

Issue	Revision
1.1	Informal Consultation

# **The Entry Capacity Release Methodology Statement**

**Effective from 1<sup>st</sup> May 2014**

## ENTRY CAPACITY RELEASE STATEMENT

### Document Revision History

Version/ Revision Number	Date of Issue	Notes
1.0	July 2002	
2.0	August 2003	Minor clarifications and price schedules for new entry points (Milford Haven and Barton Stacey) included
3.0	July 2004	Minor clarifications, price schedules removed to now only appear in the Transportation Statement
4.0	July/August 2004	Changes following consultation responses
4.1	July 2005	Proposed changes consultation
5.0	August 2005	Proposed changes agreed
5.1	14 September 2005	Proposed amendment to include formal consent process prior to adjusting investment lead times
5.2	30 September 2005	Final proposed amendment to include formal consent process prior to adjusting investment lead times incorporating consultation representations
6.0	6 <sup>th</sup> April 2006	Proposals for the introduction of a methodology for the determination of investment costs
6.1	11 <sup>th</sup> May 2006	Final proposals for the introduction of a methodology for the determination of investment costs
6.2	3 <sup>rd</sup> May 2007	Proposals to generate step prices from Transportation Model (following implementation of GCM01) and revise economic test. Updated to reflect Transmission Price Control Review Final Proposals. Format changes and general updating.
7.0	12 <sup>th</sup> June 2007	Changes following consultation responses
7.0	16 <sup>th</sup> July 2007	Authority approval

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7.1	May 2008	<p>Revised terminology to be consistent with new Licence drafting; diagram added to describe different capacity terms.</p> <p>Consistent with changes to the Licence, the emphasis has been changed to one of release of capacity instead of investing to deliver capacity. Changes of a minor nature to improve clarity or readability.</p> <p>Updating of references to Entry Capacity Substitution.</p> <p>Use of “prevailing” to acknowledge potential changes to obligated capacity levels.</p> <p>Reference to “project costs” changed to “project value” in respect of the provision of incremental capacity.</p> <p>Clarify Licence requirements before capacity is made available at new ASEPs and the role of the Authority in approving National Grid’s proposals. Clarification of processes for release of capacity under the “Accelerated Release” incentive.</p>
7.2	June 2008	Minor changes following industry consultation to improve clarity.
8.0	July 2008	V7.2 approved by the Authority.
8.1	August 2008	Amendment to error in final table of Appendix 2
8.2	May 2009	<p>Annual review and update.</p> <p>No changes made affecting the release of incremental capacity.</p> <p>Administrative and clarification changes made, specifically:</p> <ul style="list-style-type: none"> <li>• Removal of Appendix 1 which would have duplicated the 2009 Charging Methodology Statement which has been revised to include derivation of step prices.</li> <li>• Clarification added to sections on timing of release of capacity.</li> </ul>
8.3	June 2009	No further changes following consultation. Submitted to Authority for approval.
9.0	15 July 2009	Authority Approval
9.1	October 2009	Amendment to minimum incremental step size for new ASEPs and minor clarifications to the same section.
9.2	13 <sup>th</sup> November 2009	No further changes following consultation. Submitted to Authority for Approval
9.3	14 <sup>th</sup> January 2010	Authority Approval

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10.1	01 October 2010	Annual Review Consultation Draft. Requirement for ASEP to be included in the Licence and for Revenue Driver introduced. Update for entry capacity substitution. Reference to UNC modification proposal 246 (security) deleted following notice of non-implementation.
10.2	November 2010	No further changes following consultation. Submitted for Approval
11.0	December 2010	Authority Approval
11.1	September 2011	Annual Review Consultation Draft Minor updates
11.2	November 2011	No further changes following consultation. Submitted for Approval
12.0	December 2011	Authority Approval
12.1	October 2012	Annual Review Consultation Draft. Enhanced role for PCAs to enable delivery of capacity to required release dates without need to play permits.
12.2	November 2012	No further changes following consultation. Submitted for Approval
13.0	December 2012	Authority Approval subject to a number of minor clarifications.
0.1	July 2013	Updated for RIIO-T1. New terminology and Licence references; extended to cover non-incremental capacity release. Revised version number to reflect wider scope. Additional paragraphs to cover potential implementation of UNC Modification 0449
0.2	September 2013	Minor changes following industry consultation to improve clarity and correct drafting errors.
1.0		[Authority Approval] To be confirmed
1.1	September 2013	Annual Review (informal consultation) Updated to align to Modifications: 0452: Introduction of the Planning and Advanced Reservation Capacity Agreement (PARCA) and 0454: Introduction of a Long Term Non Firm Capacity Product

## ABOUT THIS STATEMENT

This Entry Capacity Release Methodology Statement (the “Statement”)<sup>1</sup>, describes the methodology that National Grid Gas plc (“National Grid”) in its role as holder of the Gas Transporter Licence in respect of the NTS<sup>2</sup> (“the Licence”) employs to determine whether to release **Entry Capacity**, and in what quantities, to Shipper Users. It defines under what circumstances National Grid will accept applications for **NTS Entry Capacity** received from Shipper Users through processes described in the Uniform Network Code (“UNC”), and thereby the level of financial commitment required from Shipper Users to justify the release of the quantity of **Obligated Entry Capacity**.

This Statement contains terminology relating to entry capacity which is used in the Licence and in the UNC. Licence defined capacity terms are given in **bold italics**; UNC defined terms appear in **bold**. Other defined terms used but not defined in this Statement shall have the meaning given to them in the UNC and/or Licence as appropriate.

This Statement is one of a suite of statements that describe processes relating to the release of **Entry Capacity** and **Exit Capacity** by National Grid and the methodologies behind them. The other statements are available on the National Grid website at:

<http://www.nationalgrid.com/uk/Gas/Charges/statements/transportation/>

One of the other statements referred to throughout this Statement is the “Statement of Gas Transmission Transportation Charging Methodology” which is incorporated in UNC TPD Section Y.

This Statement will be applied from 1<sup>st</sup> May 2014.

This Statement has been published by National Grid in accordance with paragraphs 6(a) and 6(c) of Special Condition 9B of the Licence. National Grid believes the content is consistent with its duties under the Gas Act and the Licence.

If you require further details about any of the information contained within this Statement or have comments on how it might be improved please contact our Gas Charging and Capacity Development team at [box.transmissioncapacityandcharging@nationalgrid.com](mailto:box.transmissioncapacityandcharging@nationalgrid.com) or at:

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<sup>1</sup> This Statement is often abbreviated to ECR and replaces the previous Statement known as the IECR.

<sup>2</sup> The gas National Transmission System

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## GENERAL INTRODUCTION

### Background

1. National Grid is the owner and the operator of the gas National Transmission System (NTS) in Great Britain.
2. The NTS plays an important role in facilitating the competitive gas market and helping to provide the UK with a secure gas supply. It is a network of pipelines, presently operated at pressures of up to 94 barg, which transports gas safely and efficiently from coastal terminals and storage facilities to exit points from the system. Exit points are predominantly connections to Distribution Networks (DNs), but also include storage sites, and direct connections to power stations, large industrial consumers and other systems, such as interconnectors to other countries.
3. These operations are carried out to meet the needs of the companies that supply gas to domestic, commercial and industrial consumers and to power stations.
4. This Statement sets out the methodology that applies for the release of **NTS Entry Capacity**. **NTS Entry Capacity** consists of:
  - **Firm NTS Entry Capacity**; and
  - **Interruptible NTS Entry Capacity**  
(both as defined in the UNC TPD Section B2.1.7).
5. **Firm NTS Entry Capacity** is predominantly made available through the release of **Obligated Entry Capacity**. **Obligated Entry Capacity** includes (as defined in the Licence Special Condition 1A):
  - **Non-incremental Obligated Entry Capacity** (existing capacity); and
  - **Incremental Obligated Entry Capacity**, which is additional capacity to be made available above the prevailing level of **Obligated Entry Capacity**, primarily beyond investment lead times, in response to signals received from Shipper Users through processes described in the UNC.
6. **Firm NTS Entry Capacity** may also be made available by the release of **Non-obligated Entry Capacity**. Release of **Non-obligated Entry Capacity** is at the sole discretion of National Grid.
7. Details of National Grid and its activities can be found on its internet site at [www.nationalgrid.com](http://www.nationalgrid.com).  
An electronic version of this Statement can be found at the following internet page "<http://www.nationalgrid.com/uk/Gas/Charges/statements/transportation/iecr/>".
8. It is important that National Grid is made aware of potential developments where **NTS Entry Capacity** may be required for a sustained period (at existing or new entry points) at an early stage. This is needed so that discussions can be held with the customer in relation to any additional work that may be required, including facilitating the physical connection, whether this is at a new or existing entry point. This work is charged for separately as specified in "The Gas Transmission Connection Charging Methodology" in UNC TPD Section Y Part A2 as required by Licence Amended Standard Condition 4B. For the avoidance of doubt, this Statement relates to the release of **Entry Capacity** and the works and processes that may be necessary to facilitate such release. A separate process is followed for the provision of a new (or amendment to an existing) physical connection.

Except where expressly stated otherwise, any reference in this Statement to an application, is to a request for **NTS Entry Capacity** and not a physical connection to the NTS. Further information about connection services is available on the National Grid website<sup>3</sup>. National Grid's Customer Services team provide connection services and can be contacted via e-mail to: [transmissionconnections@nationalgrid.com](mailto:transmissionconnections@nationalgrid.com).

9. National Grid has been working with the industry to develop enhanced capacity release processes. This work has led to the proposal of UNC Modification 0452<sup>4</sup>; the implementation date is currently anticipated to be during April 2014. This Statement has been revised to be consistent with the proposed UNC Modification<sup>5</sup>. Further information can be found at:

<http://www.nationalgrid.com/uk/Gas/Connections/CapacityandConnections/> and at <http://www.gasgovernance.co.uk/0452>.

10. Typical lead times for the delivery of new pipeline infrastructure to create additional capacity in the NTS and the lead time for the construction of connected facilities are dependent on many variables including planning processes. It is important therefore that Shipper Users and developers ("Reservation Parties") are able to commit early to the provision of additional capacity to avoid misalignment of projects. Delay in commencement of work to deliver additional capacity in the NTS could lead to that capacity not being available to the time frames originally required by the connecting party.
11. In order to facilitate the timely delivery of **Quarterly NTS Entry Capacity** a Shipper User (or Reservation Party) can apply for a Planning and Advanced Reservation of Capacity Agreement, ("PARCA") between the Shipper User (or Reservation Party) and National Grid. The PARCA allows the reservation of capacity ahead of the Shipper User (or Nominated Users<sup>6</sup>) being allocated and registered as holding that capacity and hence before they are financially committed to the capacity itself<sup>7</sup>.

A generic PARCA can be found on National Grid's website at:

<http://www.nationalgrid.com/uk/Gas/Connections/CapacityandConnections/Industry+Material/CapConnProcesses/PARCA/>

12. Subject to the terms of the PARCA, National Grid will:
- (a) reserve capacity on behalf of the Shipper User (or Reservation Party) and subsequently allocate capacity on behalf of the Shipper User (or Nominated User). It is only through the PARCA that a guarantee of timely delivery of **Incremental Obligated Entry Capacity** is possible as it is the delivery of any Works that drives the lead times to deliver additional capacity.
  - (b) undertake such Works as is necessary to provide **Incremental Obligated Entry Capacity** and will reserve such existing **Obligated Entry Capacity** as is necessary to satisfy the capacity request.

<sup>3</sup> <http://www.nationalgrid.com/uk/Gas/Connections/National+Transmission+System+-+Gas+Connections/>

<sup>4</sup> The enhanced processes will also require appropriate Licence changes and these are being proposed in parallel with Modification 0452.

<sup>5</sup> [This Statement does not imply that UNC Modification 0452 will be implemented.](#)

<sup>6</sup> A Reservation Party will be required to nominate a User, or Users (a "Nominated User"), to be allocated the capacity that is made available through a PARCA. The Nominated User may not be known at the time the PARCA is entered into.

<sup>7</sup> PARCA applicants will be subject to specific security requirements under the terms of the PARCA to demonstrate a commitment to the reserved capacity.



13. Subject to the terms of the PARCA, capacity will be guaranteed to the Shipper User or Nominated User, in the quantity requested, by the date determined pursuant to the PARCA<sup>8</sup>.
14. To initiate the PARCA the counterparty<sup>9</sup> will be required to pay an application fee (the “Phase 1 PARCA Fee”) which shall cover the initial Works to be undertaken (i.e. the “Phase 1 PARCA Works”). Should they wish to progress the PARCA beyond Phase 1, the counterparty will be required to provide security for subsequent Works/reservation of capacity. In the event that the PARCA is terminated prior to allocation of the reserved **Quarterly NTS Entry Capacity** at the relevant location, in the quantity, and by the date, determined through, the PARCA, National Grid will access the security to provide payment for those subsequent Works/reservation of capacity.

### National Grid’s Licence Obligations

15. Subject to paragraphs 88 and 103, new and existing Shipper Users of the NTS are able to request to purchase entry capacity products for any NTS Aggregate System Entry Point (ASEP). Such capacity requests will be considered against the provisions of National Grid’s statutory licence obligations and in accordance with its published methodologies.
16. Overriding obligations applicable to this Statement are set out in the Gas Act and the Licence and are that National Grid’s activities must be:
  - Conducted on a non-discriminatory basis;
  - Conducted in an efficient, economic and co-ordinated manner; and
  - Be consistent with the safe and efficient operation of National Grid’s pipe-line system and security of supply obligations.
17. Specific obligations in respect of the release of the prevailing level of **Obligated Entry Capacity** and applicable to this Statement are set out in Special Condition 9B of the Licence.
18. Specific obligations in respect of the release of **Incremental Obligated Entry Capacity** and applicable to this Statement are set out in Special Condition 9B and 9C of the Licence.
19. Under Special Condition 9B of the Licence, National Grid must prepare and submit to the Authority for approval the “capacity release methodology statements”. This Statement sets out the methodology by which National Grid will:
  - determine the quantity of **Obligated Entry Capacity** that it will make available to Shipper Users; and
  - determine whether to make **Incremental Entry Capacity** available for sale to Shipper Users and, if so, what quantity of **Incremental Entry Capacity** to make available.
20. Without prejudice to Part A of this Statement, in determining the quantity of **Obligated Entry Capacity** to be made available to Shipper Users, National Grid will consider the quantity of
  - **Non-incremental Obligated Entry Capacity**; and

<sup>8</sup> In the absence of a PARCA, there will be no guarantee of the availability of capacity in excess of the level of unsold **Obligated Entry Capacity** at the relevant location by any specific date. A Shipper User will still be able to request capacity via other auction processes and National Grid will assess its ability to meet such requests in accordance with the further provisions of UNC and this Statement.

<sup>9</sup> i.e. the User or Reservation Party.

- **Incremental Obligated Entry Capacity** released in previous auctions; that has not been allocated.

21. Without prejudice to Part B of this Statement, **Incremental Entry Capacity** released in any auction, is that quantity in excess of the prevailing level of **Obligated Entry Capacity**. **Incremental Entry Capacity** may consist of:
- New **Incremental Obligated Entry Capacity** triggered by bids in the current auction; and/or
  - **Non-obligated Entry Capacity**.

