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0.2	Submitted to Authority

The Entry Capacity Release Methodology Statement

Effective from 1st January 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 th April 2006	Proposals for the introduction of a methodology for the determination of investment costs
6.1	11 th May 2006	Final proposals for the introduction of a methodology for the determination of investment costs
6.2	3 rd 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 th June 2007	Changes following consultation responses
7.0	16 th July 2007	Authority approval

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"> • Removal of Appendix 1 which would have duplicated the 2009 Charging Methodology Statement which has been revised to include derivation of step prices. • Clarification added to sections on timing of release of capacity.
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 th November 2009	No further changes following consultation. Submitted to Authority for Approval
9.3	14 th January 2010	Authority Approval

Submitted for Approval

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.

About this Statement

This Statement, the Entry Capacity Release Methodology Statement (“ECR”)¹, describes the methodology that National Grid Gas plc (“National Grid”) in its role as holder of the Gas Transporter Licence in respect of the NTS² (“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 January 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 NTS Gas Capacity and Charging Development team at box.transmissioncapacityandcharging@nationalgrid.com or at:

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¹ This Statement is often abbreviated to ECR and replaces the previous Statement known as the IECR

² The gas National Transmission System.

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GENERAL INFORMATION

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 bar_g, 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 Uniform Network Code (“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.
An electronic version of this Statement can be found at the following internet page “<http://www.nationalgrid.com/uk/Gas/Charges/statements/transportation/>”.
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 website³. National Grid's Customer Services team provide connection services and can be contacted via e-mail to: transmissionconnections@nationalgrid.com.

National Grid's Licence Obligations

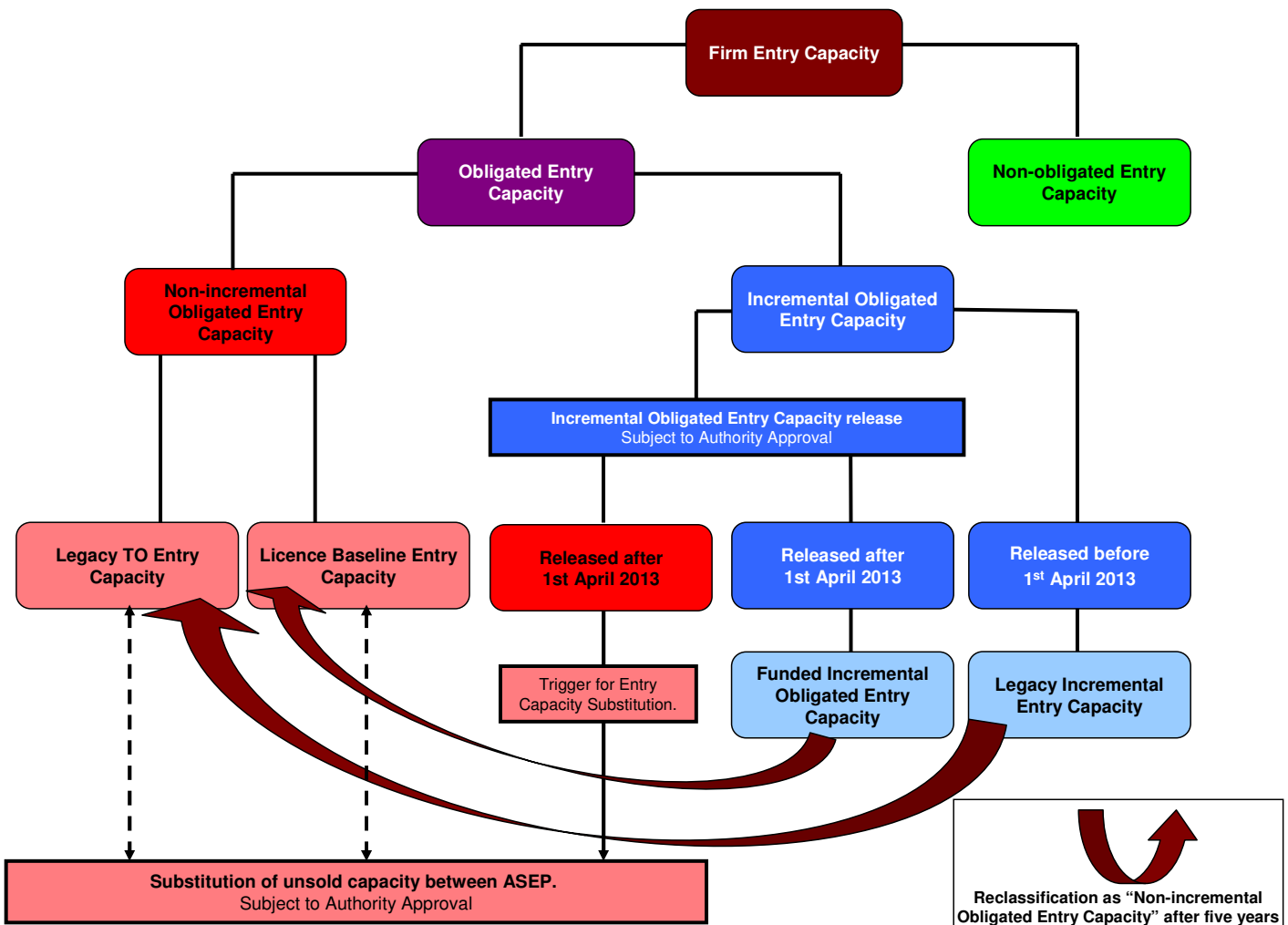
9. Subject to paragraphs 74 and 78, new and existing Shipper Users of the NTS are able to request to purchase entry capacity products for any NTS Aggregate System Entry Point (ASEP). Such capacity requests will be considered against the provisions of National Grid's statutory licence obligations and in accordance with its published methodologies.
10. 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.
11. 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.
12. 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.
13. Under Special Condition 9B, 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.
14. 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
 - **Incremental Obligated Entry Capacity** released in previous auctions;that has not been allocated.
15. 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**.

