

Issue	Revision
8.1	Consultation



# Entry Capacity Release Methodology Statement

Effective from [TBC]2024

## ENTRY CAPACITY RELEASE STATEMENT

### Document Revision History

Version/ Revision Number	Date of Issue	Notes
1.0	July 2002	
2.0	August 2003	Minor clarifications and price schedules for new entry points (Milford Haven and Barton Stacey) included.
3.0	July 2004	Minor clarifications, price schedules removed to now only appear in the Transportation Statement.
4.0	July/August 2004	Changes following consultation responses.
4.1	July 2005	Proposed changes consultation.
5.0	August 2005	Proposed changes agreed.
5.1	14 September 2005	Proposed amendment to include formal consent process prior to adjusting investment lead times.
5.2	30 September 2005	Final proposed amendment to include formal consent process prior to adjusting investment lead times incorporating consultation representations.
6.0	6 <sup>th</sup> April 2006	Proposals for the introduction of a methodology for the determination of investment costs.
6.1	11 <sup>th</sup> May 2006	Final proposals for the introduction of a methodology for the determination of investment costs.
6.2	3 <sup>rd</sup> May 2007	Proposals to generate step prices from Transportation Model (following implementation of GCM01) and revise economic test. Updated to reflect Transmission Price Control Review Final Proposals. Format changes and general updating.
7.0	12 <sup>th</sup> June 2007	Changes following consultation responses.
7.0	16 <sup>th</sup> July 2007	Authority approval.

7.1	May 2008	<p>Revised terminology to be consistent with new Licence drafting; diagram added to describe different capacity terms.</p> <p>Consistent with changes to the Licence, the emphasis has been changed to one of release of capacity instead of investing to deliver capacity. Changes of a minor nature to improve clarity or readability.</p> <p>Updating of references to Entry Capacity Substitution.</p> <p>Use of “prevailing” to acknowledge potential changes to obligated capacity levels.</p> <p>Reference to “project costs” changed to “project value” in respect of the provision of incremental capacity.</p> <p>Clarify Licence requirements before capacity is made available at new ASEPs and the role of the Authority in approving National Gas Transmission’s proposals.</p> <p>Clarification of processes for release of capacity under the “Accelerated Release” incentive.</p>
7.2	June 2008	Minor changes following industry consultation to improve clarity.
8.0	July 2008	V7.2 approved by the Authority.
8.1	August 2008	Amendment to error in final table of Appendix 2.
8.2	May 2009	<p>Annual review and update.</p> <p>No changes made affecting the release of incremental capacity.</p> <p>Administrative and clarification changes made, specifically:</p> <ul style="list-style-type: none"> <li>• Removal of Appendix 1 which would have duplicated the 2009 Charging Methodology Statement which has been revised to include derivation of step prices.</li> <li>• Clarification added to sections on timing of release of capacity.</li> </ul>
8.3	June 2009	No further changes following consultation. Submitted to Authority for approval.
9.0	15 July 2009	Authority Approval.
9.1	October 2009	Amendment to minimum incremental step size for new ASEPs and minor clarifications to the same section.
9.2	13 <sup>th</sup> November 2009	No further changes following consultation. Submitted to Authority for Approval.
9.3	14 <sup>th</sup> January 2010	Authority Approval.

10.1	01 October 2010	Annual Review Consultation Draft. Requirement for ASEP to be included in the Licence and for Revenue Driver introduced. Update for entry capacity substitution. Reference to UNC modification proposal 246 (security) deleted following notice of non-implementation.
10.2	November 2010	No further changes following consultation. Submitted for Approval.
11.0	December 2010	Authority Approval.
11.1	September 2011	Annual Review Consultation Draft Minor updates.
11.2	November 2011	No further changes following consultation. Submitted for Approval.
12.0	December 2011	Authority Approval.
12.1	October 2012	Annual Review Consultation Draft. Enhanced role for PCAs to enable delivery of capacity to required release dates without need to play permits.
12.2	November 2012	No further changes following consultation. Submitted for Approval.
13.0	December 2012	Authority Approval subject to a number of minor clarifications.
0.1	July 2013	Updated for RIIO-T1. New terminology and Licence references; extended to cover non-incremental capacity release. Revised version number to reflect wider scope. Additional paragraphs to cover potential implementation of UNC Modification 0449.
0.2	September 2013	Minor changes following industry consultation to improve clarity and correct drafting errors.
1.0	October 2013	Authority Approval.
1.1	September 2013	Annual Review (informal consultation) Updated to align to Modifications: 0452: Introduction of the Planning and Advanced Reservation Capacity Agreement (PARCA) and 0454: Introduction of a Long Term Non Firm Capacity Product
1.2	December 2014	Annual Review (formal consultation). Updates following informal consultation. Further review to align to Modification 0465V: 'Introduction of the Planning and Advanced Reservation Capacity Agreement (PARCA), Weighted Average PARCA Security' and the revised Licence arrangement.

