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# **The Statement of the Entry Capacity Constraint Management Cost Allocation Rules**

**Effective from 1<sup>st</sup> October 2007**

**nationalgrid**

## Document Revision History

<b>Version/ Revision Number</b>	<b>Date of Issue</b>	<b>Notes</b>
0.1	6 <sup>th</sup> July 2007	Initial NG development draft.
1.0	26 <sup>th</sup> Sept 2007	Initial proposals. Submitted for approval.
1.0	27 <sup>th</sup> Nov 2007	Approved (not vetoed).

## About this Document

This document describes the rules that National Grid Gas plc's NTS business ("National Grid") will apply in attributing entry capacity constraint management costs incurred by National Grid between the following terms:

- i) the entry capacity operational buy-back cost term;
- ii) the Milford Haven entry capacity specific incentive cost term; and
- iii) the entry capacity incremental buy-back cost term.

This document is one of a suite of documents that describe the management and operation of the National Transmission System ("NTS"). Other documents are available on our Operational Documents website at:

<http://www.nationalgrid.com/uk/Gas/OperationalInfo/operationaldocuments/>

This statement is effective from 1<sup>st</sup> October 2007.

This document has been published by National Grid in accordance with Special Condition C8D Part D of National Grid's Gas Transporter Licence in respect of the NTS (the "Licence"). National Grid believes the content is consistent with its duties under the Gas Act and is consistent with the Standard Conditions, Standard Special Conditions and Special Conditions of the Licence.

If you require further details about any of the information contained within this document or have comments on how this document might be improved please contact our UK Transmission Gas Access and Charging team on **01926 656310** at:

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## GENERAL INTRODUCTION

### Background

1. National Grid is the owner and the operator of the gas National Transmission System (NTS) in Great Britain.
2. The NTS is a network of pipelines, presently operated at pressures of up to 85 bar, 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 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. In 2006/07 1,042 TWh of Gas was transported to these consumers.
4. This publication sets out the rules that National Grid will apply in attributing certain operating costs (the “entry capacity constraint management costs”) to the specific incentive schemes contained within the Licence.
5. Details of National Grid and its activities can be found on the company’s internet site at [www.nationalgrid.com](http://www.nationalgrid.com) . An electronic version of this publication, along with the other related statements can be found at the following internet page: <http://www.nationalgrid.com/uk/Gas/OperationalInfo/operationaldocuments/> ”.

### National Grid’s Licence Obligations

6. Overriding obligations applicable to this statement set out in the Licence in respect of the operation of the NTS are that it must:
  - be conducted in an efficient, economic and co-ordinated manner – (see Special Condition C5); and
  - not prejudice the safe and efficient operation of National Grid’s or any other relevant gas transporter’s pipe-line system (see Standard Special Condition A17).
7. Specific obligations in respect of attributing entry capacity constraint management costs applicable to this statement are set out in Special Condition C8D of the Licence and are:
  - a) For the purpose of attributing the entry capacity constraint management costs National Grid shall apply the rules set out in its statement of entry capacity constraint management cost allocation rules. (Part A paragraph 3 (n)).
  - b) The entry capacity constraint management costs incurred by National Grid shall be attributed between the following terms (Part A paragraph 3 (d)):
    - i) the entry capacity operational buy-back cost term;
    - ii) the Milford Haven entry capacity specific incentive cost term; and
    - iii) the entry capacity incremental buy-back cost term;
  - c) For the purpose of this document the following abbreviations shall apply:

- i) OBB means the entry capacity operational buy-back cost term;
  - ii) MH means the Milford Haven entry capacity specific incentive cost term; and
  - iii) IBB means the entry capacity incremental buy-back cost term;
- d) For the purposes of a) and b) above, the entry capacity constraint management costs incurred by National Grid shall be the sum of:
- The costs incurred by National Grid in the curtailment of capacity rights to put gas into the transportation system, less any revenues received from DN operators in respect of the curtailment of capacity rights to put gas into their transportation system, (including costs incurred in respect of any acquisitions from gas shippers of capacity rights); and
  - The costs incurred by National Grid in respect of any payments made to gas shippers in exchange for agreeing to offtake gas from the NTS at National Grid's request and in respect of any costs incurred in undertaking any other commercial or physical action to manage entry capacity.
- e) National Grid shall prepare and submit for approval by the Authority a statement of entry capacity constraint management cost allocation rules, setting out the rules that it shall apply in attributing entry capacity constraint management costs for the purposes of paragraph 3(n) of this [i.e. SC C8D] condition.(Part D paragraph 13 (a))
- f) Unless the Authority otherwise directs, apply the rules set out in that statement in attributing entry capacity constraint management costs for the purposes of paragraph 3(n) of this [i.e. SC C8D] condition.(Part D paragraph 13 (b))
- g) The Milford Haven entry capacity specific incentive cost term includes an amount equal to the costs incurred in respect of the funded incremental obligated entry capacity up to 650 GWh per day for which the incremental obligated entry capacity was first due to be contractually delivered on 1<sup>st</sup> October 2007 at the Milford Haven NTS entry point (to the extent that such costs have been incurred prior to such time as that capacity has been physically delivered (as defined in Special Condition C8A of the Licence) to relevant shippers);
- h) The entry capacity incremental buy-back cost term includes an amount equal to the costs incurred where those costs relate to funded incremental obligated entry capacity first released for sale by the licensee after 31<sup>st</sup> March 2007;
- i) The entry capacity operational buy-back cost term means the costs incurred by National Grid in respect of entry capacity constraint management:
- including (but not limited to) costs incurred in respect of any payments made to curtail the rights of relevant shippers to use firm entry capacity; and
  - excluding (subject to the provision of this statement) costs incurred in this manner where the relevant shippers' ownership of entry capacity rights relates to the conditions in g) and h) above.
- 8 National Grid also has a Licence obligation to use reasonable endeavours to ensure that it does not pay more than 0.52p/kWh/day in respect of constraint management costs in respect of funded incremental obligated entry capacity and for which the obligation to offer such capacity for sale commenced after 31<sup>st</sup> March 2007, in respect of costs allocated to IBB, (Special Condition C8D, Part A paragraph 5 (c)). This obligation ceases when the capacity has been physically delivered.

## CHAPTER 1: PRINCIPLES

### Constraint Cost Management

- 9 National Grid will undertake actions to manage Entry Capacity constraints in accordance with the System Management Principles Statements which can be found at:  
<http://www.nationalgrid.com/uk/Gas/OperationalInfo/operationaldocuments/ProcurementSystemManagementServicesStatementsReports/>

### Cost Allocation Rules

- 10 Where all of the following conditions are satisfied the entry capacity constraint management costs shall be allocated to MH.
- The constraint management action is in respect of the Milford Haven ASEP
  - The constraint management action is not taken in respect of a Day before 1<sup>st</sup> October 2007
  - The constraint management action is in respect of the funded incremental obligated entry capacity up to 650 GWh/d due to be contractually delivered from 1<sup>st</sup> October 2007.
  - The 650 GWh/d of entry capacity due to be contractually delivered from 1<sup>st</sup> October 2007 has not been physically delivered; where “physically delivered” has the meaning defined in paragraph 1 of Special Condition C8A of the Licence.

Where any of the above conditions are not satisfied then costs shall be allocated in accordance with paragraphs 11 and 12.

- 11 Where all of the following conditions are satisfied the entry capacity constraint management costs shall be allocated to IBB.
- The constraint management action is in respect of incremental obligated entry capacity released for sale after 31<sup>st</sup> March 2007, i.e. in response to User signals provided in accordance with the IECR or other methodology approved by the Authority in an auction held after 31<sup>st</sup> March 2007. This may be in respect of a new ASEP or an existing ASEP.
  - The constraint management action is not in respect of incremental non-obligated entry capacity.
  - The constraint management action is not taken in respect of a Day before the entry capacity release date i.e. the date on which the incremental capacity was first due to be contractually delivered. This date will be determined in accordance with the IECR which would normally be 42 months after the relevant Annual Invitation Period (as defined in the Network Code) but may be amended in accordance with the incremental capacity delivery incentive.
  - The incremental obligated entry capacity has not been physically delivered; where “physically delivered” has the meaning defined in paragraph 1 of Special Condition C8A of the Licence.

Where any of the above conditions are not satisfied then costs shall be allocated in accordance with paragraph 12.

- 12 Any entry capacity constraint management costs which are not allocated to MH or IBB shall be allocated to OBB.