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28th October 2016

National Grid Transmission (NTS) Consultation on Capacity Substitution Methodology Statements

Dear Alison,

National Grid Gas Distribution Limited (NGGDL) does not support NTS' proposed amendment to the Exit Capacity Substitution Methodology Statement.

NTS Exit Capacity arrangements have been in place for a number of years now, with Distribution Network Operators (DNO) experiencing varying degrees of success utilising the numerous facets of the regime. Exit Capacity Substitution is one area that is under review, and will be the focus of this response. We welcome the opportunity to share our views through this consultation.

Exit Capacity Substitution

The consultation has identified two areas for review:

1. Merit order of substitution donor points: substitution of baselines from disconnected sites should be prioritised over live sites, and;
2. Shorten the substitution lead time from 1st October Y+4 to 1st October Y+2 to better align to the PARCA process.

With regard to the merit order of substitution donor points, NGGDL supports the proposal to prioritise the substitution of baselines from disconnected sites over live sites. Compared to a live DNO Exit Point, the risk posed to a disconnected site of not meeting its license obligation, is extremely low. For this reason, NGGDL supports this proposal.

Shortening of Substitution Lead Time to Y+2

Whilst we recognize the value in shortening the substitution lead time, and indeed, welcome any initiative that enables an earlier connection to the gas network, if this particular proposal were to come into effect, it could pose a significant risk to a DNO meeting its 1-in-20 Peak Day obligations. NGGDL believe that the shorter time scales may be appropriate for disconnected sites, but for a DNO, this is not the case.

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The key issues are addressed in the following sections.

Uncertainty Over Demand

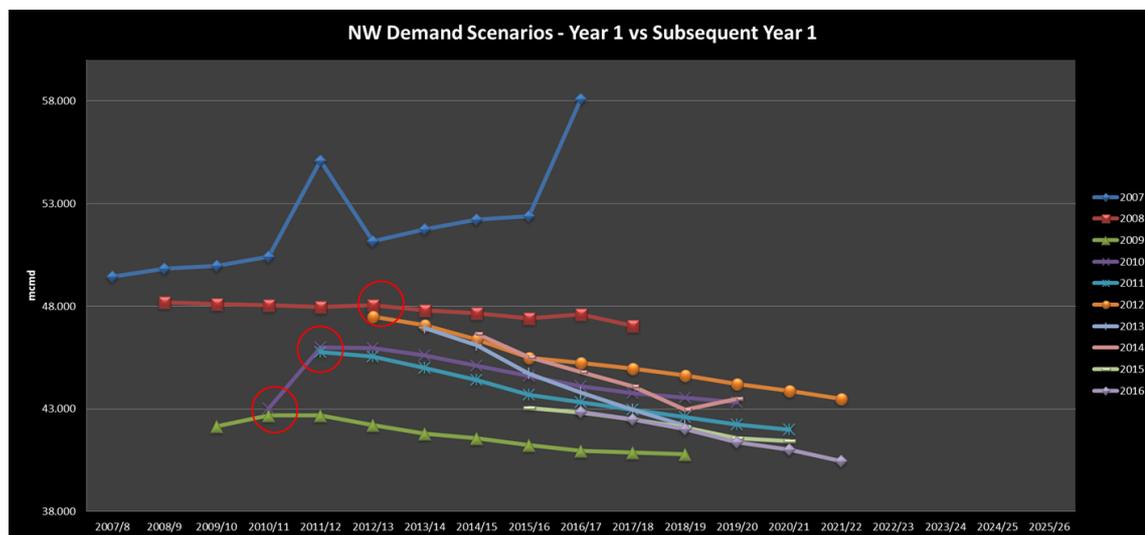
As demand ‘forecasts’ are no longer provided, the advent of the demand ‘scenario’ has made it more difficult to determine Peak Day demand levels. Whilst the general long-term trend may point to a down-turn, fluctuations from one year to the next, can result in Peak Day requirements increasing.