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

Part A of Special Condition 5F of the Licence sets out the process by which National Grid can propose, and the Authority can approve, the volume of **Incremental Obligated Entry Capacity** to be released.

Capacity Terminology

- 16. 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**.
- 17. The terminology and relationships relating to **Firm Entry Capacity**⁴ are provided below to assist the reader in interpreting this Statement.



⁴ This Statement also covers the release of Interruptible Entry Capacity.

18. 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

19. 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.
20. 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.
21. 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.
22. National Grid expects the allocation of **Quarterly NTS Entry Capacity** resulting from long term auctions to be the primary driver for investment. Notwithstanding the requirement for notification of potential capacity requests referred to in paragraph 8 and the potential for commencing work under a Planning and Consents Agreement ("PCA") (paragraph 73) a sufficiently strong, unambiguous, signal in long term auctions is the trigger for the release of additional **Entry Capacity**, which National Grid would normally expect to support through investment. The process for the release of **Incremental Obligated Entry Capacity** may be preceded by the entering into of a PCA (see paragraphs 23 and 73 to 77).
23. A PCA is a bi lateral agreement between National Grid and a User or a developer. It is designed to provide National Grid with the financial security to undertake certain works in advance of a Shipper User formally bidding for **NTS Entry Capacity** (e.g. where that party has not reached a final decision on whether to proceed with their project) where allocation of that capacity would be expected to require the release of **Funded Incremental Obligated Entry Capacity**. Such works would normally be limited to planning activities prior to physical construction and ordering of materials, such as network analysis, project optioneering, engineering design and wider stakeholder consultation. In the event that **Funded Incremental Obligated Entry Capacity** is released the works will be funded through Transportation Charges, otherwise it will be by payment from the relevant Shipper User/developer.
24. This Statement describes the process by which such releases of **Incremental Obligated Entry Capacity** would normally be triggered. It should be noted that the demand for **Incremental Obligated Entry Capacity** can be satisfied by measures other than investment, e.g. entry capacity substitution (see paragraph 26). 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.
25. 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**.

26. National Grid also has a Licence obligation (Special Condition 9A) to consider whether unsold **Non-incremental Obligated Entry Capacity** can be substituted to ASEPs⁵ 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 25 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.
27. 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.
28. 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 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.

⁵ Referred to in the Licence as NTS Entry Points

CHAPTER 1: PRINCIPLES

Purpose of the Statement

29. 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 14) to relevant Shipper Users; and
 - The quantity of **Incremental Entry Capacity** (see paragraph 15) 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.

Structure of the Statement

30. The methodology described in this Statement is set out in two main sections.
31. 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.
32. 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 PCA's to facilitate the timely release, and revenue drivers⁶ 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**.

⁶ 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

33. **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.
34. The prevailing level of **Obligated Entry Capacity** in respect of any auction excludes:
- **Non-obligated Entry Capacity** (see Chapter 8 / paragraph 141) released in previous auctions; and
 - any **Incremental Obligated Entry Capacity** that might be released pursuant to Part B of this Statement in that auction.
35. Dependant upon the specific auction, **Entry Capacity** may be made available as **Firm NTS Entry Capacity** or **Interruptible NTS Entry Capacity**.
36. The **Obligated Entry Capacity** level will be published for each ASEP at least once per year in the “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 45 to 53) which can be found on National Grid’s website at <http://marketinformation.natgrid.co.uk/Gas/CapacityReports.aspx>.
37. 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.

38. **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.
39. These capacity auctions make available daily capacity (i.e. a daily right to deliver gas into the NTS at an ASEP on a particular 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**.
40. 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 41, it ensures that at ASEPs where there is limited competition for capacity that a cost reflective price is paid for that capacity.
41. At least one auction will result in a clearing allocation⁷ 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.
42. There are five 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 held on an **Annual** basis. In these 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 2014 will be for capacity release over the period October 2015 to September 2029). 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. Capacity may also be released at Interconnection Points, in the QSEC auction, via a surrender process (detailed in paragraphs 66 to 68)

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**

⁷ In respect of an NTS Entry Point 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

Obligated Entry Capacity and is obtained through the surrender process (see paragraph 66)

- **Incremental Entry Capacity** in the form of **Non-obligated Entry Capacity**, may be released in any auction⁸).
- 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 2014 will be for capacity release over the period April 2014 to September 2015). 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).

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 trade⁹ 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 Days D-7 to within Day D (e.g. capacity can be bid for on any day over the period 1st to 8th of the month for use on the 8th). 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 Days D-7 to D-1 (e.g. capacity bids can be placed on any day over the period 1st to 7th of the month for use on the 8th). 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”.
43. 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.

⁸ Except the Daily Interruptible NTS Entry Capacity (DISEC)

⁹ Note: Trading of NTS Entry Capacity at the same ASEP is possible between Shipper Users at any time.

44. 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 B5)

Long Term Summary Report

45. 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 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. The obligation summary report is provided within the Long-Term Summary report.
46. 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.
47. 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.
- Examples are shown below.
48. Table 1: shows the **Obligated Entry Capacity** for example ASEPs.
49. 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.
50. For Licence purposes it is necessary to identify the Total Obligated in its constituent parts. Consistent with the diagram in paragraph 17:
- 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 1st 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)

