

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

Sarah Lloyd
Commercial Analyst
Gas Charging and Access
Development

sarah.lloyd@nationalgrid.com
Direct tel +44 (0)1926 654246
Direct fax +44 (0)1926 656604

www.nationalgrid.com

02 October 2012

Dear Colleague

Review of Incremental Entry Capacity Release Methodology Statement 2012

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 and other interested parties on proposed changes.

At the Transmission Workgroup meeting on 7th June 2012 National Grid requested that any issues with the current methodology should be notified to National Grid so that they could be considered as part of the annual review for 2012. No responses were received.

Due to the RIIO-T1 timetable the consultation on this version of the IECR precedes full understanding of RIIO-T1 outcomes. In addition, it is our understanding that RIIO-T1 will not apply to the next Quarterly System Entry Capacity (QSEC) auction (and associated processes) as the auction will be held prior to the RIIO-T1 period starting on 1st April 2013. The RIIO-T1 changes will be implemented into the IECR for Q1 2014. However, full implementation will be subject to progress with complimentary UNC modifications with which the IECR must maintain consistency.

Having reviewed the methodology, National Grid has made this draft to be consistent with current Licence conditions whilst being conscious of potential development identified in initial proposals.

One area of concern to industry, including National Grid, is the lead-time for the delivery of infrastructure to support incremental capacity. In advance of proposals being agreed through the capacity/connection workgroup, and in the context of no change in the

permit¹ principles for 2012/2013, this IECR version places greater emphasis on the use of the Planning and Consents Agreement (PCA). These agreements enhance National Grid's ability to minimise the impact of longer lead-times on customer projects.

The main changes in the proposed IECR are detailed below:

- The inclusion of the potential to use a PCA to start the process for release of funded incremental obligated entry capacity (i.e. where investment is needed).
- Paragraph 22 creates a requirement on National Grid to enter into a PCA if requested by the User (or Developer). There is no obligation placed on Users or Developers to enter into a PCA, however National Grid believes it is in the interests of all parties to do so as it would better align project timelines. Agreement of a PCA is encouraged in paragraph 29 to avoid the need for National Grid to extend the lead-time through the playing of permits.
- Paragraphs 24 and 25 provide greater detail on the key terms and obligations of the PCA. The Uniform Network Code (UNC) does not permit capacity to be made available exclusively for specific parties (e.g. a PCA signatory). Hence, although the PCA signatory can, in the QSEC auction, trigger release of incremental capacity made available through the PCA, that capacity will be available to all Users in the competitive market.
- Paragraph 26 describes that if works are undertaken via a PCA, the PCA signatory shall fund these works unless the capacity is allocated. This effectively means that if the incremental capacity released is allocated as envisaged, all costs are borne by the User community. Conversely, if incremental capacity is not released (e.g. the User's project does not proceed), all costs are borne by the PCA signatory.

In accordance with the above Licence condition, National Grid is required to consult on its proposals before submitting them to the Authority for approval. This letter therefore provides notice of the proposed Incremental Entry Capacity Release Methodology Statement and invites views on the proposal.

To assist in reviewing the proposed changes the following documents are available on National Grid's website via:

www.nationalgrid.com/uk/Gas/Charges/statements/transportation/iecr

- A clean copy of the consultation IECR: version 12.1;
- A marked comparison of the consultation IECR (v12.1) to the current approved IECR (v12.0); and
- The current approved IECR: version 12.0, effective 04th January 2012.

¹ "Permits" is the term used to refer to the process by which National Grid is allowed to extend the lead-time for the release of incremental capacity from the default of 42 months. The Licence defines the quantity of permits (measured in units of capacity * duration) available to National Grid.

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 30th October 2012. They should be sent by e-mail to: sarah.lloyd@nationalgrid.com and copied to box.transmissioncapacityandcharging@nationalgrid.com

Please ensure that a “read receipt” is requested to confirm that your response has been received.

Alternatively they can be sent by post to the above address marked for the attention of: “Sarah Lloyd”
Transmission Network Services – 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.

Yours sincerely

Sarah Lloyd