

**Entry Capacity Substitution
Methodology Statement
Formal Consultation Conclusions Report**

14 September 2011

Executive Summary

Introduction

National Grid Gas plc (“National Grid”) is the holder of the Gas Transporter Licence (the “Licence”) in respect of the National Transmission System (the “NTS”). Special Condition C8D paragraph 10 (a) i) (aa) of the Licence requires National Grid to prepare an Entry Capacity Substitution methodology, in such a manner that is necessary to facilitate the achievement of the entry capacity substitution objectives as defined in paragraph 10 (c).

National Grid is also obliged, under the Licence, to review the methodology statement at least once a year in consultation with relevant Shippers and interested parties.

In accordance with Special Condition C8D paragraph 10 (f) (ii) on 04th August 2011 National Grid initiated its consultation on the proposed Entry Capacity Substitution methodology statement and invited views in respect of the proposed statement to be made by 02nd September 2011. This document sets out, in accordance with paragraph 10 (f) (iii), National Grid’s conclusions on the consultation. It provides a summary of the representations received, National Grid’s response and an indication of whether changes have been made to the statement as originally proposed.

Responses

Representations were received from one respondent listed below.

RWE Npower - RWE

The response received relates to:

- Consideration to the removal of the “substitutable quantities” column in Appendix 1
- Consideration of the substitution methodology, specifically the exchange rate cap and system flexibility, in relation to RIIO-T1 business plan submissions
- Consideration to the continued suitability of the retainer approach

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

No.	Party	Response Quotes	National Grid Response	Proposed changes
1 – Appendix 1				
1.1	RWE	<p>We do not have a strong view about the continued inclusion of the substitutable quantities in the methodology as it is provided in the retainer letter.....On balance though, provided shippers understand that there may be differences, we would prefer the information to be retained within the methodology for the sake of convenience.</p>	<p>We note the qualified support for continued inclusion of the substitutable quantities in the methodology. We also note, and agree with, the need for Shippers to be aware that definitive values for substitutable quantities will only be provided in the retainer invitation letter. Hence our inclusion of a clear caveat at the foot of the table in the draft statement.</p> <p>In the absence of any expressed preference for removal, we intend to retain the substitutable quantities within the methodology.</p> <p>The RWE reference to the “retainer letter” has highlighted an error which will be corrected.</p>	<p>Footnote to Appendix 1 changed from “QSEC letter” to “Retainer Letter”</p>
2 – Exchange Rate Cap				
2.1	RWE	<p>Capping the exchange rate limits the extent to which capacity can be substituted. Its inclusion in the methodology, therefore, goes some way to address shipper concerns that unfettered substitution would result in unacceptable levels of capacity destruction and removal of NTS flexibility.</p> <p>In its suite of RIIO-T1 business plan submissions, National Grid has highlighted concerns about future potential scarcity of network flexibility, driven by changing flow patterns on and off the NTS and leading to additional investment and increasing constraint management costs. Removing flexibility in the NTS by excessive substitution would exacerbate this potential problem and it may be timely to review the substitution methodology itself in this context.</p>	<p>National Grid acknowledges, and shares, the concerns raised regarding network flexibility and is proposing to retain the current exchange rate cap of 3:1.</p> <p>As RWE and others will be aware, the entry capacity substitution methodology needs to strike a balance between reduced network flexibility and avoided investment. These conflicting aims are being considered within RIIO-T1.</p> <p>However, National Grid has an obligation to review the methodology each year. Pending the outcome of RIIO-T1 we believe that it would be inappropriate to make substantial changes to the methodology that could exacerbate any flexibility concerns, without a significant driver to do so. Hence we believe that retention of the 3:1 cap is appropriate at this time.</p>	<p>None</p>

No.	Party	Response Quotes	National Grid Response	Proposed changes
3 - Alternative retainer approach				
3.1	RWE	The review could also consider the continued suitability of the retainer mechanism or whether alternatives, including a mechanistic approach or two-stage auction may be more appropriate. If it is undertaken, development of and consultation on alternative approaches should take place well in advance of the formal 2012 methodology review.	<p>National Grid recalls the strong support for the alternative methodologies during the development stage. However, these were both discounted for reasons stated at the time. Whilst we appreciate that justification for a decision in the past may not apply in future, we believe that unless, and until, the retainer approach is demonstrated to be problematic, it should be retained.</p> <p>Pending the outcome of RIIO-T1 and a more rigorous testing of the methodology, we will review, initially in discussions with Ofgem, whether further industry workshops to reconsider alternative methodologies would be worthwhile.</p>	None