22. Under Special Condition 5F of the Licence, National Grid must provide the Authority with an Entry Capacity notice providing details of all proposed **Incremental Obligated Entry Capacity** release. The notice will state the volume of **Incremental Obligated Entry Capacity** proposed to be treated as:
- **Funded Incremental Obligated Entry Capacity**; or
  - **Non-incremental Obligated Entry Capacity**.

Unless directed to the contrary within 28 days of the date of submission of this notice, National Grid shall implement the proposals. In the event that the Authority vetoes such proposals for the release of **Incremental Obligated Entry Capacity** National Grid may not, pursuant to the PARCA, allocate **Quarterly NTS Entry Capacity** in excess of the quantity of **Unsold NTS Entry Capacity** to the User.

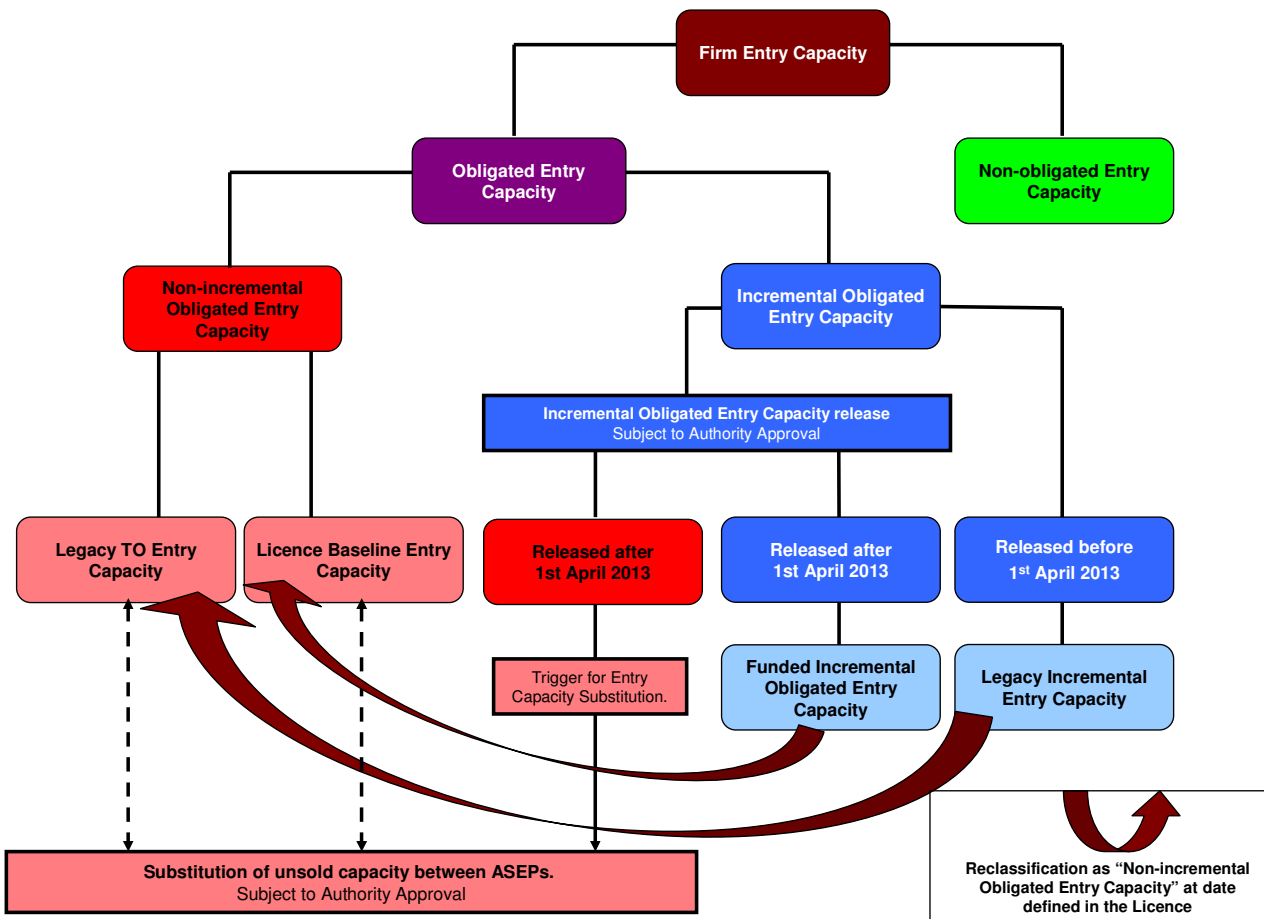
23. Pursuant to a PARCA, National Grid may reserve capacity from an ASEP (a donor ASEP) for subsequent substitution to another ASEP (a recipient ASEP). Such reservation may be undertaken prior to a decision by the Shipper User (or Reservation Party) to request allocation of the reserved capacity at the recipient ASEP. Any decision by National Grid to reserve capacity pending substitution (substitution shall be confirmed following allocation of capacity at the recipient ASEP) shall be notified to the Authority. In the event that:
- the Authority vetoes the substitution proposals notified pursuant to this paragraph 23, National Grid may not reserve capacity from the relevant NTS Exit Point.
  - the reserved capacity is subsequently required to be substituted to the recipient ASEP and allocated to a Shipper User, National Grid will notify the Authority of the proposed substitution in the Entry Capacity notice referred to in paragraph 22.
  - the Authority vetoes such substitution proposals (and any feasible alternatives) for capacity substitution pursuant to paragraph 22, National Grid will not substitute capacity from the donor ASEP to the recipient ASEP. Any resulting allocation of capacity at the ASEP specified in the PARCA will be pursuant to the terms of the PARCA. This may mean that capacity is allocated in a smaller quantity than requested; is allocated with a longer lead time; or may not be allocated at all. Any resulting allocations will be determined by the circumstances applicable to each case. Consequently National Grid may consider alternative options for example investment/contractual options.

## Capacity Terminology

24. This Statement contains terminology relating to entry capacity which is used in the Licence for the purposes of distinguishing between National Grid's capacity obligations and revenue treatments. It should be noted that although this terminology exists, it does not change the capacity products that Users procure through established UNC processes e.g. **Firm NTS Entry Capacity** and **Interruptible NTS Entry Capacity**. Throughout this Statement

Licence defined capacity terms are given in **bold italics**; UNC defined terms appear in **bold**.

- 25. The terminology and relationships relating to ***Firm Entry Capacity***<sup>10</sup> are provided below to assist the reader in interpreting this Statement.



- 26. The actual definitions of these terms are contained within the Licence (Special Condition 1A). Where any conflict arises between the Licence and this Statement the Licence shall prevail.

### National Grid’s Internal Planning Process

- 27. National Grid believes it is appropriate for it to continue to develop the NTS in a way that provides its customers and Great Britain generally, with a gas transmission system that is robust against supply shocks and which keeps pace with changes in the gas market, such as increasing dependency on imported supplies.

<sup>10</sup> This Statement also covers the release of ***Interruptible Entry Capacity***.

28. National Grid is required by Special Condition 7A of the Licence, “Long Term Development Statement”, to prepare an annual statement, with respect to each of the succeeding 10 years that will forecast;
- The use likely to be made of the pipe-line system; and
  - The likely developments of that system.
29. National Grid believes it is important to seek wide views on the process for determining how it invests in its network as well as on the underlying assumptions that underpin such investment. An enhanced consultation process is operated under the banner of ‘Future Energy Scenarios’ with a view to obtaining industry views on how the industry would like to see the NTS developed.
30. The trigger for any allowed revenue associated to **Incremental Obligated Entry Capacity** is via an allocation of **Quarterly NTS Entry Capacity** in accordance with the terms of a PARCA.
31. This Statement describes the process by which such releases of **Incremental Obligated Entry Capacity** would normally be triggered. It should be noted that the release of **Funded Incremental Obligated Entry Capacity** and hence the potential need to undertake investment in the NTS, can be fully or partially avoided, e.g. through entry capacity substitution (see paragraph 33). National Grid’s planning relates to the activities of National Grid in the development of the NTS. However, statutory planning application processes and consents apply to circumstances where investment in new pipeline infrastructure is needed. References to “planning” should be read accordingly.
32. In addition to releasing **Obligated Entry Capacity** pursuant to an auction signal, National Grid may, at its sole discretion, release for sale additional **Entry Capacity** for which it has no obligation to do so. For the purpose of the Licence any capacity released in accordance with this paragraph will be classified as **Non-obligated Entry Capacity**.
33. National Grid also has a Licence obligation (Special Condition 9A) to consider whether unsold **Non-incremental Obligated Entry Capacity** can be substituted to ASEPs<sup>11</sup> where there would otherwise be a requirement to release **Funded Incremental Obligated Entry Capacity**; i.e. demand exceeds the prevailing level of **Obligated Entry Capacity** and paragraph 32 does not apply, thereby, potentially, reducing the requirement for investment in the NTS. The process by which substitution may be considered and the methodology that would be applied is provided in the “Entry Capacity Substitution Methodology Statement” (the “ECS”) produced pursuant to Licence Special condition 9A.
34. For the avoidance of doubt, the release of all **Entry Capacity** in excess of the prevailing level of **Obligated Entry Capacity** at an ASEP will be in accordance with Part B of this Statement.
35. National Grid will consider opportunities for entry capacity substitution in accordance with the substitution rules stated in the ECS. As a result, demand for capacity at an ASEP in excess of the prevailing level of **Obligated Entry Capacity** may be met through **Non-incremental Obligated Entry Capacity**, rather than **Funded Incremental Obligated Entry Capacity**, facilitated by a reduction in the **Licence Baseline Entry Capacity** (and/or **Legacy TO Entry Capacity**) at another ASEP.
- To minimise the need for investment, before releasing **Funded Incremental Obligated Entry Capacity** at an ASEP National Grid will consider opportunities to substitute unsold **Non-Incremental Obligated Entry Capacity** from another

<sup>11</sup> Referred to in the Licence as NTS Entry Points

ASEP. In addition, substitution will only be considered if the existing capability of the NTS (when taking all existing commitments into account) is insufficient to satisfy requests for additional capacity,

- National Grid will substitute **Entry Capacity** (as detailed above) between ASEPs with a release date consistent with the ECS,
- Where Substitutable Capacity (as defined in the ECS) has been identified as suitable for substitution to another recipient ASEP to satisfy the requirement for additional capacity at that recipient ASEP, the Substitutable Capacity will not be available for release at the original donor ASEP<sup>12</sup> until, and unless, it has been identified as not being required for substitution (see the ECS). The identification of Substitutable Capacity will follow either:
  - (a) an application for **Quarterly NTS Entry Capacity**: or
  - (b) a PARCA being entered into with National Grid and completion of the Phase 1 PARCA Works,

where, in the absence of substitution, this would require the release of **Incremental Obligated Entry Capacity**. Any proposals for capacity substitution, (whether pursuant to a Shipper User bid and subsequent allocation or pursuant to a PARCA and subsequent reservation) and hence any limitation on capacity being made available at the donor ASEP, will be subject to non-veto by the Authority (see paragraphs 22 and 23).

36. Where, pursuant to a PARCA, National Grid identifies that the allocation of **Quarterly NTS Entry Capacity** can be satisfied, in part or whole, from unsold **Non-incremental Obligated Entry Capacity** at the same ASEP, then that **Non-incremental Obligated Entry Capacity** will be reserved and will not be available for release (from the registration date determined through the PARCA) unless it is subsequently determined as not being required and hence is no longer reserved.

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<sup>12</sup> Prior to Substitutable Capacity being substituted to a recipient ASEP it will be available at the donor ASEP, i.e. it will be available at the donor ASEP in the short/medium term.

## CHAPTER 1: PRINCIPLES

### Purpose of the Statement

37. This Statement has been produced to meet the requirements of Special Condition 9B of the Licence. This condition requires the preparation of capacity release methodology statements setting out how (in respect of **Entry Capacity**) National Grid will determine:
- The release of **Obligated Entry Capacity** (see paragraph 20) to relevant Shipper Users; and
  - The quantity of **Incremental Entry Capacity** (see paragraph 21) to be made available for sale to relevant Shipper Users.
- National Grid believes the content is consistent with its duties under the Gas Act and the Licence.

### Scope

38. Overriding obligations on National Grid set out in the Gas Act and the Licence are that its activities must be:
- Conducted on a non-discriminatory basis;
  - Conducted in an efficient, economic and co-ordinated manner; and
  - Be consistent with the safe and efficient operation of National Grid's pipe-line system and security of supply obligations.
39. This Statement applies to the release of all forms of **Entry Capacity**, as defined in the Licence, by National Grid and shall include:
- **Licence Baseline Entry Capacity**;
  - **Legacy TO Entry Capacity**;
  - **Non-incremental Obligated Entry Capacity**;
  - **Incremental Obligated Entry Capacity** (including **Funded Incremental Obligated Entry Capacity** and **Legacy Incremental Entry Capacity**);
  - **Non-obligated Entry Capacity**; and
  - **Interruptible Entry Capacity**
- and applies to the allocation of all classes of **NTS Entry Capacity** as defined in the UNC (TPD Section B).

### Structure of the Statement

40. The methodology described in this Statement is set out in two main sections.
41. Part A sets out how, and in what quantities, National Grid will offer for sale **Obligated Entry Capacity** to Shipper Users.
- Chapter 2 sets the context in which bids for **Obligated Entry Capacity** will be considered; and
  - Chapter 3 covers the various processes by which **Obligated Entry Capacity** will be made available to Shipper Users.
42. Part B sets out how, National Grid will determine whether to make **Incremental Entry Capacity** available for sale to Shipper Users and, if so, what quantity of **Incremental Entry Capacity** to make available.
- Chapter 4 sets the context in which bids for **Incremental Obligated Entry Capacity** release will be considered;

- Chapter 5 explains the role of PARCA's to facilitate the timely release, and revenue drivers<sup>13</sup> for the funding, of ***Incremental Obligated Entry Capacity***;
- Chapter 6 details the decision making process for the release of ***Incremental Obligated Entry Capacity***;
- Chapter 7 looks at the methodology for setting the minimum bid price required for each incremental step quantity; and
- Chapter 8 covers the release of ***Non-Obligated Entry Capacity***.
- Chapter 9 covers the release of **Long Term Non Firm NTS Entry Capacity**

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<sup>13</sup> The adjustment to Totex allowances that results from triggering the incremental capacity uncertainty mechanism is more commonly known as the "revenue driver".

## PART A: OBLIGATED ENTRY CAPACITY RELEASE

### CHAPTER 2: CONTEXT

43. **NTS Entry Capacity** is made available to Shipper Users through a series of capacity auctions. This Part A identifies the processes by which the prevailing level of **Obligated Entry Capacity**, will be made available to Shipper Users. These processes are detailed in UNC TPD Section B. Reference should be made to UNC for further information. Note: Obligated Entry Capacity has essentially the same meaning in UNC and in the Licence.
44. The prevailing level of **Obligated Entry Capacity** in respect of any auction excludes:
- **Non-obligated Entry Capacity** (see Chapter 8 / paragraph 178) released in previous auctions; and
  - any **Incremental Obligated Entry Capacity** that might be released pursuant to Part B of this Statement in that auction.
45. Dependant upon the specific auction, **Entry Capacity** may be made available as **Firm NTS Entry Capacity** or **Interruptible NTS Entry Capacity**.
46. The **Obligated Entry Capacity** level will be published for each ASEP at least once per year in the “entry capacity release obligation summary report”. This report is published pursuant to Part D of Special Condition 9B of the Licence and is incorporated within the Long-Term Summary report (see also paragraphs 56 to 64) which can be found on National Grid’s website at <http://marketinformation.natgrid.co.uk/Gas/CapacityReports.aspx>.
47. The quantity of **Obligated Entry Capacity** to be made available at each ASEP in each capacity release auction will be specified in the appropriate auction invitation notice from National Grid (excluding daily auctions for which an invitation is not provided). Chapter 3 of this Statement details how these quantities are determined.



