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Dear Ian,

Indicative Notice of Intention to Revise NTS Entry Capacity Reserve and Step Prices

I am writing to give indicative notice of our intention to change the Entry Capacity Reserve Prices and Incremental Entry Step Prices for the next Quarterly System Entry Capacity (QSEC) auction which is expected to be held in March 2013.

Prices for permanently obligated and incremental entry capacity will be calculated in accordance with the arrangements set out in the latest approved Statement of the Gas Transmission Transportation Charging Methodology and the Incremental Entry Capacity Release (IECR) Methodology Statement.

Please note that National Grid is currently consulting on its proposed changes to the IECR. Due to the RIIO-T1 timetable the consultation on this version of the IECR precedes full understanding of RIIO-T1 outcomes. In addition, it is our understanding that RIIO-T1 will not apply to the next Quarterly System Entry Capacity (QSEC) auction as the auction will be held prior to the RIIO-T1 period starting on 1 April 2013. The RIIO-T1 changes will be implemented into the IECR for Q1 2014. Only minor changes to the current IECR are being proposed and details can be found on National Grid's website¹.

Entry prices are set using a transportation model that will be reviewed to include:

- updated supply and demand patterns determined from the latest data in the 2012 Ten Year Statement and the balancing rules introduced by GCM16. These updates tend to most affect terminals closest to areas where supplies have changed.
- the pipeline network expected in 2015/16 based on expected pipeline changes included in the 2012 Ten Year Statement. These changes are likely to have a relatively small impact on entry prices.
- revised investment costs by a change to the expansion constant. A change to the expansion constant would, all other things being equal, alter the range of entry prices and particularly entry terminals furthest from centres of demand.

¹ http://www.nationalgrid.com/NR/rdonlyres/05BE9C4F-83C7-4AF2-B989-EC42E1EEDBE4/56794/IECR_v121_Consultation_Cover_Letter.pdf

- permanent obligated capacities allocated from previous auctions. Any changes to these capacities will impact the price at that entry terminal.

The notice of the reserve and step prices to apply will be given at least two months in advance of the QSEC auction.

If you have any questions about this Indicative Notice please contact Karin Elmhirst on 01926 655540.

Yours sincerely,

Anne Bennett
Charging and Revenue Manager
SO - Transmission Network Service