

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

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23<sup>rd</sup> February 2009

[www.nationalgrid.com](http://www.nationalgrid.com)

Dear Colleague,

## **Consultation on the NTS Exit Capacity Release Methodology Statement (ExCR) in respect of the Transitional and Enduring Exit Periods.**

Special Condition C18 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 1<sup>st</sup> April in each formula year an NTS exit capacity release methodology statement ("ExCR") setting out the methodology by which it will determine whether to release NTS exit capacity to gas shippers or DN operators.

This letter therefore notifies gas shippers, developers and DN operators of National Grid's proposed ExCR which accompanies this letter, and invites views on these proposals.

The Authority ("the Gas and Electricity Market Authority") decision to implement UNC modification proposal 195AV "Introduction of Enduring NTS Exit Capacity Arrangements" introduces reform of NTS offtake arrangements. The timing of the introduction of these new arrangements creates two phases for release of NTS Exit Capacity:

- The "Transitional Exit Period" for capacity reserved or allocated to Users commencing no later than 30<sup>th</sup> September 2012; and
- The "Enduring Exit Period" in respect of capacity reserved or allocated commencing no earlier than 1<sup>st</sup> October 2012.

The current version of the ExCR (version 4.0) applies only to the Transitional Exit Period. The principle changes to this statement are:

- 1) Structural change to the Statement into Part A (Transitional Exit Period) and Part B (Enduring Exit Period). Part A is essentially an update of ExCR v4.0. Part B is entirely new.
- 2) The only significant change to Part A is an amendment to the ARCA Commitment. To align with the Enduring Exit Period, National Grid proposes a requirement for a commitment based on four years of exit capacity charges.

- 3) Part B: This covers the processes for release of all forms of capacity, but concentrates on the release of “Enduring Annual NTS Exit (Flat) Capacity through the Annual Application Window, the ad-hoc process, and the ARCA process. Processes for increasing and reducing capacity allocations are covered including the User Commitment that National Grid requires to trigger the release of enduring annual capacity.

Due to the extent of the changes to the current ExCR, National Grid undertook a short informal consultation process on its initial draft. National Grid appreciates the feedback received and has made a number of further revisions as a result. Responses to the informal consultation identified several areas where clarification was needed and also raised a number of substantive issues. The draft has been amended, where practicable, to provide added clarity and to include some of the substantive points. The main issues, and National Grid’s response, are discussed in the appendix to this letter.

One issue that was raised by a couple of respondents and which National Grid has not yet addressed is the User Commitment associated with capacity increases above baseline that were allocated before 1 October 2008 and are applicable in the transitional period. At present, as part of the initialisation process Users get pared back to baseline levels, if they then signal an increase in the July 2009 window back to their existing transitional allocation their entire capacity holding at that exit point will be subject to a four year User commitment.

It has been suggested that an alternative approach would be for capacity signalled in July 2009, as part of the annual application window, that:

- does not require a revenue driver, and
- is below or equivalent to the transitional firm capacity at that exit point allocated before 1 October 2008 and applicable in the remaining transitional period

would not be subject to a User Commitment.

As there are many exit points currently with transitional allocations above baselines, due to the time difference between setting baselines and the implementation of exit reform, National Grid would appreciate User’s views on the best way to manage this issue. National Grid believes the approach described above could be implemented and would not require a Licence or UNC change.

Responses to the consultation on the proposed ExCR should arrive at National Grid by 17:00 on 23<sup>rd</sup> March 2009. They should be sent by e-mail to:

[andrew.fox@uk.ngrid.com](mailto:andrew.fox@uk.ngrid.com).

Due to planned leave please ensure that responses are copied to

[box.transmissioncapacityandcharging@uk.ngrid.com](mailto:box.transmissioncapacityandcharging@uk.ngrid.com)

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

Unless marked confidential National Grid will place all representations received on its website.

Alternatively they can be posted to Lesley Ramsey at the address below.

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

Yours sincerely

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## **Appendix: National Grid's response to key issues raised in the informal consultation.**

### *1) ARCA Commitment in the Transitional Exit Period.*

National Grid is conscious of the need to avoid undue discrimination and has proposed a four year commitment for ARCAs in the transitional period to ensure consistency with the enduring regime and thus avoid any undue incentive to apply for an ARCA in the transitional period.

Previous proposals to increase the ARCA Commitment were deferred until a decision on exit reform was made. However, now that the User Commitment has been clarified for the Enduring Exit Period National Grid believes that it is right to apply the same commitment to capacity released in the Transitional Exit Period. Nevertheless, National Grid recognises that some ARCAs may have been progressing for some time and that changes should not apply mid-negotiation. Hence National Grid is now proposing that Transitional ARCAs currently under negotiation (before 23 February 2009) or signed before 1 May 2009 will be subject to existing arrangements. All other ARCAs will be subject to a four year commitment.

### *2) Early satisfaction of the User Commitment.*

The initial draft ExCR set the User Commitment as a requirement to remain the registered User of capacity for four years after allocation. Some respondents, referring to earlier discussions, consider that an assessment of charges should be used such that if actual charges paid equal, or exceed, the User Commitment Amount then the User Commitment would be satisfied early. Whilst National Grid believes that there is limited scope for early payment (especially as reductions can only be requested annually) we also recognise the need for Users to understand the extent of their commitment. Hence National Grid's revised ExCR has been amended to set the User Commitment at four years but with the ability to satisfy the commitment earlier should actual prices increase sufficiently.

### *3) NTS Exit Point and Revenue Driver in Licence.*

Some respondents have stated that the proposed requirement to have NTS Exit Points and revenue drivers specified in the Licence will extend the lead-time for delivery of capacity unnecessarily. National Grid remains of the opinion that these requirements are essential and should remain.

National Grid requires knowledge of potential new exit points so that pre-application arrangements can be made. Without the exit point being specified in the Licence National Grid is not obliged to release capacity and the point would not appear in the annual invitation. It would also not be included in the transportation model and hence there would not be an indicative price on which to base the User Commitment Amount. With regard to the revenue driver, this is a key factor in investment decision making for National Grid, particularly in terms of the decision whether or not to use permits to either accelerate or delay the delivery of capacity. The decision on the use of permits must be undertaken and signalled at the time the application invitation is issued.

It is important, therefore that where a User expects to be applying for additional capacity, that they contact National Grid at an early stage. We do not believe that this will add to the overall timetable as projects will be under development for some time before a formal application for capacity is made.

To provide some comfort to potential applicants the proposed ExCR has been amended to clarify that provision of information to National Grid in advance of an application will not create a commitment to follow this with a formal application. Furthermore, any information

provided will remain confidential until it is necessary to consult on the required Licence changes. National Grid will also continue to work with Ofgem to seek to improve the pre-application processes, in order to minimise the notice period required for signalling incremental exit capacity.