## CHAPTER 3: PROCESSES FOR THE RELEASE OF OBLIGATED ENTRY CAPACITY.

48. **Obligated Entry Capacity** is a finite quantity and therefore National Grid makes it available to all Shipper Users and allocates it in descending price order, i.e. to those who value it most. Hence National Grid runs a variety of annual, monthly and daily auctions which are detailed in UNC TPD Section B. National Grid will release capacity consistent with the processes and obligations defined in UNC.
49. These capacity auctions make available daily capacity (i.e. a daily right to deliver gas into the NTS at an ASEP on a particular Gas Flow Day) in quarterly, monthly and single daily strips. In respect of daily auctions only, capacity may be available as either **Firm NTS Entry Capacity** and/or as **Interruptible NTS Entry Capacity**.
50. Each auction has a reserve price. This serves three purposes:
- It ensures that the total income that National Grid expects to receive through the auctions is reasonably consistent with the income it is allowed to receive in accordance with the Licence. Any variation from the allowed revenue is corrected through commodity charges (based on actual flows).
  - It ensures that prices are cost reflective. ASEPs that are further away from demand centres tend to have higher reserve prices. Similarly, as gas input at larger ASEPs penetrates further into the system the prices for these ASEPs will generally be higher.
  - Subject to paragraph 51, it ensures that at ASEPs where there is limited competition for capacity that a cost reflective price is paid for that capacity.
51. At least one auction will result in a clearing allocation<sup>14</sup> in which National Grid will use reasonable endeavours to sell all the available **Obligated Entry Capacity** at each ASEP. This auction will have a zero reserve price. The clearing auction will be a Daily NTS Entry Capacity (DSEC) auction held on same Day ("D") for which capacity is made available.
52. There are six main auction mechanisms through which Shipper Users can obtain **NTS Entry Capacity**. These are:
- The NTS Entry Capacity auction for **Quarterly NTS Entry Capacity** (the QSEC auction) is normally held on an **Annual** basis. In the annual (currently held in March) long term capacity auctions National Grid sells **Firm NTS Entry Capacity** for Gas Years Y+2 to Y+16 (i.e. an auction held in March 2015 will be for capacity release over the period October 2016 to September 2030). Capacity made available in these auctions will be sold as **Quarterly NTS Entry Capacity**, i.e. it will be registered to the Shipper User for each Day in a particular calendar quarter.

This is the only auction in which both the prevailing **Obligated Entry Capacity** and **Incremental Obligated Entry Capacity** are released. (Note:

- Additional capacity may also be obtained at Interconnection Points in the AMSEC auction. This is to avoid the release of **Incremental Obligated Entry Capacity** and is obtained through the surrender process (see paragraph 77)

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<sup>14</sup> In respect of an ASEP and period, an Allocation of **Entry Capacity** which either:  
 (a) results in all the Entry Capacity offered for sale being sold; or  
 (b) has a reserve price of zero

- **Incremental Entry Capacity**, in the form of **Non-obligated Entry Capacity**, may be released in any auction<sup>15</sup>).
- Additional NTS Entry Capacity auctions for **Quarterly NTS Entry Capacity** (Ad-hoc QSEC auctions) can be held following agreement of a PARCA in respect of an ASEP. In these auctions National Grid sells **Firm NTS Entry Capacity** for Gas Years Y+2 to Y+16 (i.e. an Ad-hoc QSEC auction held in August 2015 will be for capacity release over the period October 2016 to September 2030) at all ASEPs where there is **Unsold NTS Entry Capacity**. Capacity made available in these auctions will be sold as **Quarterly NTS Entry Capacity**, i.e. it will be registered to the Shipper User for each Day in a particular calendar quarter.

In the Ad-hoc QSEC auction only **Unsold NTS Entry Capacity** will be available to Users. **Incremental Obligated Entry Capacity** will not be released.

These long term capacity auctions will only be run following agreement of a PARCA in respect of an ASEP and the initiation of the Phase 1 PARCA Works of that PARCA.

Prior to an Ad-hoc auction, National Grid will notify Users of the PARCA(s) being agreed together with an indicative range for the quantity of capacity proposed to be reserved and the indicative effective date. The precise location of the relevant ASEP(s) will not be included in the notice, but the geographic area will be.

The Ad-hoc QSEC auction will be held in accordance with UNC Section B.

- Where, in the reasonable opinion of National Grid, further PARCAs are expected to be agreed, National Grid may delay the Ad-hoc auction.
  - An Ad-hoc QSEC auction will not be run on the dates 1<sup>st</sup> February to 31<sup>st</sup> May inclusive.
  - An Ad-hoc QSEC auction will not be held in respect of a PARCA where initiation of the Phase 1 PARCA Works of that PARCA occurs after 31<sup>st</sup> January and before the final bid window of the March QSEC Auction in the same Gas Year closes.
  - A second, or subsequent, PARCA in respect of a any ASEP will not trigger an Ad-hoc QSEC auction if the notice of that PARCA has been published prior to the final bid window of the March QSEC auction or the previous Ad-hoc QSEC auction as applicable.
- The Annual NTS Entry Capacity auction for **Monthly NTS Entry Capacity** (the AMSEC auction). In these annual (currently held in February) capacity auctions National Grid sells **Firm NTS Entry Capacity** for months M+2 to M+19 (i.e. an auction held in February 2015 will be for capacity release over the period April 2015 to September 2016). Capacity made available in these auctions will be sold as **Monthly NTS Entry Capacity** (i.e. it will be registered to the Shipper User for each Day in a particular calendar month).
  - The Rolling Monthly NTS Entry Capacity auction (the RMTNTSEC auction). In this capacity auction held every month National Grid sells **Firm NTS Entry Capacity** for every day in the following month. Capacity made available in these auctions will be sold as **Monthly NTS Entry Capacity** (i.e. it will be registered to the Shipper User for each Day in the relevant calendar month).

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<sup>15</sup> Except the Daily Interruptible NTS Entry Capacity (DISEC)

In order to make available additional quantities of capacity at ASEPs that sell out, it is possible in this auction to transfer unsold capacity and/or trade<sup>16</sup> sold capacity from other ASEPs. The Transfer and Trade of capacity shall be in accordance with further provisions of UNC TPD Section B and the Entry Capacity Transfer and Trade Methodology Statement which can be found at:

<http://www.nationalgrid.com/uk/Gas/Charges/statements/transportation/ecttms>

- Daily NTS Entry Capacity (DSEC) auctions. In these short term capacity auctions Shipper Users can bid for **Firm NTS Entry Capacity** from Gas Flow Days D-7 to within Gas Flow Day D (e.g. capacity can be bid for on any day over the period 1<sup>st</sup> to 8<sup>th</sup> of the month for use on the 8<sup>th</sup>). Subject to availability, capacity will be allocated on D-1 and within Day D. It will be sold as **Daily NTS Entry Capacity** (i.e. it will be registered to the Shipper User for the relevant Day only). This auction allows capacity to be bought in advance and/or on the Day of use.
- Daily Interruptible NTS Entry Capacity (DISEC) auctions. In these short term capacity auctions Shipper Users can bid for **Interruptible NTS Entry Capacity** from Gas Flow Days D-7 to D-1 (e.g. capacity bids can be placed on any day over the period 1<sup>st</sup> to 7<sup>th</sup> of the month for use on the 8<sup>th</sup>). Capacity will be allocated on D-1. It will be sold as **Daily Interruptible NTS Entry Capacity** (i.e. it will be registered to the Shipper User for the relevant Day only and may be subject to curtailment pursuant to UNC Section B2.9). **Daily Interruptible NTS Entry Capacity** cannot be bought “on-the-Day”.

53. A PARCA (see chapter 5 for more details) can be used by Shipper Users and Reservation Parties to reserve **Firm NTS Entry Capacity** where such applications are not expected to require the release of **Incremental Obligated Entry Capacity**, i.e. where the capacity application can be satisfied:

- (a) From any **Available NTS Entry Capacity**; or
- (b) By entry capacity substitution; or
- (c) From the use of existing infrastructure.

Any such application pursuant to this paragraph 53, i.e. where **Incremental Obligated Entry Capacity** is not required to be released, will only be reserved if capacity is requested for at least 16 quarters in a 32 quarter period, where quarter 1 of the 32 quarter period is the first quarter capacity is requested for.

54. In addition, National Grid may, at its sole discretion, sell **Firm NTS Entry Capacity** at additional times. This will be via separate processes, detailed in UNC TPD Section B2.1.14, and will normally be run in response to specific Shipper User requests. Such capacity is referred to as **Discretionary NTS Entry Capacity** and shall be available for a maximum period of one Capacity Year.

55. In addition, Shipper Users may also obtain **NTS Entry Capacity** by secondary trades, otherwise known as a System Capacity Transfer (details can be found in UNC TPD Section B 5).

### Long Term Summary Report

56. The maximum quantity of capacity to be made available in any auction process (excluding any **Incremental Entry Capacity** made available pursuant to Part B of this Statement) will

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<sup>16</sup> Note: Trading of **NTS Entry Capacity** at the same ASEP is possible between Shipper Users at any time.

be the **Obligated Entry Capacity**. The **Obligated Entry Capacity** is stated for each ASEP, for each month (or quarter) (on a forward looking basis) in the obligation summary report. This report will also detail the **Reserved Entry Capacity** at each ASEP. The obligation summary report is provided within the Long-Term Summary report.

57. The Long-Term Summary report can be found on National Grid's website at: <http://marketinformation.natgrid.co.uk/Gas/CapacityReports.aspx>:  
The following search details should be selected:  
Auction Type: Long Term Summary  
Report Type: Summary Report  
and the relevant date range entered.
58. The Long-Term Summary report is updated monthly. For each ASEP there are two sets of data:
- the level of **Obligated Entry Capacity** (the obligation summary report). This quantity is broken down into the different Licence classifications of capacity). These quantities vary according to the release of incremental capacity (in the current and previous regulatory periods) so are not subject to frequent change; and
  - the quantity of **Firm NTS Entry Capacity** sold and the available unsold quantity (taking into account **Reserved Entry Capacity**).
- Examples are shown below.
59. Table 1: shows the **Obligated Entry Capacity** for example ASEPs.
60. This table shows the Total Obligated (amount of **Obligated Entry Capacity**) available, which is the maximum quantity that National Grid has an obligation to make available for sale at the ASEP for the relevant month. For dates beyond the release period of the AMSEC auction the monthly quantities for all three months of each quarter will be identical as capacity can only be obtained in quarterly quantities beyond this timeframe. **Reserved Entry Capacity** is not taken into account in this report.
61. For Licence purposes it is necessary to identify the Total Obligated in its constituent parts. Consistent with the diagram in paragraph 25:
- Non-Incremental is the **Non-incremental Obligated Entry Capacity**, being the **Licence Baseline Entry Capacity** quantity (as is stated in Table 6 of Special Condition 5F of the Licence) plus any **Legacy TO Entry Capacity** (quantities and effective dates are provided in Table 8 of the same Licence condition) as may be adjusted by any entry capacity substitution (quantities and effective dates of approved substitutions are provided in Table 7 of the same Licence condition).
  - Legacy Incremental is "**Legacy Incremental Entry Capacity**" and refers to incremental capacity released in previous regulatory periods (i.e. before 1<sup>st</sup> April 2013) for which National Grid receives revenue as System Operator. This capacity will be reclassified as **Legacy TO Entry Capacity** (i.e. National Grid receives revenue as Transmission Owner) according to the dates and quantities stated in Table 8 of Special Condition 5F of the Licence.
  - Funded Incremental is **Funded Incremental Obligated Entry Capacity** released pursuant to Part B of this Statement during the RIIO-T1 regulatory period (i.e. in QSEC auctions held in and after April 2013)

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Table 1 : Obligation Summary Report

