



National Grid NTS and other interested parties

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11 July 2008

Dear Colleague,

### **Incremental Entry Capacity Release (IECR) Methodology Statement**

NGG has submitted the IECR methodology statement annual review consultation report and the IECR methodology statement for consent from the Authority. This letter provides background information on the submissions made by NGG and provides the Authority's decision on this matter, together with the reasons for this decision.

Ofgem<sup>1</sup> has considered the issues in the Incremental Entry Capacity Release (IECR) methodology statement annual review consultation report and the IECR methodology statement submitted by National Grid Gas (NGG) on 20 June 2008. These documents were submitted for approval by the Authority. Additionally, Ofgem has considered the findings of the auditor statement submitted by NGG on 30 June 2007.

Having regard to the principal objective and statutory duties of the Authority<sup>2</sup>, and for the reasons set out in this letter, the Authority has decided:

- it will consent to the proposed revisions to the IECR methodology statement, pursuant to Special Condition C15(7)(c) of NGG's National Transmission System (NTS) Gas Transporter Licence (GTL), and
- it will approve the IECR methodology statement pursuant to Special Condition C15(2) of NGG's NTS GTL

### **Background**

The IECR methodology statement describes the methodology by which NGG determines whether to make incremental entry capacity available for sale to gas shippers.

On 16 May 2008 NGG initiated a consultation as part of its annual review of the IECR methodology statement pursuant to Special Condition C15(7)(a). As a result of this review, NGG is proposing a number of revisions to the IECR methodology statement. The main proposed changes are to:

- revise terminology
- update references to capacity substitutions
- include detail on the timing of release of capacity
- include detail on the release of non-obligated entry capacity

<sup>1</sup> Ofgem is the Office of the Gas and Electricity Markets Authority. The terms 'Ofgem' and 'the Authority' are used interchangeably in this letter.

<sup>2</sup> Set out in Section 4AA of the Gas Act 1986, as amended.

- provide more detail on the role of the Authority

On 20 June 2008, following the close of NGG's consultation on the proposed revision to the IECR methodology statement, NGG submitted the IECR annual review consultation report to Ofgem for consent, consistent with the provisions of Special Condition C15(7)(b)(i). It also submitted the IECR methodology statement to the Authority in order to seek approval of the IECR methodology statement pursuant to Special Conditions C15(2).

On 30 June 2008 NGG submitted an auditor statement to the Authority pursuant to Special Conditions C15(3).

### **Respondents' views**

NGG received three responses to its consultation. All three respondents were, in general, supportive of the revisions to the methodology, but raised a number of points relating to the detail within the methodology and in some instances requested clarification of specific issues.

One respondent thought it would be helpful to have references to the GTL conditions, where appropriate, for readers to better understand the requirements on NGG.

Following this and other comments, NGG revised the IECR methodology statement before submitting it to the Authority on 20 June 2008.

### **Auditors' views**

The auditors reviewed the model which was developed and is maintained by NGG for the purpose of calculating incremental price steps. The auditors noted only one exception. This exception related to differences between the pipeline distances in the model supplied by NGG and the pipeline data. NGG explained that pipeline distance data had been updated for some pipelines, and that the updated figures were used in the model. NGG noted that the process for entering pipeline data to the model has since been automated so that all future changes in pipes/network are incorporated into the model.

### **Ofgem's view**

Ofgem accepts the revisions to the IECR methodology statement which are mainly to account for the implementation of the modifications to NGG's NTS GTL on 5 September 2007. The modifications to NGG's NTS GTL introduced or revised a number of conditions including those for default investment lead times, gas entry permits (for varying the investment lead times) and accelerated release of incremental entry capacity. The modifications also revised some of the terminology. The proposed revisions to the IECR broadly reflect these modifications.

However, Ofgem notes that there is a lack of clarity on the timing of release of incremental entry capacity and non-obligated entry capacity. We expect that in the next review of the IECR methodology statement greater clarity on these issues will be included, particularly to reflect the intention of the policy on gas entry permits as set out in the Ofgem publication 'Section 38 notice in respect of reasons for the decision to modify the licence of National Grid Gas plc'<sup>3</sup>. In the meantime, we expect NGG to adhere to the policy intention referred to above regarding the timing of release of incremental obligated entry capacity.

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<sup>3</sup> See

[http://www.ofgem.gov.uk/Networks/Trans/PriceControls/TPCR4/ConsultationDecisionsResponses/Documents1/070801\\_Section38A%20document%20VERSION%200%2077.pdf](http://www.ofgem.gov.uk/Networks/Trans/PriceControls/TPCR4/ConsultationDecisionsResponses/Documents1/070801_Section38A%20document%20VERSION%200%2077.pdf), published on 5 September 2007 with reference number 217/07(b)

## **Ofgem's Decision**

Following consideration of the documentation provided and having regard to the Authority's principal objective and statutory duties and for the reasons set out above, Ofgem has decided that it will give consent to the proposed revisions to the IECR methodology statement pursuant to Special Condition C15(7)(c).

Following consideration of the documentation provided by NGG pursuant to Special Condition C15(2) and C15(3) and having regard to the Authority's principal objective and statutory duties and for the reasons set out above Ofgem has decided that it will approve the IECR methodology statement.

## **Way Forward**

As stated above we expect NGG to provide greater clarity on the timing of release of incremental entry capacity and non-obligated entry capacity in its next review of the IECR methodology statement.

Any proposals to revise the IECR methodology statement which may arise outside the annual review process, as described in Special Condition C15(7) can be made pursuant to Special Condition C15(5).

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Stuart Cook', written over a horizontal line.

Stuart Cook

**Director, Transmission**

**Signed on behalf of the Authority and authorised for that purpose.**