1.3	January 2015	Minor Changes following industry consultation to improve clarity. Submitted for Approval
2.0	February 2015	Authority Approval subject to a number of minor clarifications.
2.1	December 2014	<p>Informal consultation. Updated to align to Modifications:</p> <p style="text-align: center;">0500: EU Capacity Regulations - Capacity Allocation Mechanisms with Congestion Management Procedures and 0501: Treatment of Existing Entry Capacity Rights at the Bacton ASEP to comply with EU Capacity Regulations or 0501A: Treatment of Existing Entry Capacity Rights at the Bacton ASEP to comply with EU Capacity Regulations, including capacity return option or 0501B: Treatment of Existing Entry Capacity Rights at the Bacton ASEP to comply with EU Capacity Regulations, including a restricted capacity return option or 0501C: Treatment of Existing Entry Capacity Rights at the Bacton ASEP to comply with EU Capacity Regulations, including a capped capacity return option and an aggregate overrun regime and the draft revised licence arrangement</p>
2.2	July 2015	<p>Annual Review (formal consultation). Updates following informal consultation. Minor updates based on recommendations from 2015 Examination. Further review to align to Modification 0501V: 'Treatment of Existing Entry Capacity Rights at the Bacton ASEP to comply with EU Capacity Regulations'.</p>
2.3	August 2015	No further changes following consultation. Submitted for Approval.
3.0	October 2015	Authority Approval subject to a number of minor clarifications.

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3.1	April 2017	Industry consultation: Update to align to UNC Modifications: 0598S: Amendments to Capacity Allocations Mechanisms to comply with EU Capacity Regulations and; 0597: Rules for the release of incremental capacity at Interconnection Points.
3.1	May 2017	Minor amendments following consultation.
4.0	July 2017	Authority Approval.
4.1	January 2019	Preliminary Consultation: Revised economic test removing any dependency to the LRMC methodology. Removed reference to the obligation for a clearing allocation. Updates to reflect UNC modifications 616s (Capacity Conversion) and 628s (CLOCC).
4.2	March 2019	Formal Consultation: Clearing obligation now amended rather than deleted. Clarification that competing auctions can apply to IP Entry Points. Removed separate Chapter (14) on IP Pricing, and included relevant info in Chap 10. Project cost will only vary by inflation after reservation of capacity.
4.3	May 2019	Ofgem submission Added Project cost transition arrangement so that the calculation in UNC TPD Section Y continues to apply until such time as it is removed via UNC modification.
5.0	July 2019	Approved.
5.1	March 2021	Formal Consultation: Updated Licence references to align with RII02 changes going live from 1 <sup>st</sup> April 2021 Amendment to the baseline User Commitment which signal substitution and obligated funded incremental Updates to reflect UNC modification 0678A
5.2	April 2021	Ofgem submission Minor update to wording in paragraph 54 (Amendment to the baseline User Commitment which signal substitution and obligated funded incremental) following Formal Consultation.
6.0	June 2021	Approved.

6.1	April 2022	Formal Consultation: Addition of weekly auctions following decision to implement UNC Modification 0752S Introduction of Weekly Entry Capacity Auctions. Update to reflect potential withdrawal of weekly and monthly capacity in the event of a constraint on the NTS at the Milford Haven ASEP.
6.2	May 2022	No further changes following consultation. Submitted to Authority for approval.
7.0	May 2022	Approved.
7.1	December 2022	Formal Consultation: Update to reflect potential withdrawal of weekly and monthly capacity at the Milford Haven ASEP.
7.2	January 2023	For Approval: Changes made following the consultation to withdraw capacity in monthly and weekly auctions at the Milford Haven ASEP only in instances where the applicable auction period is affected by Gassco maintenance impacting Easington gas supply in summer 2024. Paragraph 74 has been replaced with new proposed wording. Rejected.
7.3	February 2023	For Re-consultation Changes made following the consultation to withdraw capacity in some auctions at the Milford Haven ASEP in instances where the applicable auction period is affected by Gassco maintenance impacting Easington gas supply in summer 2024. Paragraph 74 has been replaced with new proposed wording. Housekeeping; updating company name to National Gas Transmission and website links.
7.4	March	For Approval: No further changes following consultation. Submitted to Authority for approval.
8.0	April	Changes to the Milford Haven capacity release rejected. All other housekeeping changes approved.
8.1	September 2024	For consultation: Clarifications to address feedback in particular in relation to the Net Present Value (NPV) test in chapter 6. Clarification on default lead time in Chapter 5. and Housekeeping updates.