Month	ASEP A				ASEP B			
	A				B			
	Non-Incremental kWh/d	Legacy Incremental kWh/d	Funded Incremental kWh/d	Total Obligated kWh/d	Non-Incremental kWh/d	Legacy Incremental kWh/d	Funded Incremental kWh/d	Total Obligated kWh/d
May-14	50,000,000	60,000,000	0	110,000,000	0	850,000,000	0	850,000,000
Jun-14	50,000,000	60,000,000	0	110,000,000	0	850,000,000	0	850,000,000
Jul-14	50,000,000	60,000,000	0	110,000,000	0	850,000,000	0	850,000,000
Aug-14	50,000,000	60,000,000	0	110,000,000	0	850,000,000	0	850,000,000
Sep-14	50,000,000	60,000,000	0	110,000,000	0	850,000,000	0	850,000,000
Oct-14	50,000,000	60,000,000	0	110,000,000	0	850,000,000	0	850,000,000
Nov-14	50,000,000	60,000,000	0	110,000,000	0	850,000,000	0	850,000,000
Dec-14	50,000,000	60,000,000	0	110,000,000	0	850,000,000	0	850,000,000
Jan-15	50,000,000	60,000,000	0	110,000,000	0	850,000,000	0	850,000,000
Feb-15	50,000,000	60,000,000	0	110,000,000	0	850,000,000	0	850,000,000
Mar-15	50,000,000	60,000,000	0	110,000,000	0	850,000,000	0	850,000,000
Apr-15	50,000,000	60,000,000	0	110,000,000	0	850,000,000	0	850,000,000
May-15	50,000,000	60,000,000	0	110,000,000	0	850,000,000	0	850,000,000
Jun-15	50,000,000	60,000,000	0	110,000,000	0	850,000,000	0	850,000,000
Jul-15	50,000,000	60,000,000	0	110,000,000	0	850,000,000	0	850,000,000
Aug-15	50,000,000	60,000,000	0	110,000,000	0	850,000,000	0	850,000,000
Sep-15	50,000,000	60,000,000	0	110,000,000	0	850,000,000	0	850,000,000
Oct-15	50,000,000	60,000,000	0	110,000,000	0	850,000,000	0	850,000,000
Nov-15	50,000,000	60,000,000	0	110,000,000	0	850,000,000	0	850,000,000
Dec-15	50,000,000	60,000,000	0	110,000,000	0	850,000,000	0	850,000,000
Jan-16	50,000,000	60,000,000	0	110,000,000	0	850,000,000	0	850,000,000
Feb-16	50,000,000	60,000,000	0	110,000,000	0	850,000,000	0	850,000,000
Mar-16	50,000,000	60,000,000	0	110,000,000	0	850,000,000	0	850,000,000
Apr-16	50,000,000	60,000,000	0	110,000,000	0	850,000,000	0	850,000,000
May-16	50,000,000	60,000,000	0	110,000,000	0	850,000,000	0	850,000,000
Jun-16	50,000,000	60,000,000	0	110,000,000	0	850,000,000	0	850,000,000
Jul-16	50,000,000	60,000,000	0	110,000,000	0	850,000,000	0	850,000,000
Aug-16	50,000,000	60,000,000	0	110,000,000	0	850,000,000	0	850,000,000
Sep-16	50,000,000	60,000,000	0	110,000,000	0	850,000,000	0	850,000,000
Oct-16	70,000,000	40,000,000	0	110,000,000	0	850,000,000	0	850,000,000
Nov-16	70,000,000	40,000,000	0	110,000,000	0	850,000,000	0	850,000,000
Dec-16	70,000,000	40,000,000	0	110,000,000	0	850,000,000	0	850,000,000
Jan-17	70,000,000	40,000,000	0	110,000,000	0	850,000,000	0	850,000,000
Feb-17	70,000,000	40,000,000	0	110,000,000	0	850,000,000	0	850,000,000
Mar-17	70,000,000	40,000,000	0	110,000,000	0	850,000,000	0	850,000,000
Apr-17	70,000,000	40,000,000	0	110,000,000	0	850,000,000	0	850,000,000
May-17	70,000,000	40,000,000	0	110,000,000	0	850,000,000	0	850,000,000
Jun-17	70,000,000	40,000,000	0	110,000,000	0	850,000,000	0	850,000,000
Jul-17	70,000,000	40,000,000	0	110,000,000	0	850,000,000	0	850,000,000
Aug-17	70,000,000	40,000,000	0	110,000,000	0	850,000,000	0	850,000,000
Sep-17	70,000,000	40,000,000	0	110,000,000	0	850,000,000	0	850,000,000
Oct-17	70,000,000	40,000,000	0	110,000,000	0	850,000,000	0	850,000,000
Nov-17	70,000,000	40,000,000	0	110,000,000	0	850,000,000	0	850,000,000
Dec-17	70,000,000	40,000,000	0	110,000,000	0	850,000,000	0	850,000,000
Jan-18	70,000,000	40,000,000	0	110,000,000	0	850,000,000	0	850,000,000
Feb-18	70,000,000	40,000,000	0	110,000,000	0	850,000,000	0	850,000,000
Mar-18	70,000,000	40,000,000	0	110,000,000	0	850,000,000	0	850,000,000
Apr-18	110,000,000	0	0	110,000,000	850,000,000	0	0	850,000,000
May-18	110,000,000	0	0	110,000,000	850,000,000	0	0	850,000,000
Jun-18	110,000,000	0	0	110,000,000	850,000,000	0	0	850,000,000
Jul-18	110,000,000	0	0	110,000,000	850,000,000	0	0	850,000,000
Aug-18	110,000,000	0	0	110,000,000	850,000,000	0	0	850,000,000
Sep-18	110,000,000	0	0	110,000,000	850,000,000	0	0	850,000,000
Oct-18	110,000,000	0	500,000	110,500,000	850,000,000	0	0	850,000,000
Nov-18	110,000,000	0	500,000	110,500,000	850,000,000	0	0	850,000,000
Dec-18	110,000,000	0	500,000	110,500,000	850,000,000	0	0	850,000,000
Jan-19	110,000,000	0	500,000	110,500,000	850,000,000	0	0	850,000,000
Feb-19	110,000,000	0	500,000	110,500,000	850,000,000	0	0	850,000,000
Mar-19	110,000,000	0	500,000	110,500,000	850,000,000	0	0	850,000,000

62. Generally, the actual quantity made available in each auction, for each ASEP will be less than the **Obligated Entry Capacity** stated in the obligation summary report. The quantity made available will take account of any capacity sold and reserved (and not already

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returned to the market, e.g. by way of Shipper User ceasing to be a User) in previous auctions.

63. Table 2 from the Obligation Summary report / Long-Term Summary report shows the Obligated Quantity Unsold, i.e. the quantity available, which is referred to in UNC as **Unsold NTS Entry Capacity**. This is derived from the **Obligated Entry Capacity** less any sold **Firm NTS Entry Capacity** less any **Reserved Entry Capacity**. An example is shown below.

Table 2: Obligation Summary report/Long-Term Summary Report

Month	ASEP A					ASEP B				
	A					B				
	Monthly Release Obligation	Obligated Firm Quantity Sold	Quantity Reserved	Obligated Quantity Unsold and not Reserved	Non-Obligated Sold	Monthly Release Obligation	Obligated Firm Quantity Sold	Quantity Reserved	Obligated Quantity Unsold and not Reserved	Non-Obligated Sold
kWh/d	kWh/d	kWh/d	kWh/d	kWh/d	kWh/d	kWh/d	kWh/d	kWh/d	kWh/d	kWh/d
May-14	110,000,000	5,000,000	0	105,000,000	0	850,000,000	850,000,000	0	0	0
Jun-14	110,000,000	5,000,000	0	105,000,000	0	850,000,000	850,000,000	0	0	0
Jul-14	110,000,000	5,000,000	0	105,000,000	0	850,000,000	850,000,000	0	0	0
Aug-14	110,000,000	5,000,000	0	105,000,000	0	850,000,000	850,000,000	0	0	0
Sep-14	110,000,000	5,000,000	0	105,000,000	0	850,000,000	850,000,000	0	0	0
Oct-14	110,000,000	110,000,000	0	0	2,000,000	850,000,000	850,000,000	0	0	0
Nov-14	110,000,000	110,000,000	0	0	2,000,000	850,000,000	850,000,000	0	0	0
Dec-14	110,000,000	110,000,000	0	0	2,000,000	850,000,000	850,000,000	0	0	0
Jan-15	110,000,000	110,000,000	0	0	2,000,000	850,000,000	850,000,000	0	0	0
Feb-15	110,000,000	110,000,000	0	0	2,000,000	850,000,000	850,000,000	0	0	0
Mar-15	110,000,000	110,000,000	0	0	2,000,000	850,000,000	850,000,000	0	0	0
Apr-15	110,000,000	5,000,000	0	105,000,000	0	850,000,000	850,000,000	0	0	0
May-15	110,000,000	5,000,000	0	105,000,000	0	850,000,000	850,000,000	0	0	0
Jun-15	110,000,000	5,000,000	0	105,000,000	0	850,000,000	850,000,000	0	0	0
Jul-15	110,000,000	5,000,000	0	105,000,000	0	850,000,000	850,000,000	0	0	0
Aug-15	110,000,000	5,000,000	0	105,000,000	0	850,000,000	850,000,000	0	0	0
Sep-15	110,000,000	5,000,000	0	105,000,000	0	850,000,000	850,000,000	0	0	0
Oct-15	110,000,000	10,000,000	0	100,000,000	0	850,000,000	100,000,000	0	750,000,000	0
Nov-15	110,000,000	10,000,000	0	100,000,000	0	850,000,000	100,000,000	0	750,000,000	0
Dec-15	110,000,000	10,000,000	0	100,000,000	0	850,000,000	100,000,000	0	750,000,000	0
Jan-16	110,000,000	5,000,000	0	105,000,000	0	850,000,000	300,000,000	350,000,000	200,000,000	0
Feb-16	110,000,000	5,000,000	0	105,000,000	0	850,000,000	300,000,000	350,000,000	200,000,000	0
Mar-16	110,000,000	5,000,000	0	105,000,000	0	850,000,000	300,000,000	350,000,000	200,000,000	0
Apr-16	110,000,000	5,000,000	0	105,000,000	0	850,000,000	300,000,000	350,000,000	200,000,000	0
May-16	110,000,000	5,000,000	0	105,000,000	0	850,000,000	300,000,000	350,000,000	200,000,000	0
Jun-16	110,000,000	5,000,000	0	105,000,000	0	850,000,000	300,000,000	350,000,000	200,000,000	0
Jul-16	110,000,000	5,000,000	0	105,000,000	0	850,000,000	300,000,000	350,000,000	200,000,000	0
Aug-16	110,000,000	5,000,000	0	105,000,000	0	850,000,000	300,000,000	350,000,000	200,000,000	0
Sep-16	110,000,000	5,000,000	0	105,000,000	0	850,000,000	300,000,000	350,000,000	200,000,000	0
Oct-16	110,000,000	5,000,000	20,000,000	85,000,000	0	850,000,000	300,000,000	350,000,000	200,000,000	0
Nov-16	110,000,000	5,000,000	20,000,000	85,000,000	0	850,000,000	300,000,000	350,000,000	200,000,000	0
Dec-16	110,000,000	5,000,000	20,000,000	85,000,000	0	850,000,000	300,000,000	350,000,000	200,000,000	0
Jan-17	110,000,000	5,000,000	20,000,000	85,000,000	0	850,000,000	300,000,000	350,000,000	200,000,000	0
Feb-17	110,000,000	5,000,000	20,000,000	85,000,000	0	850,000,000	300,000,000	350,000,000	200,000,000	0
Mar-17	110,000,000	5,000,000	20,000,000	85,000,000	0	850,000,000	300,000,000	350,000,000	200,000,000	0

64. National Grid is obliged to make available the unsold quantity in each auction as determined below in paragraphs 66 to 74.

65. In addition to the quantities determined below, National Grid may make available additional quantities of capacity, including **Non-obligated Entry Capacity** (see Part B).

**QSEC auction and the Ad-hoc QSEC auction**

66. In order to ensure some capacity is available for later auctions a proportion, 10%, of the **Non-incremental Obligated Entry Capacity** is with-held from both the QSEC auction and the Ad-hoc QSEC auction.

67. For each ASEP for each quarter the quantity of **Firm NTS Entry Capacity** that National Grid is obliged to make available for sale<sup>17</sup> is:

<sup>17</sup> Due to the 10% withheld, the unsold quantity may be greater than the quantity made available in the QSEC auction.

- 0.9 \* **Non-incremental Obligated Entry Capacity**; plus
- **Legacy Incremental Entry Capacity**; plus
- **Funded Incremental Obligated Entry Capacity**; minus
- All previously sold **Firm NTS Entry Capacity** (but excluding any previously sold **Non-obligated Entry Capacity**) minus
- All previously **Reserved Entry Capacity**

**AMSEC auction**

68. For each ASEP for each month the quantity of **Firm NTS Entry Capacity** that National Grid is obliged to make available for sale is:

- **Non-incremental Obligated Entry Capacity**; plus
- **Legacy Incremental Entry Capacity**; plus
- **Funded Incremental Obligated Entry Capacity**; minus
- All previously sold **Firm NTS Entry Capacity** (but excluding any previously sold **Non-obligated Entry Capacity**) minus
- All previously **Reserved Entry Capacity**

**RMTNTSEC auction**

69. For each ASEP for the relevant month the quantity of **Firm NTS Entry Capacity** that National Grid is obliged to make available for sale is:

- **Non-incremental Obligated Entry Capacity**; plus
- **Legacy Incremental Entry Capacity**; plus
- **Funded Incremental Obligated Entry Capacity**; minus
- All previously sold **Firm NTS Entry Capacity** (but excluding any previously sold **Non-obligated Entry Capacity**)

70. In accordance with UNC TPD Section B2.3, capacity is also made available by the transferring of unsold, or trading of sold, capacity from other ASEPs. A Shipper User may also surrender unwanted capacity which may be utilised at the same ASEP to meet a request for capacity from another Shipper User. Such quantities will be determined pursuant to National Grid's Entry Capacity Transfer and Trade Methodology Statement which can be found at:  
<http://www.nationalgrid.com/uk/Gas/Charges/statements/transportation/ecttms/>

**DSEC auction**

71. Without prejudice to paragraph 72, for each ASEP, for the relevant Gas Flow Day, the quantity of **Firm NTS Entry Capacity** that National Grid is obliged to make available for sale is:

- **Non-incremental Obligated Entry Capacity**; plus
- **Legacy Incremental Entry Capacity**; plus
- **Funded Incremental Obligated Entry Capacity**; minus
- All previously sold **Firm NTS Entry Capacity** (but excluding any previously sold **Non-obligated Entry Capacity**)

72. Where, in respect of any given Gas Flow Day, circumstances arise in which National Grid foresees a capacity constraint occurring at an ASEP, National Grid may withhold capacity from sale for that ASEP in the DSEC auction. The quantity withheld will be limited to that which National Grid considers necessary to avoid the constraint or to avoid increasing the

extent of the constraint, and hence to avoid, or limit, the cost of any actions needed to manage the constraint.

73. Where the circumstances referred to in paragraph 72 cease to exist or become less severe, National Grid may reduce the quantity withheld accordingly.

#### **DISEC auction**

74. For each ASEP for the relevant Gas Flow Day the quantity of **Interruptible NTS Entry Capacity** that National Grid is obliged to make available for sale will be determined as:

- the Use It or Lose It quantity; which is:
  - The average amount by which the **Firm NTS Entry Capacity** held by Shipper Users exceeds the energy allocated to those Shipper Users for each day over a 30 day period up to (and including) the day falling seven days before the relevant Gas Flow Day; plus
- an additional quantity (if any) determined at the sole discretion of National Grid.

#### **Discretionary NTS Entry Capacity auction**

75. The ASEPs where **Discretionary NTS Entry Capacity** is to be made available, and the quantity, will be determined on a case by case basis at the sole discretion of National Grid. Such release will be consistent with the overriding obligations in paragraph 16.
76. **The Discretionary NTS Entry Capacity** auction may make available unsold **Obligated Entry Capacity** and /or **Non-obligated Entry Capacity**.

#### **EU Regulation 715/2009**

77. National Grid has raised Modification 449, Introduction of Interconnection Points and new processes and transparency requirements to facilitate compliance with the EU Congestion Management Procedures, to ensure UK arrangements are consistent with EU Regulation 715/2009. If Modification 449 is implemented paragraphs 78 and 79 will apply in respect of Interconnection Points.
78. In advance of the QSEC and AMSEC auctions National Grid will run a surrender process whereby Shipper Users will be able to offer to surrender firm available **NTS Entry Capacity**. Such offers will only be accepted if the surrendered capacity is subsequently allocated to a Shipper User in the relevant QSEC or AMSEC auction.
79. When allocating **Quarterly NTS Entry Capacity** or **Monthly NTS Entry Capacity** following a QSEC/AMSEC auction surrendered capacity will only be used to meet demand for additional capacity above the prevailing **Obligated Entry Capacity** level. Hence capacity will be allocated in the following sequence:
- Unsold **Obligated Entry Capacity**
  - Surrendered Entry Capacity
  - **Non-incremental Entry Capacity** substituted from other ASEPs
  - **Incremental Entry Capacity** (see Part B for where this is applicable)



## PART B: INCREMENTAL ENTRY CAPACITY RELEASE

### CHAPTER 4: CONTEXT

80. Part B of this Statement details how, and under what circumstances, Shipper Users can obtain **Firm NTS Entry Capacity** in excess of the prevailing **Obligated Entry Capacity** level. Such excess capacity is classed for regulatory purposes as **Incremental Entry Capacity**.
81. **Incremental Entry Capacity** is further classified as:
- **Non-obligated Entry Capacity** (see chapter 8), where **Incremental Entry Capacity** is released at the discretion of National Grid; or
  - **Incremental Obligated Entry Capacity**, where, provided that the requirements of this Part B are satisfied, National Grid is obliged to make **Incremental Entry Capacity** available.
82. **Incremental Obligated Entry Capacity** (see chapters 5 to 7) is made available through:
- investment in additional pipeline infrastructure<sup>18</sup> for which additional funding is normally provided (i.e. it is **Funded Incremental Obligated Entry Capacity**); or
  - substitution of unsold **Non-incremental Obligated Entry Capacity** from other ASEPs. Hence the **Non-incremental Obligated Entry Capacity** will increase at one ASEP and decrease at one or more other ASEPs, and National Grid will receive no additional funding.
  - Use of existing infrastructure.
83. Entry capacity substitution will only be considered if the requirements of this Statement are satisfied for the release of **Incremental Obligated Entry Capacity**. Entry capacity substitution shall be carried out in accordance with the ECS (see paragraph 33).

