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

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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 Gas and Electricity Market Authority (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, DN operators and other interested parties of National Grid's proposed ExCR which accompanies this letter, and invites views on these proposals.

The 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 created 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 6.0) was the second to apply to both the Transitional and Enduring Exit Periods.

Further experience of the 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 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.

As part of the consultation on the current ExCR (in February 2010) National Grid requested views on whether the ExCR could, and should, be significantly shortened and simplified. It was suggested that sections of the ExCR that duplicate UNC could be removed. The alternative view is that reproduction of sections of UNC put the ExCR into context, thereby making it easier to understand. There were only three responses to the consultation, with mixed views.

We continue to believe that it is important for the rules defined in the ExCR to be put in context. However, we have identified some sections where we believe duplication is unnecessary and as a result the proposed ExCR has been simplified.

The principle changes proposed to the methodology are listed in appendix 1.

Accompanying this letter are two documents:

- National Grid's proposed ExCR: the "Consultation Draft" v6.1; and
- A comparison document of v6.1 and v6.0 showing all proposed changes.

In addition to comments on the proposed ExCR, National Grid would also welcome views on one further issue, which is described in appendix 2. The proposed ExCR contains no amendments to address this issue. Subject to responses and process timelines, National Grid may propose further changes to the ExCR in the final proposals to be submitted to the Authority. However, we consider it more likely that changes, if any, will be proposed as part of the next review of the ExCR in 2012.

Responses

Responses to the consultation on the proposed ExCR, and the supplementary question, should arrive at National Grid by 17:00 on 22nd March 2011. 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 1: Principle Changes Proposed to the ExCR.

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 one year to the commencement of the Enduring Exit Period, section 3.2 “Requests for Incremental Exit Capacity beyond investment lead times” has become redundant and has been deleted.

2) Part B: Updated following the submission of National Grid’s proposed Exit Capacity Substitution and Revision Methodology Statement (“ExCS”) to the Authority. Capacity release shall be consistent with the ExCS, if approved.

3) Paragraph 68 added. ARCA applications (by Reservation Parties) are comparable, where feasible, to ad-hoc applications (by Users). This paragraph clarifies possible capacity release dates under an ARCA which were not previously stated. A release date as late as October Y+6 differs from the ad-hoc application, but is consistent with the annual application window for Users. This gives non-Users the same access to capacity as Users.

4) Paragraphs 75 to 79 have been added, or amended, to clarify the process for accepting reduction requests with an effective date earlier than 1st October Y+2 (i.e. less than 14 months notice).

5) Paragraph 111 has been added to clarify how permits may be gained when incremental capacity is released and there is unsold baseline available.

6) Paragraphs 120 and 121 added to facilitate the release of non-obligated incremental capacity on a temporary basis, i.e. as Annual Exit (Flat) Capacity. How this might impact on the User Commitment is stated.

7) Sections have been deleted where they duplicate UNC unnecessarily, or are duplicated within the ExCR. This includes:
   - Paragraph 42 (v6.0): the preceding UNC reference has been made more specific.
   - Paragraphs 59 and 60 (v6.0) which cover assignment rules
   - Paragraph 95 (v6.0) duplicates paragraph 89 (v6.0).
   - Section on non-October start dates (paragraphs 110-112 (v6.0)). Covered by UNC following implementation of UNC modification proposal 289.
   - Paragraphs 118 and 119 (v6.0) which cover assignment rules.

Appendix 2: Supplementary Consultation.

In addition to comments on the proposed ExCR, National Grid would also welcome views on one further issue.

The principles of the User Commitment are fundamental to the release of exit capacity, and are, subject to some exceptions detailed in the ExCR, that the User:

- pays, by way of exit capacity charges, an amount equivalent to four years indicative exit capacity charges. The indicative charge is based on the indicative price determined at the time of application; and
- gives a minimum of 14 months notice of a reduction in its capacity allocation.

Once an application for capacity is accepted, the User Commitment requires the User to retain, and hence pay for, the relevant capacity for a minimum of four years. However, the four year period may be reduced if the actual exit capacity price is higher than the indicative price.

Hence, if a User decides it no longer wants capacity recently obtained, (e.g. if an anticipated new load does not materialise, or actual prices rise substantially above indicative prices) they are constrained as to when they can effect a reduction. This limitation has given rise to an extreme case for Moffat Shippers as described below.