51. 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 not already returned to the market, e.g. by way of Shipper User ceasing to be a User) in previous auctions.
52. 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**. 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	Obligated Quantity Unsold	Non-Obligated Sold	Monthly Release Obligation	Obligated Firm Quantity Sold	Obligated Quantity Unsold	Non-Obligated Sold
	kWh/d	kWh/d	kWh/d	kWh/d	kWh/d	kWh/d	kWh/d	kWh/d
May-13	110,000,000	5,000,000	105,000,000	0	950,000,000	950,000,000	0	0
Jun-13	110,000,000	5,000,000	105,000,000	0	950,000,000	950,000,000	0	0
Jul-13	110,000,000	5,000,000	105,000,000	0	950,000,000	950,000,000	0	0
Aug-13	110,000,000	5,000,000	105,000,000	0	950,000,000	950,000,000	0	0
Sep-13	110,000,000	5,000,000	105,000,000	0	950,000,000	950,000,000	0	0
Oct-13	110,000,000	110,000,000	0	2,000,000	950,000,000	950,000,000	0	0
Nov-13	110,000,000	110,000,000	0	2,000,000	950,000,000	950,000,000	0	0
Dec-13	110,000,000	110,000,000	0	2,000,000	950,000,000	950,000,000	0	0
Jan-14	110,000,000	110,000,000	0	2,000,000	950,000,000	950,000,000	0	0
Feb-14	110,000,000	110,000,000	0	2,000,000	950,000,000	950,000,000	0	0
Mar-14	110,000,000	110,000,000	0	2,000,000	950,000,000	950,000,000	0	0
Apr-14	110,000,000	5,000,000	105,000,000	0	950,000,000	950,000,000	0	0
May-14	110,000,000	5,000,000	105,000,000	0	950,000,000	950,000,000	0	0
Jun-14	110,000,000	5,000,000	105,000,000	0	950,000,000	950,000,000	0	0
Jul-14	110,000,000	5,000,000	105,000,000	0	950,000,000	950,000,000	0	0
Aug-14	110,000,000	5,000,000	105,000,000	0	950,000,000	950,000,000	0	0
Sep-14	110,000,000	5,000,000	105,000,000	0	950,000,000	950,000,000	0	0
Oct-14	110,000,000	10,000,000	100,000,000	0	950,000,000	100,000,000	850,000,000	0
Nov-14	110,000,000	10,000,000	100,000,000	0	950,000,000	100,000,000	850,000,000	0
Dec-14	110,000,000	10,000,000	100,000,000	0	950,000,000	100,000,000	850,000,000	0
Jan-15	110,000,000	5,000,000	105,000,000	0	950,000,000	950,000,000	0	0
Feb-15	110,000,000	5,000,000	105,000,000	0	950,000,000	950,000,000	0	0
Mar-15	110,000,000	5,000,000	105,000,000	0	950,000,000	950,000,000	0	0
Apr-15	110,000,000	5,000,000	105,000,000	0	950,000,000	950,000,000	0	0
May-15	110,000,000	5,000,000	105,000,000	0	950,000,000	950,000,000	0	0
Jun-15	110,000,000	5,000,000	105,000,000	0	950,000,000	950,000,000	0	0
Jul-15	110,000,000	5,000,000	105,000,000	0	950,000,000	950,000,000	0	0
Aug-15	110,000,000	5,000,000	105,000,000	0	950,000,000	950,000,000	0	0
Sep-15	110,000,000	5,000,000	105,000,000	0	950,000,000	950,000,000	0	0
Oct-15	110,000,000	5,000,000	105,000,000	0	950,000,000	950,000,000	0	0
Nov-15	110,000,000	5,000,000	105,000,000	0	950,000,000	950,000,000	0	0
Dec-15	110,000,000	5,000,000	105,000,000	0	950,000,000	950,000,000	0	0
Jan-16	110,000,000	5,000,000	105,000,000	0	950,000,000	950,000,000	0	0
Feb-16	110,000,000	5,000,000	105,000,000	0	950,000,000	950,000,000	0	0
Mar-16	110,000,000	5,000,000	105,000,000	0	950,000,000	950,000,000	0	0

53. National Grid is obliged to make available the unsold quantity in each auction as determined below in paragraphs 55 to 63.
54. 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

55. 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 the QSEC auction.
56. For each ASEP for each quarter the quantity of **Firm NTS Entry Capacity** that National Grid is obliged to make available for sale¹⁰ is:
- 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**)

AMSEC auction

57. 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**)

RMTNTSEC auction

58. 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**)

59. 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

60. Without prejudice to paragraph 61, for each ASEP, for the relevant Gas 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**)

¹⁰ Due to the 10% withheld, the unsold quantity may be greater than the quantity made available in the QSEC auction.

61. Where, in respect of any given 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.
62. Where the circumstances referred to in paragraph 61 cease to exist or become less severe, National Grid may reduce the quantity withheld accordingly.

DISEC auction

63. For each ASEP for the relevant 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 Day; plus
 - an additional quantity (if any) determined at the sole discretion of National Grid.

Discretionary NTS Entry Capacity auction

64. 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 10.
65. **The Discretionary NTS Entry Capacity** auction may make available unsold **Obligated Entry Capacity** and /or **Non-obligated Entry Capacity**.

EU Regulation 715/2009

66. 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 67 and 68 will apply in respect of Interconnection Points.
67. In advance of the QSEC and AMSEC auctions, and in accordance with UNC Section B, 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.
68. 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
 - **Incremental Entry Capacity** (see Part B for where this is applicable)