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<sup>18</sup> National Grid may identify contractual alternatives to investment.

## CHAPTER 5: INCREMENTAL OBLIGATED ENTRY CAPACITY

84. Shipper Users may apply for **Firm NTS Entry Capacity** above the prevailing level of **Obligated Entry Capacity** via any of the two processes which are detailed in the UNC (TPD Section B2). These processes allow requests for capacity:
- At any time, by entering into a PARCA. This is the only way that Shipper Users will have certainty that **Firm NTS Entry Capacity** above the prevailing level of **Obligated Entry Capacity** will be allocated, where such allocation requires the release of **Funded Incremental Obligated Entry Capacity**. National Grid will not release **Funded Incremental Obligated Entry Capacity** by any other process; and
  - Within the Annual QSEC Auction – held in March of each year. A Revenue Driver is not required for capacity to be released through this process
85. A non-User (“Reservation Party”) will only be able to reserve **Firm NTS Entry Capacity** via the PARCA process.
86. Any information provided to National Grid in advance of a formal bid (or in advance of agreement of a PARCA) will not be binding on the applicant. Subject to any requirement for industry consultation and industry notifications under UNC or the Licence; any information provided to National Grid will be treated in confidence.
87. The Licence defines a default lead-time for the release of **Funded Incremental Obligated Entry Capacity** of 24 months from the first day of the next Gas Year (see paragraphs 117 to 120) following allocation. By entering into a PARCA, National Grid and the customer can undertake a significant proportion of the necessary Works, e.g. planning, environmental and design activities, before the Shipper User (or Nominated User) is required to commit to being allocated the requested **Quarterly NTS Entry Capacity**. This will minimise the risk of:
- a Shipper User being required to make a significant commitment before their project is ready;
  - physical capacity, to make **Funded Incremental Obligated Entry Capacity** available, being delivered after it is required by the Shipper User<sup>19</sup>; and
  - National Grid undertaking unnecessary Works.
88. Each ASEP must be included in the Licence by the appropriate date before **NTS Entry Capacity** can be offered for release, or reserved under a PARCA.
89. The appropriate date for an ASEP to be included in the Licence as required by paragraph 88 is
- (a) the day before the relevant QSEC auction invitation letter is issued; or
  - (b) In respect of a PARCA, the date a revenue driver is required to be included in the Licence in accordance with the Generic Revenue Driver Methodology Statement; or
  - (c) in respect of a PARCA, where (b) does not apply, the day before any **Reserved Entry Capacity** is due to be allocated .
- This process may take several months so it is important that potential customers contact National Grid as early as possible.

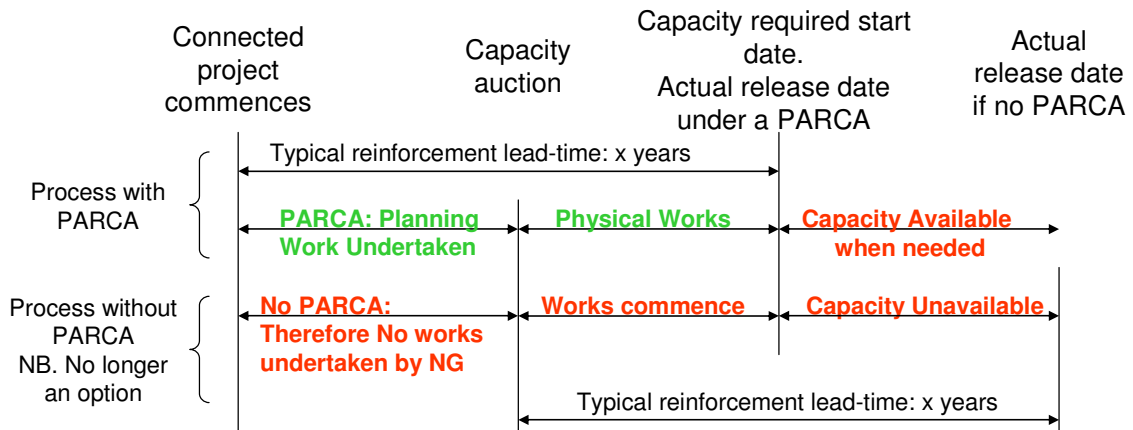
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<sup>19</sup> Alternative capacity products may be available for use between capacity being required and the physical delivery date.

**Planning and Advanced Reservation of Capacity Agreements**

- 90. To enable National Grid project timelines for the delivery of new NTS pipeline infrastructure to better align to the timeline of customers’ projects, National Grid shall (at the request of the Shipper User or Reservation Party) enter into a PARCA in advance of the potential allocation of **Firm NTS Entry Capacity**. (See diagram below)
- 91. Shipper Users shall not be obliged to enter into a PARCA and not doing so shall not exclude Shipper Users from bidding for capacity in the QSEC auction with the objective of obtaining the release of **Incremental NTS Entry Capacity**. However, any such bids may be rejected (see paragraph 113).

Illustration of the Purpose and Benefits of the PARCA



- 92. A PARCA can also be used by Users and Reservation Parties to reserve **Quarterly NTS Entry Capacity** where such applications are not expected to require the release of **Funded Incremental Obligated Entry Capacity**, i.e. where the capacity request can be satisfied:
  - (a) From any **Unsold NTS Entry Capacity**: or
  - (b) By entry capacity substitution; or
  - (c) From the use of existing infrastructure.
- 93. A PARCA is the only way that a Reservation Party can access **Incremental NTS Entry Capacity** for subsequent allocation to a Nominated User.
- 94. By entering into a PARCA Shipper Users and Reservation Parties are guaranteed, subject to the terms and conditions of the PARCA, the release of **Firm NTS Entry Capacity**. Prior to agreeing a PARCA, the Shipper User or Reservation Party is required to:
  - (a) provide National Grid’s Customer Services Team<sup>20</sup> with a PARCA application, which will include information on, for example, location, required quantity of capacity, first gas date; and
  - (b) commit to paying a non-refundable Phase 1 PARCA Fee<sup>21</sup>.

<sup>20</sup> Contact can be made with the Customer Services team via e-mail to: transmissionconnections@nationalgrid.com.

<sup>21</sup> This will be reconciled such that only actual costs incurred are paid.

95. Upon receipt of the Phase 1 PARCA Fee, National Grid will commence the initial works under the PARCA (the “Phase 1 PARCA Works”). In accordance with the terms of the PARCA, a direct payment will not be required for subsequent phases of work. However, security will be required to pay, in the event of termination, for the reservation of capacity.
96. In accordance with UNC TPD Section B, the agreement of a PARCA may trigger the opening of a PARCA window.
97. The information provided in the PARCA application is necessary so that Phase 1 PARCA Works processes can be completed, in particular,
- identification of likely PARCA timescales and/or any opportunities for substitution of capacity from other ASEPs; and
  - the inclusion of the ASEP in the Licence if not already included.
98. The information provided in the PARCA application will be used in a number of external processes, including Revenue Driver discussions with the Authority and shall inform planning applications so should not be misleading, but should be the Shipper User’s or Reservation Party’s best assessment of their future requirements. Where requirements change National Grid will endeavour to accommodate such changes in accordance with the terms of the PARCA.
99. Subject to, and in accordance with, the terms of a PARCA, National Grid will:
- (a) Undertake such network analysis as is necessary to identify how the capacity request can be satisfied; e.g.
    - 1) From any **Unsold NTS Entry Capacity**;
    - 2) From the use of existing infrastructure;
    - 3) By entry capacity substitution;
    - 4) Through investment and/or contractual alternatives;
    - 5) A combination of the above.
  - (b) Determine a date for the release of the requested capacity which may or may not be the date originally requested by the applicant.
  - (c) Reserve, on behalf of the Shipper User (or Reservation Party) the requested capacity from the determined date(s) and at the ASEP identified in the PARCA. Such date(s) may be amended pursuant to the PARCA.
  - (d) Reserve any **Unsold NTS Entry Capacity** from suitable donor ASEPs for subsequent substitution to the ASEP identified in the PARCA. Any such capacity shall be identified in accordance with the ECS and its reservation shall be subject to not being vetoed by the Authority.
  - (e) Inform all Users of any capacity reservation, allocation, and/or substitution pursuant to the PARCA. This is to facilitate transparency and aid User decision making.
  - (f) Undertake such Works as are necessary to deliver **Incremental Obligated Entry Capacity** to facilitate the allocation of the requested **Firm NTS Entry Capacity**.
  - (g) Allocate, on behalf of the Shipper User (or Nominated User) the reserved capacity from the date(s) identified in the PARCA. Such date(s) may be amended pursuant to the PARCA.
  - (h) Substitute previously reserved capacity from suitable ASEPs to the ASEP identified in the PARCA. Any such capacity shall be identified in accordance with the ECS and the substitution will be subject to non-veto by the Authority.
100. Subject to, and in accordance with, the terms of the PARCA, the counterparty:
- (a) shall pay the Phase 1 PARCA Fee; and
  - (b) shall provide such information, (the demonstration information) to National Grid by the Demonstration Date(s). National Grid may not proceed with the next phase of

Works under the PARCA until receipt of the demonstration information. Any delay in providing the demonstration information may result in the capacity release date being deferred or in termination of the PARCA; and

- (c) may, at the completion of the Phase 1 PARCA Works, request that capacity is reserved or may terminate the PARCA.
- (d) shall provide security in respect of Works/reservation; and
- (e) shall, in the event of termination of the PARCA be invoiced for the security amount provided pursuant to the PARCA.

This will be charged in accordance with the Gas Transmission Connection Charging Methodology (UNC TPD Section Y Part A 2).

- (f) may, upon completion of the Phase 2 PARCA Works, request that capacity is allocated (if a Reservation Party this must be via a Nominated User).
- (g) may, at any time, terminate the PARCA subject to the payment of all outstanding amounts.

Where the PARCA is terminated and National Grid determine that any reserved capacity cannot be used for another PARCA currently in progression, any unsold reserved capacity shall be made available to the market through existing processes.

- 101. Subject to, and in accordance with the terms of the PARCA, the counterparty, where the counterparty is a Reservation Party:
  - a) shall nominate one or more Shipper Users to be allocated and registered as holding the entire quantity of **Firm NTS Entry Capacity**, at the location, and from the date(s) determined and reserved pursuant to the PARCA. The nomination must be received from the Reservation Party by the date determined pursuant to the PARCA and the notice of nomination shall be consistent with the terms of the PARCA.

After nomination of such Shipper User(s) (assuming the nominations are not rejected in accordance with the terms of the PARCA and/or UNC) and acceptance by the Nominated User(s), and at a time determined in accordance with the PARCA, the Nominated User(s) will be Registered as holding such amounts of **Firm NTS Entry Capacity** as if they had initially bid for the capacity in accordance with paragraph 84 above.
- 102. In accordance with UNC TPD Section B, Capacity that is reserved and not yet registered pursuant to a PARCA cannot be subject to a System Capacity Transfer.
- 103. National Grid will require a Revenue Driver (calculated in accordance with the methodology produced pursuant to Licence Special Condition 9C and referred to in paragraph 104) to be agreed between National Grid and the Authority and published for the ASEP before progressing beyond the Phase 2 PARCA Works if it is to release **Incremental Obligated Entry Capacity** at that ASEP. This is necessary to ensure adequate funding of any works that may result from a PARCA.
- 104. A methodology for the determination of Generic Revenue Drivers has been consulted upon with the industry and is to be agreed between National Grid and the Authority. This will facilitate the determination of Revenue Drivers, where required, for the incremental quantity likely to be released. National Grid will determine a revenue driver, specific to the relevant ASEP, for either a fixed incremental quantity or a range of incremental capacity (as will be detailed in the PARCA). Whether a fixed quantity or range based Revenue Driver is requested will depend upon the information available to National Grid at the time the Revenue Driver is requested.
- 105. In the event that a methodology for the determination of Generic Revenue Drivers is not agreed, National Grid will work with Ofgem to agree appropriate Revenue Drivers on a case by case basis.

### Requests from Reservation Parties.

106. Non-Users (Reservation Parties) may reserve **Firm NTS Entry Capacity** for subsequent allocation to a Shipper User(s) (a Nominated User(s)) via the process which is detailed in the UNC (TPD Section B). This process allows reservation at any time, by entering into a PARCA. This is the only way that Reservation Parties will have certainty that **Firm NTS Entry Capacity** will be available for allocation to a Nominated User.
107. National Grid will not register any reserved capacity to any Nominated User until all the capacity reserved is designated by the Reservation Party to one or more Nominated Users and those Shipper Users are registered as holding that reserved capacity.
108. The PARCA process for Reservation Parties will be, subject to the nomination process, consistent with the UNC PARCA process for Shipper Users.
109. A Reservation Party shall:
  - consistent with paragraph 100 provide security; and
  - consistent with paragraph 94(b), pay the Phase 1 PARCA Fee.
110. National Grid may not undertake any construction activities to reinforce the NTS until all the capacity reserved is allocated to one or more Nominated Users and those Shipper Users are registered as holding that reserved capacity.

### QSEC Auction

111. Subject to paragraph 113, and in accordance with UNC (TPD Section B2), Shipper Users may bid for additional **Firm NTS Entry Capacity** at each ASEP in the annual QSEC Auction (see paragraph 66 for more details on this auction).
112. All bids for **Firm NTS Entry Capacity** shall be made on Gemini.
113. Where Shipper Users' bids for additional **Firm NTS Entry Capacity** at any ASEP exceed, in aggregate, the unsold **Available NTS Entry Capacity** such bids shall be rejected except that bids shall be accepted to the extent that they can be satisfied:
  - a) Through any **Unsold Available NTS Entry Capacity**.
  - b) By entry capacity substitution;
  - c) From the release of **Non-obligated Entry Capacity** in accordance with paragraph 116.
114. Not Used
115. A Revenue Driver will not be needed in respect of **Firm NTS Entry Capacity** made available through the QSEC Auction.
116. National Grid may make available **Firm NTS Entry Capacity** at ASEPs in excess of the **Obligated Entry Capacity**. This will be in accordance with incentives and obligations in the Licence. Any capacity so released will be **Non-obligated Entry Capacity**. Consistent with paragraph 44, release of **Non-obligated Entry Capacity** will not create an on-going obligation to make that level of capacity available in future auctions.