## ABOUT THIS STATEMENT

This Entry Capacity Release Methodology Statement (the “Statement”)<sup>1</sup>, describes the methodology that National Gas Transmission plc (“National Gas Transmission”) in its role as holder of the Gas Transporter Licence in respect of the NTS<sup>2</sup> (“the Licence”) employs to determine whether to release **Entry Capacity**, and in what quantities, to Shipper Users. It defines under what circumstances National Gas Transmission will accept applications for **NTS Entry Capacity** received from Shipper Users or the reservation of NTS Entry Capacity by developers (“Reservation Parties”) through processes described in the Uniform Network Code (“UNC”), and thereby the level of financial commitment required from Shipper Users to justify the release/reservation of the quantity of **Obligated Entry Capacity**.

This Statement contains terminology relating to entry capacity which is used in the Licence and in the UNC. Licence defined capacity terms are given in **bold italics**; UNC defined capacity terms appear in **bold**. Other defined terms used but not defined in this Statement shall have the meaning given to them in the UNC and/or Licence as appropriate.

This Statement is one of a suite of statements that describe processes relating to the release of **Entry Capacity** and **Exit Capacity** by National Gas Transmission and the methodologies behind them. The other statements are available on the National Gas Transmission website at:

<https://www.nationalgas.com/our-businesses/system-operation/capacity-methodology-statements>

This Statement has been published by National Gas Transmission in accordance with Special Condition 9.18.5(a) of the Licence. National Gas Transmission believes the content is consistent with its duties under the Gas Act and the Licence.

If you require further details about any of the information contained within this Statement or have comments on how it might be improved please contact our Market Change team <https://www.nationalgas.com/get-in-touch> or at:

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National Gas Transmission  
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<sup>1</sup> This Statement is often abbreviated to ECR.

<sup>2</sup> The gas National Transmission System



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## GENERAL INTRODUCTION

### Background

1. National Gas Transmission is the owner and the operator of the gas National Transmission System (NTS) in Great Britain.
2. The NTS plays an important role in facilitating the competitive gas market and helping to provide the UK with a secure gas supply. It is a network of pipelines, presently operated at pressures of up to 94 barg, which transports gas safely and efficiently from coastal terminals and storage facilities to exit points from the system. Exit points are predominantly connections to Distribution Networks (DNs), but also include storage sites, and direct connections to power stations, large industrial consumers and other systems, such as interconnectors to other countries.
3. These operations are carried out to meet the needs of the companies that supply gas to domestic, commercial and industrial consumers and to power stations.
4. This Statement sets out the methodology that applies for the release of **NTS Entry Capacity**. **NTS Entry Capacity** consists of:
  - **Firm NTS Entry Capacity**<sup>3</sup> and
  - **Interruptible NTS Entry Capacity**<sup>4</sup>(both as defined in the UNC TPD Section B2.1.7 and UNC EID Section B1.4.1).
5. **Firm NTS Entry Capacity** is predominantly made available through the release of **Obligated Entry Capacity**<sup>5</sup>. **Obligated Entry Capacity** includes (as defined in the Licence Special Condition 1.1):
  - **Non-incremental Obligated Entry Capacity** (existing capacity); and
  - **Incremental Obligated Entry Capacity**, which is additional capacity to be made available above the prevailing level of **Obligated Entry Capacity**, primarily beyond investment lead times, in response to signals received from Shipper Users (or Reservation Parties) through processes described in the UNC.
6. **Firm NTS Entry Capacity** may also be made available by the release of **Non-obligated Entry Capacity**. Release of **Non-obligated Entry Capacity** is at the sole discretion of National Gas Transmission.