PART B: INCREMENTAL ENTRY CAPACITY RELEASE

CHAPTER 4: CONTEXT

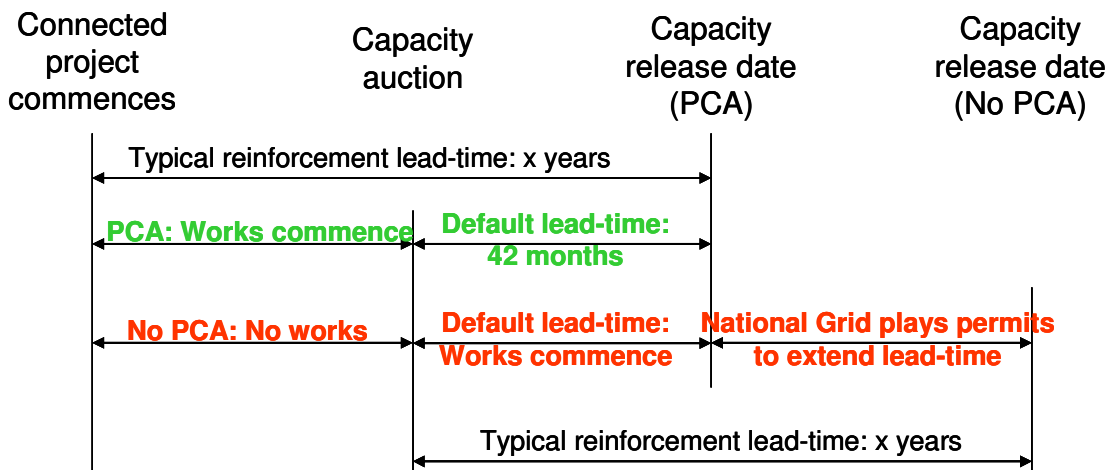
69. Part B of this Statement details how, and under what circumstances, Shipper Users can obtain **Firm NTS Entry Capacity** in excess of the prevailing **Obligated Entry Capacity** level. Such excess capacity is classed for regulatory purposes as **Incremental Entry Capacity**.
70. **Incremental Entry 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.
71. **Incremental Obligated Entry Capacity** (see chapters 5 to 7) is made available through:
- investment in additional pipeline infrastructure¹¹ 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.
72. 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 26).

¹¹ National Grid may identify contractual alternatives to investment.

CHAPTER 5: INCREMENTAL OBLIGATED ENTRY CAPACITY

73. 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 may (subject to the agreement of the User or developer) enter into a PCA¹² with Shipper Users intending to bid for **Firm NTS Entry Capacity** (or developers of projects that are expected to lead to Shipper Users bidding for **Firm NTS Entry Capacity**) where National Grid anticipates that such bids would require the release of **Incremental Obligated Entry Capacity**. It is National Grid's preference that a PCA is entered into as this would better enable additional pipeline infrastructure to be delivered to meet customers' requirements for **Incremental NTS Entry Capacity**. However, Users and developers shall not be obliged to enter into a PCA 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**. Any such bids shall be considered in the same manner as bids made pursuant to a PCA.

Illustration of the Purpose and Benefits of the PCA



74. Each ASEP must be included in the Licence before **NTS Entry Capacity** can be offered for release. The deadline for inclusion in the Licence is the day before the relevant QSEC auction invitation letter is issued. This process may take several months so it is important that potential customers contact National Grid as early as possible.
75. In accordance with the terms of a PCA, National Grid:
- may commence works in advance of the Shipper User bidding, in the QSEC auction, for **Firm NTS Entry Capacity**. The extent of the works undertaken will be determined on a project by project basis such that when the Shipper User makes a formal bid, in accordance with UNC, National Grid is more likely to be able to release **Incremental Obligated Entry Capacity** without the need to extend the default lead-time; and
 - shall inform, when the planning process is completed, the counter party, who will then, subject to a positive planning decision and to further provisions of UNC and

¹² In the event of multiple potential incremental capacity requests National Grid may enter into a PCA with multiple parties.

this Statement, be able to bid for **Incremental NTS Entry Capacity** with a 42 month (or potentially shorter) lead-time.

- c) shall, subject to paragraph 76, be obliged to accept such bids provided that they are consistent with the quantities and dates detailed in the PCA, or obtained as a result of those works, and satisfy the test referred to in paragraph 102..

76. In accordance with the terms of the PCA, the counter party shall pay for the works, as detailed in paragraph 77; and if the counter party is a Shipper User, they may; or otherwise, they may obtain a Shipper User to:

- a) bid for any **Unsold NTS Entry Capacity** at the relevant ASEP for the relevant quarters for which it is proposed to release **Incremental Obligated Entry Capacity**; and
b) bid for **Quarterly NTS Entry Capacity** in sufficient quantities and at the appropriate price to trigger the release of **Incremental Obligated Entry Capacity** consistent with the PCA.

However, agreement of a PCA does not guarantee allocation of capacity for the PCA signatory. Pursuant to UNC other Shipper Users may bid for, and be allocated, any capacity made available as a result of that PCA.

77. In accordance with the terms of the PCA, the Shipper User or Developer shall be liable for all relevant costs incurred in undertaking the works which shall be refunded only following the allocation of the required capacity which must be within the relevant timeframe set out in the PCA. These works will be charged in accordance with the Gas Transmission Connection Charging Methodology (UNC TPD Section Y Part A 2) as if the works were "Design Works", as defined in that statement.

78. Subject to National Grid's sole discretion, and irrespective of whether or not a PCA has been agreed, 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 80) to be agreed with the Authority, and stated within the Licence, for the ASEP by the appropriate date before releasing **Incremental Obligated Entry Capacity** at that ASEP. This is necessary to inform investment decisions in response to the release of additional capacity and to ensure adequate funding of construction (or alternative contractual) activities.

79. The appropriate date for the purpose of paragraph 78 shall be the day before the QSEC invitation letter is issued.

80. A methodology¹³ for the determination of revenue drivers is to be agreed between National Grid and the Authority. This will facilitate the determination of revenue drivers 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 may be detailed in a PCA). 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.

81. Where National Grid believes, pursuant to the application of the methodology detailed in this Statement (except where paragraph 25 applies), that there is, or will be, demand for **Incremental NTS Entry Capacity**, National Grid will make a proposal (in an Entry Capacity

¹³ In the absence of a Generic Revenue Drive Methodology, Revenue Drivers will be determined in accordance with Part D of Special Condition 5G of the Licence. Where a Generic Revenue Driver Methodology has been approved and applied, the values in Table 6 of Part E shall be used.

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**.

