

Exit Capacity Substitution and Revision Methodology Statement Formal Consultation Conclusions Report

28th March 2013

Executive Summary

Introduction

Special Condition C8E paragraph 4 (b) of the National Grid Gas plc ("National Grid") Gas Transporter Licence in respect of the NTS (the "Licence") sets out obligations to prepare and submit for approval by the Authority an NTS Exit Capacity Substitution Methodology Statement setting out the exit capacity substitution methodology that National Grid will use to substitute NTS exit capacity. In addition, National Grid is obliged to review the statement on an annual basis in consultation with gas shippers and other interested persons.

Special Condition C8E paragraph 4 (c) of the Licence sets out obligations to prepare and submit for approval by the Authority an NTS Exit Capacity Baseline Revision Methodology Statement setting out the exit capacity revision methodology that National Grid will use to revise the level of NTS baseline exit flat capacity. In addition, National Grid is obliged to review the statement on an annual basis in consultation with gas shippers and other interested persons.

National Grid has combined the two obligations in a single document, the NTS Exit Capacity Substitution and Revision Methodology Statement (the "ExCS").

In accordance with Special Condition C8E paragraph 4, on 19th February 2013 National Grid initiated its consultation as part of the annual review of the ExCS.

Although the proposed ExCS has been consulted in accordance with, and is submitted under, the existing TPCR4 Licence, we acknowledge that it will become effective under the RIIO-T1 Licence period. Hence the proposed Statement has been drafted consistent with the RIIO-T1 Licence terminology and obligations (as set out under Special Condition 9A of the new Licence).

National Grid proposed only minor changes to the ExCS (version 2.0) of which the most significant are;

- terminology and reference changes to align the ExCS to the RIIO T1 final proposals
- deletion of superfluous wording in paragraph 37 as the initial application of the methodology has already occurred.

National Grid invited views in respect of the proposed revised ExCS to be made by 21st March 2013.

This document sets out, in accordance with paragraphs 4 (b) (iv) (cc) and 4 (c) (iv) (cc), National Grid's conclusions on its consultation on the proposed ExCS (version 2.2). It includes representations received, National Grid's response to those representations, and indicates changes made to the proposed statement as a result.

Responses

Representations were received from the one respondent listed below. EDF Energy EDF

The issues raised relate to:

- Reconsideration of the exchange rate limit and possible application of an exchange rate
- Determination of "substitutable capacity"
- Reference to a NTS Exit Point list with associated Revenue Drivers within the Licence
- Typographical errors

Detailed comments from the respondent and National Grid's response are provided in the following table.

National Grid Page 2

No.	Party	Response Quotes	National Grid Response	Proposed changes				
1 – (1 – General							
1.1	EDF	We note that in its consultation covering letter NGG NTS indicated that it proposed only minor changes of which the most significant are aligning the ExCS references and terminology to the RIIO-T1 Final Proposals; and deletion of superfluous wording in paragraph 37we have identified changes to the ExCS that make changes over and above those listed in NGG NTS' consultation covering letter	t National Grid believes that it has only proposed minor changes of which the consultation cover letter listed the most significant. A comparison document is provided with all our consultations to highlight to all reviewers every single change, no matter how trivial.	None				
1.2	EDF	We have identified a number of formatting editing and incorrect referencing issues.	Noted. See comments 1.3 to 1.6 below.	See below.				
1.3	EDF	P4- first bullet point: align with the rest of the paragraph.	Noted.	Paragraph aligned correctly				
1.4	EDF	P11-paragraph 16: an incorrect term has been used, it should state Funded Incremental Obligated Exit Capacity and not Funded Incremental Exit Capacity.	Agreed.	Term corrected				
1.5	EDF	P21-paragraph 70: we believe that the referencing is ambiguous. It appears that it is referencing 5G.7 of NGG NTS' Licence which states 'The Licensee must keep each Exit Capacity notice'. Should it actually be referencing 5G.8? This states: 'The Licensee must provide the Authority with such additional information as the Authority reasonably requests for the purposes of considering an Exit Capacity notice made by the Licensee'.	Agreed, the reference should be 5G.8	Reference amended				
1.6	EDF	P13 –paragraph 26 .This paragraph directs the reader to an obligation for NGG NTS to create a methodology to determine revenue drivers. The previous ExCS referred readers to a specific list of exit points and revenues We believe that this attempt to amend the references to reflect the new RIIO-T1 licence conditions is not a 'like for like' reference change and should be amended to provide clarity.	The reference in the previous ExCS pointed to the section of the Licence covering "Exit capacity investment incentive revenue". Our proposal was to reference the obligation to produce a methodology for calculating revenue drivers. As there was no equivalent obligation in the TPCR4 Licence, we consider that this change, although not exactly like-for-like, is not unreasonable considering that the relevant paragraph of the ExCS refers to revenue drivers. However, to avoid any confusion, we propose to amend the reference to Special Condition 5G Part D "Additional Totex allowances in respect of the release of Funded Incremental Obligated Exit Capacity".	Reference amended				

National Grid Page 3 28 March 2013

	NG NTS	NG NTS has noticed that the link provided in paragraph 70 is incorrect.	Link amended	Link Amended			
2 - Exchange Rate							
		NGG NTS has removed part of paragraph 37 which removes the requirement for the exchange rate limit to be reconsidered since the initial application of the ExCS. NGG NTS has also removed references that enable the exchange rate limit to be amended or removed during the annual review of the ExCS. We do not agree that this wording is superfluous as the exchange rate limit and the possible application of an exchange rate collar should be always be subject to revision if appropriate.	We agree that the exchange rate limit and possible application of an exchange rate collar should be subject to revision. Each year when reviewing the methodology consideration is given to amending the exchange rate cap and collar. All other rules and processes are similarly considered. It seems inappropriate therefore to specifically highlight reconsideration of two factors, the exchange rate limit and possible application of an exchange rate collar, when the whole methodology is reconsidered annually.	None			
3.1		In the existing statement NGG NTS must consider capacity that has previously been substituted to an NTS Exit Point as substitutable (paragraph 18 (d)) NGG NTS has amended the wording so that it <i>may</i> consider as opposed to <i>will</i> consider this capacity for substitution however the revised wording enables NGG NTS to use its discretion as to whether or not to substitute the capacity. This appears to be a change in principle to how capacity may be considered for substitution and we do not understand why this change is necessary.	The revised wording takes into account that point (d) of paragraph 18 is only one of a number of factors, defined within that paragraph, to determine the quantity of "Substitutable Capacity". Therefore the wording "will consider this capacity" could be considered to over-rule the other factors. Hence we have proposed the revision to "may consider this capacity".	None			

National Grid Page 4 28 March 2013