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<sup>3</sup> For the avoidance of doubt, Firm NTS Entry Capacity incorporates Firm NTS Interconnection Point Capacity.

<sup>4</sup> For the avoidance of doubt, Interruptible NTS Entry Capacity incorporates Interruptible NTS Interconnection Point Capacity.

<sup>5</sup> Please note that following the implementation of UNC Modification 0519 there has been a small, notional increase in the level of Obligated Entry Capacity at Bacton Interconnection Points due to the application of EU reference conditions (representing a notional increase to the obligated level by 0.1%).

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7. Details of National Gas Transmission and its activities can be found on its internet site at <https://www.nationalgas.com/>. An electronic version of this Statement can be found at the following internet page <https://www.nationalgas.com/our-businesses/system-operation/capacity-methodology-statements>
8. It is important that National Gas Transmission is made aware of potential developments where **NTS Entry Capacity** may be required for a sustained period (at existing or new entry points) at an early stage. This is needed so that discussions can be held with the customer in relation to any additional work that may be required, including facilitating the physical connection, whether this is at a new or existing entry point. This work is charged for separately as specified in “The Gas Transmission Connection Charging Methodology” in UNC TPD Section Y. as required by the Licence Amended Standard Condition 4B. For the avoidance of doubt, this Statement relates to the release of **Entry Capacity** and the works and processes that may be necessary to facilitate such release. A separate process is followed for the provision of a new (or amendment to an existing) physical connection. Except where expressly stated otherwise, any reference in this Statement to an application, is to a request for **NTS Entry Capacity** and not a physical connection to the NTS. Further information about connection services is available on the National Gas Transmission website<sup>6</sup>. National Gas Transmission provide connection services and the team can be contacted via e-mail to: [.box.ukt.customerlifecycle@nationalgas.com](mailto:box.ukt.customerlifecycle@nationalgas.com)
9. Typical lead times for the delivery of new pipeline infrastructure to create additional capacity in the NTS and the lead time for the construction of connected facilities are dependent on many variables including planning processes. It is important therefore that Shipper Users and Reservation Parties are able to commit early to the provision of additional capacity to avoid misalignment of projects. Delay in commencement of work to deliver additional capacity in the NTS could lead to that capacity not being available to the timeframes originally required by the connecting party.
10. In order to facilitate the timely delivery of **Quarterly NTS Entry Capacity**<sup>7</sup> a Shipper User (or Reservation Party) can apply for a Planning and Advanced Reservation of Capacity Agreement (“PARCA”) between the Shipper User (or Reservation Party) and National Gas Transmission. The PARCA allows the reservation of capacity ahead of the Shipper User (or Nominated Users<sup>8</sup>) being allocated and registered as holding that capacity and hence before they are financially committed to the capacity itself<sup>9</sup>.

A generic PARCA can be found on National Gas Transmission’s website at: <https://www.nationalgas.com/our-businesses/reserving-capacity>

11. In order to facilitate the timely delivery of Interconnection Point Capacity a Shipper User (or Reservation Party) can apply for an Interconnection Point Planning and Advanced Reservation of Capacity Agreement, (“IP PARCA”) between the User (or Reservation

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<sup>6</sup> <https://www.nationalgas.com/our-businesses/reserving-capacity>

<sup>7</sup> Please note that this does not apply to Quarterly Interconnection Point Capacity.

<sup>8</sup> A Reservation Party will be required to nominate a Shipper User, or Users (a “Nominated User”), to be allocated the capacity that is made available through a PARCA or IP PARCA. The Nominated User may not be known at the time the PARCA or IP PARCA is entered into.

<sup>9</sup> PARCA or IP PARCA Applicants will be subject to specific security requirements under the terms of the PARCA or IP PARCA to demonstrate a commitment to the reserved capacity.

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Party) and National Gas Transmission. The IP PARCA allows the reservation of capacity ahead of the User (or Nominated Users) being allocated and registered as holding that capacity and hence before they are User Committed to the capacity itself.

