



National Grid Gas and other
interested parties

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value for all customers*

Your Ref:
Our Ref:
Direct Dial: 020 7901 7050
Email: robert.hull@ofgem.gov.uk

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Dear Colleague,

Consent to National Grid Gas in respect of their application to adjust investment lead times regarding the release of incremental capacity in the 2006 QSEC auctions

Ofgem¹ has considered the applications made by National Grid Gas plc ("NGG") on 19 May 2006 and 8 August 2006 under section C 2.3h of its Incremental Entry Capacity Release (IECR) methodology statement. Having regard to the principal objective and general duties of the Authority², and for the reasons set out in this letter, Ofgem has decided that it will consent to NGG's application.

This letter outlines the background to NGG's applications and gives the reasons for the decision.

National Grid Gas's first consultation

On 28 April 2006 NGG issued a consultation on its proposal to adjust the investment lead times in the 2006 Quarterly System Entry Capacity (QSEC) auction of entry capacity at the existing NTS entry points at:

- **Milford Haven** – from 3 years to 4 years for release of incremental capacity above 25% of the National Transmission System ("NTS") SO baseline
- **Bacton** – from 3 years to 4 years for release of incremental capacity above 20% of the NTS SO baseline
- **Easington** – from 3 years to 4 years for release of incremental capacity above 32% of the NTS SO baseline
- **St Fergus** – from 3 years to 4 years for the release of incremental capacity above 6% of the NTS SO baseline

The table below shows the incremental capacity that NGG proposes to be released compared with the current baseline.

¹ Ofgem is the Office of the Gas and Electricity Markets Authority. The terms 'Ofgem' and 'the Authority' are used interchangeably in this letter.

² Set out in Section 4AA of the Gas Act 1986, as amended.



Quarter	Milford Haven			St Fergus			Bacton			Easington		
	Baseline (GWh/day)	% above baseline	Total Cap (GWh/day)	Baseline (GWh/day)	% above baseline	Total Cap (GWh/day)	Baseline (GWh/day)	% above baseline	Total Cap (GWh/day)	Baseline (GWh/day)	% above baseline	Total Cap (GWh/day)
Q4 2009	950	25	1191	1677	6	1790	1745	20	2095	1062	32	1407
Q1 2010	950	25	1191	1677	6	1790	1745	20	2095	1062	32	1407
Q2 2010	950	25	1191	1677	6	1790	1745	20	2095	1062	32	1407
Q3 2010	950	25	1191	1677	6	1790	1745	20	2095	1062	32	1407

Table 1 – Amount of Incremental Capacity proposed to be released in the 2006 QSEC auction at Milford Haven, St Fergus, Bacton and Easington

In its consultation NGG stated:

- In respect of **Milford Haven**, that in order to deliver incremental capacity above the total capacity levels shown in Table 1, it would be necessary to design and construct a duplicate of the connecting pipeline that is currently under construction to extend the NTS. NGG mentions the specific challenges associated with the topography of the route required for the duplicate pipeline. NGG also specifies a number of factors it considers are beyond its control which affect the deliverability of such a project within three years including obtaining consents under the Environmental Impact Assessment regulations, planning permissions and easements from landowners;
- In respect of **Easington, Bacton and St Fergus**, that in order to deliver incremental capacity above the total capacity levels shown in Table 1, it would be necessary to design and construct 'greenfield' compressor stations. NGG notes that it has never been able to complete the design and build of any 'greenfield' compressor within a three year lead time due to factors such as local authority approval for the required planning consents (and the possibility of a full public enquiry). NGG also notes that compressors require a substantial design period in addition to extensive lead times for building and then installing complex machinery. NGG has estimated that the average time required from auction gate closure to commercial availability of a 'greenfield' compressor to be approximately 44 months; and
- Ofgem should have regard to the potential costs that shippers (and potentially customers) may be exposed to in the event of gas being restricted from flowing. NGG noted that significant costs could arise from any buy backs of capacity which had been offered for sale and sold.

National Grid Gas's second consultation

On 21 July 2006 NGG issued a consultation on its proposal to adjust the investment lead times in the 2006 QSEC auction of entry capacity at the new and existing entry points at

- **Fleetwood** – from 3 years to 4 years for release of incremental capacity in excess of 433 GWh/day
- **Cheshire** – from 3 years to 4 years for release of incremental capacity in excess of 111 GWh/day i.e. above 50% of the NTS SO baseline

Quarter	Fleetwood			Cheshire		
	Baseline (GWh/day)	Incremental Capacity (GWh/day)	Total Capacity (GWh/day)	Baseline (GWh/day)	Incremental Capacity (GWh/day)	Total Capacity (GWh/day)
Q4 2009	0	433	433	214	111	325
Q1 2010	0	433	433	214	111	325
Q2 2010	0	433	433	214	111	325
Q3 2010	0	433	433	214	111	325

Table 2 – Amount of Incremental Capacity proposed to be released in the 2006 QSEC auction at Fleetwood and Cheshire

The table above shows the incremental capacity that NGG proposes to be released compared with the current baseline.

In its consultation NGG stated that in respect of **Fleetwood** and **Cheshire**, which NGG assessed together since they use common sections of the transmission system in the North West, in order to deliver incremental capacity above the level shown in Table 2 in 3 years, it would be necessary to:

- Construct a new pipeline across the River Humber. NGG highlights that the complexity of such a crossing and the environmental sensitivity would require a suitable tunnelling technique. NGG also raises the possibility of significant factors which it feels are beyond its control which could delay the delivery of the project in a 3 year time period. The factors that NGG considers external are the timescales in obtaining consent under Environmental Impact Assessment regulations, planning permissions and easements from landowners.
- Construct new compressor units at Warrington, Alrewas and Hatton. NGG highlights that these compressors require a substantial design period, in addition to extensive lead times for building and then installing complex rotating machinery. NGG also highlights that such compressor reinforcement projects require local authority approval for the required planning consents, which they argue can be challenging to obtain especially where significant local objection is experienced and a full public enquiry is required.

