



National Grid Gas Transmission
and other interested parties

*Promoting choice and value for
all gas and electricity customers*

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Notice of approval of the Entry Capacity Substitution Methodology Statement

Entry capacity substitution (ECS) is a mechanism that facilitates the permanent transfer of unsold entry capacity on the gas national transmission system (NTS) at one or more entry points to meet the demands for NTS entry capacity elsewhere. This is in the interests of consumers, as implementing capacity substitution may mean that the need for additional system investment is avoided. The arrangements governing the entry capacity substitution process are contained in the Entry Capacity Substitution Methodology Statement (ECSMS).

National Grid Gas Transmission (NGGT) has a licence obligation annually to maintain and develop the ECSMS, and has recently consulted shippers and other interested parties on changes to the methodology from 2 January 2013. The changes proposed by NGGT are administrative in nature and include clarification of the intent of a 'capacity retainer'¹ and the annual update to the table setting out the capacity available for substitution at NTS entry points.

NGGT received no responses to its consultation and has now submitted a revised ECSMS to us² for approval.³ The document submitted proposes no changes to the version consulted on.

In reaching our decision to approve the methodology last year we noted that, since its implementation in 2009, the methodology had not been tested by numerous or substantial incremental entry capacity signals. Consequently, we agreed that it would not be appropriate for NGGT to propose significant changes to the methodology for 2011. The absence of a significant incremental entry capacity signal in 2012 means that we continue to hold this view, but we consider that it is important that NGGT's review of the ECSMS in 2013 evaluates its effectiveness in the light of any incremental entry capacity signals received in 2013.

¹ By paying a capacity retention charge, a capacity retainer allows NTS shippers to exclude capacity at potential donor ASEPs from being treated as Substitutable Capacity. The rewording makes it clear that the capacity retainer is intended to ensure that capacity remains at an ASEP for users to obtain at a later date and that it is not a capacity reservation mechanism in itself.

² Ofgem is the Office of the Gas and Electricity Markets Authority. The terms 'Ofgem', 'the Authority' and 'we' are used interchangeably in this letter.

³ Pursuant to paragraph 10 (a) of Special Condition C8D of its Gas Transporter Licence ("the Licence").

Having regard to the entry capacity substitution objectives,⁴ our principal objective and our statutory duties,⁵ we have decided to approve the ECSMS submitted by NGGT. The revised methodology will take effect from 2 January 2013.

Yours faithfully,

A handwritten signature in blue ink that reads "Andy Burgess".

Andrew Burgess
Associate Partner, Transmission and Distribution Policy

Signed on behalf of the Authority and authorised for that purpose.

⁴ Set out in paragraph 10(c) of Special Condition C8D of the Licence

⁵ Set out in section 4AA of the Gas Act 1986, as amended, most recently by the Energy Act 2010