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*Promoting choice and value for
all gas and electricity customers*

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Date: 17 December 2012

Dear Sarah

Notice of approval of the Incremental Entry Capacity Release Methodology Statement

This letter contains our approval of your Incremental Entry Capacity Release Methodology Statement (IECR) and explains the background. Our approval is on the basis that you make some changes to the methodology to improve its clarity, particularly on the nature of your obligations.

Background

National Grid Gas (NGG) offers set amounts of entry capacity at each Aggregate System Entry Point (ASEP) on the National Transmission System (NTS). These amounts are referred to as 'baselines'. At ASEPs where the baseline capacity is not enough to meet users' needs, NGG can offer new or additional capacity beyond these baselines. The IECR contains the rules by which NGG will make incremental entry capacity available to users.

The IECR was first introduced in July 2002. It sets out the methodology which NGG uses to compare the strength of bids in long term auctions with the estimated project cost for providing the incremental entry capacity. Where the net present value of the bids is greater than 50 per cent of the estimated project cost, NGG will provide the additional capacity. The IECR also describes the timing of the release of incremental entry capacity.

IECR Review

You have a licence obligation to review the IECR each year. On 2 October 2012, you published on your website a consultation on the methodology to be applied from 2 January 2013. The consultation closed on 30 October 2012 and there were no responses to this consultation. On 6 November 2012, you submitted the IECR to us¹ for approval².

The proposed methodology contains a number of changes from the existing methodology. The majority of these changes involve the addition to the IECR of the role of Planning and Consent Agreements (PCAs). You have also added information to several paragraphs to provide further clarity on issues as well as making house-keeping changes.

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

² Pursuant to paragraph 2 of Special Condition C15 of its Gas Transporter Licence ("the Licence").

IECR Audit

You are also required to provide a statement by auditors which indicates the extent to which you have developed a methodology consistent with your duties and obligations under your licence and the Gas Act 1986. On 13 July 2012³, we gave a derogation from this requirement. We accepted NGG's argument that as the model was essentially unchanged from the previous year, there would be no benefit from another audit of the model.

Our view

In our view, the methodology statement is consistent with your obligations under Special Condition C15. However, there are several areas which we consider should be clarified. We have detailed these areas in Appendix One of this letter.

We note that you have correctly stated within the IECR that PCAs are optional. This is consistent with your duties and obligations under your licence and The Gas Act 1986. Whether or not a user holds a PCA, you must provide incremental capacity within lead-times commensurate with your licence obligations, subject to the use of permits. You must not discriminate between users at capacity auctions, and all users must be treated equally regardless of whether or not they hold a PCA.

Our decision

Having regard to our principal objective and statutory duties, and for the reasons set out in this letter, I approve the IECR submitted by NGG subject to the changes directed being implemented.

Yours sincerely



Andrew Burgess
Associate Partner, Transmission & Distribution Policy

³ Andy Burgess, Ofgem, to Steve Fisher, NGG, Incremental Entry Capacity Release Methodology Statement: Accompanying Audit, 13 July 2012

Appendix One: Points to be addressed

- On page 1, the document states that it will be effective from 2 January 2013. We note that this date is indicative. However, we want to emphasise for future reference that we are allowed 2 months to respond from the submission date, 6 November 2012.
- The document revision history states that the IECR was updated for RIIO-T1. As the changes are not being implemented for RIIO-T1, this should be amended.
- Paragraph 22 states that "National Grid shall (subject to the agreement of the User or Developer) enter into a PCA". This should be changed to "National Grid may (subject to the agreement of the User or Developer) enter into a PCA" as the PCA is not obligatory.
- Paragraph 27 contains changes to the description of revenue drivers. The phrase "where relevant" should be removed from the paragraph so that it reads "National Grid will require a Revenue Driver to be agreed with the Authority and stated within the Licence". This reflects the current arrangements of having previously agreed Revenue Drivers within NGG's licence.
- There is a formatting error with Diagram 2 which should be changed so that it is displayed clearly in the document.
- Paragraph 68 has an added clarifying statement about accelerated release. The statement could be interpreted as NGG having the right to choose to release Incremental Obligated Entry Capacity. We wish to see this statement amended to "(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)" to ensure there is clarity on NGG's obligations.
- Paragraph 88 clarifies how NGG treats step sizes when the capacity agreed via PCAs differs from that produced by the methodology. However, the passage beginning "National Grid shall ..." should be amended to "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".