Analysis of the last 10 years Peak Day demand forecasts for each of NGGDL’s five LDZs, indicates that on average, the forecast will rise on at least 3 occasions i.e. there is a 30% chance of next year’s forecast being higher than the current year.

Table 1
 Approved Demand Forecasts – NW LDZ

	2007/8	2008/9	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
PLAN	mcmd	mcmd	mcmd	mcmd	mcmd	mcmd	mcmd	mcmd	mcmd	mcmd	mcmd	mcmd	mcmd	mcmd	mcmd
2007	49.452	49.814	49.980	50.402	55.096	51.170	51.736	52.211	52.396	58.076					
2008		48.197	48.105	48.061	47.960	48.043	47.800	47.662	47.414	47.596	47.061				
2009			42.152	42.691	42.680	42.217	41.799	41.568	41.238	40.956	40.873	40.801			
2010				43.021	46.001	45.950	45.608	45.106	44.605	44.100	43.777	43.547	43.310		
2011					45.762	45.538	44.982	44.413	43.669	43.310	42.951	42.585	42.225	41.990	
2012						47.500	47.076	46.367	45.500	45.252	44.967	44.630	44.204	43.882	43.498
2013							46.936	46.104	44.718	43.781	42.947	42.193			
2014								46.670	45.530	44.803	44.103	42.947	43.492		
2015									43.036	42.808	42.487	42.095	41.577	41.438	
2016										42.835	42.488	42.012	41.387	41.008	40.463

Chart 1



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Putting this into context, a DNO that books capacity efficiently, in line with the most up-to-date forecast, could potentially have insufficient capacity available to meet the 1-in-20 obligation at an offtake where substitution has taken place. Compared to the current Y+4 lead time, the Y+2 proposal leaves no practical lead time to invest in the Network in order to remain compliant.

Factors Affecting Demand

- Fuel Price Sensitivity
 - With fuel prices changing on a daily basis, being able to factor these in to a long-term forecast is extremely difficult
- Changes to CWV (DESC)
 - 2 years ago, the Uniform Network Code (UNC) Demand Estimation Sub-Committee (DESC) approved a change in the algorithm which determines the Composite Weather Variable (CWV). This change impacted the Peak Day forecasts for a number of LDZs
 - The next review of the CWV is in 3 years' time, and there is a possibility of the forecasts being impacted again
- The closer the time frame, the greater the likelihood of receiving better, more accurate data. Thus, altering the forecast.

Lead Time to Invest in Network

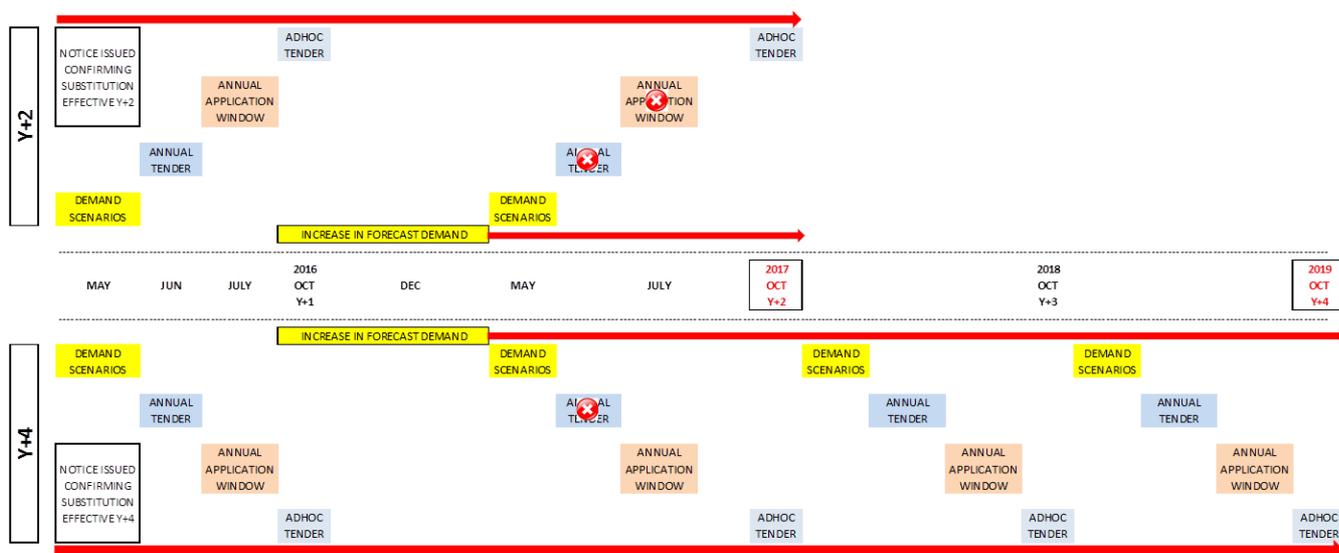
Under the existing arrangements, there are a number of options available to the DNO in the event substitution has taken effect, and it is unable to satisfy 1-in-20 obligations at an offtake in Y+4:

- Annual Application Window (* 3 years)
 - Short-term purchase of Annual Capacity
 - Increase to Enduring Annual Capacity
- DN Interruption
 - Annual Tender * 2
 - Adhoc Tender * 3

Under the current proposal to move to a Y+2, with no practical lead time to invest, the only remaining option available to the DNO would be the Adhoc DN Interruption Tender. This would commence after the completion of the Annual Tender in July of each year. With each Tender taking four months to complete, that would venture into November i.e. after the start of the Gas Year.

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Chart 2 - Timeline



It must also be pointed out that due to the limited success of past Tenders, there is no reason to believe that the outcome of future Tenders will be any different. Thus, leaving the DNO unable to remain compliant.

Conclusion

In consideration of the above information, NGGDL believes that if the Y+2 proposal were to come into effect, then with no practical lead time available to invest, the DNO would be left with little choice but to maintain capacity holdings significantly above what is required per the forecast. Thus, it is felt that the proposal would drive a fundamental inefficiency in design and operation of the gas network.

Our opinion is that DN Transportation Charges could need to be set above the level required to maintain an efficient Network leading to a material and adverse effect on gas customers.

Consequently, this inefficiency could have the effect of driving up NTS exit capacity unit rates in the longer term. This would have direct downstream impact to DN Transportation charges, which are set to recover exit capacity costs levied by NTS.

Taking these factors into consideration, we are unable to support the NTS proposal in respect of shortened substitution lead times.

