

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

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18th February 2010

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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 1st 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 30th September 2012; and
- The "Enduring Exit Period" in respect of capacity reserved or allocated commencing no earlier than 1st October 2012.

The current version of the ExCR (version 5.0) was the first to apply to both the Transitional and Enduring Exit Periods.

Experience of the first year of applications for capacity release in the Enduring Exit Period, together with development work to systematise enduring arrangements have highlighted the need for enhancements to the current ExCR. Hence a significant number of changes are being proposed to the statement. However, these changes are intended to provide greater clarity and detail where previously the ExCR was imprecise. The principle changes proposed are:

- 1) Part A (Transitional Exit Period). This section has been updated to reflect the shortening of the time remaining until the end of the Transitional Exit Period. With only a little over two years to the commencement of the Enduring Exit Period chapter 4 “Requests for Incremental Exit Capacity beyond investment lead times” is likely to be redundant. However, the chapter has been retained to cover any unforeseen eventualities.
- 2) To ensure continuity between the Transitional and Enduring Exit Periods initialisation rules are in place. These were largely implemented in 2009. However, both Part A and Part B have been updated to allow any further capacity registrations in the Transitional Exit Period to be registered at the start of the Enduring Exit Period.
- 3) Part B: Terminology. Amendment to the Licence has seen the removal of a number of obligations relating to “flow flexibility” capacity. These Licence changes have been reflected in the ExCR.
- 4) Sections on capacity assignment and transfer have been introduced. The User Commitments applicable to the Assignor User and to the Assignee User in respect of assigned capacity have been specified.
 - The assignor will only be subject to a User Commitment on any unassigned capacity. This will only be possible if partial assignment is implemented and where the unassigned capacity is subject to a User Commitment before assignment is undertaken.
 - The assignee will be subject to a User commitment if either the assigned capacity or any existing capacity has a User Commitment attached to it.

In addition to User Commitment, clarification has also been provided on when capacity reduction requests may be rejected due to a potential negative registered capacity holding occurring. UNC modification proposals 263 and 276, which introduce partial assignment, will, if implemented, require the effect of any exit capacity management agreement and/or capacity transfers to be considered before accepting assignment requests. These scenarios are covered by the proposed ExCR.

- 5) Relevant Design Costs has been introduced as a new term. Where Works are required in respect of a capacity increase National Grid will pursue activities in relation to the Works. However, Works will only be progressed to completion if the User (or Reservation Party) provides sufficient information to demonstrate a genuine need for the requested capacity. In the event such information is not provided the User will be liable to National Grid for the cost of design works (UNC B3.3.7b). Relevant Design Costs defines the activities that National Grid may undertake, in the early stages of any Works project prior to committing to major construction activities, for which the User / Reservation Party may be liable.
- 6) An error in the definition of “ Q_{res} ” in the calculation of Daily User Commitment Amount has been corrected. As originally drafted the Daily User Commitment Amount reduces according to actual charges received. These charges relate to capacity reserved under the ARCA and only partly registered to a User. However, Q_{res} was defined as the capacity reserved under the ARCA *minus that registered by Users*. Hence registered capacity has been double counted (within Q_{res} and also in actual charges). This error has been corrected by re-defining Q_{res} .

- 7) Two scenarios have been added to exclude the User Commitment from applying to capacity increases.
- Where there are corresponding decrease requests submitted by other Users. This change effectively allows assignment of initialised capacity ahead of the introduction of assignment. A time limit has been applied to this exclusion to coincide with the introduction, in UNC, of assignment processes.
 - Where the increase request is small, i.e. below 100,000 kWh/day. Increase requests below 100,000 kWh/day will not normally be permitted as they fall below the minimum eligible amount, however circumstances may arise, e.g. the revision of baselines in 2009, where this may be permitted. National Grid believes that it would be inappropriate for a User Commitment, applicable to the entire capacity allocation, to be required on the basis of such a small increase. This proposal is not intended to affect the application of the minimum eligible amount criterion.

Accompanying this letter are two documents:

- National Grid's proposed ExCR: the "Consultation Draft" v5.1; and
- A comparison document showing the changes between v5.1 and v5.0 (the current ExCR).

On this occasion, due to the number of the changes to the current ExCR, an appendix to this letter has been provided to assist in reviewing the proposals. It lists the majority of the changes proposed and gives a brief explanation for the change.

Supplementary Consultation.

In addition to comments on the specific wording of the proposed ExCR, National Grid would also welcome views on whether the statement should be significantly shortened and simplified. It was suggested at the Transmission Workstream meeting on 4th February 2010 that sections of the ExCR that duplicate UNC should be removed. A similar approach could be considered for sections that duplicate the Licence.

