nationalgrid

Capacity Access Review: Strategy Consultation

January 2020

1. Introduction

This consultation has been written by National Grid NTS, in its role as owner and operator of the Gas National Transmission System (NTS) in Great Britain. The primary purpose of this consultation is to seek industry views on the strategy for the future capacity access regime and short-term issues with the current framework. In this document we aim to outline the context of the review and our proposed approach and to setting the long-term strategy.

The subject matter of this consultation has been discussed at the UNC Transmission Workgroup since August 2019. These discussions led to the Capacity Access Review UNC 0705 Request being raised in October. Included in the Request are a series of short-term issues with the current capacity access regime that industry stakeholders have raised. This has since been further refined at Workgroup and included in Section 9 of this consultation document. As part of UNC Transmission Workgroup, an ambition statement has been drafted and the functions required for the future capacity access regime were developed and included in sections 6 and 7. In issuing this consultation we invite stakeholders from the wider industry to provide views on what users want a future regime to deliver, our approach to establishing the long-term capacity access regime and any short-term issues not yet identified.

Please email your responses to Ashley.Adams@NationalGrid.com and Jennifer.Randall@NationalGrid.com by Thursday 20th February 2020.

2. The Current Capacity Regime

The current capacity regime in the UK centres around a "ticket to ride" principle where users of the NTS buy capacity which provides them with the daily right to flow gas onto, and offtake gas from the NTS. Users need to hold one unit of capacity to flow one unit of energy on to, or off the system at specified locations. This capacity can be traded between users.

Capacity is made available at both entry and exit points through a range of different capacity release processes**.** Entry capacity is made available at Aggregated System Entry Points (ASEPs) and entitles the user to flow gas on to the NTS. National Grid are obligated to offer a baseline level of firm entry capacity plus any incremental entry capacity signalled with sufficient user commitment. National Grid may also release non-obligated firm entry capacity at its discretion. In addition to firm entry capacity National Grid also releases interruptible entry capacity.

Exit capacity entitles the user to offtake gas from the NTS. Similarly to entry capacity, National Grid is obligated to offer a baseline level of firm exit capacity plus any incremental exit capacity signalled with sufficient user commitment and National Grid may also release non-obligated firm exit capacity at its discretion. In addition to firm exit capacity National Grid also releases off-peak exit capacity.

More information on capacity can be found in National Grid's Capacity Guidelines

3. Why are we Reviewing the Capacity Access Regime?

The current entry and exit capacity arrangements for users to access the NTS were built on the foundations of an expanding gas transmission network. Historically, incremental capacity signals from long-term auctions would trigger investment on the NTS. Today, this environment has changed, we are not experiencing the capacity signals requiring expansion of the network we were 10 years ago. It is likely that we will see further changes within the next 10 years, with the potential introduction of new technologies and new sources of gas to the network such as Hydrogen. With this change in NTS use and the needs and behaviours of its users, there is requirement for a holistic review of the current capacity access regime, to ensure it can deliver on the needs of our customers and National Grid as TSO both today and in the future. At the October 2019 UNC Modification Panel, it was unanimously decided to send Capacity Access Review UNC 0705R to Transmission Workgroup.

4. Scope

The scope of the Capacity Access Review will continue to evolve as discussions progress. However, to date it has been identified that in scope will include both the Entry and Exit capacity regime and it will also follow on from the outputs of the baseline review discussions held as part of RIIO-2. Out of scope will be discussion of the 50/50 revenue split between Entry and Exit as it is thought this topic is more appropriate for inclusion in the Charging Review. The Capacity Access Review will also be limited to pure capacity aspects, meaning Network Exit Agreements (NExAs), Network Entry Agreements (NEAs) and issues relating to gas quality are out of scope. Any changes made will be compliant with EU law, however there will be no assumption that rules applied at interconnection points as part of EU legislation must be the same as rules applied at domestic points.

5. Approach

The approach to the Capacity Access Review is to commence at a strategic level by developing a long-term strategy that will help guide the direction of the Review. This approach will ensure that any improvements or solutions to the short-term problems are consistent with the long-term goals of the regime, reducing the need for further changes in forthcoming years. The long-term strategy will be developed in three layers;

1. **Ambition Statement** – This is a high-level overview of the features the future regime should aspire to meet. The draft Ambition Statement can be found in Section 6.

2. **Functions** – highlight **"what"** is needed from a future regime and will set the criteria that any new/amended regime must fulfil. An overview of these functions, and views on how well the current capacity regime meets these functions, is in Section 7.

3. **Principles -** These will look at **"how"** we will deliver the ambition statement and functions identified in the above two layers. More about how the principles shall be developed can be found in Section 8.

Short-term issues identified by customers will be considered, concurrently to the continued development of the long-term strategy. Any solutions proposed should be consistent with the long-term ambition. Conversely, the resolution of short-term issues may help inform the long-term strategy. A balance will be struck between addressing short-term issues on an individual basis with reviewing topics within capacity on a more holistic basis. Section 9 provides more detail on the short-term issues raised to date.