Yours sincerely,

Chris Warner

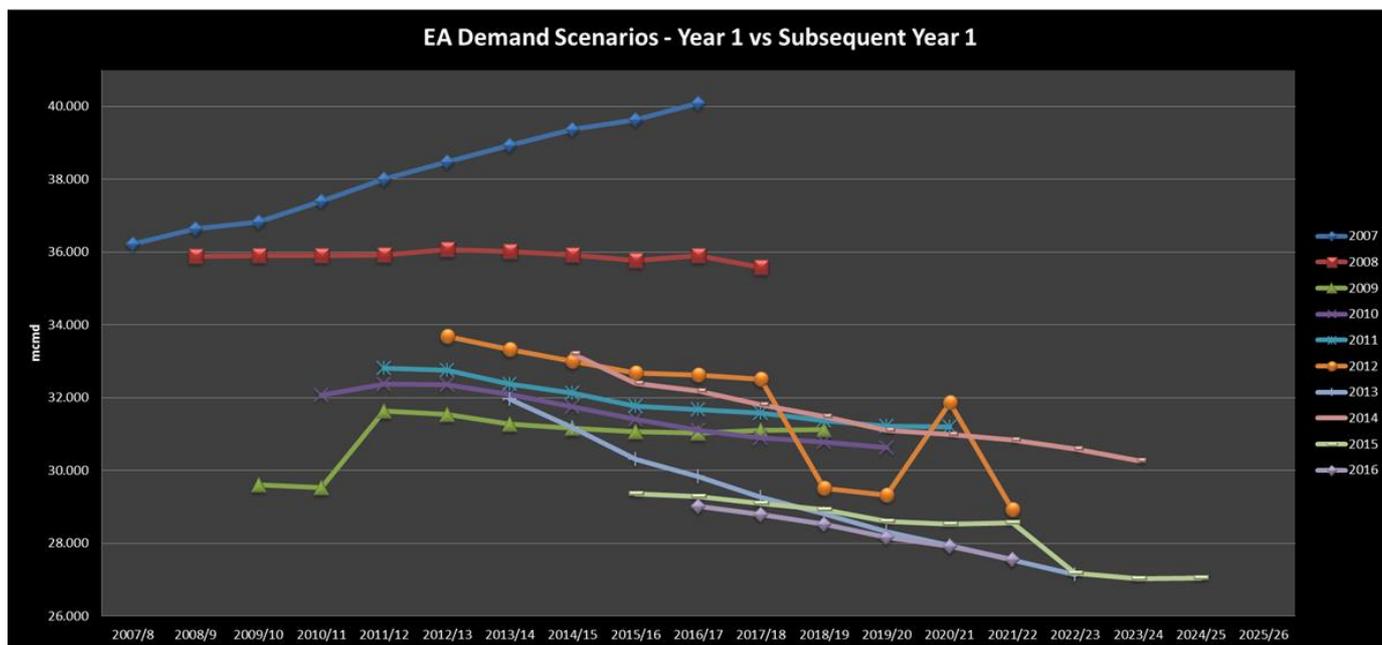
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Appendix

