

RE: National Grid's consultation on "The entry capacity substitution methodology statement"

Andrew,

Thank you for providing the opportunity to comment upon National Grid's consultation "The entry capacity substitution methodology statement". British Gas Trading (BGT) is pleased to offer comments only upon the proposed methodology; I apologise for the delay in responding.

- BGT understands that under this proposal, permanent substitution of capacity will take effect following any QSEC event where incremental capacity is satisfactorily demonstrated as being required, or at any other time where a new NTS entry point requiring capacity is signalled. Calculations will be based upon forecast flows, giving no material change to national Grid's buy-back risks.

- BGT notes that this constitutes a fundamental shift in the GB entry capacity regime, and wonders whether the wider industry has had sufficient opportunity to engage with the issues and consider the implications.

- Traditionally, we believe a LTSEC booking would signal an intention to flow gas on an average (possibly winter) day. With the introduction of a process that could permanently remove unsold capacity, we believe that Users might now feel obliged to book over longer time periods, and more importantly at expected peak flow rates, in order to guarantee getting their gas in. By doing this, we consider that NG will have less certainty about the actual gas flows associated with long term bookings.

- Securing capacity as described above will result in a greater likelihood of another user being required to signal incremental capacity. We wonder whether the outcome of this, over the longer term, might be that the system becomes over engineered - an inefficient outcome. It will also lead to a less flexible capacity acquisition process.

- We understand that for capacity substitution to be acceptable, the required capacity substitution must be available for the entire duration of the incremental capacity duration reasonably required by the recipient ASEP. On this basis, would it be possible for potential donor ASEPs to "reserve" their existing capacity by booking an occasional single quarter through the LTSEC process? If NG had the option to transfer that capacity anyway, but buy out that single quarter's requirement, would that constitute a material increase in risk? If this is possible, then we believe this could be a likely outcome, given the benefits of safeguarding existing capacity versus the alternative of having to signal additional entry capacity at a terminal because it has been previously substituted away.

- All possible implications regarding security of supply to GB and the efficient operation of the network need to be carefully considered. For example, unsold capacity might be moved away from Bacton, affecting the interconnector's ability to flow gas to the UK on a difficult day.

In order to prevent this, IUK shippers will be required to book long term capacity, even where it is unlikely that there will be any flow associated with that capacity. This process may restrict National Grid's ability to respond by removing too much flexibility from the system.

- GB still has notable indigenous quantities of gas, albeit in fields that are more difficult to exploit and possibly shorter duration than may historically have been considered economic. In order to maximise these, BGT believes that a degree of flexibility is needed within the system, and wonders whether the substitution methodology put forward erodes existing flexibility to too greater an extent such that these fields may never been developed.

- On the specific point raised by National grid in respect of efficient versus inefficient transfers, we do not consider that we are in a position to provide an absolute figure. We do believe that there is a cut-off point, below which transfers become inefficient. However, that figure can only be determined by taking into account a large number of factors, including the extent to which the industry is prepared to lose system flexibility e.g. the ability to respond to different flow patterns on a difficult day.

I hope that these comments are helpful in moving the debate forward.

Best Regards

CW