Respondents' views to NGG's first consultation

NGG received three responses to its first consultation. Two respondents supported the proposals whilst one opposed it.

One respondent, despite supporting the proposal, was disappointed that it was necessary for NGG to seek exemption from a process which had been recently established and outlined in the IECR methodology statement. This respondent felt that the mechanics of obtaining consents are not transparent to system users and feel that more transparency could allow identification of where the process could be streamlined. The same respondent supported the publication of any restriction in advance of capacity being offered for sale and felt that this would allow users to understand the nature and cause of any restriction and allow them to challenge NGG or Ofgem, if necessary.

The other respondent which supported the proposals felt the potential costs of entry capacity being managed by the buy back of capacity would be borne by system users. This respondent felt that if planning processes were to be expedited for critical energy projects, as they stated had been intimated by recent government statements, then the lead times at these entry points should remain at three years. The same respondent urged Ofgem to weight the distribution of costs which are directly caused by the buy back of capacity towards NGG in order to sharpen the buy back incentives on NGG to provide much needed capacity within reasonable time scales.

The respondent which did not agree with the proposals felt that the proposal risks undermining the incentives on NGG to bear an appropriate share of the risk of underperformance in relation to, for example, the cost of buying back capacity rights if investment by NGG is not focussed and timely.

Respondents' views to NGG's second consultation

NGG received two responses to its second consultation. One respondent supported the proposal whilst one opposed it.

The respondent that supported the proposal, reiterated the views they had given to the first consultation. The respondent also suggested that capacity that has become stranded at a number of entry points as a result of field decline should be made available to other entry points, where possible, to avoid unnecessary investment and extended lead times.

The respondent that did not agree with the proposals in the second consultation, but agreed with the proposals in the first consultation, was concerned about creating precedents which could pave the way for further consents to increase investment lead times. The respondent felt that capacity should only be offered for sale when there is certainty about its availability and that if capacity has been sold and not delivered then users and customers could be faced with higher costs if NGG is required to buy back this capacity.

This respondent noted that the energy review clearly recognised difficulties in relation to securing planning approval and signalled possible changes to the planning regime to enable essential energy related engineering work to proceed with greater certainty and timeliness. The respondent considered that, in light of this, it was unable to accept NGG's arguments that delay is inevitable. The respondent went on to suggest that Ofgem should only accept an extremely robust case for increasing investment lead times since they are best placed to assess NGG's proposals and rationale. The respondent suggested this was of considerable importance given that users have not been party to discussions on the feasibility of suggested options or possible alternatives and are not therefore in a position to challenge proposals. They also noted that the arguments in the consultation for three new compressor units do not suggest any onerous engineering challenges specific to these works and that the arguments used by NGG regarding the challenges posed by the need to gain planning consents are general and do not raise specific concerns in relation to these projects.

Ofgem's view

Ofgem has decided to consent to NGG's applications, under the IECR methodology statement, to adjust investment lead times in respect of the release of incremental capacity in the 2006 QSEC auction as indicated in tables 1 and 2 above. In reaching this decision Ofgem has considered NGG's applications, the views expressed by respondents to NGG's consultation and the conclusions of independent consultants on the technical and engineering aspects of NGG's applications.

In respect of Milford Haven, Ofgem accepts that it is likely that a duplicate of the connecting pipeline that is currently being built would be needed to release incremental entry capacity above 25% of the NTS SO baseline, and that this pipeline is likely to take four years to construct.

In respect of Bacton, Easington and St Fergus, Ofgem considers that in order to deliver incremental capacity of 20%, 32% and 6%, respectively, above the NTS SO baseline it would be necessary to construct 'greenfield' compressor stations. Ofgem notes that independent analysis has concluded that such compressor stations would be expected to take 4 years to construct.

In respect of Fleetwood and Cheshire, Ofgem considers it reasonable that in order to deliver incremental capacity in excess of 433 GWh/day at Fleetwood and 111 GWh/Day at Cheshire, it would be necessary to build new compressors units at compressor stations

at Warrington, Abrewas and Hatton, Ofgem again notes that independent analysis has concluded that these projects are likely to take 4 years to construct.

In light of these conclusions, Ofgem does not consider that exposing consumers to the potentially high costs of buying back capacity would be appropriate and in their best interests given independent analysis suggests that there is a significant likelihood that works to provide the full amount of incremental capacity will not be completed within 3 years.

In relation to the more general points raised by respondents Ofgem notes that it is considering the nature and timing of any process for determining investment lead times as part of the ongoing transmission price control review process.

Authority's decision

Following consideration of the applications made by NGG under the IECR methodology statement and having regard to the Authority's principal objective and wider statutory duties and for the reasons set out above, the Authority has decided that it will consent to NGG's application to adjust investment lead times

- from three years to four years for release of incremental capacity above 25% of the NTS SO baseline at Milford Haven;
- from three years to four years for release of incremental capacity above 20% of the NTS SO baseline at Bacton;
- from three years to four years for release of incremental capacity above 32% of the NTS SO baseline at Easington;
- from three years to four years for release of incremental capacity above 6% of the NTS SO baseline at St Fergus;
- from three years to four years for release of incremental capacity in excess of 433 GWh/day at Fleetwood; and
- from three years to four years for release of incremental capacity in excess of 111 GWh/day at Cheshire

If you wish to discuss any aspect of this letter, Richard Miller (telephone 0141 331 6013) would be pleased to assist.

Yours sincerely



Robert Hull
Director, Transmission