

**Entry Capacity Baseline Questions Arising from UNC Transmission  
Workstream discussion 1<sup>st</sup> February 2007.**

Written questions were submitted by:

1. The group detailed below,
2. BP; and
3. Scottish and Southern Energy.

**1. Group submission of questions**

Raised by Roddy Monroe and Stuart Waudby of Centrica Storage Ltd, Mike Young of British Gas Trading, Alex Barnes of BG Group, Steve Rose of RWE npower and John Baldwin of CNG Services.

Would Ofgem please address the following concerns:

BUY BACK RISK

- 1) Final Proposal included a net 13% reduction in baseline levels. Assuming that Ofgem's stated objective of maintaining consistent levels of buy back risk from one control to another has been applied, what factors have led to this reduction?
- 2) Do Ofgem believe the level of buy back risk, NG are exposed to, has reduced under this price control?
  - a) If yes, has this been reflected in changes to the SO incentive, or any other aspect of the price control package and if so how?.
  - b) If no, how do Ofgem intend to police risk i.e. to ensure that entry buy back risk level remains the same from the current price control (with baselines set at 90% of maximum physical capability) into the new price control period (with baselines reduced by 13% combined with the introduction of a capacity transfer mechanism).
- 3) Does Ofgem envisage proposed baselines increasing (re-instatement of part/all of the net 13% reduction) as a result of the transfer mechanism? NG's proposal suggests that only unsold baseline can be transferred from a donor to recipient ASEP and it is difficult therefore to see how this could happen.
- 4) What is Ofgem's view of the scale of the perceived buy back risks shippers would have been exposed to:
  - a) had Mod 129 not been approved?
  - b) had the baselines not been reduced from their current levels?
- 5) Did the buyback costs incurred at Teesside and St Fergus in July 07 influence the setting of the final baselines in the Northern Triangle and if so how?

- 6) Is it the case that buy back risk now seems to be used as a reason to restrict gas input when it was intended to be an incentive for National Grid to provide physical capacity economically?
- 7) Did Ofgem consider changes to the buy back mechanism, incentives or capacity management tools before forcing a change to the UK supply pattern based on the perceived incentive risk to the transporter?
- 8) Did Ofgem take into account the 5% Flow Margin when calculating the buy-back risk to the transporter?
- 9) Could the SO incentive could be changed between price control periods if it is found that the transporter significantly outperforms in years 1 and 2 as a result of the large baseline reductions?
- 10) What timetable was assumed for the transporter to meet the capacity transfer mechanism obligation (for both unsold and trading of sold capacity) when it approved Proposal 0129?

#### NON DISCRIMINATION

- 1) Could details be provided of how baseline reduction was allocated in a non-discriminatory manner and in particular, why reductions appear to have been concentrated at Teesside, Barrow, Theddlethorpe and 3 LNG facilities?
- 2) Could further details be provided as to how honouring of sold capacity in setting baselines impact upon setting baselines of physical capability?

#### BETTER REGULATION PRACTICE / REGULATORY STABILITY

- 1) Could Ofgem explain how the baseline reduction conforms to the commitment given by Ofgem at the last price control for stability in baselines between price control periods?
- 2) Could Ofgem provide details of what changed between their Updated Proposals and the Final Proposals that resulted in the significant reduction in baselines, and the rationale for not allowing consultation on these material changes?
- 3) Could Ofgem provide a view on the impact of new baselines upon the future requirement for Incremental Capacity, which may be signalled at Terminals where there are reductions (i.e. real increment vs re-instatement of existing)?
- 4) Could Ofgem state whether baselines in the Final Proposals can be changed prior to the new price control period commencing 1<sup>st</sup> April 2007?
- 5) Could Ofgem state whether Ofgem they have ever made any changes for any price control as a result of comments made in response to formal Gas Act Section 23 consultation Or the electricity equivalent

#### METHODOLOGY

- 1) Do Ofgem believe that the results of the last auction have been different if Users had known that available baseline would depend upon the results? (Current entry capacity auctions were intended to create signals for

investment through incremental bids. There was no incentive to secure long term entry capacity at ASEPs where baseline was plentiful). This was a clear and predictable result of Ofgem and National Grid's design of the entry capacity regime, compounded by its insistence on discounting of near time capacity products, including the availability of interruptible capacity even where firm capacity is still available.

- 2) Given that the methodology described at the 1 February 2007 workstream involved use of public domain information, Ofgem are requested to release a copy of their final spreadsheet so that the industry can confirm that baseline reductions have been implemented in an equitable and transparent manner.
- 3) Could Ofgem explain whether the Final Proposal baselines included increases that were not as a result of signals from LTSEC auctions, and if they were included, how these were calculated, and the reasons for including such increases?
- 4) Could Ofgem confirm whether actual physical flows at any terminal were not a factor in the baseline reduction at Teesside and anywhere else?
- 5) Could Ofgem confirm that the basecase forecast gas flows for 2007-8 and future years, as set out in National Grid's 2006 Ten Year Statement, were not taken into account in the baseline reductions for Teesside and anywhere else (eg National Grid LNG?)
- 6) Did Ofgem set baselines at such a level so as to encourage a transfer market?

## **2. BP submitted questions (Andrew Pearce)**

BP notes that the baselines that have been published in the Transmission Price Control final proposals document are substantially lower than those published in the initial and the updated proposals. For example, we are particularly concerned with the baseline of 361 GWh published for Teesside representing a reduction of around 53% from the current baseline. This new baseline could see capacity constraints at Teesside which did not exist in the current price control, and will deter and shutout additional supplies which would otherwise be made through LNG and the offshore network from being delivered into the NTS. BP would be interested to see how Ofgem arrived at the final baseline figures.

- 1) Can you explain why Grain capacity has been reduced below what it has actually flowed and Bacton increased by a similar amount? These entry points are both supplying the same demand basin.
- 2) On what basis have you decided to reduce capacity at some terminals?
- 3) In deciding the baseline did you take into account the projected volumes of new capacity that have been signalled to arrive at or did you just look at what capacity had been sold in the LTSEC auctions?
- 4) Are capacity transfers only available between entry points within zones?
- 5) Could you explain the 13% difference in overall baseline capacity between the two Price Controls.

- 6) Why has exposure to buyback risk been reduced? How is that set against the expected increase in revenues because of the change in bidding behaviours that could be seen at terminals that have seen capacities reduced changes.

**3. Scottish and Southern Energy Submitted question (Jeff Chandler)**

BASELINE ALLOCATION AT HORNSEA

In the September 2006 QSEC auction SSE signalled a permanently obligated investment at Hornsea from 175 GWh/day to 198.3 GWh./day.

This permanently obligated investment signal was subsequently accepted by Ofgem.

At the UNC Transmission Workstream on 1 Feb, Ofgem indicated that capacity that had been booked in auctions had been used to decide baselines in the Final Proposals.

SSE is therefore, curious why the proposed baseline for Hornsea has been set at 164 GWh/day and not 198.3 GWh/day.