LDZ Demand Forecasts

East Anglia LDZ

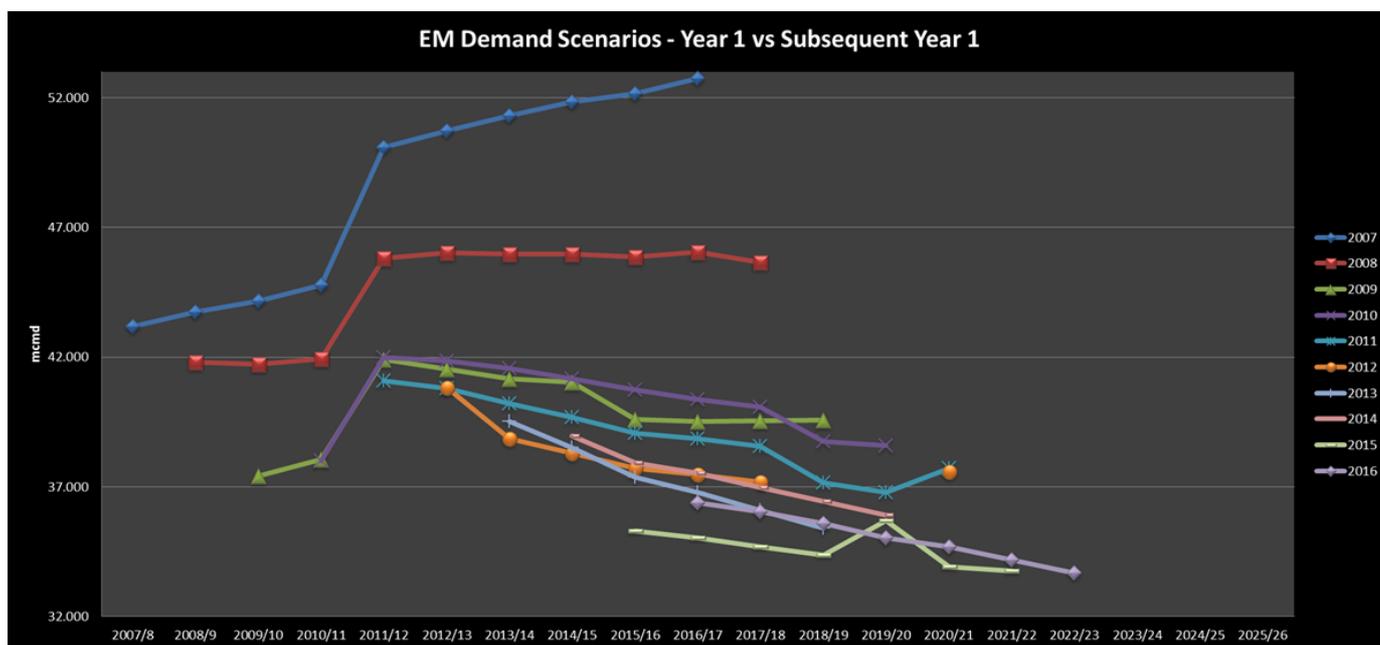
	2007/8	2008/9	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
PLAN	mcmd	mcmd	mcmd	mcmd	mcmd	mcmd	mcmd	mcmd	mcmd	mcmd	mcmd	mcmd	mcmd	mcmd	mcmd	mcmd	mcmd	mcmd
2007	36.225	36.646	36.832	37.406	38.013	38.485	38.937	39.380	39.646	40.099								
2008		35.893	35.902	35.899	35.922	36.066	36.019	35.920	35.776	35.911	35.574							
2009			29.605	29.536	31.634	31.541	31.282	31.163	31.076	31.040	31.100	31.126						
2010				32.069	32.380	32.358	32.093	31.748	31.418	31.108	30.904	30.780	30.636					
2011					32.817	32.759	32.379	32.127	31.762	31.669	31.579	31.368	31.220	31.207				
2012						33.685	33.318	33.003	32.679	32.619	32.506	29.510	29.330	31.865	28.933			
2013							31.963	31.188	30.301	29.844	29.266	28.816	28.319	27.937	27.536	27.136		
2014								33.202	32.399	32.191	31.814	31.490	31.115	30.999	30.832	30.593	30.268	
2015									29.358	29.287	29.093	28.925	28.596	28.525	28.563	27.175	27.033	27.055
2016										29.028	28.802	28.528	28.160	27.921	27.563			



