



Energy for  
generations

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### **Forecasted Contracted Capacity (FCC) Methodology Consultation**

Dear Colin

ESB Generation and Trading (ESB GT) welcomes the opportunity to respond to this consultation concerning changes to the FCC methodology.

We appreciate the constructive engagement and openness shown by your team during the review process, and, in particular, the responsiveness to input and suggestions from members of the group.

It is clear that the original FCC discussions under UNC0621 and UNC0678 were insufficiently detailed and lacking in experimental analysis, in part due to time pressure and coincident volume of work on many aspects of charging reform. Workgroup members raised concerns about the current FCC methodology at the time of development; some of these points have proved useful in the 2021 revision. A continued approach based on understanding the sensitivity of inputs and outputs to assumptions, the range of possible outcomes and the key drivers behind them, should support further improvements in accuracy. We can be sure, however, that any forecast will not achieve perfect foresight, and even a full year of capacity bookings will not provide for a completely accurate forecast in the future.

ESB GT welcomes NGG's commitment to monitor and discuss the FCC methodology and its outputs against bookings at NTSCMF in order to ensure timely communication of issues and continued development of the methodology, although we would prefer this to be formally declared in the methodology statement.

Answers to your consultation questions are provided in the Annex below.

Should you require clarification of any points raised, please get in touch by email reply.

Yours sincerely

Kirsty Ingham  
Commercial & Regulation Manager, UK  
ESB GT

## Annex: consultation question responses

### Question 1: Do you support the use of the principles within the FCC Methodology?

Within the Methodology document, the Principles are:

- The methodology will facilitate creation of an annual value for FCC for all Entry and Exit Points as an input to the Postage Stamp (PS) model
- The FCC is an integral input to the PS model
- The methodology statement contains the steps used to calculate the FCC

ESB GT supports the use of a clear and transparent methodology for calculation of the annual FCC.

Within the consultation document, the principles outlined are the core elements of the calculation method proposed. These are:

- Use of historical flow data, normalised to reflect FES forecasts for the year Y
- Use of capacity utilisation factors appropriate to the regime
- Taking inputs into account rather than taking a straight maximum
- Monthly granularity for Entry points, reflecting usage of existing contracts
- Requirement for transparency on use of exceptions to the methodology in order to derive FCC values at specific points

ESB GT also supports these key principles.

#### **Exceptions**

We note that on the use of exceptions, the Methodology document states at paragraph 22:

*“Where an approach other than that given in Chapter 3 is used, National Grid will outline along with publication of charges where this has been carried out.”*

ESB GT would prefer the transparency on exceptions to include information provision to the NTSCMF by NGG *ahead* of publication, while the FCC is at an early calculation stage. This should include the intention to utilise an exception, the grounds for its use and the proposed exceptional calculation method. This would allow NGG to increase transparency, to test its proposals with market participants and to gain useful insight. The FCC methodology review process in recent weeks has demonstrated the value of inputs from interested parties outside NGG, and also of taking a collaborative approach to arrive at an outcome that has a greater degree of shared ownership. ESB GT believes the FCC method and outcomes, and therefore the quality of charging outputs, will benefit from a continuation of this approach.

If exceptions are to be published only with the charges, we request the insertion of “*how*” in addition to “*where*” into paragraph 22 for increased transparency.

#### **Governance**

We also note on governance (Chapter 2), there are discrepancies between the consultation document and draft methodology proposal. The consultation suggests that review is open to

NTSCMF participants to raise grounds, while the methodology states that review is at NGG's discretion alone, followed by stakeholder consultation:

*"The FCC will be discussed at NTSCMF [sic] on an ongoing basis and if the [sic] anyone feels a review of the FCC Methodology could be required before the production of the next Gas Years Transmission Services Reserve Prices, this can be reviewed."* (Consultation document, p. 10)

*"9. Where National Grid believes it necessary to review or update the FCC Methodology, it will consult with Stakeholders. Following the consultation, if the FCC Methodology is revised, National Grid will notify industry of any revisions as part of the publication of charges. Any such consultation would be concluded in advance of setting the tariffs for the forthcoming Gas Year."* (Methodology, p. 7)

The consultation also states that NGG will monitor the FCC against actual flow and capacity data.

ESB GT believes the methodology statement should be clear on continued monitoring and that stakeholder inputs will be considered in contribution to NGG's decision to review, as well as to the consultation, if stakeholders are not explicitly able to request review. This could be addressed in paragraph 9 of the methodology statement. We appreciate similar points were raised previously during UNC0621 and UNC0678 workgroups. The events of recent months show the benefits of transparent monitoring and stakeholder discussion in making improvements to the FCC, and formalising their inclusion will be helpful.

## **Question 2: Do you agree that this FCC Methodology is an improvement on existing FCC Methodology which is in place currently?**

ESB GT believes that the revised FCC methodology is an improvement on the current methodology. We agree that it should result in an aggregate capacity value closer to actual capacity bookings. This is due to aiming to take closer consideration of different sectors and Shipper actions, and aligning to behaviours observed thus far under the Oct 2020 charging regime.

In terms of the detail of the changes, we suggest that the methodology statement could be further improved by inclusion of:

- A **definition of the sectors** which are referenced for averaging at 18 (c) ii for Entry and footnote 12 for Exit: this clarifies the method application.
- A **definition of normalisation** or improved description of this element's derivation and purpose, potentially as a footnote: normalisation can be used in many ways to adjust figures, therefore as a methodology statement it will be helpful to define the intention and method for adjustment in this case.
- **Consistent use of "historical"** as opposed to "historic": usually a point of pedantry, but in this it is case material as historic signifies exceptional or momentous data (e.g. historic peak demand), whereas the methodology is seeking to use all data from the past (e.g. historical flows).