82. Other than for the release of **Non-obligated Entry Capacity** (in accordance with chapter 8), the methodology detailed in this Part B will normally be applied to periods from the default lead time of 42 months from the capacity auction. Considering statutory planning regulations, such a lead-time is likely to be extremely challenging for National Grid to provide any new pipeline infrastructure to support the release of additional capacity. Hence it is anticipated that a significant proportion of necessary planning, environmental, and design activities will be required to be completed before a capacity bid is made that would require the release of **Incremental Obligated Entry Capacity** to the default timescale. If this is not possible, (e.g. a PCA has not previously been agreed and an economic and practical alternative to investment in new infrastructure is not available) there is potential that National Grid would seek to extend the lead-time for release of **Incremental Obligated Entry Capacity**. Under the terms of the Licence National Grid may vary the lead time from 42 months as illustrated in paragraph 73. Where this takes place, this will be clearly signalled to Shipper Users via the auction process. Conversely, it may be possible, (e.g. where a PCA has previously been agreed) to release capacity with reduced lead-times.
83. Consistent with the Licence and the Uniform Network Code, 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.

84. 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.
85. 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.
86. 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.
87. 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 value¹⁴; that any proposals for revising the quantities of **Obligated Entry**

¹⁴ 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.

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

88. 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**.

CHAPTER 6: DECISION MAKING METHODOLOGY

Information from Quarterly NTS Entry Capacity (QSEC) Auctions.

89. 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.
90. In accordance with the requirements of UNC TPD Section B2 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.
91. 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).
92. The P_0 price is that price at which National Grid would release ***Obligated Entry Capacity***, in response to valid bids. 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 56 and the appropriate Tables in Special Condition 5F of the Licence and will be published in the invitation referred to in paragraph 90.
93. 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.
94. 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, 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

95. For the purposes of determining the required commitment from bidders that would normally trigger the release of ***Incremental Obligated Entry Capacity***, should auction bids satisfy the test given in paragraph 102, 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.
96. 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

97. 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.

Obligated Entry Capacity Allocation

98. 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** 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 56.

Incremental Obligated Entry Capacity Release and Allocation

99. In respect of any ASEP where a minimum quantity of **Firm NTS Entry Capacity** is demanded in excess of the **Unsold NTS Entry Capacity** in any quarter, National Grid will consider releasing **Incremental Obligated Entry Capacity** to meet that demand.
100. 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 bids for **Quarterly NTS Entry Capacity** which would be accepted if **Incremental Obligated Entry Capacity** was to be released equal to the quantity of **Quarterly NTS Entry Capacity** requested.
101. The “quarter in question” will normally be the first quarter following the default lead time referred to in paragraph 105 where the aggregate volume of valid bids received first exceeds or equals the **Unsold NTS Entry Capacity** plus the quantity of **Incremental Obligated Entry Capacity** that is being considered. However, 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. 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)
102. If the NPV equals at least 50% of the “estimated project value”, then National Grid would make a proposal to the Authority to release that quantity of **Firm NTS Entry Capacity** as **Incremental Obligated Entry Capacity** under the terms of the Licence as detailed in paragraph 81. There would be a presumption that such **Incremental Obligated Entry Capacity** should be released and allocated to Shipper Users. 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.

Timing of Release of Incremental Obligated Entry Capacity

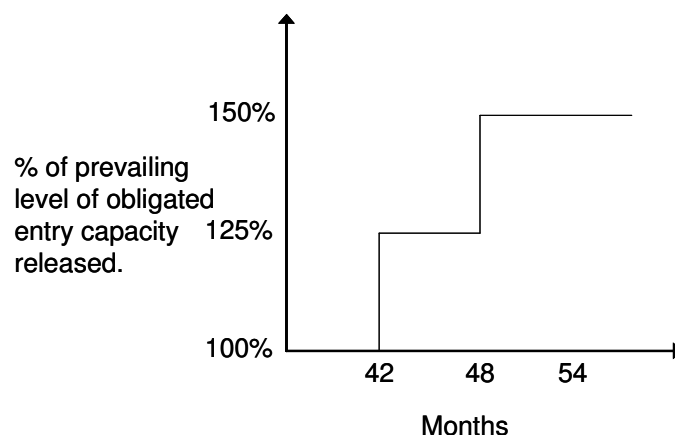
103. Following successful bids by Shipper Users (i.e. that pass the NPV test) and a proposal for the release and allocation of **Incremental Obligated Entry Capacity** not being vetoed by

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.

