

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

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13th October 2009

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Dear Colleague,

Consultation on the Incremental Entry Capacity Release Methodology Statement (IECR)

Special Condition C15 of National Grid Gas plc's ("National Grid") Gas Transporter Licence in respect of the NTS (the "Licence") places an obligation on National Grid to prepare and submit for approval by the Authority before 1st July in each formula year an incremental entry capacity release methodology statement ("IECR") setting out the methodology by which it will determine whether to make incremental entry capacity available for sale to gas shippers. Following industry consultation National Grid submitted its proposed methodology to the Authority on 26 June 2009. This was subsequently approved on 15 July 2009.

In addition to the obligation referred to above, Special Condition C15 of the Licence allows National Grid to revise the IECR at any time. Such revision requires industry consultation prior to submission to the Authority.

In advance of the QSEC auctions National Grid has been in discussions with Shippers and developers of potential new system entry points "ASEPs". These discussions have highlighted an issue with the existing IECR that may act as a barrier to the development of small gas sources. The revisions proposed in this consultation aim to remove this barrier. The opportunity has been taken to revise the relevant paragraph of the IECR to improve clarity and update the IECR following the implementation of GCM17.

Proposed revisions to the existing statement (v9.0) are as follows:

- 1) reducing the minimum incremental step size. The current IECR sets the minimum incremental step size for new ASEPs at 15 GWh. This value was included in early versions of the IECR when 300 GWh (15 GWh * 20 steps) was considered to be at or below expected minimum future capacity requests. However, in recent years new sources of gas are being sought and some of these are extremely small compared to existing beach terminals. In these cases the maximum required capacity may not align to an incremental step and Shippers are forced to significantly over-buy capacity, as illustrated below.

Maximum required capacity	Necessary bid level	% over-buy
7.5 GWh	15 GWh	100
20 GWh	30 GWh	50
286 GWh	300 GWh	5

As can be seen, the impact on modest sized ASEPs is small (negligible for larger ASEPs), but for the smallest new ASEPs this could undermine the viability of a project.

In order to encourage smaller new ASEPs and promote competition National Grid is proposing to reduce the minimum incremental step size from 15 GWh to 5 GWh.

This change will apply only to new ASEPs. The current IECR facilitates smaller step sizes for existing ASEPs.

2) when reviewing the IECR for the above revision, it was evident that the relevant paragraph (82) was not as clear as it could be. We have therefore re-drafted this paragraph. Except for the change referred to above, the re-drafting has no impact on the intent of the paragraph.

3) removing P_0 zero prices. As a result of the implementation of charging consultation GCM17: "QSEC New ASEP NTS Entry Capacity P_0 Pricing" P_0 prices at new ASEPs will no longer be set to zero. Hence, National Grid is proposing to remove this condition (first bullet in paragraph 84) and related footnote from the IECR.

This letter therefore notifies gas shippers, DN operators and other interested parties of National Grid's proposed incremental entry capacity release methodology statement (v9.1), which accompanies this letter, and invites views on this statement. The intended changes can be found in paragraphs 82 and 84. As this proposed revision addresses a specific issue and is not part of the annual review it is requested that respondents confine their comments to the proposed changes only.

Responses to this consultation should arrive at National Grid by 17:00 on 10th November 2009. They should be sent by e-mail to:
box.transmissioncapacityandcharging@uk.ngrid.com.

Please copy to andrew.fox@uk.ngrid.com and request a "read receipt" to confirm delivery.

Alternatively they can be sent by post to the above address marked for the attention of:
 "Andrew Fox
 UKT Commercial – Floor B3"

Responses will be placed on National Grid's website and incorporated within the consultation conclusions report. If you wish your response to be treated as confidential then please mark it clearly to that effect.

If you wish to discuss any aspect of this consultation please contact me on 01926 656217.

Yours sincerely

Andrew Fox