

By email

Jennifer Randall
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20th February 2020

RE: National Grid Gas' Consultation on the Capacity Access Review

Dear Jennifer,

South Hook Gas Company Ltd (SHG) is grateful for the opportunity to respond to your consultation on the Capacity Access Review consultation. We have participated in the discussions on this matter at Transmission Workgroup and share our comments below. We are happy for this response to the consultation to be published.

SHG is an NTS shipper that holds and manages the primary capacity at the South Hook LNG Terminal located at Milford Haven in South Wales. Since commercial operations commenced in 2009, SHG has supplied natural gas into the NTS every day.

Please find our response to your questions on Future Functions of the Capacity Access Review below:

A) Signal a need for capacity requirements

In 2018 SHG applied for a PARCA (Planning and Advanced Reservation of Capacity Agreement) in respect of incremental entry capacity for the Milford Haven ASEP. Such application is currently in Phase 2. SHG understands the requirement within the capacity regime for a strong financial commitment from Users when an investment signal is triggered. However, as SHG has noted from its PARCA application, the current rules require a minimum amount of capacity to be signalled in addition to this financial commitment, which results in an inflexible and expensive signal which is not necessarily reflective of the costs incurred by NGG in respect of the subject matter of the PARCA. This is further exacerbated by the implementation of GTCR which contains floating prices that are significantly higher than under the existing regime and are based on cost recovery rather than marginal costs. Therefore, SHG believes there should be further development on the funded incremental user commitment test to understand whether it is still appropriate to require both a financial and minimum duration element.

In addition, the current substitution methodology requires Users to signal a minimum of 16 quarters of Entry Capacity which results in the cost of substitution exceeding the cost of funded incremental capacity at a number of NTS Entry Points. This is excessive for a process which has minimal, if any, cost to NGG.

The future regime needs to ensure that the user commitment test for both substituted and incremental capacity are reflective of the costs incurred to ensure efficient capacity bookings and economic signals by parties that are investing in GB.

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

While we note the feedback that suggests constraints do not occur often enough for this to be assessed, we do have some general concerns around the commercial arrangements for constraints. The current commercial arrangements were set up for a different gas supply environment and do not reflect the costs associated with the LNG supply chain. The costs associated with diverting an LNG cargo, which is the eventual consequence of a capacity constraint, are all realised on the first therm to be constrained and as such the existing commercial remedy regime, where capacity is compensated on a daily basis, is not appropriate to LNG. Therefore, SHG would welcome a review of the commercial arrangements for dealing with short-term constraints.

C) Provide users with commercial certainty on network access

There is a high degree of uncertainty currently around capacity costs as a result of the Gas Transmission Charging Review (GTCR) and UNC Modification 0678 and alternatives. This uncertainty stems from the implementation of a new NTS charging methodology and the subsequent step changes in prices but also the ongoing changes associated with the introduction of this new regime (e.g. floating prices, FCC changes). Whilst the changes under GTCR are being undertaken separate to the Capacity Access Review, SHG would welcome more flexibility within the capacity regime (such as flexible capacity products) to allow Users to better manage this uncertainty.

D) Collect transporter allowed revenue

No additional comments

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

As mentioned previously in A), SHG believes the current User Commitment test for incremental (substitution and funded incremental) capacity is excessively high, therefore this could create high barriers to entry and act as a deterrent to new entrants. The future regime needs to address these issues to help facilitate economic connections to the NTS.

We hope this response is of assistance and should you wish to discuss further or have any further questions please contact me on abates@southhookgas.com or +44 (0)20 7234 3505.

Yours sincerely,

Adam Bates

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