12. Subject to the terms of the PARCA or IP PARCA, National Gas Transmission will:
  - (a) reserve capacity on behalf of the Shipper User (or Reservation Party) and subsequently allocate that **Reserved Entry Capacity** to, and on behalf, of the Shipper User (or Nominated User(s)). Subject to any necessary planning approval being granted, it is only through the PARCA or IP PARCA that timely delivery of **Incremental Obligated Entry Capacity** is possible, it is the delivery of any Works that drives the lead times to deliver additional capacity.
  - (b) undertake such Works as is necessary to provide **Incremental Obligated Entry Capacity** and will reserve such existing **Obligated Entry Capacity** as is necessary to satisfy the capacity request.
13. Capacity will be allocated to the Shipper User or Nominated User, in the quantity requested and, if available, this shall include a level of capacity tolerance, by the date determined subject to the terms of the PARCA or IP PARCA<sup>10</sup>.
14. When applying for a PARCA or IP PARCA the counterparty<sup>11</sup> will be required to pay an application fee (the “Phase 1 PARCA Fee”) which shall cover the initial Works to be undertaken (i.e. the “Phase 1 PARCA Works”). For the IP PARCA a fee is payable (a Demand Indication Application Fee (DIA Fee)) and will be payable by each party submitting a demand indication. The DIA Fee will be returned if the application passes the Economic Test. Should they wish to progress the PARCA beyond Phase 1, or in the case of an IP PARCA to progress to the binding phase, the counterparty will be required to provide security for subsequent Works/reservation of capacity. Pursuant to the PARCA or IP PARCA in the event that the PARCA or IP PARCA is terminated prior to allocation of the reserved **Quarterly NTS Entry Capacity** or **Interconnection Point Capacity** at the relevant location, in the quantity, and by the date, determined through, the PARCA or IP PARCA, the PARCA or IP PARCA Applicant may be liable to pay a PARCA or IP PARCA Termination Amount.

## National Gas Transmission’s Licence Obligations

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<sup>10</sup> In the absence of a PARCA, capacity in excess of the level of available unsold **Obligated Entry Capacity** at the relevant location by any specific date may be made available through other auction processes and National Gas Transmission will assess its ability to meet such requests in accordance with the further provisions of UNC and this Statement.

<sup>11</sup> i.e. the Shipper User or Reservation Party.

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15. Subject to paragraphs 86 and 105, new and existing Shipper Users of the NTS are able to request to purchase entry capacity products for any NTS Aggregate System Entry Point (ASEP)<sup>12</sup>. Such capacity requests will be considered against the provisions of National Gas Transmission's statutory licence obligations and in accordance with its published methodologies.
16. Overriding obligations applicable to this Statement are set out in the Gas Act and the Licence and are that National Gas Transmission's activities must be:
  - Conducted on a non-discriminatory basis;
  - Conducted in an efficient, economic and co-ordinated manner; and
  - Be consistent with the safe and efficient operation of National Gas Transmission's pipe-line system and security of supply obligations.
17. Specific obligations in respect of the release of the prevailing level of **Obligated Entry Capacity** and applicable to this Statement are set out in Special Condition 9.18 of the Licence.
18. Specific obligations in respect of the release of **Incremental Obligated Entry Capacity** and applicable to this Statement are set out in Special Condition 9.18 and 3.13 of the Licence.
19. Under Special Condition 9.18 of the Licence, National Gas Transmission must prepare and submit to the Authority for approval the "capacity release methodology statements". This Statement sets out the methodology by which National Gas Transmission will:
  - determine the quantity of **Obligated Entry Capacity** that it will make available to Shipper Users; and
  - determine whether to make **Incremental Entry Capacity** available for sale to Shipper Users and, if so, what quantity of **Incremental Entry Capacity** to make available.
20. Without prejudice to Part A of this Statement, in determining the quantity of **Obligated Entry Capacity** to be made available to Shipper Users, National Gas Transmission will consider the quantity of
  - **Non-incremental Obligated Entry Capacity**; and
  - **Incremental Obligated Entry Capacity** released in previous auctions;that has not been allocated.
21. Without prejudice to Part B of this Statement, **Incremental Entry Capacity** released in any auction, is that quantity in excess of the prevailing level of **Obligated Entry Capacity**. **Incremental Entry Capacity** may consist of:
  - New **Incremental Obligated Entry Capacity** triggered by bids in the current auction; and/or
  - **Non-obligated Entry Capacity**.

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<sup>12</sup> Referred to in the Licence as NTS Entry Points

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For the avoidance of doubt, the release of **Incremental Obligated Entry Capacity** at Interconnection Points cannot be triggered via auctions and will only be released in accordance with Part C of this statement.