National Grid agrees that the ExCR should not be unnecessarily complex and that there is a risk that UNC and Licence modifications could result in the ExCR being out of date. However, without these cross references the essential elements of the ExCR would be placed out of context and may be difficult for some readers to comprehend. Whilst, duplicating elements of code lengthens the document we believe that it improves overall readability. In addition, there is scope for ad-hoc amendments to be made to the ExCR if inconsistencies require urgent correction.

Whilst it is unlikely that such a fundamental change could be made in the time available National Grid would consider the views of respondents when undertaking the annual review in 2011.

Responses

Responses to the consultation on the proposed ExCR, and the supplementary question, should arrive at National Grid by 17:00 on 19th March 2010. They should be sent by e-mail to:

lesley.ramsey@uk.ngrid.com.

and copied to

box.transmissioncapacityandcharging@uk.ngrid.com.

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

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

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

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

Yours sincerely

Andrew Fox

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Appendix:
Proposed Changes to Exit Capacity Release Methodology Statement v 5.0.

Paragraph numbers relate to paragraphs in the proposed statement v5.1 unless stated otherwise.

Minor “house-keeping” changes or those that are self-explanatory are not included. Respondents are advised to read the consultation draft and comparison documents to view all proposed changes for the precise wording and context. This appendix is provided solely as a guide to proposed changes and has no standing in respect of the ExCR.

General Section

- a) 1 – Clarification that the ExCR relates to capacity released for “first” use in a particular period. Avoids potential confusion with initialisation processes.
- b) 4 – Deletion of duplicate text.
- c) 11 – Confirmation that NTS Exit Points must be specified in the Licence before capacity is released. This is irrespective of whether release is for the Transitional or the Enduring Exit Period.
- d) 15 – Deletion of reference to “flow flexibility” for consistency with Licence changes.
- e) 16 – Clarification that the “NTS exit capacity baseline statement” that National Grid is required to produce is relevant only to the Enduring Exit Period and that the values in the statement will be the same as those in the Licence for the duration of this version of the ExCR.

Part A: Transitional Exit Period

- f) 5 - Clarification that “incremental capacity” is not necessarily capacity in excess of the baseline value. Any capacity released in excess of that currently available is classed as incremental for the Transitional Exit Period.
- g) 11 – New paragraph added confirming that additional capacity registered to Users pursuant to an ARCA or at new sites, for first use in the Transitional Exit Period, will automatically be registered for the Enduring Exit Period (unless the User has a reduction request accepted).
- h) 14 – Clarification that network analysis for the Transitional Exit Period is consistent with any obligations in respect of the Enduring Exit Period. As capacity registered in the Transitional Exit Period can carry over into the Enduring Exit Period, capacity will not be released in the Transitional Exit Period if it compromises obligations in the Enduring Exit Period.
- i) 29 – Change made to provide that even where incremental costs are identified National Grid will allocate requested capacity provided that safety is not impaired and appropriate funding is available through the Licence.
- j) 35/40 – Incremental capacity requests beyond investment lead times. See main letter (1) above.

Part B: Enduring Exit Period

- k) Paragraph 4 (in the current ExCR v5.0). Paragraph deleted; Licence has now been amended and the ExCR updated for consistency. See also diagrams after paragraph 7 and Appendix B-2: Definitions. See main letter (3) above.
- l) 12 – Deletion of references to flow flexibility for consistency with the Licence.
- m) 14/16 – Terminology amended to align to Licence.
- n) 20/21 (Paragraphs 25 and 26 in the current ExCR v5.0) relate to NTS baseline exit flat capacity and have been moved to Chapter 1 (which relates to all forms of NTS Exit Capacity). The original location (Chapter 2) applies only to Enduring Annual NTS Exit (Flat) Capacity.
- o) 26 – Following the major initialisation exercise of 2009 initialisation rules have been condensed.
- p) 27 – Clarification of rules relating to requests to reduce initialised quantities. Users may reduce initialised quantities, effective 1st October 2012, without a User Commitment applying. However, if the initialised quantity has been increased prior to the reduction request then the reduction request will only be accepted if the User Commitment has been satisfied.
- q) 29 – Clarification of the need to contact National Grid to progress any connection works. Such works are separate from works required to increase capacity and hence are covered by separate agreements outside the scope of the ExCR.
- r) 30/31 – Reference to UNC assignment processes as a means to obtain/reduce capacity has been added with clarification of a specific circumstance where a User Commitment will not apply to assigned capacity. Further rules, where a User Commitment will apply, are given in paragraphs 94 to 97.
- s) 33 – Amended to recognise that User Commitment does not apply to “all” increase in capacity allocations. References to exceptions are given.
- t) 34 – Paragraph re-structured to improve readability. Sub-paragraphs (d) and (e) added, see main letter (7) above.
- u) 35/37 – Users and Reservation Parties need to contact National Grid ahead of any formal application for capacity increases to allow for licences changes to be made. Timescales stated in paragraph 35 have been updated to be consistent with experience since the implementation of exit reform. Paragraphs 35/37 has been extended to stress the importance of accurate information being provided for the establishment of revenue drivers.
- v) 39 – New paragraph added to confirm National Grid’s on-going obligation in respect of the availability of incremental capacity. This covers the situation where, at a multi-User exit point, incremental capacity is released; National Grid will make the higher level of capacity available even if, at a later date and with a later effective date, a different User reduces its registered capacity.