6. Ambition Statement

The following draft ambition statement for the future capacity regime has been developed with Transmission Workgroup.

"The future capacity access regime will be compliant with any relevant obligations. It will be flexible to changing market conditions, regimes, requirements and physical network developments. It will be simple and will enable new entrants to access the market easily and efficiently. It will not unfairly discriminate. It will provide cost effective products which drive consumer value. It will be dynamic and adaptable to accommodate new technologies and sources of gas to the NTS as progression is made to meet decarbonisation targets."

This consultation is seeking further feedback on the validity of the ambition statement, and any suggested amendments.

7. Functions of a Future Capacity Access Regime

Identifying the required future functions of the capacity access regime will enable understanding of **"what"** the future regime needs to deliver. This has also been discussed at Transmission Workgroup. Below are the functions of a future capacity access regime developed as part of Transmission Workgroup. Alongside the identified functions is a brief outline of some of the discussion that has taken place to date.

A. Signal a need for capacity requirements

When customers signal a capacity requirement, National Grid require a strong financial hurdle to be met to protect consumers from unnecessary costs and risk of stranded assets. Initial industry feedback has indicated that users feel that the current regime is too overbearing, inflexible and expensive to signal need for investment.

B. Manage network access where there is a short-term constraint

Any regime should allow National Grid to forecast potential constraints and take both commercial and non-commercial mitigating actions. Feedback received so far suggests that constraints do not occur often enough for this function to be adequately assessed. However, it was also agreed that if there were to be a constraint any capacity regime must be able to suitably manage network access.

C. Provide users with commercial certainty on network access

Some users feel that while the current capacity regime provides them practical certainty on product, and the commercial right to flow, users do not have certainty on how much they will pay due to Forecasted Contract Capacity changing yearly.

D. Collect transporter allowed revenue

Although transporter allowed revenue is currently collected, the majority of revenue is collected through commodity charges rather than capacity charges. Under proposed changes to the charging methodology, a higher proportion of transporter allowed revenue will be collected through capacity charges. It is expected that the current capacity regime will allow this to happen.

E. Enable new entrants, including new sources of gas and technologies, to easily and efficiently access the NTS

Industry feel that it is important for National Grid to act in an expedient manner in relation to the way the NTS is accessed by new entrants. Risks and costs of any actions taken would have to be considered, but it is important that this function is delivered as part of the future capacity access regime.

This consultation is seeking further feedback on the validity of the functions listed above, and how well the current capacity access regime meets them.

8. Principles

The ambition statement and functions in sections 6 and 7 outline **"what"** we want the new regime to deliver. In addition to this, we plan to review the underlying principles of the capacity regime which will establish **"how"** these ambitions and functions will be fulfilled.

By establishing the ambition statement and the required functions we have attempted to strike a balance between acknowledging the future but not to the extent that it will delay the resolution of industry issues. Therefore, more work will be needed to gain clarity on the principles and **"how"** the future regime needs to develop. By linking in closely with the work ongoing through the Gas Markets Plan (GMaP), signals will be identified which indicate which pathway the GB gas market is heading towards and the timescales involved. This work will assist in clarifying the view of the future and therefore will inform what we need to deliver as a market as a whole (capacity, balancing, gas quality, connections etc.). This will form the basis of future capacity access regime principles and will be developed concurrently to the resolution of short-term issues. By firstly establishing a clear ambition and functions, we do not aim to immediately solve the requirements for the future but simply acknowledge that anything we deliver today will need be cohesive with the vision of the future and deliver end consumer value.

In order to build a capacity regime that will continue to be effective in the future we must acknowledge factors that may have future impacts on regime developments and behaviours. Although outputs from GMaP will guide the future principles there are also projects already in

motion that are likely to have impacts on this review, a brief outline of some of these has been given below.

RIIO T2 – As part of the RIIO-2 business plan, National Grid has developed metrics that show the level of physical capability of the NTS at the start of RIIO-2, based on documented network analysis and stated assumptions, with the asset base that is proposed within the December Business Plan. There are no significant changes to the proposed levels of physical network capability during RIIO-2. As we look further out towards 2030 the business plan assumes that, due to asset life issues and compression emissions legislation, it may be necessary to decommission certain compressors. This could potentially result in a reduced Network Capability in future.

Baselines - Capacity baselines are a key feature within the current commercial regime in the GB gas market. They provide certainty for the market that capacity will be released up to certain level, with a financial risk/reward based incentive scheme that encourages the release of extra capacity to the market if there's a demand for it.

As part of our RIIO2 business plans National Grid considered whether the current levels of capacity baseline obligations are appropriate.

As part of this consideration National Grid believe there is scope to reduce entry capacity baselines at St Fergus and Theddlethorpe. Whilst this is not expected to have significant impact on the capacity access review, it may open the door to potential new capacity products such as "dormant" or "mothballed" capacity.

