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Dear Andrew,

Re: Ofgem letter dated 19th February 2014 – Direction to amend Final Modification Report of UNC454 ‘Introduction of a Long Term Non Firm Capacity Product’

As proposer of UNC Modification 0454: ‘Introduction of a Long Term Non Firm Capacity Product’ (LTNF), National Grid NTS welcomes the opportunity given to consider and address the issues raised concerning the modification, as detailed in your letter of 19th February 2014.

This matter was raised and discussed within Workgroup 0454 with a view to clarifying the modification where possible. However following discussion at the April 2014 Transmission Workgroup it is apparent that the Workgroup still believe that the proposal is clear and addresses the concerns raised. However, the Workgroup did amend the Final Modification Report to further provide clarity and ask that National Grid NTS, as Proposer, consider what, if any, further action should be taken in respect of this modification.

After considering the feedback received from the Workgroup National Grid NTS does not consider that any additional amendments could be made to the Final Modification Report that would satisfy the concerns raised¹. Subsequently we recommended to the May 2014 Transmission Workgroup that Modification 0454 should be returned to the Panel (and subsequently Ofgem) in its current form, this was supported by the Workgroup.

To aid further consideration of these matters we believe that it is worth noting the following points:

1. Provision of sufficient evidence or criteria to justify the release of discretionary capacity to certain users on an exclusive basis in the light of NGG’s obligation not to discriminate between users.

- The purpose of Modification 0454 is to address a specific industry concern where a User has committed to incremental firm capacity but their project will be ready ahead of the date that the incremental firm capacity will be available. The LTNF product will be made available to all Users who are affected by these circumstances.
- This modification is a practical response to customer requests for a solution to a set of specific circumstances and could be implemented straight away.
- The release of LTNF capacity is triggered by a User request for incremental capacity.
- A User may only request LTNF capacity for up to one Gas Year at a time; with each request assessed separately.

¹ Please note that the modification itself cannot be amended at this stage in the modification process.

- The LTNF product will be available to all Users to request, should they meet the criteria and wish to use it.
- A quantity of LTNF capacity released to one User will not affect the release of LTNF capacity to another User in the same period if they meet the criteria and choose to place a request. The request would be considered independently.
- Discretionary capacity products may be available to Users in other circumstances as per the current arrangements.
- Daily Off-peak NTS Exit Capacity and Interruptible NTS Entry Capacity will continue to be made available on the same basis as today.
- The release of LTNF capacity will not affect the release of the existing capacity products

2. The criteria used to determine what and how much discretionary capacity will be available for use as LTNF (and not made available for other users, if that is the case).

- LTNF Source:
 - LTNF capacity will be released in the form of Monthly NTS Capacity coupled with a mandated Option Agreement to buyback on every day of the year. Please note that although we are utilising non obligated Firm NTS Capacity as the vehicle for releasing capacity this product the mandated nature of the Option Agreement sets this apart from Firm Capacity and together these components replicate the characteristics of a long term interruptible product.
 - The LTNF product will not have any impact on our obligation to release existing capacity products or on any customers' existing long term firm holdings.
 - LTNF capacity can only be released where there is no firm capacity available for release at the relevant location for the relevant period and will be sold in addition to all existing capacity products.
 - LTNF capacity would only be released where analysis has concluded that the release of additional firm capacity would not be consistent with the Licence required Pipeline Security Standard (otherwise known as 1-in-20 peak aggregate daily demand). We would only reject a request for LTNF if we determined that it would not be feasible for a User to utilise the LTNF capacity on at least one day of the requested period. As such where a User has provided an incremental signal and subsequently requests that LTNF be released, it will be released, and therefore it is not discretionary.
 - Substitution of capacity from other locations will not be considered in order to meet a LTNF capacity request (but would have been considered as part of the original incremental request in accordance with the Entry/Exit Capacity Substitution Methodology Statements).
- LTNF Quantity
 - The quantity will be as requested by the User, which cannot exceed the relevant incremental signal.

3. The criteria for determining when the LTNF buyback option will be exercised, and in particular the order in which it will be exercised compared to other products that are subject to curtailment.

- A constraint will be identified and managed consistent with current UNC rules and processes and the System Management Principles Statement (SMPS). If UNC Modification 0454 is approved, the SMPS will be updated accordingly during the next review cycle.
- Daily Interruptible/Off-peak Capacity will be curtailed first.
- The LTNF Buyback Option will then be considered alongside any other offers for Firm Capacity (i.e. offers taken off in price order as per the SMPS)

We appreciate that Ofgem have concerns regarding whether or not LTNF capacity is a firm or interruptible product and that Modification 0454 could perhaps have been more explicit, however we do believe that Modification 0454 makes it sufficiently clear that LTNF capacity, when considering its component parts together, is not a firm product. Based on feedback received from the Industry, the solution was structured to enable the industry and ourselves to utilise existing system functionality therefore better facilitating a timely and cost effective solution. To achieve this we are utilising both existing firm product system functionality and Buyback functionality and linking them together through the UNC to provide a capacity product that has a mandated buyback, hence we do not believe that this is a firm product.

Following discussions of these issues, clarity has been added to the Final Modification Report, where possible, by the workgroup. Beyond these clarifications, we feel that it would not be appropriate to alter the solution proposed at this stage in the modification process. The workgroup have made it clear that they do not consider the LTNF capacity product as discriminatory and are satisfied with the discussions held regarding the issues raised.

We appreciate the effort taken by Ofgem and the industry to discuss and clarify the issues raised by Modification 0454, and await the Authority's decision on whether to direct the implementation of Modification 0454.

Many thanks for the opportunity to discuss these concerns.

Yours Sincerely,

Steve Fisher
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