- w) 44/45/46 – Clarification of the application of minimum increment criteria for ad-hoc applications. Each individual User applying for capacity must satisfy the 10GWh/day limit, but the 125% baseline rule applies to all Users in aggregate. Each criterion applies to the sum of all tranches if the increase is phased.
- x) 49 – Updated to include cross reference to requirements to be satisfied before ad-hoc offers are made; licence changes completed, minimum application criteria etc.
- y) 56/57 – Paragraphs restructured. Clarification that:
- National Grid will, in the event that demonstration information is not provided by the demonstration date, be required to provide a new demonstration date (subject to the limit of three demonstration dates); and
 - The capacity registration date will be put back to align to the capacity release date, thereby removing the possibility of Users having rights to capacity before its release.
- A new term, Relevant Design Costs, has been added; see main letter (5).
- z) 58 to 61. This new section has been added to cover the assignment and transfer of capacity between Users. See main letter (4) above. UNC provides details of the relevant processes; however the section clarifies whether an assignment may be rejected if negative capacity holding result.
- aa) 65 – If capacity reserved under an ARCA is not registered to a User, this paragraph requires National Grid to continue reserving the capacity for the period defined. This means that the reserved capacity will be available to the Reservation Party's nominated User if a project is delayed. Hence any reserved, but unallocated capacity can be made available to all Users only as Daily capacity.
- bb) 69 (third bullet) – Reduction requests must not result in a User's registered capacity being negative. However, irrespective of the quantity of registered capacity, National Grid may also reject the reduction request if the effect of any capacity transfers results in a negative capacity entitlement.
- cc) 71 & 74 – Limit applied to reduction requests where demonstration information has not been provided. This is necessary because until the demonstration information has been provided the capacity release date may vary (potentially by two years) so it is not possible to define when the User Commitment will be satisfied. However, paragraph 74 provides an exception if the reduction is to the pre-application status, i.e. no Works, and no incremental capacity, is required.
- dd) 76 – New paragraph added to clarify that any reduction in response to an ad-hoc invitation from National Grid (paragraph 75) will not be prevented by an existing User Commitment.
- ee) 78 – New paragraph added to minimise the risk of capacity reduction requests being accepted but not able to be implemented due to the connection facilities being oversized. It is necessary to ensure that any modification to connection facilities, if any, is undertaken in a timely manner.
- ff) 79 – New paragraph added to provide a link between the ExCR and licence requirements for release of incremental capacity.

- gg) 82 – Updated to clarify circumstances where User Commitment does not apply. Cross references to relevant paragraph for details.
- hh) 83 – Clarification added to require that where capacity is assigned, or registered in accordance with an ARCA, the exit capacity charge used for determining the User Commitment Amount will be the indicative price determined when the ARCA was signed or when the assigned capacity was registered to the assignor; i.e. the indicative price will not be recalculated at the time of the later assignment/registration. A new price will only be used if a further, separate, capacity increase occurs.
- ii) 84 – Although the User Commitment Amount for a Reservation Party is calculated annually, the proposed amendment will ensure that any “over-payment” by Shippers one year is credited to the Reservation Party in the next year.
- jj) Paragraph 72 v5.0 – Deleted as it duplicates paragraph 92.
- kk) 85 & 90 – Where a User has raised multiple capacity increase requests at different times the indicative exit capacity price determined for the User Commitment may differ for each request. These paragraphs detail how the indicative price, and the start date for the User Commitment, will be determined for the aggregate of all the increases.
- ll) 88 – An error in the definition of “ Q_{res} ” has been corrected. See main letter (6) above.
- mm) 93 to 96 – Additional paragraphs added to define User Commitment in the event of assignment of capacity.
- nn) 104 – Clarification added to provide the deadline for applications for capacity increase to meet default lead-times.
- oo) 108 – National Grid is incentivised (through “permits”) to release incremental capacity ahead of default lead-times. Paragraph extended to clarify that where the release of capacity is delayed through late provision of demonstration information (i.e. outside the control of National Grid) and that capacity release is subject to a permit, then the permit (and associated incentive) shall be measured against the earlier planned release date.
- pp) Chapter 3. Assignment and Transfer added.
- qq) Chapter 5. Amendments made to reflect licence changes in respect of flow flexibility and to better define NTS Exit Zone.
- rr) Appendix B1 – Updated for new sites added to the licence.
- ss) Definitions – Updated for revised capacity terminology in the licence. New definitions added for “Assignment” and “Relevant Design Costs”.