

Response to CEER’s Blueprint on Incremental Capacity as issued 23 May 2013

National Grid welcomes the opportunity to respond to CEER’s proposed Blueprint on Incremental Capacity as issued 23 May 2013.

National Grid, through National Grid Gas plc (“NGG”), owns and operates the gas transmission system (and four of eight gas distribution systems) in Great Britain (GB). National Grid is an active participant of ENTSOG and will also feed into any response submitted by ENTSOG. In addition, we would like to take the opportunity to submit a response on behalf of National Grid.

National Grid has previously responded to the CEER Consultation on Market-Based Investment Procedures for Gas Infrastructure (14 September 2012) and it may be helpful to consider this response in the context of that previous response.

National Grid is supportive of many of the high level principles contained within the Blueprint and is pleased to see that it reflects (at a high level) many of the requirements that we (and other TSO’s and stakeholders) have signalled should be included, notably that:

- An incremental process must be; transparent, capable of being held frequently and that Users must be able to clearly calculate the level of commitment required to underpin the release of incremental capacity. However the key factor of any incremental capacity release process for National Grid continues to be the nature of the regulatory settlement that underpins it and would counsel against the development of an overly prescriptive incremental process and that a degree of flexibility be maintained throughout this process.
 - There are many advantages to both the Open Season and integrated auction approaches for incremental capacity and that any harmonisation of or introduction of high level principles to be applicable at a European level should seek to maintain the advantages from both processes where possible.
 - Any incremental processes introduced must be balanced between providing a transparent process that gives certainty to shippers whilst ensuring that the process isn’t overly complex and can be implemented for highly interconnected and interdependent systems. We agree that both Open Seasons and integrated auctions should provide the basis of the incremental capacity release process.
 - Any incremental process takes into account national legislation relating to planning requirements.
 - Any processes introduced should be limited solely to cross border points as was seen with both CMP and the CAM Code.
 - It incentivises economic and efficient outcomes facilitating the provision of clear investment signals by enabling the TSO to make long term investment decisions and ensuring that a TSO responds to a signal where it is economic and efficient to do so whilst also ensuring that Shippers are required to
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make a financial commitment for future capacity requirements, thus providing more certain signals to the TSO.

National Grid would however like to highlight a number of concerns with regards to the Incremental Blueprint and the process to be followed (as outlined at the CEER Workshop on the 3 June 2013):

- When to offer incremental capacity – any rules/guidelines for incremental capacity should be flexible enough to enable a TSO to launch a market test more frequently than every 2 years
- Mandatory Quotas – further detail is required on how any of the Technical Design options proposed within the Blueprint will cater for mandatory quotas in particular how this can be integrated into the CAM Long term auction algorithm whilst also considering how this may interact with CMP.
- Technical Design Options – we note CEERs recommendation of Technical Design 2 (parallel bidding ladders) for an integrated auction and Technical Design 3 (open seasons with demand curves) for Open Seasons, and agree that these options on initial view may seem to best achieve the stated aims of the Blueprint. However we do not believe that it is possible at this time, based on the detail within the Blueprint, to say with any degree of certainty whether these are the best options. To this end National Grid will reserve judgement until the options can be tested, preferably in a similar workshop process as that undertaken for the CAM Code.
- Economic Test – whilst we support the principle of a market test further clarity is required to ensure that it has the flexibility to cater for a variety of Regulatory Settlements, differing assessments of risk, etc.
- Tariffs – we recognise that it makes sense to take this forward alongside the work on tariffs, however as with the Technical Design options, this is a very complex area and the integration of the work on tariffs and the work on incremental will need to be brought closer together.
- Vehicle for delivery – if work undertaken identifies that changes to the CAM Long Term auction algorithm are required to ensure that an incremental process can be embedded within the auction, it is unclear how this would be done. The introduction of an incremental process via an annex to CAM may provide an opportunity for this to be done; some clarity on this would be helpful.
- Process – we are concerned that stakeholders have only been given 2 weeks to respond to the Blueprint, this is a complex area and whilst the Blueprint does not contain a great deal of detail there is a risk that this lack of detail in itself may reduce the benefit of this consultation. This is less of an issue if sufficient time is then given to stakeholders i.e. via workshops, to test the processes in much the same way as was done during the CAM Code process.

As stated above National Grid supports much of the work that has been done in this area and would have liked to have seen more time granted to enable stakeholders to respond in detail, however we recognise that there will be further opportunities for consultation in this area. National Grid is further concerned that the proposed timeline is very challenging and that insufficient time may be given to develop the incremental processes, it is our view that this is a very complex area and that the priority should be to put in place incremental processes that are sufficiently developed and robust, complexity itself should not be a

bar to this but it will need considerable engagement with stakeholders (i.e. via workshops etc) to achieve this.

If you have any questions regarding this response please contact Fergus Healy by email at Fergus.healy@nationalgrid.com or by phone on +44 (0)1926 65 5031.