22. Under Special Condition 9.13 of the Licence, National Gas Transmission must publish information that provides details of the proposed reservation of Incremental Obligated Entry Capacity. This will state the quantity of Incremental Obligated Entry Capacity proposed to be treated as:
  - Funded Incremental Obligated Entry Capacity; or
  - Non-incremental Obligated Entry Capacity provided by Entry Capacity Substitution in accordance with Special Condition 9.17
23. Under Special Condition 9.13 of the Licence, National Gas Transmission must provide the Authority with an Entry Capacity notice providing details of all proposed **Incremental Obligated Entry Capacity** release. The notice will state the volume of **Incremental Obligated Entry Capacity** proposed to be treated as:
  - **Funded Incremental Obligated Entry Capacity**; or
  - **Non-incremental Obligated Entry Capacity** provided by Entry Capacity Substitution in accordance with Special Condition 9.17

Unless directed to the contrary within 28 days of the date of submission of this notice, National Gas Transmission shall implement the proposals as set out within the Entry Capacity notice. In the event that the Authority vetoes such proposals for the release of **Incremental Obligated Entry Capacity** National Gas Transmission may not, pursuant to the PARCA, allocate **Quarterly NTS Entry Capacity** in excess of the quantity of **Unsold NTS Entry Capacity** to the Shipper User.

24. Pursuant to a PARCA<sup>13</sup>, National Gas Transmission will reserve capacity from an ASEP (a donor ASEP) for subsequent substitution to another ASEP (a recipient ASEP). Such reservation will be undertaken prior to the allocation of that **Reserved Entry Capacity** at the recipient ASEP. Any decision by National Gas Transmission to reserve capacity pending substitution (substitution shall be confirmed ahead of allocation of capacity at the recipient ASEP) shall be published pursuant to paragraph 22. In the event that:
  - the **Reserved Entry Capacity** is subsequently required to be substituted to the recipient ASEP and allocated to a Shipper User, National Gas Transmission will notify the Authority of the proposed substitution in the Entry Capacity notice referred to in paragraph 23.
  - the Authority vetoes such substitution proposals (and any feasible alternatives) for capacity substitution pursuant to paragraph 23, National Gas Transmission will not substitute capacity from the donor ASEP to the recipient ASEP. Any resulting allocation of capacity at the ASEP specified in the PARCA will be pursuant to the terms of the PARCA. This may mean that capacity is allocated in a smaller quantity than requested; is allocated with a longer lead time; or may not be allocated at all. Any resulting allocations will be determined following discussion of the options between National Gas Transmission and the counterparty pursuant to the terms of the PARCA.

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<sup>13</sup> This includes an IP PARCA in accordance with the process set out in Part C Chapter 11

## Capacity Terminology

25. This Statement contains terminology relating to entry capacity which is used in the Licence for the purposes of distinguishing between National Gas Transmission's capacity obligations and revenue treatments. It should be noted that although this terminology exists, it does not change the capacity products that Shipper Users procure through established UNC processes e.g. **Firm NTS Entry Capacity** and **Interruptible NTS Entry Capacity**. Throughout this Statement Licence defined capacity terms are given in *bold italics*; UNC defined terms appear in **bold**.
26. The terminology and relationships relating to **Firm Entry Capacity**<sup>14</sup> are provided below to assist the reader in interpreting this Statement.

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<sup>14</sup> This Statement also covers the release of **Interruptible Entry Capacity**.



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27. The actual definitions of these terms are contained within the Licence (Special Condition 1.1). Where any conflict arises between the Licence and this Statement the Licence shall prevail.