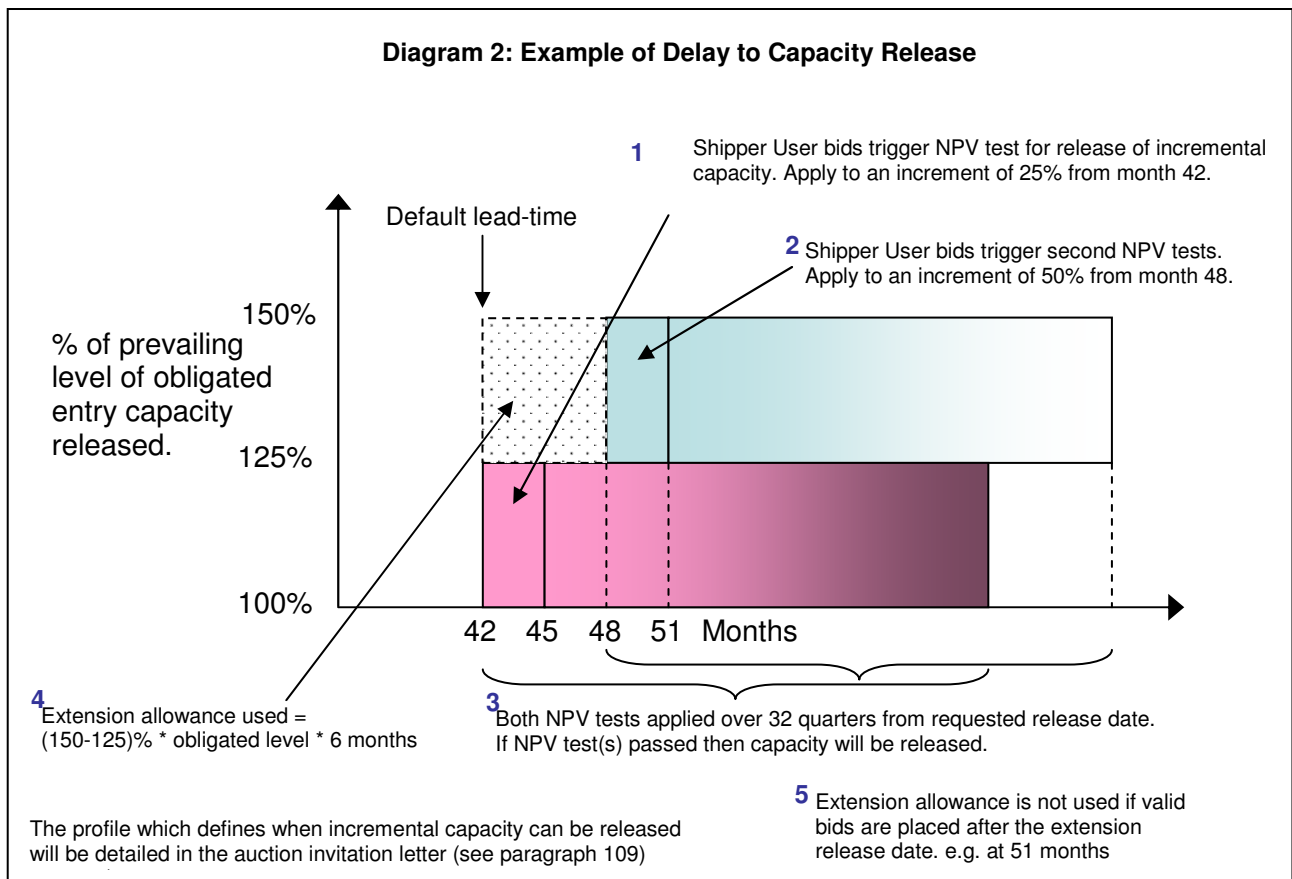
104. In the event that National Grid's proposals are vetoed by the Authority, National Grid will not release **Incremental Obligated Entry Capacity** and may remove any associated **Firm NTS Entry Capacity** allocated to Shipper Users, but may, at its sole discretion, release **Non-Obligated Entry Capacity** in accordance with chapter 8.
105. National Grid shall release **Incremental Obligated Entry Capacity** for use subject to a default lead time of 42 months. The application of the default 42 month lead time shall be consistent with the definition of Entry Lead Time given in Special Condition 1A of the Licence, i.e. from the 1st day of the month following the end of the annual invitation period of the QSEC auction (e.g. the 42 months starts on 1st April 2014 for a successful bid placed in the March 2014 QSEC auction).
106. National Grid is encouraged, through incentives established in the Licence (Special Condition 2D), to reduce, where it can, the default lead time between the auction signal and the start of its contractual obligation to make **Incremental Obligated Entry Capacity** available ahead of the default Entry Lead Time. Hence National Grid is incentivised to take on that contractual obligation earlier.
107. The same Licence condition also provides National Grid with a limited number of opportunities to extend the 42 month default lead time for making **Incremental Obligated Entry Capacity** available.
108. The Licence defines the limit in terms of a total cap on the number of months of allowed delay for a total quantity of entry capacity. This limit may be increased to the extent that **Incremental Obligated Entry Capacity** is released early in accordance with paragraph 106. Where such opportunities have been exhausted, National Grid may extend the 42 month default lead time for the release of **Incremental Obligated Entry Capacity** only with the consent of the Authority. Except where agreed with the Authority, National Grid will not extend the capacity release lead time by more than 24 months.
109. Where National Grid assesses in advance of a QSEC auction that it may be unable to meet a potential obligation to release any anticipated **Incremental Obligated Entry Capacity** within the 42 month default lead time National Grid will notify bidders of:
- the relevant ASEP(s);
 - the amount, if any, of **Incremental Obligated Entry Capacity** that could be released with the 42 month default lead time; and
 - the revised contractual capacity release date(s), beyond the default 42 month lead time, for the remaining anticipated **Incremental Obligated Entry Capacity** quantity that would be appropriate at the affected entry point.

This is shown in Diagram 1 below:

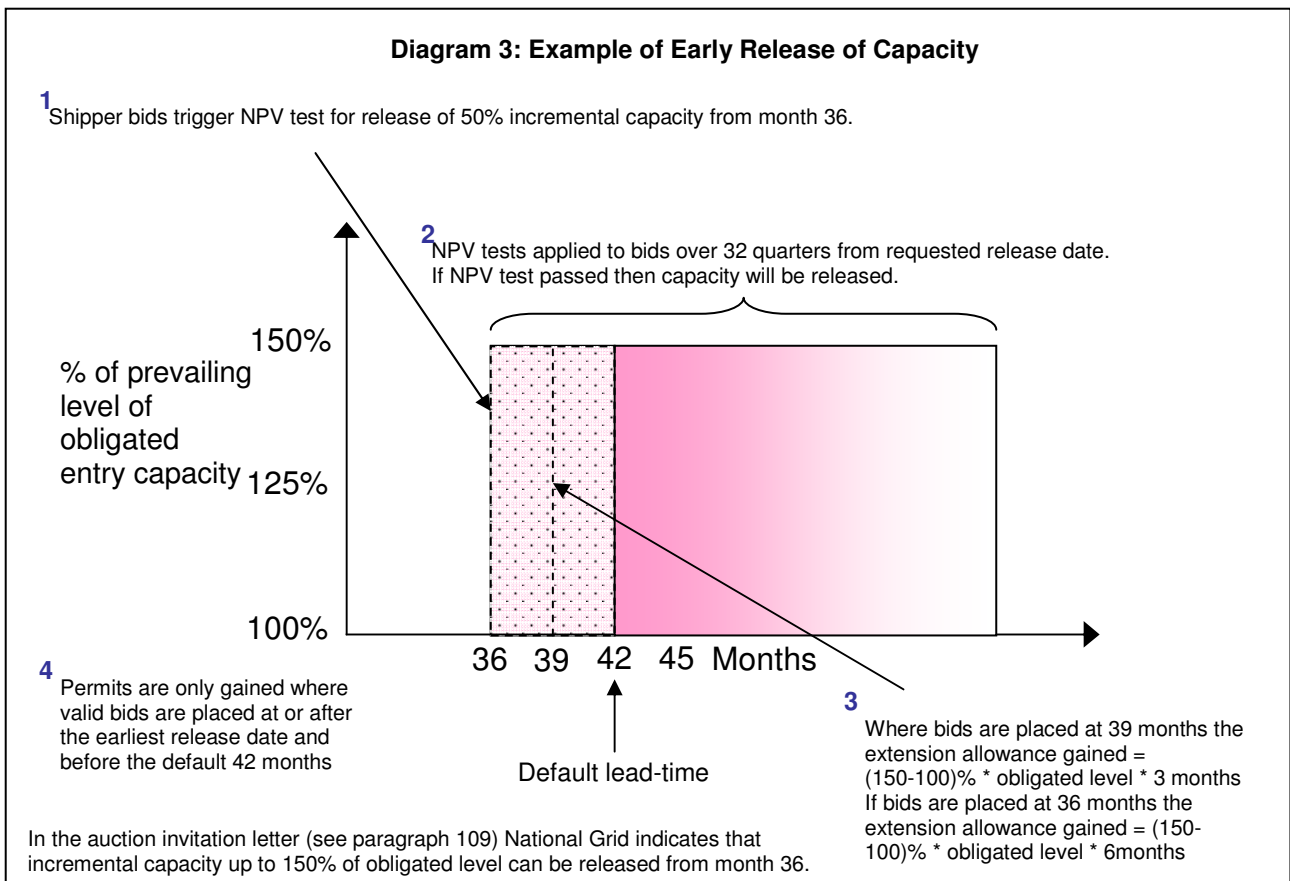
Diagram 1: Example of format of pre-auction notification of earliest possible release of incremental obligated entry capacity at a given entry point.



- 110. In the above example, at a given entry point, up to 25% of the **Obligated Entry Capacity** will be released as **Incremental Obligated Entry Capacity** with a 42 month lead time. The remaining volume up to 150% of the **Obligated Entry Capacity** will be made available with a 48 month lead time.
- 111. Where paragraph 109 applies, the lead time, and above information, will be specified in the relevant QSEC auction invitation letter.
- 112. In assessing any lead time, National Grid will take into account any PCAs signed with, and underpinned by, relevant counter-parties ahead of the relevant auction.
- 113. Where paragraph 109 applies, the “quarter in question” referred to in paragraph 101 (i.e. the date from when the NPV test will be applied) will be the first quarter that any **Incremental Obligated Entry Capacity** requested through valid auction bids can be first released.
- 114. National Grid will only use its allowed extension to capacity release dates to the extent that valid bids for **Incremental Obligated Entry Capacity** are placed and accepted which require a capacity release date no later than the earliest release date which was notified in the auction invitation letter. The extension allowance used shall be determined from the amount of **Incremental Obligated Entry Capacity** actually released, and which was subject to a variation from the default 42 month lead time, multiplied by the duration by which the default has been extended, as shown in diagram 2 below.



- 115. National Grid will notify relevant Shipper Users of such extensions following assessment of the QSEC auction and determination of the necessary investment works, if any, required to support successful bids for **Incremental Obligated Entry Capacity** release.
- 116. The above paragraphs 109 to 115 refer to increases from the default lead time but apply equally to decreases and should be read accordingly.
- 117. Consistent with paragraph 114 National Grid will only gain the amount of allowed extension to the default lead time through the early release of **Incremental Obligated Entry Capacity** (in accordance with paragraph 108) to the extent that valid bids for **Incremental Obligated Entry Capacity** are placed and capacity is allocated (as a result of satisfying the NPV test described in paragraph 102) with an earlier release date than the 42 month default. The extension allowance gained shall be determined from the amount of **Incremental Obligated Entry Capacity** actually released, and which was subject to a variation from the default 42 month lead time, multiplied by the duration by which the default has been reduced, (as shown in diagram 3 below).



CHAPTER 7: INCREMENTAL OBLIGATED ENTRY CAPACITY PRICING METHODOLOGY

Introduction

118. 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

119. 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.

120. 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.

121. 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).

122. 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.

123. 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.

124. 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.

125. 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.
126. 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.
127. 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

128. 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.
129. Subject to paragraphs 128 and 132, the incremental step sizes to be offered at auction are dependent upon the prevailing level of **Obligated Entry Capacity** at each ASEP defined by the Licence. In accordance with the Uniform Network Code (Section B – 2.2.3 (c) & (d)), twenty increments will be offered.
130. 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 1st 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).
131. 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.

132. 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.
133. 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 PCA.
134. 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.
135. At ASEPs where a PCA has been agreed and the quantity of **Incremental Obligated Entry Capacity** proposed to be released pursuant to that PCA 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 PCA.

Incremental Step Sizes for New NTS Entry Points

136. 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 PCA) 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.
137. 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 PCA, subject to:
 - A minimum incremental step size of 5GWh.
138. 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 80), where required in accordance with

paragraph 78, 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.