## Capacity Release Lead Times

117. Subject to paragraph 33, following reservations and allocations pursuant to a PARCA for increases in **Firm NTS Entry Capacity**, National Grid will undertake such Works as it considers necessary to make such increases available.
118. A bid for **Firm NTS Entry Capacity** which requires the release of **Funded Incremental Obligated Entry Capacity** will only be accepted pursuant to a PARCA. Where a PARCA has been entered into National Grid shall, on the allocation date specified in the PARCA, allocate the **Firm NTS Entry Capacity** effective from the registration date specified in the PARCA.
119. Where paragraph 118 applies subject to the terms of the PARCA, the allocation shall be confirmed with an effective date no earlier than 1<sup>st</sup> October Y+3, where year Y is the year in which all of the following have been satisfied:
- National Grid has received formal notification of the granting of all necessary planning consents; and
  - All relevant Shipper Users have notified National Grid, pursuant to the PARCA, that they wish to progress with the allocation; and
  - All Demonstration Information has been provided to National Grid.
- Hence National Grid shall apply a default lead-time for the release of **Funded Incremental Obligated Entry Capacity** of 24 months commencing from the next 1<sup>st</sup> October. This means that for capacity allocations effective 1<sup>st</sup> October Y+3 all the criteria outlined above must be received by 30<sup>th</sup> September in Gas Year Y.
120. Notwithstanding paragraph 119, National Grid shall use reasonable endeavours to meet an earlier delivery date where requested as outlined below. For the avoidance of doubt, requests can be for 1<sup>st</sup> of months October, January, April or July.
121. Consistent with paragraph 118, in the absence of a PARCA, National Grid will reject any applications for increases in **Quarterly NTS Entry Capacity** where this requires the release of **Funded Incremental Obligated Entry Capacity**. Therefore, without a PARCA, **Quarterly NTS Entry Capacity** will be made available in accordance with the auction timeframes as detailed in UNC TPD Section B2.

## Entry Capacity Notice

122. Where National Grid believes, pursuant to the application of the methodology detailed in this Statement (except where paragraph 32 applies), that there is, or will be, demand for **Incremental NTS Entry Capacity**, National Grid will make a proposal (in an Entry Capacity notice pursuant to Special Condition 5F of the Licence) to the Authority to release **Incremental Obligated Entry Capacity**, detailing the volumes to be treated as:
- **Non-incremental Obligated Entry Capacity** where the demand for additional capacity can be satisfied in whole or in part through entry capacity substitution (in accordance with Special Condition 9A of the Licence); and/or
  - **Funded Incremental Obligated Entry Capacity**.
123. Not Used
124. Consistent with the Licence and the UNC, the release of **Firm NTS Entry Capacity** is a firm commercial capacity right that may be offered on a daily basis or multiples thereof: it



does not reflect a commitment or obligation upon National Grid to undertake any investment on its network.

### Remuneration for Release of Incremental Obligated Entry Capacity.

125. This Statement has been developed in good faith reflecting National Grid's understanding of the statutory obligations attached to both National Grid and the Authority, and its understanding of the regulatory framework which ensures continued remuneration of properly incurred expenditure on regulated assets.
126. For the avoidance of doubt, National Grid believes that any release of **Incremental Obligated Entry Capacity** is subject to approval by the Authority, whether explicitly in response to a specific proposal contained in an Entry Capacity notice submitted to the Authority pursuant to Special Condition 5F Part A of the Licence or implicitly through the establishment and application of the methodology specified in this Statement.
127. National Grid believes that, by giving that approval, the Authority accepts that the implications of applying the methodology, including subsequent investment undertaken by National Grid with a view to physically meeting the demand for **Funded Incremental Obligated Entry Capacity**, should be reflected in subsequent regulatory decisions, notably regarding proposals to modify the price controls and incentives defined within the Licence.
128. In this context, National Grid believes that any such approval should be regarded as establishing an expectation that associated investment should be reflected in its assumed regulatory asset value<sup>22</sup>; that any proposals for revising the quantities of **Obligated Entry Capacity** should be demonstrably consistent with the entry capacity incentive structure (such that the terms on which capacity may have previously been released will not be significantly altered for either National Grid or Users); and that proposals for revising the Entry Capacity Constraint Management incentive parameters should demonstrably allow for the level of **Incremental Obligated Entry Capacity** released. National Grid believes this is consistent with the Authority's duty to ensure National Grid is able to finance its functions.

### Methodology Objective

129. The primary purpose of the methodology, detailed in Part B of this Statement, for determining **Incremental Obligated Entry Capacity** volumes is to indicate the way in which National Grid will interpret the results of long term entry capacity auctions in terms of whether or not to seek to allocate **Incremental NTS Entry Capacity** to Shipper Users. In considering this, National Grid believes it is appropriate to consider the financial incentives it faces under conditions of the Licence, in particular as a result of Special Condition 3A "Restriction of NTS System Operation Revenue" and Special Condition 2A: "Restriction of NTS Transportation Owner Revenue". However, National Grid also believes it is important for the assessment to be set in the context of its wider obligations. The methodology set out in Part B of this Statement therefore seeks to describe the circumstances in which National Grid believes there would (or would not) be a sufficient signal from entry capacity auctions to create a presumption in favour of releasing **Incremental Obligated Entry Capacity**.

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<sup>22</sup> National Grid understands that, as with the approach to price controls to date, Ofgem would wish to assure itself that any such capital expenditure had been efficiently incurred.



## CHAPTER 6: DECISION MAKING METHODOLOGY

130. Information for considering whether or not to release **Incremental Obligated Entry Capacity** will be based on indications of Shipper Users' demand for **Incremental NTS Entry Capacity** as revealed by the relevant process described in UNC. Please note that the PARCA processes are described in paragraphs 90 to 109.
131. In accordance with the requirements of UNC TPD Section B2 and paragraph 84 Users will be invited to indicate, for each of a set of prices, the quantity of **Quarterly NTS Entry Capacity** they wish to acquire (if any) at each ASEP, in each available period. These prices will be published in National Grid's Statement of the Gas Transmission Transportation Charges. The pricing methodology used to generate these prices is included in Chapter 7, and forms part of this methodology.
132. The pricing methodology establishes the prices per unit of capacity which are the minimum National Grid would expect to receive over a sustained period in order to justify releasing **Incremental Obligated Entry Capacity** at any given ASEP (or making additional **Non-Incremental Obligated Entry Capacity** available at any given ASEP through entry capacity substitution).
133. The  $P_0$  price is that price at which National Grid would release **Obligated Entry Capacity**, in response to valid bids (or pursuant to a PARCA). All bids will be accepted so long as the available quantity is not exhausted. This minimum available quantity will be calculated in accordance with paragraph 67 and the appropriate Tables in Special Condition 5F of the Licence and will be published in the invitation referred to in paragraph 131.
134. The incremental prices for each step of **Incremental Obligated Entry Capacity** ( $P_1$  to  $P_{20}$ ) are based on the long run incremental cost of providing additional **Firm Entry Capacity** above the prevailing **Obligated Entry Capacity** level at each ASEP.
135. As described in Chapter 7, incremental prices have been calculated for each price step by estimating the cost associated with physically providing each level of **Incremental Obligated Entry Capacity**, annuitising the cost, and adding this value to the  $P_0$  price. This approach produces price steps whereby the change in National Grid's income from bidders (or PARCA signatories), assuming all of the available quantity is sold at the incremental price step is equal to the estimated cost of providing that additional capacity over the period in question.

### Estimated Project Value

136. For the purposes of determining the required commitment from bidders (or PARCA signatories) that would normally trigger the release of **Incremental Obligated Entry Capacity**, should auction bids (or the proposed capacity/price profile) satisfy the test given in paragraph 143, an estimated project value will be calculated for each **Incremental Obligated Entry Capacity** level from the final incremental step prices as detailed in the Statement of Gas Transmission Transportation Charging Methodology.
137. The methodology for proposing that **Incremental Obligated Entry Capacity** should be released (described below) compares the strength of market signals for **Incremental Entry Capacity** against the estimated project value for providing that level of **Incremental Obligated Entry Capacity**.

## Procedure for Releasing and Allocating Incremental Obligated Entry Capacity

### Qualifying Bids

138. In accordance with UNC processes:
- all **Quarterly NTS Entry Capacity** (QSEC) bids posted by the end of the bid process will be assessed. Only bids that satisfy the relevant User credit and security requirements as specified in UNC will be considered in this procedure.
  - all PARCA requests will be assessed.

### QSEC Auction Obligated Entry Capacity Allocation

139. Where the aggregate quantity specified in valid bids at the  $P_0$  price is less than or equal to the available quantity of **Unsold NTS Entry Capacity** (less any capacity reserved pursuant to a PARCA) then capacity will be allocated to satisfy all requests in full (see Part A). The “available quantity” will be determined in accordance with Chapter 3 and specifically paragraph 67.

### Incremental Obligated Entry Capacity Release and Allocation

140. In respect of any ASEP where a minimum quantity of **Firm NTS Entry Capacity** is demanded (whether by bids placed in the QSEC auction or through agreement of a PARCA) in excess of the **Unsold NTS Entry Capacity** (minus that reserved pursuant to any PARCAs) in any quarter, National Grid will consider releasing **Incremental Obligated Entry Capacity** via a PARCA or **Non-obligated Entry Capacity** via a QSEC Auction to meet that demand.
141. National Grid will, for the quarter in question plus the subsequent thirty one quarters (or less where this would be beyond the period for which capacity has been offered), determine the net present value (NPV) of the revenue from
- (a) bids for **Quarterly NTS Entry Capacity** placed in the QSEC auction which would be accepted if the demand for **Incremental Obligated Entry Capacity** could be met by Entry Capacity Substitution in accordance with the ECS or as the case may be **Non-obligated Entry Capacity**; or
  - (b) the capacity quantity/price profile requested for by the User or Reservation Party pursuant to a PARCA (see also paragraph 146) which would be accepted if **Incremental Obligated Entry Capacity** was to be released equal to the quantity of **Quarterly NTS Entry Capacity** requested.
142. The “quarter in question” will normally be the first quarter following the lead time referred to in paragraph 119 where the aggregate volume of valid bids received and/or capacity quantity/profile requested first exceeds or equals the **Unsold NTS Entry Capacity** (minus that reserved pursuant to any PARCAs) plus the quantity of **Incremental Obligated Entry Capacity** that is being considered. However, in respect of the QSEC auction, at any given ASEP more than one quantity of **Incremental Obligated Entry Capacity** may be considered in which case the NPV test may be applied from more than one quarter. The NPV test will be applied to each incremental quantity / quarter independently, i.e. to the extent that quantities / quarters overlap, some bids may be considered in more than one test. In all cases, all values will be discounted to the relevant quarter on a quarterly basis using a pre-tax real annual discount factor of 5.05% plus inflation (inflation will be taken from Ofgem’s Price Control Financial Model, which is updated annually, hence not referenced here).

143. Where paragraph 141(a) applies, if the NPV equals at least 50% of the “estimated project value”, and the **Incremental Entry Capacity** can be made available through Entry Capacity Substitution then National Grid would make a proposal to the Authority to release that quantity of **Firm NTS Entry Capacity** as **Non-incremental Obligated Entry Capacity** under the terms of the Licence as detailed in paragraph 122 with a corresponding decrease in the quantity of **Non-incremental Obligated Entry Capacity** at one or more donor ASEPs. There would be a presumption that such **Non-incremental Obligated Entry Capacity** should be released and allocated to Shipper Users.
144. The “estimated project value” for each capacity level will be calculated in accordance with the Statement of Gas Transmission Transportation Charging Methodology and will be published alongside incremental step prices. A simple example showing how the NPV test works is given in Appendix 1.
145. Where paragraph 141(a) applies, if the NPV does not equal at least 50% of the “estimated project value”, and/or the **Incremental Entry Capacity** cannot be made available through Entry Capacity Substitution then National Grid would not make a proposal to the Authority to release that quantity of **Firm NTS Entry Capacity** as **Non-incremental Obligated Entry Capacity**. **Incremental Obligated Entry Capacity** would not be released and would not be allocated to Users. However, **Firm NTS Entry Capacity** may be made available through the release of **Non-obligated Entry Capacity** pursuant to Chapter 8.
146. Where paragraph 141(b) applies, the NPV test will be applied, using the capacity quantity/price information provided by the User or Reservation Party, at two stages:  
 (a) After Phase 1 PARCA Works, to inform whether capacity should be reserved (utilising indicative prices); and  
 (b) After Phase 2 PARCA Works, to inform whether capacity should be allocated to the User (or Nominated User).
147. Where paragraph 146(a) applies, if the NPV equals at least 50% of the “estimated project value”, then National Grid will reserve **Firm NTS Entry Capacity** at the relevant ASEP. Where the Phase 1 PARCA Works identifies that the requirement for **Firm NTS Entry Capacity** can be satisfied, in part or whole, through Entry Capacity Substitution, National Grid will make a proposal to the Authority to reserve that quantity of **Firm NTS Entry Capacity** as **Non-incremental Obligated Entry Capacity** with a corresponding reduction of existing **Non-incremental Obligated Entry Capacity** at one or more donor ASEPs. There would be a presumption that such **Non-incremental Obligated Entry Capacity** should be reserved at the recipient ASEP for later substitution and allocation to Users.
148. Throughout the duration of the PARCA up to the end of the Phase 2 PARCA Works, National Grid will assess whether the requested **Firm NTS Entry Capacity** can be met, in part or whole, through Entry Capacity Substitution. Where such an assessment identifies that Substitutable Capacity (as defined in the Entry Capacity Substitution Methodology Statement) has become available, compared to that identified through the Phase 1 PARCA Works a further proposal as detailed in paragraph 147 will be made to the Authority.
149. Where paragraph 146(a) applies, if the NPV does not equal at least 50% of the “estimated project value”, then National Grid would not make a proposal to the Authority to release and/or reserve capacity at any ASEP. Subject to the terms of the PARCA, the User or Reservation Party would need to re-submit its capacity quantity/price profile, such that it passes the NPV test, if it wants to reserve capacity. The release of **Non-obligated Entry Capacity** would not be considered at this stage.

150. Where paragraph 146(b) applies, if the NPV equals at least 50% of the “estimated project value”, then National Grid would seek confirmation from the Authority to proceed with the release of that quantity of **Firm NTS Entry Capacity** as either:
- **Funded Incremental Obligated Entry Capacity** which will be released and allocated to Users: and/or
  - **Non-incremental Obligated Entry Capacity** with a corresponding decrease in the quantity of **Non-incremental Obligated Entry Capacity** at one of more donor ASEPs. The additional **Non-incremental Obligated Entry Capacity** at the recipient ASEP will be released and allocated to Users.
151. Where paragraph 146(b) applies, if the NPV does not equal at least 50% of the “estimated project value”, then National Grid will not allocate that quantity of **Firm NTS Entry Capacity** previously reserved and **Incremental Obligated Entry Capacity** will not be released. However, **Firm NTS Entry Capacity** may be made available through the release of **Non-obligated Entry Capacity** pursuant to Chapter 8.
152. In the event that the NPV test is not passed and capacity (excluding **Non-obligated Entry Capacity**) is not allocated, the PARCA will be terminated and paragraph 100(e) will apply.