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East Midlands LDZ

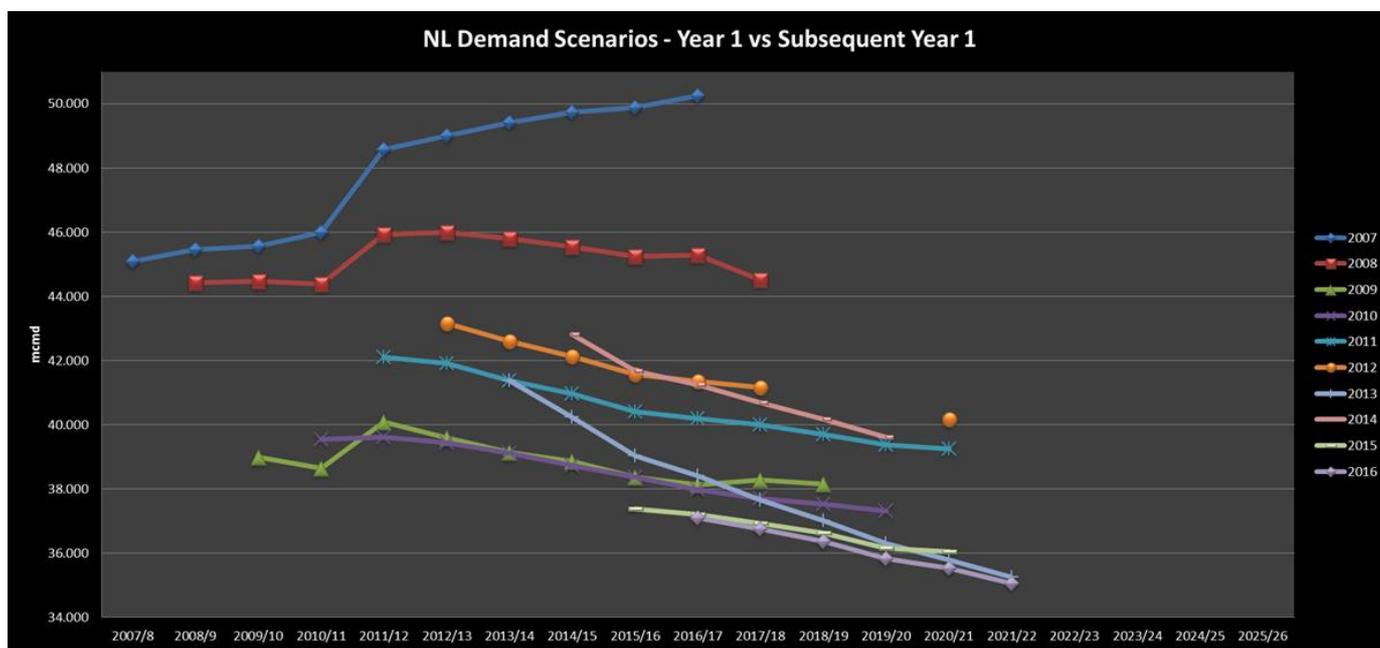
	2007/8	2008/9	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
PLAN	mcmd	mcmd	mcmd	mcmd	mcmd	mcmd	mcmd	mcmd	mcmd	mcmd	mcmd	mcmd	mcmd	mcmd	mcmd	mcmd
2007	43.194	43.732	44.176	44.777	50.089	50.709	51.302	51.833	52.147	52.746						
2008		41.812	41.737	41.932	45.799	46.013	45.971	45.969	45.856	46.055	45.640					
2009			37.412	38.070	41.911	41.541	41.175	41.029	39.594	39.512	39.556	39.564				
2010				38.009	41.999	41.864	41.576	41.166	40.752	40.365	40.087	38.760	38.600			
2011					41.078	40.799	40.208	39.673	39.058	38.849	38.564	37.158	36.790	37.727		
2012						40.830	38.845	38.311	37.714	37.474	37.173			37.595		
2013							39.520	38.510	37.379	36.781	36.092	35.418				
2014								38.968	37.933	37.533	36.976	36.453	35.917			
2015									35.309	35.040	34.702	34.375	35.706	33.911	33.753	
2016										36.399	36.043	35.594	35.041	34.684	34.175	33.683



