

The Joint Office, Relevant
Gas Transporters, shippers and other
interested parties

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16 May 2008

Dear Colleague

Review of Incremental Entry Capacity Release Methodology Statement 2008

Special Condition C15 of National Grid Gas plc's ("National Grid") Gas Transporter Licence in respect of the NTS ("the Licence"), sets out obligations to prepare and annually review the Incremental Entry Capacity Release Methodology Statement (IECR). As part of the review, National Grid is obliged to consult with shippers on proposed changes. This letter therefore notifies of the proposed changes to the IECR and invites views on those revisions.

The Transmission Price Control Review (TPCR) introduced new rights and obligations on National Grid and many of the changes proposed to the IECR at this time are required to ensure consistency with the changes introduced into the Licence in September 2007. Hence the majority of the changes update terminology or are intended to improve clarity.

The key changes made are as follows:

- Revised Terminology, particularly in respect of Entry Capacity;
- Updated reference to Capacity Substitutions;
- Timing of Release of Capacity;
- Role of the Authority
- Non-obligated Entry Capacity.

Revised Terminology

The TPCR introduced major changes to the way that entry capacity is treated for revenue purposes. This has required a range of new terms to be introduced to distinguish the different treatments and obligations. These terms need to be used in the appropriate context within the IECR.

To assist readers to understand the different terms used, a diagram has been added, (see paragraph 11) setting out the relationship between the various categories of entry capacity.¹

In addition to entry capacity other terms have been modified. For example:

- The quantity of some types of entry capacity will vary so it has been necessary to clarify, in some sections, that it is the “prevailing” level that applies.
- There is a misconception that reference to “Project Cost” in respect of the NPV test means “actual costs likely to be incurred by National Grid”. However, the “cost” of incremental entry capacity is actually determined from the Transportation Model. References to “Project Cost” have been replaced with “Project Value” in an attempt to avoid on-going confusion.

Reference to Capacity Substitutions

TPCR introduced an obligation on National Grid in regard to substitution of entry capacity between entry points. As a result of the Authority’s Direction of 3rd March 2008 the entry capacity substitution obligation has been delayed and will now apply no later than 6th April 2009. Hence it is expected that entry capacity substitution will apply before the IECR is scheduled to be reviewed again.

To reduce the likelihood of an ad-hoc amendment to the IECR being required it has been drafted with capacity substitution in mind; based on National Grid’s current expectations for substitution processes. This should not be seen as excluding the possibility of future amendments to the IECR if considered necessary.

Timing of Release of Capacity

Consistent with changes to the Licence the IECR now concentrates on the “release of entry capacity” rather than investment. Hence “lead-times” are not directly linked to “investment”.

In accordance with the Licence a default period of 42 months applies before National Grid is obliged to release incremental entry capacity. The start point for this 42 month period has been clarified to be consistent with the Licence (see paragraph 46).

National Grid is incentivised to release capacity in advance of the default period and has an allowance to defer release where National Grid believes that it cannot provide the incremental entry capacity within the 42 month period. These mechanisms are commonly referred to as “permits” and “accelerated release”. Paragraphs 44 to 61 detail the NPV test for triggering the release of incremental entry capacity and the date from when the test will be applied under the different

¹ For simplicity this letter only refers to “incremental entry capacity” or “entry capacity” (except in the section on non-obligated entry capacity).

schemes. This section also provides additional information on how the permits and accelerated release will be applied.

Role of the Authority

Under the revised Licence National Grid is required to submit a proposal to the Authority for the release of incremental entry capacity. This proposal will identify where, and the extent to which, capacity is released as a result of substitution and can be vetoed by the Authority. Although a similar proposal was required under the previous Licence National Grid now considers it appropriate to clarify that such a veto may result in incremental entry capacity not being allocated even though the NPV test may have been satisfied (see paragraph 45).

In respect of new entry points paragraph 81 emphasises the requirement for the Authority to modify the Licence to include the proposed new entry point. Without the modification National Grid would be unable to include the new proposed entry point in any long-term capacity auctions.

Non-obligated Capacity

National Grid has the opportunity to release capacity at its sole discretion; referred to as non-obligated entry capacity. Paragraph 17 has been introduced to clarify that there may be circumstances where National Grid decides to release incremental entry capacity without a strong signal from Shippers in long term auctions. In these circumstances the capacity released will be non-obligated entry capacity.

National Grid would appreciate the comments of Shippers and other interested parties on the proposed changes to the IECR. Responses should arrive at National Grid by 17:00 on 13th June 2008. They should be sent to:

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Alternatively they can be sent by e-mail to:
[.box.transmissioncapacityandcharging@uk.ngrid.com](mailto:box.transmissioncapacityandcharging@uk.ngrid.com).
Please cc to andrew.fox@ukngrid.com

To assist in reviewing the proposed changes the following documents are available on National Grid's website at: [National Grid: Incremental Entry Capacity Release Statement](#)

- A clean copy of the proposed IECR: version 7.1;
- A marked comparison of the proposed IECR to the current IECR; and
- The current IECR: version 7.0, effective 1st September 2007.

Yours sincerely

Andrew Fox