#### Timing of Release of Incremental Obligated Entry Capacity

153. Following satisfactory capacity/price profiles submitted pursuant to a PARCA (i.e. that pass the NPV test) and a proposal for the release and allocation of **Incremental Obligated Entry Capacity**<sup>23</sup> not being vetoed by the Authority, National Grid has obligations to make that capacity available from a point in the future. In order to deliver against these obligations, National Grid may undertake such system reinforcements as it considers necessary.
154. In the event that National Grid’s proposals are vetoed by the Authority, National Grid will not release **Incremental Obligated Entry Capacity** and may remove any associated **Firm NTS Entry Capacity** allocated to Shipper Users, but may, at its sole discretion, release **Non-Obligated Entry Capacity** in accordance with chapter 8.

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<sup>23</sup> QSEC bids above the Obligated levels at an ASEP can only be allocated via Entry Capacity Substitution or the release of **Non-obligated Entry Capacity**. Any release met by Entry Capacity Substitution will be in accordance with the ECS.

## CHAPTER 7: INCREMENTAL OBLIGATED ENTRY CAPACITY PRICING METHODOLOGY

### Introduction

155. The objective of the **Incremental Obligated Entry Capacity** pricing methodology is to produce a range of price steps which affords Shipper Users an opportunity to signal their requirement for **Firm NTS Entry Capacity**, but which ensures such requirements take account of the estimated project value for providing **Firm NTS Entry Capacity** beyond the prevailing level of **Obligated Entry Capacity**. The underlying cost assumptions are forward looking and are informed by present day cost estimates for pipe laying and associated activities to provide new capacity.

### Derivation of Long Run Marginal Costs and Long Run Incremental Costs

156. The Long Run Incremental Cost (LRIC) approach derives costs which represent the cost of providing capacity to transport increments of gas through the NTS. The LRIC methodology uses the Long Run Marginal Cost (LRMC) methodology described within the Statement of the Gas Transmission Transportation Charging Methodology. Whilst the LRMC methodology considers only the marginal costs associated with a given supply and demand scenario, the LRIC methodology considers various incremental capacity levels above a given **Obligated Entry Capacity** level to calculate the estimated incremental costs of moving from the prevailing **Obligated Entry Capacity** level to the incremental capacity level.

157. The NTS Capacity Charging Model is used to calculate LRMCs and comprises:

- **The Transport Model** that calculates the LRMCs of transporting gas from each entry point (for the purposes of setting **NTS Entry Capacity** prices) to a “reference node” and from the “reference node” to each relevant offtake point.
- **The Tariff Model** that adjusts the LRMCs to maintain an equal split of revenue between Entry and Exit Users (where entry prices are used to set auction reserve prices).

These models are described in more detail in the Statement of Gas Transmission Transportation Charging Methodology.

158. Prices for each Gas Year are calculated using the relevant year’s 1-in-20 peak base case supply and demand data and network model (e.g. if setting entry capacity prices for Gas Year 2014/15, the base case supply/demand forecast for 2014/15 and the base network model are used).

159. The  $P_0$  price for each ASEP is set equal to the Reserve Price, determined at the prevailing **Obligated Entry Capacity** level in accordance with the Gas Transmission Transportation Charging Methodology.

160. Price steps above  $P_0$  (i.e.  $P_1$ ,  $P_2$  and so on) which reflect **Incremental Obligated Entry Capacity** are set by adjusting supply flows from the base case data to reflect the appropriate incremental capacity level at each ASEP.

161. For each price step, the marginal distances (i.e. the distance which an incremental entry flow would travel) derived from this process are compared to the marginal distance corresponding to the prevailing **Obligated Entry Capacity** level.

162. The differential between the marginal distances is then used to calculate the capital cost of accommodating the incremental entry flow (for that price step). The capital costs are annuitised and adjusted to reflect the calorific value at that ASEP.
163. The price steps are also adjusted to ensure that a progression of prices is established i.e. there is a minimum price step size between successive price steps. This is required to allow a cleared price to be established in the auction.
164. Normally, this results in a price progression that increases with the increment of capacity (an ascending price curve). A price progression that decreases with incremental capacity level may also be observed, usually for new ASEPs where connecting pipeline costs are added to the initial price progression.

### Incremental Step Sizes for Existing ASEPs

165. UNC TPD Section B2.1.5 defines **Incremental NTS Entry Capacity** as the amount of **Firm NTS Entry Capacity** (if any) in excess of the **Unsold NTS Entry Capacity** for which National Grid may (but shall not be required to) invite applications.
166. Subject to paragraphs 165 and 169, the incremental step sizes to be offered at auction are dependent upon the prevailing level of **Obligated Entry Capacity** at each ASEP. In accordance with the UNC (Section B – 2.2.3 (c) & (d)), twenty increments will be offered.
167. For the avoidance of doubt, at any given time, the prevailing **Obligated Entry Capacity** level incorporates:
- a) **Legacy Incremental Entry Capacity** that was released in previous regulatory periods (i.e. before 1<sup>st</sup> April 2013) that is, for Licence purposes, still treated under the System Operator incentive scheme; plus
  - b) **Non-incremental Obligated Entry Capacity** which comprises of
    - **Licence Baseline Entry Capacity** set out within Table 6 of Special Condition 5F of the Licence; plus
    - **Legacy TO Entry Capacity** set out within Table 8 of Special Condition 5F of the Licence,
 either of which may be adjusted by the quantities set out within Table 7 of Special Condition 5F of the Licence, i.e. as a result of capacity substitution to or from the ASEP as a result of National Grid's Entry Capacity Substitution methodology; plus
  - c) **Funded Incremental Obligated Entry Capacity** that has previously been released pursuant to Part B of this Statement during the RIIO-T1 regulatory period (i.e. in QSEC auctions held in or after April 2013).
168. Price steps will usually be based on releasing capacity increments equal to 2.5% of the prevailing **Obligated Entry Capacity** level at the relevant ASEP. For example, the second price step ( $P_2$ ) represents the minimum price at which valid bids for at least 105% of **Obligated Entry Capacity** would need to be received before National Grid would consider releasing **Incremental Obligated Entry Capacity** equivalent to 5% of the prevailing **Obligated Entry Capacity** level at that ASEP.
169. Fewer increments will be specified at the smallest ASEPs. At ASEPs that have a prevailing **Obligated Entry Capacity** level that is less than 300GWh per day then the following will apply;



- In the first instance National Grid will determine the number of 15GWh increments required to offer no less than 50% of the **Obligated Entry Capacity** level. The chosen increment size approximates to the increment that would be required if 300GWh is offered in 20 equal sized increments.
  - No less than five increments are permitted. In instances where the application of a 15GWh increment infers that less than five increments will be required then a quantity that is equivalent to no less than 50% of the prevailing **Obligated Entry Capacity** level at the relevant ASEP will be divided into five equal sized increments.
170. Additional price steps might be required in circumstances where demand is expected to exceed 150% of the prevailing **Obligated Entry Capacity** level. Broadly this circumstance can arise at locations that have previously experienced high demand and at new ASEPs where no **Obligated Entry Capacity** has previously been released. This may be informed by a PARCA.
171. At ASEPs where the planning process has signalled to National Grid's satisfaction that more than 50% capacity above the prevailing **Obligated Entry Capacity** level may be demanded in a given year, National Grid would set price steps on the basis of quantities which were expected to exceed the indicated demand.
172. At ASEPs where a PARCA has been agreed and the quantity of **Incremental Obligated Entry Capacity** proposed to be released pursuant to that PARCA is not equal to an incremental quantity determined by the above methodology, National Grid shall adjust the step size and/or number of steps so that one of the incremental step quantities is equal to the quantity of **Incremental Obligated Entry Capacity** proposed to be released pursuant to that PARCA.

### Incremental Step Sizes for New ASEPs

173. From time to time demand may emerge for **Firm NTS Entry Capacity** at new ASEPs. When, through its planning process, a requirement for a new ASEP has been demonstrated to National Grid's satisfaction (this may include the entering into of a PARCA) a price schedule will be published for subsequent long-term entry capacity auctions. Preservation of commercial confidentiality is an important consideration when developing a new ASEP and therefore National Grid will publish price steps that seek to preserve confidentiality with respect to expected deliverability.
174. For new ASEPs the number of incremental price steps will be fixed at 20 steps of equal size. The incremental step size will be;
- One twentieth of 150% of the capacity requirement signalled to National Grid through its planning process and/or the PARCA, subject to:
  - A minimum incremental step size of 5GWh.
175. Where a new ASEP is required to be established, National Grid will initiate the process necessary to modify the Licence such that the new ASEP and an appropriate revenue driver (calculated in accordance with the methodology produced pursuant to Licence Special condition 9C and referred to in paragraph 104), where required in accordance with paragraph 103, are stated in the Licence. Until such modifications to the Licence are effective National Grid will not include the proposed new ASEP in any QSEC auctions (or

any other capacity auction) and **Entry Capacity** will not be available for release at the proposed new ASEP.

176. The methodology, which applies for new ASEPs, is consistent with the methodology outlined above for existing ASEPs, except that there is one main difference:

- In the case of National Grid building any connecting pipe between the existing NTS and the proposed new ASEP, an estimate of the extension costs will be annuitised and added to each of the incremental step prices ( $P_1$  to  $P_{20}$ ). Any request to build a connecting pipeline must be agreed with National Grid in a timely manner to allow a reasonable estimate of the extension costs to be obtained.

### Pricing Recalculation for new ASEPs

177. From time to time, when National Grid believe that there has been a substantial change to cost drivers, including the supply/demand balance, investment cost assumptions or network topology, it will be appropriate for National Grid to recalculate price schedules in light of any change. It is not anticipated that release of **Non-obligated Entry Capacity** (see chapter 8) would normally trigger such a re-calculation unless the release is for a sustained period.

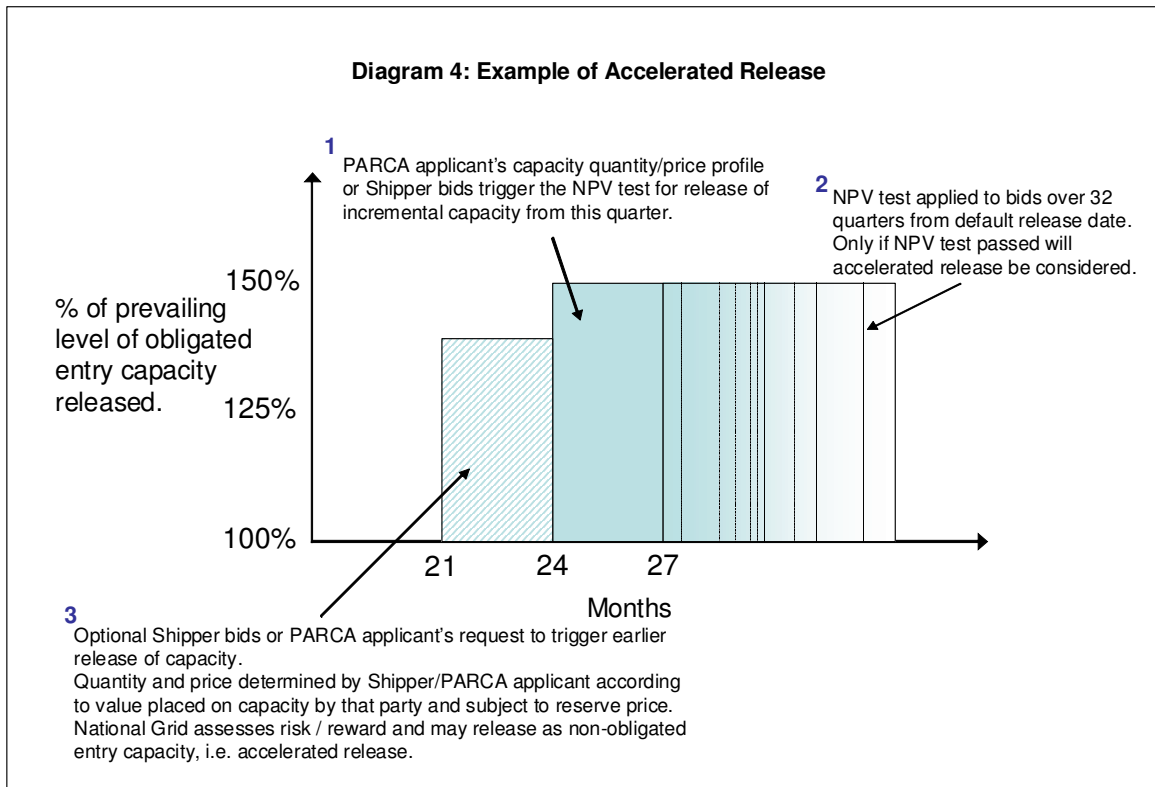


## CHAPTER 8: NON-OBLIGATED ENTRY CAPACITY RELEASE

178. In any of the processes identified in paragraphs 52 (excluding DISEC), 53 and 54 National Grid may, at its sole discretion, release additional quantities of **Firm NTS Entry Capacity** in excess of the prevailing **Obligated Entry Capacity**. Such capacity is referred to as **Non-obligated Entry Capacity**.
179. **Non-obligated Entry Capacity** may be released in response to bids placed by Shipper Users in the entry capacity auctions. National Grid will assess the risks and rewards associated with releasing the quantity of **Firm NTS Entry Capacity** requested in order to determine the quantity to be released and allocated to Shipper Users.

### Accelerated Release Incentive

180. The Licence (Special Condition 3B Part K) establishes an incentive mechanism which encourages National Grid to make **Incremental Obligated Entry Capacity** available to Shipper Users in advance of the default lead time in certain circumstances, known as 'accelerated release'. For Licence purposes this capacity is classified as **Non-obligated Entry Capacity** but is still **Firm NTS Entry Capacity** for Shipper User purposes.
181. As stated in paragraph 8, it is important that Shipper Users discuss potential new projects and increased requirements at existing ASEPs with National Grid at an early stage and, where possible, enter into a PARCA.
182. National Grid may release **Non-obligated Entry Capacity** under the accelerated release incentive as shown in diagram 4 below. Such release will be subject to satisfaction of the following two criteria:
- PARCA capacity/price profiles satisfying the NPV test referred to in paragraph 150. For the avoidance of doubt, the test shall be applied from the default October Y+3 lead time; and
  - Satisfactory assessment by National Grid of the associated risks and rewards.



183. PARCA Applicants can signal their requirement for the release of **Non-obligated Entry Capacity** under the accelerated release incentive at any ASEP (provided that National Grid has indicated in the QSEC auction invitation letter that it may, consistent with UNC TPD Section B2.1.5(b), release **Incremental NTS Entry Capacity**), irrespective of whether discussions have taken place in accordance with paragraph 181, by placing, in the QSEC auction, appropriate bids ahead of the lead time. In all cases National Grid shall undertake the risk / reward assessment, and hence decide whether to release **Non-obligated Entry Capacity**, after completion of the QSEC auction.
184. Capacity will only be released under the accelerated release incentive to satisfy (in whole or part) actual bids received. This means, for example, that if Shipper Users signal a requirement for a quantity of **Incremental NTS Entry Capacity** as identified below:
- Months 25 to 27: quantity Q which can be met through accelerated release (**Non-obligated Entry Capacity**)
  - Months 28 to 30: no bids
  - Months 31 onwards: quantity Q which will be met through release of **Incremental Obligated Entry Capacity**
- then National Grid will have no obligation to release any **Non-obligated Entry Capacity** for months 28 to 30 in any future auction, including monthly auctions.
185. In accordance with paragraph 32 National Grid may also release **Non-obligated Entry Capacity**, with or without the need for investment, in the absence of an unambiguous auction signal.

