

Steve Fisher  
Gas Capacity and Charging  
Development Manager  
Transmission Network Service  
National Grid  
National Grid House  
Gallows Hill  
Warwick  
CV34 6DA

Direct Dial: 020 7901 7159  
Email: andy.burgess@ofgem.gov.uk

Date: 23 October 2013

Dear Steve

### **Approval of the Entry Capacity Release Methodology Statement**

This letter contains our approval of the Entry Capacity Release Methodology Statement you submitted on 6 September 2013 and provides the reasons for our decision. We have approved this statement as it makes minor updates to comply with RIIO T1 and satisfies your obligations under section 9 of the Gas Act.

#### *Background*

Your Entry Capacity Release Methodology Statement (ECR) describes how National Grid Gas (NGG) releases and allocates National Transmission System (NTS) incremental and non-incremental entry capacity to shipper users. It defines when NGG will accept applications for NTS Entry Capacity from shipper users. It also describes the financial commitment needed from shipper users to release "obligated" entry capacity.

#### *NGG's Duties under the Gas Act 1986*

Section 9 of the Gas Act 1986 requires you, as the owner and operator of the gas NTS to, among other things -

- Develop and maintain an efficient and economic NTS
- Comply, insofar as it is economical, with reasonable requests to connect to the NTS
- Facilitate competition in the supply of gas
- Avoid undue preference or discrimination in the connection of premises to any pipe-line system or the terms on which it transports gas.

Your ECR must be consistent with these duties.<sup>1</sup>

#### *ECR Review*

You have a licence obligation<sup>2</sup> to review the ECR at least every two years. On 26 July 2013, you published on your website a consultation on the methodology to be applied from 1 January 2014. The consultation closed on 23 August 2013 and you published the two

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<sup>1</sup> Special condition 9B.6 of the NGG NTS Gas Transport Licence ("the Licence").

<sup>2</sup> Special condition 9B.8 of the Licence.

responses you received on your website. On 6 September 2013, you submitted the ECR to us<sup>3</sup> for approval.<sup>4</sup>

The proposed methodology contains a number of changes from the existing methodology. The majority of these changes are to align the methodology statement with the revised Licence for the RIIO-T1 period.

You propose that the ECR should cover both incremental and non-incremental entry capacity. This means that the ECR replaces the Incremental Entry Capacity Release Statement (IECR), which only covered incremental "obligated" entry capacity.<sup>5</sup>

You have also added some information to make the statement clearer, and simplified parts of the drafting.

#### *ECR Audit*

You are required to provide a statement by an Independent Examiner to confirm that you developed a methodology consistent with your licence and the Gas Act 1986. On 2 May 2013,<sup>6</sup> we gave a derogation from this requirement. We accepted your argument that as no significant changes would be made to the ECR methodology, there would be no benefit from another audit of the model.

#### *Our view*

In our view, this methodology statement is consistent with your obligations under Special Condition 9B and your duties under the Gas Act.

We think that the ECR is clearer and more concise than the previous IECR, for example because you structured and drafted the document more rigorously. We are grateful that you submitted the updated methodology statement in a timely manner, as per our request in last year's decision letter.<sup>7</sup>

#### *Our decision*

Having regard to our principal objective and statutory duties, and for the reasons set out in this letter, I approve the Entry Capacity Release Methodology Statement as submitted on 6 September 2013.

Yours sincerely



Andrew Burgess  
**Associate Partner, Transmission & Distribution Policy**

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<sup>3</sup> Ofgem is the Office of the Gas and Electricity Markets Authority. The terms 'Ofgem', 'the Authority' and 'We' are used interchangeably in this letter.

<sup>4</sup> Pursuant to special condition 9B of the Licence.

<sup>5</sup> The IECR covered only the release of incremental entry capacity. Incremental obligated entry capacity and non-incremental obligated entry capacity add up to obligated entry capacity.

<sup>6</sup> Andy Burgess, Ofgem, to Andrew Fox, NGG, Entry Capacity Substitution Methodology Statement: Accompanying Statement, 2 May 2013.

<sup>7</sup> Andy Burgess, Ofgem, to Sarah Lloyd, NGG, Notice of approval of the Incremental Entry Capacity Release Methodology Statement, 17 December 2012.