



National Grid NTS and other interested parties

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Dear Colleague,

Incremental Entry Capacity Release (IECR) Methodology Statement

On 25 June 2009, National Grid Gas (NGG) submitted the IECR methodology statement for approval from the Authority. This letter provides background information on the submission made by NGG and provides the Authority's decision on this matter, together with the reasons for this decision.

Having regard to the principal objective and statutory duties of the Authority¹, and for the reasons set out in this letter, the Authority has decided that it will approve the IECR methodology statement pursuant to Special Condition C15(2) of NGG's National Transmission System (NTS) Gas Transporter Licence.

Background

The IECR methodology statement describes the methodology by which NGG determines whether to make incremental entry capacity available for sale to gas shippers. The methodology for 2009 is essentially unchanged from the previous year.

Under the Gas Transporter Licence NGG is required to submit annually an IECR methodology statement (Special Condition C15 paragraph 2). This statement must be accompanied by a consultation report, revisions, and written representations from gas shippers and other interested parties (Special Condition C15 Paragraph 7).

On 25 June 2009, 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 approval. This report indicates that the annual review consultation did not elicit any responses. Therefore, the IECR methodology statement submitted to the Authority in order to seek approval pursuant to Special Conditions C15 (2) did not require any revisions.

Unless the Authority consents, an accompanying statement by auditors is to be provided which indicates the extent to which the licensee has developed a methodology consistent with their duties (Special Condition C15 paragraph 3). This year, the Authority consented to derogation from this requirement on 22 June 2009², accepting NGG's argument that as the

¹ Set out in Section 4AA of the Gas Act 1986, as amended.

² <http://www.ofgem.gov.uk/Networks/Trans/GasTransPolicy/Documents1/090512IECRauditdirect.pdf>

model was essentially unchanged from the previous year, there would be no benefit from another audit of the model.

Ofgem's view

The main change in the methodology proposed by NGG is largely presentational namely the removal of Appendix 1. This appendix had provided details of the NTS capacity charging models and the derivation of incremental entry capacity price steps. These details are now included in Chapter 2 of NGG's 'Statement of Gas Transportation Charging Methodology'. NGG argue that this change will result in increased clarity, relevance, and the avoidance of duplication. Our key concern is that the detail of the methodology remains transparent and accessible. We do not consider that NGG's proposed changes will adversely impact on transparency or accessibility.

In our previous decision on the methodology (11 July 2008) we had requested greater clarity on the operation of the incentives to bring forward or defer the release of capacity from the default lead times described in the licence (Special Condition C8D paragraph 3 g-i). By providing two additional diagrams and text NGG has made clear the factors considered in the delay or early release of obligated entry capacity and has highlighted the consequent impact on extension allowances (the mechanism available to NGG for the delivery of incremental capacity in a period greater than the default period of 42 months). A further diagram clarifies the operation of Accelerated Release (Special Condition C8D paragraph 3 f). We consider that the current explanation of the methodology provides greater insight into these mechanisms.

The chance to review a methodology provides interested parties with an opportunity to identify concerns, to seek clarification or to signal their explicit support for the methodology. In the absence of such comments from respondents Ofgem interprets the results of the IECR consultation as indicating that the consultees do not have any major concerns with the approach proposed by NGG.

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(2).

Way Forward

Although consultation with industry has not identified specific concerns we consider that it is important that NGG continues to keep the methodology under review, particularly in terms of its contribution to the economic and efficient operation of the pipeline.

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 by NGG pursuant to Special Condition C15(5).

Yours sincerely,

Stuart Cook

Director, Transmission

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