## CHAPTER 9: LONG TERM NON FIRM NTS ENTRY CAPACITY

186. **Long Term Non Firm NTS Entry Capacity** will be released in accordance with UNC TPD Section B.
187. Where a User has provided an Incremental Capacity Signal for **Quarterly NTS Entry Capacity** which has subsequently been allocated for a future date, that User will then be eligible to submit a request (during Gas Year Y) for **Long Term Non Firm NTS Entry Capacity**.
188. **Long Term Non Firm NTS Entry Capacity** will be available for a period from the 1<sup>st</sup> of the month 2 months after the date of the request up to the final month of Gas Year Y+1 (or, if earlier, the firm capacity effective start date associated with their Incremental Capacity Signal). The effective start date for the **Long Term Non Firm NTS Entry Capacity** must be the 1<sup>st</sup> of the month.
189. In order to satisfy the **Long Term Non Firm NTS Entry Capacity** request, National Grid will make available **Firm Monthly NTS Entry Capacity** at ASEPs in excess of the **Obligated Entry Capacity**. This will be in accordance with UNC TPD Section B. Any capacity so released will be **Non-obligated Entry Capacity**.
190. **Long Term Non Firm NTS Entry Capacity** can be requested for each calendar month within the relevant period at the same time via the submission of a single pro-forma. Only one pro-forma may be submitted within a single Gas Year. For the avoidance of doubt **Long Term Non Firm NTS Entry Capacity** is not available via any annual, monthly or daily auctions or the PARCA application process.
191. The release of **Long Term Non Firm NTS Entry Capacity** to a User will be conditional on the User entering into a Capacity Management Agreement whereby the rights to use such capacity may be removed in the event of a constraint occurring in the location of the relevant ASEP during the period where **Long Term Non Firm NTS Entry Capacity** is to be held (See B2.1.15 for details).

## Appendix 1: Example of the NPV test

This example is provided as an indication of how the methodology to release **Incremental Obligated Entry Capacity** is applied. It should not be taken as being indicative of actual step prices, project values, or the ease with which release of capacity may be triggered.

Assume:

1. for simplicity there are only 5 price steps
2. the obligated volume is 100GWh/d
3. Q1 is April 2014

National Grid publishes the following Price Schedule to apply in a QSEC auction.

Available (GWh)	Price Label	Price (p/kWh/d)	Estimated project Value (£m)
150	P <sub>5</sub>	0.06	20
140	P <sub>4</sub>	0.05	16
130	P <sub>3</sub>	0.04	12
120	P <sub>2</sub>	0.03	8
110	P <sub>1</sub>	0.02	4
100	P <sub>0</sub>	0.01	0

Assume the following bids are obtained through the auction:

Supply			Demand																		
Available (GWh)	Price Label	Price (p/kWh/day)	Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8	Q9	Q10	Q11	Q12	Q13	Q14	Q15	Q16	...	Q32	
150	P <sub>5</sub>	0.06	100	100	120	120	110	100	100	100	100	100	100	100	100	100	100	100	100	...	100
140	P <sub>4</sub>	0.05	100	100	120	120	110	100	100	100	100	100	120	100	100	100	100	100	100	...	100
130	P <sub>3</sub>	0.04	100	100	130	130	120	100	130	130	100	100	130	125	100	100	110	110	...	100	
120	P <sub>2</sub>	0.03	100	100	135	135	120	100	135	131	110	100	132	125	100	100	120	120	...	100	
110	P <sub>1</sub>	0.02	100	100	140	135	130	100	140	140	120	100	134	125	100	100	120	120	...	100	
100	P <sub>0</sub>	0.01	100	100	145	140	131	100	140	140	120	100	135	130	100	100	120	120	...	100	

**Informal Consultation**

September 2013

Entry Capacity Release Methodology Statement

Q3 is the first quarter where aggregate capacity bids are placed at the relevant step price. Therefore, there is a signal to release 130GWh per day from Q3. Although 145 GWh per day was bid this was not at the relevant step price. The clearing price for Q3 and Q4 would be P3, P1 for Q5, P3 for Q7 and Q8 and so on. This means that there is a signal for 30GWh per day of **Incremental Obligated Entry Capacity**. The NPV test is applied as below:

It is possible that there could be second signal (not shown in the example) for release of a greater incremental quantity from a later quarter. National Grid will apply the NPV test against both signals, and if successful, will release **Incremental Obligated Entry Capacity** consistent with both sets of bids.

			Oct-12	Jan-13	Apr-13	Jul-13	Oct-13	Jan-14	Apr-14	Jul-14	Oct-14	Jan-15	Apr-15	Jul-15	Oct-15	Jan-16	Apr-16	Jul-16		Jul-20
			Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8	Q9	Q10	Q11	Q12	Q13	Q14	Q15	Q16		Q32
<b>Incremental Capacity to release</b>	<b>GWh</b>	<b>(a)</b>	0	0	30	30	30	0	30	30	20	0	30	30	0	0	20	20		0
<b>Clearing Price</b>	<b>p/kWh/d</b>	<b>(b)</b>	0.01	0.01	0.04	0.04	0.02	0.01	0.04	0.04	0.01	0.01	0.04	0.01	0.01	0.01	0.01	0.01		0.01
<b>Days per quarter</b>	<b>day</b>	<b>(c)</b>	92	90	91	92	92	90	91	92	92	90	91	92	92	91	91	92		91
<b>Incremental Revenue</b>	<b>£m</b>	<b><math>\frac{(a)*(b)*(c)}{100}</math></b>	0.00	0.00	1.09	1.10	0.55	0.00	1.09	1.10	0.18	0.00	1.09	0.28	0.00	0.00	0.18	0.18		0.00
<b>NPV Test</b>	<b>£m</b>	<b>50% Project Value</b>	6																	
<b>NPV of Revenue</b>	<b>£m</b>	<b>2.01%</b>	6.0																	

As the NPV of the revenues (£6.0m) = 50% \* Project Value (£12m), the NPV test is passed and 30GWh/d would be released from Q3 as **Incremental Obligated Entry Capacity**.

If the NPV of the revenues had been lower, i.e. < 50% \* Project Value, the NPV test would fail and no capacity would be released as **Incremental Obligated Entry Capacity**. However, National Grid may consider releasing **Non-obligated Entry Capacity**. Quantities bid for that might be considered for release would be up to, 45 GWh/d for Q3, and/or 40 GWh/d for Q4, and/or 31 GWh/d for Q5 etc.

## APPENDIX 2: DEFINITIONS

**Incremental Capacity Signal** means, in respect of Entry Capacity, a bid for Quarterly NTS Entry Capacity that satisfies the Net Present Value test as described in National Grid's Entry Capacity Release Methodology Statement

**PARCA** means **Planning and Advanced Reservation of Capacity Agreement** and is a bilateral agreement which allows non-code parties (Reservation Parties) or Users (Reservation Users) to reserve Quarterly NTS Entry Capacity and / or Enduring Annual NTS Exit (Flat) Capacity ahead of its registration to the User or, as the case maybe, a Nominated User (nominated by the Reservation Party).

**Phase 1 PARCA Fee** means the sum to be paid by the User or Reservation Party to ensure funding of the Phase 1 PARCA Works. National Grid will not commence the Phase 1 PARCA Works until the fee is paid.

**Phase 1 PARCA Works** has the meaning given to the same term in the generic PARCA.

**Phase 1 PARCA Works Report** means the report to be submitted by National Grid to the User or Reservation Party following completion of the Phase 1 PARCA Works.

**Phase 2 PARCA Works** has the meaning given to the same term in the generic PARCA.

**registered capacity** is as defined in UNC TPD Section B.

**Reservation Party** means a party other than a User who is developing a project that will require the input of gas onto the NTS at a new or existing ASEP.

**reserved capacity** means capacity that is reserved in accordance with a PARCA (and specified in the Phase 1 PARCA Works Report) with the intent that it shall later be allocated to and registered with a User.

**Revenue Drivers** enable National Grid's allowed revenue to increase where it has accepted additional capacity obligations. They fund the activities that National Grid is required to undertake to support the delivery of any Funded Incremental Obligated Entry Capacity (and Legacy Incremental Entry Capacity) required to satisfy demand for Quarterly NTS Entry Capacity. Such activities may include planning and environmental assessments and submissions, materials and construction works, or contractual alternatives to investment. Funding is released upon non-veto, by the Authority, of National Grid's proposals to release Funded Incremental Obligated Entry Capacity.

**Works** means works, in relation to reinforcement of the NTS, in order to make available Quarterly NTS Entry Capacity that requires the release of *Incremental Obligated Entry Capacity*. It includes (a) the provision of new or modified pipeline infrastructure to provide increased capability within the NTS, and/or (b) contractual alternatives to infrastructure that provide a more economic and efficient means of matching the capability of the NTS to User requirements. Consequently, Works will normally incur costs, which will require funding via provision of a Revenue Driver.

**NTS Capacity Terminology Defined in the Licence:**

**Entry Capacity** is capacity in the NTS which a Relevant Shipper User is treated as utilising in delivering gas to the NTS at an ASEP.

**Firm Entry Capacity** means Entry Capacity that provides users with a contractual right to flow onto the NTS and has the meaning given to that term in UNC.

**Funded Incremental Obligated Entry Capacity** means Incremental Obligated Entry Capacity for which the obligation to offer such capacity for sale commenced on or after 1 April 2013, which has not been provided through Entry Capacity Substitution and for which the Licensee has not received an additional funding allowance through Legacy Incremental Entry Capacity, the Funded Incremental Obligated Entry Capacity will be added to Licence Baseline Entry Capacity five years after the contractual delivery date.

**Incremental Entry Capacity** means Firm Entry Capacity other than Non-incremental Obligated Entry Capacity.

**Incremental Obligated Entry Capacity** means the volume of Firm Entry Capacity which the Licensee is required to offer for sale at an ASEP following implementation of a proposal made by the Licensee in accordance with Part A of Special Condition 5F (Determination of Incremental Obligated Entry Capacity volumes and the appropriate revenue drivers to apply) that is above the Non-incremental Obligated Entry Capacity which is derived in accordance with the obligations set out in Special Condition 9B (Methodology to determine the release of Entry Capacity and Entry Capacity Obligations volumes).

**Legacy Incremental Entry Capacity** means Incremental Obligated Entry Capacity for which the obligation to offer such capacity for sale commenced before 1 April 2013, for which the Licensee receives a revenue entitlement in accordance with Appendix 2 of Special Condition 3A (Restriction of NTS System Operation Revenue).

**Legacy TO Entry Capacity** means the volume of Entry Capacity that the Licensee must offer for sale as set out in Table 8 of Special Condition 5F (Determination of Incremental Obligated Entry Capacity volumes and the appropriate revenue drivers to apply).

**Licence Baseline Entry Capacity** means the volume of Entry Capacity that the Licensee must offer for sale as of 1 April 2013 as set out in Table 6 of Special Condition 5F (Determination of Incremental Obligated Entry Capacity volumes and the appropriate revenue drivers to apply).

**Non-incremental Obligated Entry Capacity** is the sum of Licence Baseline Entry Capacity and Legacy TO Entry Capacity adjusted for Entry Capacity Substitution.

**Non-obligated Entry Capacity** means Firm Entry Capacity other than Obligated Entry Capacity.

**Obligated Entry Capacity** is the sum of Non-incremental Obligated Entry Capacity, Funded Incremental Obligated Entry Capacity and Legacy Incremental Entry Capacity.

**Interruptible Entry Capacity** shall have the meaning given to the term "Daily Interruptible NTS Entry Capacity" in UNC.

**NTS Capacity Terminology Defined in the UNC:**

References to paragraphs in these definitions are to UNC TPD Section B.

**Available NTS Entry Capacity** for an Aggregate System Entry Point is, in respect of:

- (a) a calendar month in Capacity Year Y and Capacity Year 1, not less than the sum of:
  - (i) Unsold NTS Entry Capacity (if any); and
  - (ii) Incremental NTS Entry Capacity (if any); and
- (b) a calendar quarter in Capacity Year + 2 to Capacity Year + 16 (inclusive), is not less than the sum of:
  - (i) Unsold NTS Entry Capacity (if any); and
  - (ii) Incremental NTS Entry Capacity (if any).

**Daily Interruptible NTS Entry Capacity** is Interruptible NTS Entry Capacity which may be applied for and registered as held (in a given amount) by a User for a particular Day only;

**Daily NTS Entry Capacity** is Firm NTS Entry Capacity which may be applied for and registered as held (in a given amount) by a User for a particular Day only;

**Discretionary NTS Entry Capacity** is NTS Entry Capacity which National Grid NTS shall be entitled to invite applications for by such means as National Grid NTS may determine in its sole discretion. The timing of any such invitation, the quantities of NTS Entry Capacity included in such invitation, and the terms which shall apply to the offering of, application for, allocation of and use of such Discretionary NTS Entry Capacity shall also be determined by National Grid NTS in its sole discretion;

**Firm NTS Entry Capacity** means Quarterly NTS Entry Capacity, Monthly NTS Entry Capacity and Daily NTS Entry Capacity which (without prejudice to UNC TPD Section I3.7) is not subject to curtailment;

**Incremental NTS Entry Capacity** is the amount of Firm NTS Entry Capacity (if any) in excess of the Unsold NTS Entry Capacity which National Grid NTS may (but shall not be required to) invite applications for pursuant to UNC TPD Section B 2.2 and 2.3;

**Interruptible NTS Entry Capacity** means Daily Interruptible NTS Entry Capacity which is liable to be curtailed pursuant to UNC TPD Section B 2.9;

**Long Term Non Firm NTS Entry Capacity** is Monthly NTS Entry Capacity released with an associated Option Agreement in accordance with UNC TPD Section B2.1.15.

**Monthly NTS Entry Capacity** is Firm NTS Entry Capacity which may be applied for and registered as held (in a given amount) by a User for each Day in a particular calendar month;

**NTS Entry Capacity** at an Aggregate System Entry Point is capacity in the NTS which a User is treated as utilising in delivering gas to the NTS (and the Total System) at that point;

**Quarterly NTS Entry Capacity** is Firm NTS Entry Capacity which may be applied for and registered as held (in a given amount) by a User for each Day in a particular calendar quarter;

**Unsold NTS Entry Capacity** is the amount of Firm NTS Entry Capacity that National Grid NTS has, for the purposes of:

- (i). UNC TPD Section B 2.2, in relation to each Day in a calendar quarter (in the case of QSEC) or in a month (in the case of AMSEC);



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(ii). UNC TPD Section B 2.3, in relation to each Day in a calendar month;

(iii). UNC TPD Section B 2.4, in relation to a Day

an obligation to make available (in accordance with the procedures set out in [UNC TPD Section B2]) to Users pursuant to Special Condition 5F of National Grid NTS's Transporter's Licence as, in the case of NTS Entry Capacity to be made available under UNC TPD Section B 2.2, 2.3 and 2.4 but not 2.5, set out in National Grid NTS's Transportation Statement.