### National Gas Transmission's Internal Planning Process

28. National Gas Transmission believes it is appropriate for it to continue to develop the NTS in a way that provides its customers and Great Britain generally, with a gas transmission system that is robust against supply shocks and which keeps pace with changes in the gas market, such as increasing dependency on imported supplies.
29. National Gas Transmission is required by Special Condition 9.10 of the Licence, "Long Term Development Statement", to prepare an annual statement, with respect to each of the succeeding 10 years that will forecast;
- The use likely to be made of the pipe-line system; and
  - The likely developments of that system.
30. National Gas Transmission believes it is important to seek wide views on the process for determining how it invests in its network as well as on the underlying assumptions that underpin such investment. An enhanced consultation process is operated under the banner of 'Future Energy Scenarios' with a view to obtaining industry views on how the industry would like to see the NTS developed.
31. The trigger for any allowed revenue associated to **Incremental Obligated Entry Capacity** is via an allocation of **Quarterly NTS Entry Capacity** in accordance with the terms of a PARCA.
32. This Statement describes the process by which such releases of **Incremental Obligated Entry Capacity** would normally be triggered. It should be noted that the release of **Funded Incremental Obligated Entry Capacity** and hence the potential need to undertake investment in the NTS, can be fully or partially avoided, e.g. through entry capacity substitution (see paragraph 34). National Gas Transmission's planning relates to the activities of National Gas Transmission in the development of the NTS. However, statutory planning application processes and consents apply to circumstances where investment in new pipeline infrastructure is needed. References to "planning" should be read accordingly.
33. In addition to allocating **Obligated Entry Capacity** pursuant to an auction signal, National Gas Transmission may, at its sole discretion, release for sale additional **Entry Capacity** for which it has no obligation to do so. For the purpose of the Licence any capacity released in accordance with this paragraph will be classified as **Non-obligated Entry Capacity**.
34. National Gas Transmission also has a Licence obligation (Special Condition 9.17) to consider whether unsold **Non-incremental Obligated Entry Capacity** can be substituted to ASEPs where there would otherwise be a requirement to release **Funded Incremental**

## Entry Capacity Release Methodology Statement

**Obligated Entry Capacity**; i.e. demand exceeds the prevailing level of **Obligated Entry Capacity** and paragraph 33 does not apply, thereby, potentially, reducing the requirement for investment in the NTS. The process by which substitution may be considered and the methodology that would be applied is provided in the “Entry Capacity Substitution Methodology Statement” (the “ECS”) produced pursuant to Licence Special condition 9.17.

35. For the avoidance of doubt, the release of all **Entry Capacity** in excess of the prevailing level of **Obligated Entry Capacity** at an ASEP will be in accordance with Part B of this Statement.
36. National Gas Transmission will consider opportunities for entry capacity substitution in accordance with the substitution rules stated in the ECS. As a result, demand for capacity at an ASEP in excess of the prevailing level of **Obligated Entry Capacity** may be met through **Non-incremental Obligated Entry Capacity**, rather than **Funded Incremental Obligated Entry Capacity**, facilitated by a reduction in the **Licence Baseline Entry Capacity** at another ASEP.
- To minimise the need for investment, before releasing **Funded Incremental Obligated Entry Capacity** at an ASEP National Gas Transmission will consider opportunities to substitute unsold **Non-Incremental Obligated Entry Capacity** from another ASEP. In addition, substitution will only be considered if the existing capability of the NTS (when taking all existing commitments into account) is insufficient to satisfy requests for additional capacity at an ASEP,
  - National Gas Transmission will substitute **Entry Capacity** (as detailed above) between ASEPs with a release date consistent with the ECS,
  - Where Substitutable Capacity (as defined in the ECS) has been identified as suitable for substitution to another recipient ASEP to satisfy the requirement for additional capacity at that recipient ASEP, the Substitutable Capacity will not be available for release at the original donor ASEP<sup>15</sup> until, and unless, it has been identified as not being required for substitution (see the ECS). The identification of Substitutable Capacity will follow an application for **Quarterly NTS Entry Capacity through either:**
    - (a) **the March QSEC:** or
    - (b) a PARCA being entered into with National Gas Transmission and completion of the Phase 1 PARCA Works, where, in the absence of substitution, this would require the release of **Incremental Obligated Entry Capacity**. Any proposals for capacity substitution, (whether pursuant to a Shipper User bid and subsequent allocation or pursuant to a PARCA and subsequent reservation) and hence any limitation on capacity being made available at the donor ASEP, will be subject to non-veto by the Authority (see paragraphs 23 and 24).
37. Where, pursuant to a PARCA, National Gas Transmission identifies that the allocation of **Quarterly NTS Entry Capacity** can be satisfied, in part or whole, from unsold **Non-incremental Obligated Entry Capacity** at the same ASEP, then that **Non-incremental Obligated Entry Capacity** will be reserved and will not be available for release (from the registration date determined through the PARCA) unless it is subsequently determined as not being required and hence is no longer reserved.

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<sup>15</sup> Prior to Substitutable Capacity being substituted to a recipient ASEP it will be available at the donor ASEP, i.e. it will be available at the donor ASEP in the short/medium term.

