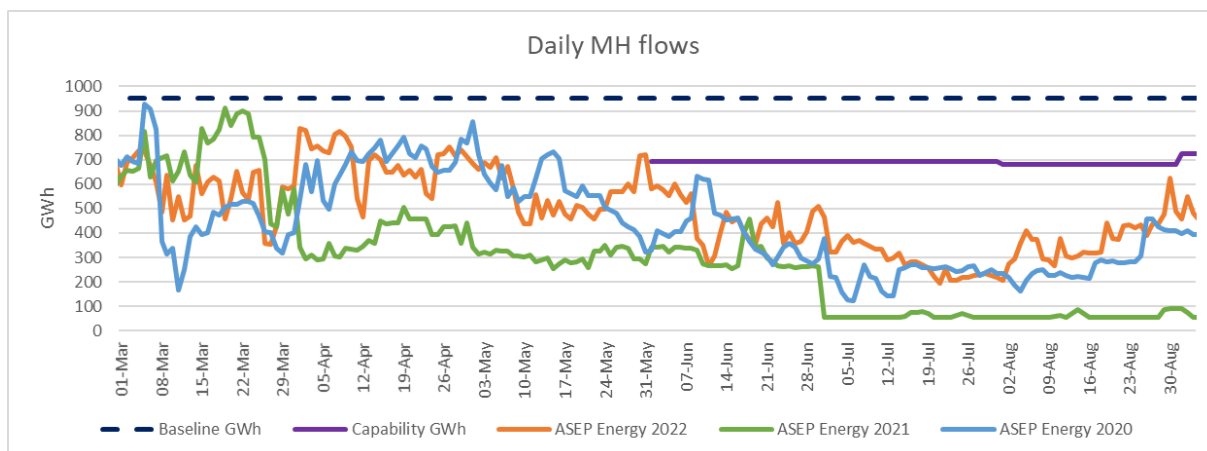
- We estimated that the cost could equate from £180m (cost of Locational sells and some corresponding buys) to £500m (buybacks). The estimate was based on 30 days of constraints, a 20 mcm/d constraint and gas price at £3 therm and a buy/sell differential of £1)

- The constraint quantity was based on a maximised flow view of circa 85 mcm/d (approx. baseline at Milford Haven) vs a network capability of circa 65 mcm/d (average summer capability at that entry point)
- The number of days was based on a month
- The gas price was based on the gas price at the time – circa £3 per therm. We recognise that gas prices can go up as well as down, and the costs could be impacted by an ongoing constraint (likely to increase prices) which this scenario did not cover

The key objective behind proposing the change to the ECR was to protect our customers and end consumers from cost exposure associated to an unprecedented global events.

The [ECR proposal](#) was approved by Ofgem in May 2022 and enabled us to restrict the release of baseline capacity at the Milford Haven entry point. Although better understood, the global markets remain volatile and the risk remains, as such we have since engaged in discussions with the industry to find a solution which would limit the risk of high constraint management costs at Milford Haven in summer 2023. The record of these discussions can be found on the Join Office [website](#).

We have been providing regular updates to the industry on the levels of sold and unsold baseline capacity as well as the network capability and flows at Milford Haven this summer. A graphical summary of flows can be found below.



**August and September 2022 data has not closed out*

The quantity of gas delivered via the Milford Haven ASEP has increased by 145% when comparing June – September 2021 and the same period in 2022. The graph above provides the breakdown of gas deliver for the previous three years. For the majority of the summer period in 2022, there have been large quantities of unsold capacity and flows have been below the restricted NTS system capability.

To start the survey, please follow the link [Milford Haven Survey](#) or you can scan the QR code below on your smart phone / tablet.

