



National Grid Gas NTS and other interested parties

Promoting choice and value for all gas and electricity customers

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Dear Colleague

Notice of approval of the Incremental Entry Capacity Release Methodology Statement

National Grid Gas (NGG) offers set amounts of entry capacity at each Aggregate System Entry Point (ASEP) on the National Transmission System (NTS). These amounts are referred to as 'baselines'. At ASEPs where the baseline capacity is not enough to meet users' needs, NGG can offer new or additional capacity beyond these baselines. The Incremental Entry Capacity Release Methodology Statement (IECRMS) sets out the rules by which NGG will make incremental entry capacity available to users.

The IECRMS was first introduced in July 2002. It compares the strength of bids in long term auctions with the estimated project cost for providing the incremental entry capacity. Where the net present value of the bids is greater than 50 per cent of the estimated project cost, NGG will provide the additional capacity. The IECRMS also describes the timing of the release of incremental entry capacity.

NGG has a licence obligation to review the IECRMS each year. It has recently consulted on the methodology to be applied from 5 January 2011. Industry did not propose any changes to the methodology during the consultation process. On 5 November 2010, NGG submitted the IECR methodology statement to Ofgem¹ for approval².

The methodology is largely unchanged from the previous year but it references the approval of the Entry Capacity Substitution³ methodology. It also includes the following alterations:

- text has been added to clarify that each ASEP must be included in the Licence before capacity can be offered for release (*at that ASEP*).
- it states that subject to National Grid's sole discretion, National Grid will require an appropriate revenue driver in the Licence for the ASEP before releasing NTS incremental obligated entry capacity at that ASEP. NGG consider this is necessary to inform investment decisions in response to the release of incremental capacity.

In our view, these are minor changes although we recognise that both NGG and Ofgem have to facilitate the timely origination of revenue drivers.

¹ Ofgem is the Office of the Gas and Electricity Markets Authority. The terms 'Ofgem', 'the Authority' and 'We' are used interchangeably in this letter.

² Pursuant to paragraph 2 of Special Condition C15 of its Gas Transporter Licence ("the Licence")

³ Substitution is the permanent transfer of unsold baseline entry capacity to meet the demand for capacity elsewhere. Ofgem approved this methodology on 7 December 2009.

NGG is also required to provide a statement by auditors which indicates the extent to which the licensee has developed a methodology consistent with its duties. On 31 August 2010⁴, the Authority consented to a derogation from this requirement. We accepted NGG's argument that as the model was essentially unchanged from the previous year, there would be no benefit from another audit of the model.

Having regard to the the principal objective and statutory duties of the Authority⁵, and for the reasons set out in this letter, the Authority has decided that it will approve the IECRMS submitted by NGG.

Yours sincerely

Hannah Nixon
Partner, Transmission

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

⁴ <http://www.ofgem.gov.uk/Networks/Trans/GasTransPolicy/EntryCapacity/Documents1/IECR%20-%20audit%20consent%20letter.pdf>

⁵ Set out in Section 4AA of the Gas Act 1986, as amended, most recently by the Energy Act 2010.