



National Grid NTS and other  
Interested parties

---

*Promoting choice and  
value for all customers*

Your Ref:  
Our Ref:  
Direct Dial: 020 7901 7498  
Email: robert.hull@ofgem.gov.uk

10 August 2007

Dear Colleague,

### **Approval of the Incremental Exit Capacity Release ("IExCR") Methodology Statement**

Ofgem<sup>1</sup> has considered the submission of the IExCR methodology statement by National Grid Gas National transmission System ("NGG NTS") on 20 June 2007 pursuant to Special Condition C18 of National Grid Gas plc's NTS gas transporter licence ("the Licence"). Having regard to the principal objective and statutory duties of the Authority<sup>2</sup>, and for the reasons set out in this letter, Ofgem has decided that it will approve the IExCR methodology statement.

This letter outlines the reasons for the decision.

#### **Background**

The IExCR methodology statement describes the process by which incremental exit capacity is made available for sale to gas shippers or distribution network operators. On 16 May 2007, NGG NTS initiated its consultation as part of the annual review of the IExCR.

#### **Changes to the IExCR methodology since the last approval**

The changes to the IExCR methodology statement proposed by NGG NTS on 20 June 2007 compared to that approved on 29 September 2006 are that:

1. the transitional arrangements are extended by one year for the period 1 October 2010 to 30 September 2011;
2. the table of Initial Volume Allocations (IVAs) has been updated;
3. the term 'IVA' has been defined to provide clarification;
4. clarification added to flexibility rules, to reflect that NGG NTS does not invest for NTS offtake (flexibility) capacity;
5. clarification added to requests for incremental exit capacity beyond investment lead times, to reflect that if specific reinforcement is not required for a development then an ARCA would not be available;
6. references to the version and version date of the IExCR updated from 1.5, July 2006 to 1.7, June 2007 (version 1.6 was issued for industry consultation in April 2007).

---

<sup>1</sup> Ofgem is the Office of the Gas and Electricity Markets Authority. The terms 'Ofgem', 'the Authority', and 'we' are used interchangeably in this document.

<sup>2</sup> Set out in Section 4AA of the Gas Act 1986, as amended.

## Ofgem's View

Ofgem agrees with the changes proposed by NGG NTS to the IExCR methodology statement.

On 5 April 2007 the Authority directed the implementation of UNC Modification Proposal 0116V<sup>3</sup> which provided for the introduction of enduring offtake arrangements. In its decision the Authority recommended that the implementation of the enduring offtake arrangements be delayed by one year until 1 April 2008. As a consequence of this, NGG NTS proposed the transitional arrangements need to be extended by one year for the period 1 October 2010 to 30 September 2011. These arrangements were subsequently approved in May 2007 through the implementation of UNC Modification Proposal 142<sup>4</sup>.

On 10 July the Competition Commission allowed in part an appeal by E.ON UK Ltd against the Authority's decision on UNC Modification Proposal 0116V. The CC's ruling is a substantial document. Ofgem will now consider carefully all the points it raises, and the appropriate next steps<sup>5</sup>.

The Authority has decided to approve the proposed revisions to the methodology. In light of the decision to extend the transitional offtake arrangements by a further year it is sensible to ensure that the framework for the release of incremental offtake capacity is also extended so that there is a clear and transparent set of rules in place.

We note the updated IVAs and welcome the clarification provided by the inclusion of a definition for IVAs. We also note the clarification provided in the statement that if specific reinforcement is not required for a development, following a request for incremental exit capacity beyond investment lead times, then an ARCA would not be available. Some respondents have raised concerns that there is no means to reserve capacity in advance where no investment is required. Whilst we recognise these concerns, it is however noted that this one issue which the enduring offtake reform proposals intended to address. As noted above, Ofgem is currently considering the way forward on enduring offtake reform in the light of the CC decision. To the extent that industry participants have concerns with existing capacity booking arrangements in the transitional period, it is open to them address these concerns through raising UNC modification proposals.

## Authority's decision

Following consideration of the documentation provided by NGG NTS pursuant to paragraph 1 of the Licence Condition and having regard to the Authority's principal objective and statutory duties and for the reasons set out above, the Authority hereby approves the IExCR methodology statement.

If you wish to discuss any aspect of this letter, Andrew Pester (telephone 0207 901 7107) would be pleased to assist.

Yours sincerely,

Robert Hull  
Director, Transmission  
Signed on behalf of the Authority and authorised for that purpose by the Authority

---

<sup>3</sup> "Uniform Network Code (UNC): Reform of the NTS offtake arrangements (UNC 0116V, 0116BV, 0116CVV, 0116VD and 0116A)", Ofgem, 5 April 2007

<sup>4</sup> "Uniform Network Code (UNC) 142: Extension of the current sunset causes for registration of capacity at NTS exit points", Ofgem, 24 May 2007

<sup>5</sup> "Update on enduring offtake arrangements", Ofgem open letter ref 201/07, 3 August 2007