139. 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

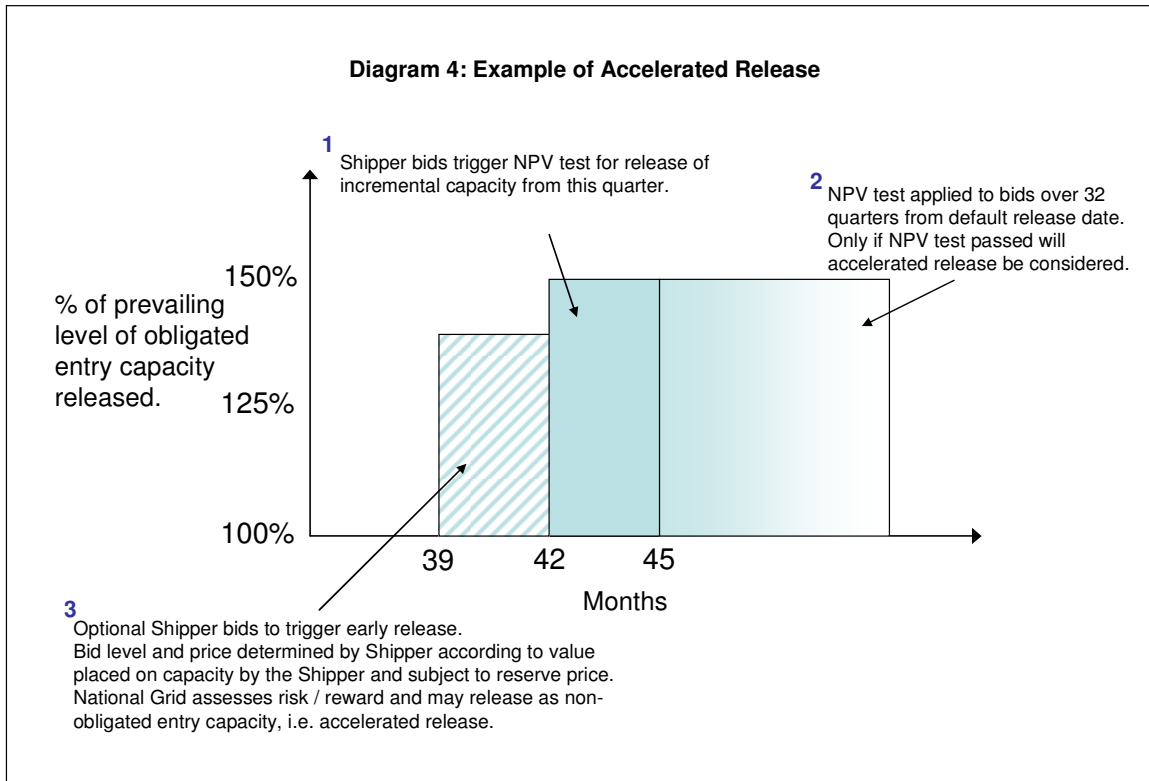
140. From time to time, when National Grid believe that there has been a substantial change to cost drivers, including the supply/demand balance, investment cost assumptions or network topology, it will be appropriate for National Grid to recalculate price schedules in light of any change. It is not 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

141. In any of the processes identified in paragraph 42 (excluding DISEC) and 43 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**.
142. **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

143. In addition to the variation of the default lead time¹⁵ for releasing of **Incremental Obligated Entry Capacity** described in paragraphs 106 to 117 the Licence (Special Condition 3B Part K) also 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.
144. As stated in paragraph 8, it is important that Shipper Users and developers discuss potential new projects and increased requirements at existing ASEPs with National Grid at an early stage and, where possible, enter into a PCA. This is particularly important where Shipper Users would like **Incremental NTS Entry Capacity** earlier than the default lead time. National Grid will then be able to explore options to facilitate such a request and, if possible, will signal the potential for early release of **Non-obligated Entry Capacity** in the auction invitation letter.
145. 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:
- Shipper User bids satisfying the NPV test referred to in paragraph 102. For the avoidance of doubt, the test shall be applied from the default 42 month lead time except where this is adjusted in accordance with paragraph 106; and
 - Satisfactory assessment by National Grid of the associated risks and rewards.



146. Shipper Users 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 144, 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.
147. 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 37 to 39: quantity Q which can be met through accelerated release (**Non-obligated Entry Capacity**)
 - Months 40 to 42: no bids
 - Months 43 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 40 to 42 in any future auction, including monthly auctions.

¹⁵ This may be reduced in accordance with paragraph 106.

148. In accordance with paragraph 25 National Grid may also release ***Non-obligated Entry Capacity***, with or without the need for investment, in the absence of an unambiguous auction signal.

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 ₅	0.06	20
140	P ₄	0.05	16
130	P ₃	0.04	12
120	P ₂	0.03	8
110	P ₁	0.02	4
100	P ₀	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 ₅	0.06	100	100	120	120	110	100	100	100	100	100	100	100	100	100	100	100	100	...	100
140	P ₄	0.05	100	100	120	120	110	100	100	100	100	100	120	100	100	100	100	100	100	...	100
130	P ₃	0.04	100	100	130	130	120	100	130	130	100	100	130	125	100	100	110	110	...	100	
120	P ₂	0.03	100	100	135	135	120	100	135	131	110	100	132	125	100	100	120	120	...	100	
110	P ₁	0.02	100	100	140	135	130	100	140	140	120	100	134	125	100	100	120	120	...	100	
100	P ₀	0.01	100	100	145	140	131	100	140	140	120	100	135	130	100	100	120	120	...	100	

Submitted for Approval

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
Incremental Capacity to release	GWh	(a)	0	0	30	30	30	0	30	30	20	0	30	30	0	0	20	20		0
Clearing Price	p/kWh/d	(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
Days per quarter	day	(c)	92	90	91	92	92	90	91	92	92	90	91	92	92	91	91	92		91
Incremental Revenue	£m	$\frac{(a)*(b)*(c)}{100}$	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
NPV Test	£m	50% Project Value	6																	
NPV of Revenue	£m	2.01%	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.