

## Representation

### Draft Modification Report

#### **0376 and 0376A: Increased Choice when Applying for NTS Exit Capacity**

**Consultation close out date:** 06 January 2012  
**Respond to:** enquiries@gasgovernance.co.uk  
**Organisation:** National Grid NTS  
**Representative:** Fergus Healy  
**Date of Representation:** 06 January 2012

#### **Do you support or oppose implementation?**

**0376** - Qualified Support

**0376A** – Support

#### **If either 0376 or 0376A were to be implemented, which would be your preference?**

Prefer 0376A

#### **Please summarise (in one paragraph) the key reason(s) for your support/opposition.**

National Grid NTS view both Modifications as being an improvement upon the existing application processes for Enduring Annual NTS Exit (Flat) Capacity, in that they give Users the flexibility to request an Ad-hoc Application start date beyond Y+4 and to vary the start date of an application in the July Application window to include dates in addition to the 1 October. National Grid NTS recognises that these particular changes may benefit all Users and National Grid NTS.

However National Grid NTS is concerned that the reduction of the Ad-hoc Application threshold from 10GWh/day to 1GWh/day, as outlined within 0376, may not result in the most economic and efficient investment outcome. As such National Grid NTS has only Qualified Support for 0376 and a preference for 0376A.

## **Are there any new or additional issues that you believe should be recorded in the Modification Report?**

As stated above National Grid NTS is concerned that the reduction in the Ad-hoc threshold may not result in the most economic and efficient outcome when investment decisions are being made. National Grid NTS is concerned that the reduction in the Ad-hoc Application threshold may result in the Ad-hoc Application process rather than the July Application Window becoming the principle means of booking Enduring Annual NTS Exit (Flat) Capacity.

Such a change in behaviour may result in National Grid NTS having to assess the majority of applications for Enduring NTS Exit (Flat) Capacity on an individual basis i.e. staggered throughout the year. This may result in National Grid NTS having to assess and respond to market signals received in isolation, compared to the current process whereby the majority of signals are received at the same time (via the July Application Window) and therefore considered in the round as part of a single investment decision/process. Such a staggered process may not result in the most economic and efficient outcome.

A further consequence of this change in behaviour would be its impact upon National Grid NTS' existing Network Analysis resource. Currently National Grid NTS is able to plan for and allocate this key resource when it will be most required, the impact on this resource cannot be fully understood without knowing in advance both the number of applications and the likely dates of submission. However National Grid NTS recognises that this risk may be mitigated by early contact and discussion with National Grid NTS regarding the scope of future projects and may largely be removed through signing a Pre Construction Agreement.

### Self Governance Statements:

As stated above National Grid NTS is concerned that the reduction in the Ad-hoc Application process threshold as outlined within 0376 may impact upon the Enduring Annual NTS Exit (Flat) Capacity application processes the consequences of which may lead to investment decisions that do not result in the most economic and efficient outcome.

As such National Grid NTS has concerns that this may not meet the Self Governance Criterion that the modification is unlikely to have an adverse impact on: (i) (aa) existing or future gas consumers and (i) (bb) competition in the shipping, transportation or supply of gas.

Although National Grid NTS recognises that the impact of 0376 on User behaviour is still uncertain (and may or may not result in an adverse impact) and do not believe there to be the same issue for 0376A, there may be merit in both 0376 and 0376A being subject to regulatory oversight.

## Relevant Objectives:

National Grid NTS for the most part agrees that the implementation of both Modification 0376 and 0376A would better facilitate the achievement of relevant objectives (c) and (d)(i).

In respect of relevant objective (c), by enabling applications during the annual Application Window for specified dates other than 01 October there is the potential for this to result in more efficient investment by National Grid NTS and lower costs to customers. If Users can specify a non 01 October start date because this suits their development time frame, then investment by National Grid NTS could be made on a timelier basis to meet the needs of the customer. It has been stated that this means that National Grid NTS can invest "Just in time" and costs can be minimised for customers because they do not have to pay for capacity during periods when they cannot make use of it. Whilst National Grid NTS agrees that costs for the customer that makes the application will be minimised, it does not necessarily mean that National Grid NTS will make it's investment in a timelier manner. Whilst there may be occasions (i.e. when the User requests a start date that is late within the Gas Year) that gives National Grid NTS additional time to complete its build, National Grid NTS does not build during the Winter period and as such, most of the investment will have been completed prior to the commencement of the Gas Year for which the Capacity was required.

National Grid NTS agrees that by extending ad hoc applications from Y+4 to Y+6, Users may give more advance notice to National Grid NTS of their capacity requirements. This increased notice should allow National Grid NTS to plan and invest in the network in a more efficient manner, undertaking activities at the most cost effective time and in the most efficient manner. This would therefore facilitate achievement of GT Licence obligations regarding economic and efficient system development, supporting better facilitation of Relevant Objective (c).

National Grid NTS recognises that reducing the ad-hoc threshold from 10 to 1GWh as proposed by 0376 may assist system planning and investment by enabling a more accurate investment signal through signalling the appropriate demand, but is not convinced that the current threshold would lead Users to overstate their capacity requirement. For the reasons outlined above National Grid NTS is concerned that reducing the threshold could discourage use of the annual application process and force National Grid NTS to manage the applications throughout the year. This may lead to increased costs and be inefficient, as the most efficient outcome from a system planning process is one that takes account of the full spectrum of likely demands rather than looking at each in isolation.

In respect of relevant objective (d), National Grid NTS agrees that where a User wants to commission a CCGT starting in April and if that User applies for Enduring Annual NTS Exit (Flat) Capacity to be registered with effect from 01 October (6 months earlier than the date that is required) the User has to pay exit capacity charges for those months even though they cannot use the capacity. The proposed change would therefore better enable facilitation of relevant objective (d) because it ensures that parties face the costs that they are responsible for and so improves cost targeting. In addition it offers the prospect of avoiding unwarranted costs and so exerting downward pressure on market prices, supporting effective competition.

National Grid NTS recognises that reducing the ad-hoc threshold from 10 to 1GWh as proposed by 0376 may assist some Users to signal their appropriate level of demand but is not convinced that the current threshold would lead Users to overstate their capacity requirement. It is the also the view of National Grid NTS that any such benefit may be offset, were increased volumes processed through the Ad-hoc process as a result of the threshold reduction, as spare capacity would be allocated to the initial application on a first come first served basis and so not be available to others. There is therefore a risk that capacity allocations might be less appropriate with the lower threshold which may be counter to securing effective competition.

### **Impacts and Costs:**

*What analysis, development and ongoing costs would you face if these modifications were implemented?*

ROM costs of approximately £190k, for both 0376 and 0376A have been identified by xoserve. National Grid NTS would face 25% of these costs.

Were 0376 to be implemented National Grid NTS may face additional operational and process costs arising from an increase in Ad-hoc applications.

### **Implementation:**

*What lead-time would you wish to see prior to these modifications being implemented, and why?*

The implementation date to be confirmed following completion of the analysis phase of system development and agreed between National Grid NTS and the Joint Office.

### **Legal Text:**

*Are you satisfied that the legal text will deliver the intent of each modification?*

Yes

### **Is there anything further you wish to be taken into account?**

*Please provide any additional comments, supporting analysis, or other information that that you believe should be taken into account or you wish to emphasise.*

No