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North London LDZ

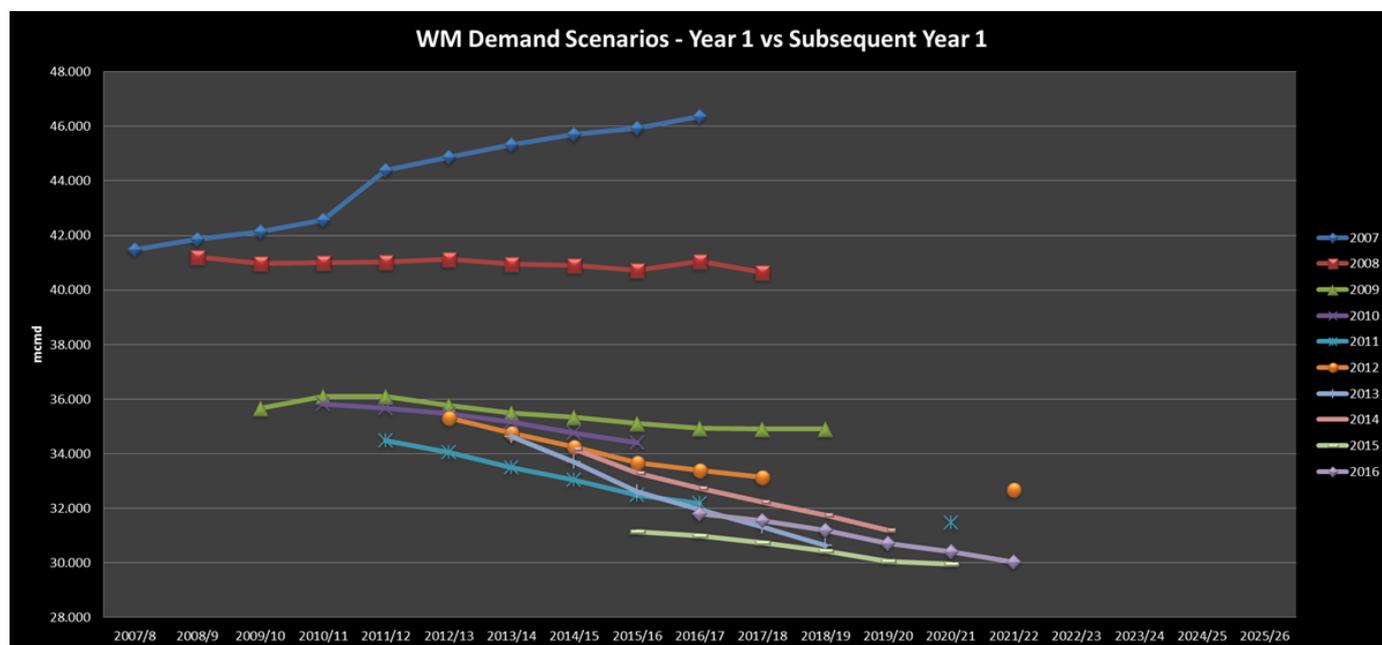
	2007/8	2008/9	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
PLAN	mcmd	mcmd	mcmd	mcmd	mcmd	mcmd	mcmd	mcmd	mcmd	mcmd	mcmd	mcmd	mcmd	mcmd	mcmd
2007	45.095	45.451	45.569	45.991	48.569	49.005	49.404	49.732	49.895	50.257					
2008		44.437	44.475	44.379	45.936	45.999	45.801	45.553	45.253	45.289	44.507				
2009			38.999	38.645	40.079	39.605	39.144	38.861	38.362	38.143	38.279	38.147			
2010				39.547	39.608	39.439	39.121	38.725	38.361	37.974	37.713	37.527	37.308		
2011					42.115	41.915	41.382	40.963	40.402	40.195	40.007	39.708	39.371	39.251	
2012						43.170	42.612	42.119	41.575	41.366	41.153			40.169	
2013							41.369	40.235	39.037	38.404	37.668	37.017	36.311	35.794	35.258
2014								42.808	41.687	41.249	40.700	40.181	39.620		
2015									37.388	37.212	36.936	36.632	36.155	36.053	
2016										37.100	36.765	36.361	35.843	35.525	35.062



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West Midlands LDZ

	2007/8	2008/9	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
PLAN	mcmd	mcmd	mcmd	mcmd	mcmd	mcmd	mcmd	mcmd	mcmd	mcmd	mcmd	mcmd	mcmd	mcmd	mcmd
2007	41.484	41.856	42.130	42.567	44.387	44.861	45.323	45.708	45.942	46.351					
2008		41.200	40.980	41.000	41.030	41.120	40.950	40.890	40.720	41.050	40.640				
2009			35.660	36.090	36.100	35.770	35.480	35.350	35.116	34.938	34.917	34.902			
2010				35.820	35.670	35.470	35.170	34.770	34.410						
2011					34.475	34.042	33.485	33.029	32.474	32.187					31.470
2012						35.320	34.770	34.260	33.670	33.390	33.150				32.690
2013							34.639	33.688	32.610	31.955	31.311	30.650			
2014								34.189	33.287	32.726	32.220	31.744	31.206		
2015									31.156	30.989	30.750	30.448	30.049	29.963	
2016										31.791	31.556	31.189	30.712	30.423	30.028



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