In 2009 Shippers obtained additional exit capacity effective October 2012

- indicative price 0.0001p/kWh/d;
- User Commitment of £1460 per GWh/d capacity allocation.

In 2010 the updated indicative price for Moffat exit capacity was 0.0154p/kWh/d;

- If this indicative price becomes the actual price, all Moffat Shippers would see a 154 fold increase in exit capacity charges;
- The User Commitment would be paid in about 10 days (not 4 years) at this revised price.
- Existing Shippers without a User Commitment can reduce their allocations in July 2011, effective October 2012. This assumes that they do not need enduring firm capacity.
- Shippers with a User Commitment cannot request a reduction until July 2012 (when actual prices for October 2012 will first be known). With 14 months notice, the reduction cannot be effective until October 2013.
- Hence Shippers believing they were committed to £1460 per GWh/d (over four years) will be committed to a minimum of £56210 per GWh/d (one year at 0.0154p).

Requests have been received asking National Grid to consider whether anything can be done to moderate the increase and/or facilitate early capacity reduction.

One option that National Grid is pursuing is a revision to the Transmission Gas Transportation Charging Methodology (see GCD09: NTS Enduring Exit Capacity Charge Setting, at http://www.nationalgrid.com/uk/Gas/Charges/consultations/CurrentPapers/). This possible revision, which could reduce the Moffat exit capacity price to 0.0015p/kWh/d, would, if implemented, go part way to resolving the perceived issue: but it still leaves a 15 fold price increase and a minimum commitment almost four times that originally expected.

Whilst the possible charging methodology change is outside the scope of this consultation on the ExCR, there are options that could be implemented to allow Shippers to avoid such an increase in their financial exposure at all NTS Exit Points. National Grid is seeking views on whether any of these options should be pursued.

Option 1
Replace the 14 month minimum notice period for capacity reductions with 2 months, i.e. July reduction effective no earlier than the following October.
Using the possible Moffat prices a reduction could be accepted in July 2012:

- effective November 2012, based on 0.0154p/kWh/d. Minimum commitment is 3.27 * original indicative commitment.
- effective February 2013, based on 0.0015p/kWh/d. Minimum commitment is 1.26 * original indicative commitment.

This change would require a UNC modification proposal.
National Grid would not be in favour of this change. The 14 month notice period, applies to all reductions: it is not limited to where there is a User Commitment. This is because time is required to capture the newly available capacity (the reduction quantity) in to planning and capacity release processes. Without this limit, User would not be encouraged to signal their intention to release capacity in time for it to be used elsewhere.

Option 2
Accept a reduction notice period of less than 14 months in defined circumstances. These circumstances would need to considered, but could include:

(a). early reductions allowed if actual price > 4 * indicative price, i.e. User Commitment will be satisfied within 1 year; or
(b). early reductions allowed if User Commitment is determined to be satisfied in the coming year, e.g. this could be the first, second, third, or fourth year.

In both cases the User will have to pay the User Commitment amount. Hence National Grid would expect that any investment (subject to being deemed economic and efficient) will be allowed in the regulatory asset base. The User's minimum commitment would be as for option 1.
A further refinement could be that any reduction is subject to a minimum User Commitment period of, for example, 12 months. This rule would maintain a significant timing element to the User Commitment. Although a short notice period would be accepted, the overall period between capacity increase and decrease would be no less than 12 months. With a factor of 4 in option 2(a) this additional rule would default to option 3.

Option 3
The third option would be to do nothing (except possible charging methodology changes). Under this scenario, Shippers will be able to reduce their capacity allocations in July 2012, effective October 2013 as indicated above.
Under options 1 and 2, any reductions made by Shippers could result in under recovery of capacity charges and would ultimately be borne by all Shippers. This would not occur under this option 3.

National Grid would welcome views on which option should be pursued, whether there are any alternatives that might be considered, and in respect of option 2, under what circumstances should reduction applications be accepted or not accepted.

It is National Grid's view that any solution to this issue only needs to be implemented prior to the July 2012 reduction window (subject to consideration of any alternatives put forward). Hence, it is unlikely that proposals will be put forward in the 2011 ExCR proposals to the Authority. However, the responses to this supplementary question will be considered in respect of the 2012 review of the ExCR.