Changes to Charging Regime - Amendments to Gas Transmission Charging Regime are likely to impact the way in which capacity is purchased and therefore most likely cause changes to the capacity booking behaviors that we have seen previously. Ofgem published a minded to position in December 2019 in favour of UNC Modification 678A. For the purpose of this review we will use the minded to position to indicate the direction of travel of the charging regime and alter this if Ofgem's position on UNC Modification 678A is to change going forwards. UNC Modification 678A uses a Postage Stamp reference price methodology. If this modification is implemented all capacity will have a non-zero reserve price, a higher proportion of revenue would be expected to be recovered by National Grid through capacity charges rather than commodity charges and average capacity prices could therefore be expected to increase. There is still uncertainty on exactly how this could impact capacity booking behaviors, however there are potential implications on the capacity access regime.

9. Short-Term Issues

At Transmission Workgroup in November, National Grid presented a table of short-term issues with the current capacity regime that have been highlighted by industry members. After further industry feedback these were elaborated on and the following table of issues, along with the feedback received, was constructed. It is important to note that this is a list of all issues that have been raised by interested parties so far. It does not necessarily reflect National Grid's opinion or a wider industry consensus. It is hoped that by publishing this consultation we will be able to seek more information on current issues and use this to facilitate discussion on how and when to address them.

A	Overruns	Are **Over-run** charges appropriate?	• Is the incentive appropriate particularly with the introduction of the Charging Review. • Anomaly that zero over-run charge maybe possible • Longer-term: review basis of overrun charges in light of change of behaviours following Charging Review	Governance
B	Signalling & Allocation of Capacity	Are the **PARCA** processes (including User Commitment) appropriate?	• Can the timescales for the substitution process be reduced? • Can rules be made clearer, simpler? More clarity on process methodology. • Affected Users able to respond to potential Substitution considered during the Annual Application Window • Exchanges of NTS exit capacity between NTS exit points within same exit zone where capacity does not go above baseline • Should User Commitment be applied to every enduring capacity release? • Could a zonal capacity regime be an alternative?	UNC / Methodology
		Are the **substitution** processes (including User Commitment) appropriate?		
		Could a **zonal** capacity regime be introduced?		
		Are there any issues with **Trade and Transfer**? Are **Retainers** still required?		Are the rules contained in the right place?
C	Capacity Products & Auctions	Are new products required or redundant products?	• Development of a "mothballed" capacity product following baseline review at Theddlethorpe • Development of a "tradeable" entry capacity product • Within day, shorter term capacity product development Incentive for advance, long-term capacity bookings? • Disaggregating NTS Exit capacity purchases for embedded "large" offtakes from DN capacity bookings. • Temperature / seasonal based product • Flexibility product	

Fig. 1.

10. Next Steps

The long-term strategy will be developed continually as we progress through the review process. Industry behaviours will need to be monitored going forwards particularly in relation to capacity booking behaviours after the implementation of UNC Modification 678A.

In addition to this, GMaP has done, and continues to do, work to identify likely and potential future transformations of the NTS. As we progress through the Capacity Access Review it is possible that we may see certain triggers that will add clarity to the direction in which the GB gas market is heading. The Capacity Access Review will have an ongoing workstream to understand what these triggers mean to the underlying principles of a future access regime.

11. Consultation Questions

Below are a series of questions we would like to understand your views on.

General questions

Q.1 Do you wish your consultation response to remain anonymous?

Q.2 How would you describe your interest within the gas industry? E.g. (Shipper, Distribution Network, Storage Facility Operator etc.)

Long-Term Ambition Statement

Q.3 On a scale of 1-10, (1-very strongly disagree, 10-very strongly agree). Do you agree with the long-term ambition statement set out by National Grid NTS is section 6?

Q.4 Do you have any other comments to add regarding the ambition statement?

Future Functions

Q.5 On a scale of 1-10, (1-very strongly disagree, 10-very strongly agree) Do you agree with the following functions set out by National Grid NTS in section 7.

Q.5a Signal a need for capacity requirements.

Q.5b Manage network access where there is a short-term constraint.

Q.5c Provide users with commercial certainty on network access.

Q.5d Collect Transporter allowed revenue.

Q.5e Enable new entrants, including new sources of gas and technologies, to easily and efficiently access the NTS.

Q.6 Do you have any other comments regarding the 5 future functions?

Short-Term Issues

Q.7 Are there any other issues you are experiencing with the current regime that are not outlined in Section 9 Fig. 1?

Any questions or responses to this consultation should be directed to Ashley Adams and Jennifer Randall at Ashley.Adams@nationalgrid.com and Jennifer.Randall@NationalGrid.com

Responses should be received by Thursday 20th February 2020.

Following this consultation, a response letter will be published by National Grid NTS in March 2020 which will outline the responses received to this consultation and what we plan to do as a result.