



National Grid Gas NTS and other interested parties

Promoting choice and value for all gas and electricity customers

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Notice of approval of the Incremental Entry Capacity Release Methodology Statement

Background

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 (IECR) sets out the rules by which NGG will make incremental entry capacity available to users.

The IECR was first introduced in July 2002. It sets out the methodology which NGG uses to compare 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 IECR also describes the timing of the release of incremental entry capacity.

IECR Review

NGG has a licence obligation to review the IECR each year. On 23 September 2011, it published on the National Grid website a consultation on the methodology to be applied from 4 January 2012. The consultation closed on 28 October 2011 and there were no responses to this consultation. On 4 November 2011, NGG submitted the IECR methodology statement to us¹ for approval².

The proposed methodology is largely unchanged from the existing methodology, except for housekeeping changes and three additions to the text as follows:

- two of the changes provide further explanation on the process by which the extension allowance in relation to lead times³ is gained or used; and
- the third adds a reference to NGG's requirement for a revenue driver to be identified in its licence for new entry points before capacity is offered for sale.

In our view, these are minor changes, which add clarity and greater insight to these sections of the methodology statement.

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 Also referred to as 'permits'.

IECR Audit

NGG is also required to provide a statement from appropriate auditors which indicates their opinion as to the extent to which the licensee has developed a methodology consistent with its duties. We agreed to the scope of the audit in August of this year⁴. The audit has been carried out by PricewaterhouseCoopers and NGG submitted the auditors' report alongside the IECR on 4 November 2011.

The auditors reviewed the model which was developed and is maintained by NGG for the purpose of calculating incremental price steps. They checked the input values in the model and verified that the model's calculations were correct. They noted the input values in the model were largely aligned with the source values, and where differences were noted, NGG provided explanations for this. The auditors also noted no difference between the calculations performed by the model and their own re-calculations.

Our view

In our view, the methodology continues to fulfil NGG's obligations under Special Condition C15. The minor changes made to the methodology add clarity and the auditors' report raised no issues of concern.

Our decision

Having regard to our principal objective and statutory duties⁵, and for the reasons set out in this letter, we have approved the IECR submitted by NGG.

Yours faithfully

Andrew Burgess
Associate Partner, Transmission & Distribution Policy

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

⁴ See approval letter: 'Incremental Entry Capacity Release (IECR) methodology statement - approval of audit scope' 15 August 2011
<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=62&refer=Networks/Trans/GasTransPolicy/EntryCapacity>

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