## CHAPTER 1: PRINCIPLES

### Purpose of the Statement

38. This Statement has been produced to meet the requirements of Special Condition 9.18 of the Licence. This condition requires the preparation of capacity release methodology statements setting out how (in respect of **Entry Capacity**) National Gas Transmission will determine:
- The release of **Obligated Entry Capacity** (see paragraph 21) to relevant Shipper Users; and
  - The quantity of **Incremental Entry Capacity** (see paragraph 22) to be made available for sale to relevant Shipper Users.
- National Gas Transmission believes the content is consistent with its duties under the Gas Act and the Licence.

### Scope

39. Overriding obligations on National Gas Transmission set out in the Gas Act and the Licence are that its activities must be:
- Conducted on a non-discriminatory basis;
  - Conducted in an efficient, economic and co-ordinated manner; and
  - Be consistent with the safe and efficient operation of National Gas Transmission's pipe-line system and security of supply obligations.
40. This Statement applies to the release of all forms of **Entry Capacity**, as defined in the Licence, by National Gas Transmission and shall include:
- **Licence Baseline Entry Capacity, Non-incremental Obligated Entry Capacity,**
  - **Incremental Obligated Entry Capacity** (including **Funded Incremental Obligated Entry Capacity**)
  - **Non-obligated Entry Capacity**, and
  - **Interruptible Entry Capacity**
- and applies to the allocation of all classes of **NTS Entry Capacity** as defined in the UNC (TPD Section B and EID Section B).

### Structure of the Statement

41. The methodology described in this Statement is set out in three main sections.
42. Part A<sup>16</sup> sets out how, and in what quantities, National Gas Transmission will offer for sale **Obligated Entry Capacity** to Shipper Users.

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<sup>16</sup> This section does not apply at Interconnection Points.

## Entry Capacity Release Methodology Statement

- Chapter 2 sets the context in which bids for **Obligated Entry Capacity** will be considered; and
  - Chapter 3 covers the various processes by which **Obligated Entry Capacity** will be made available to Shipper Users.
43. Part B<sup>17</sup> sets out how, National Gas Transmission will determine whether to make **Incremental Entry Capacity** available for sale to Shipper Users and, if so, what quantity of **Incremental Entry Capacity** to make available.
- Chapter 4 sets the context in which bids for **Incremental Obligated Entry Capacity** release will be considered;
  - Chapter 5 explains the role of PARCA's to facilitate the timely release, and **Funded Incremental Obligated Capacity Re-opener**<sup>18</sup> for the funding, of **Incremental Obligated Entry Capacity**;
  - Chapter 6 details the decision-making process for the release of **Incremental Obligated Entry Capacity**;
  - Chapter 7 looks at the methodology for setting the minimum bid price required for each incremental step quantity; and
  - Chapter 8 covers the release of **Non-Obligated Entry Capacity**.
44. Part C<sup>19</sup> sets out how, and in what quantities, National Gas Transmission will offer for sale **Interconnection Point Capacity** to Shipper Users at Interconnection Points.
- Chapter 9 sets the context in which bids for **Interconnection Point Capacity**<sup>20</sup> will be considered;
  - Chapter 10 covers the various processes by which **Interconnection Point Capacity** will be made available to Shipper Users;
  - Chapter 11 covers the processes for the release of Incremental Interconnection Point Capacity
  - Chapter 12 covers Congestion Management Procedures which impact the quantity of **Interconnection Point Capacity** made available;
  - Chapter 13 covers the release of **Non-Obligated Entry Capacity**; and
  - Chapter 14 looks at the methodology for setting the prices required for each step quantity.

IPs only

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<sup>17</sup> This section does not apply at Interconnection Points.

<sup>18</sup> The adjustment to Totex allowances that results from triggering the incremental capacity uncertainty mechanism known as **Funded Incremental Obligated Capacity Re-opener**, as further defined in the in Special Condition 3.13 and associated **FIOC Guidance and Submissions Requirements Document**

<sup>19</sup> This section applies to **Interconnection Point Capacity** only.

<sup>20</sup> References to **Interconnection Point Capacity** in this statement comprises **NTS Entry Capacity** at Interconnection Point ASEPs which can be Firm or Interruptible and Bundled or Unbundled.

## PART A: OBLIGATED ENTRY CAPACITY RELEASE

### CHAPTER 2: CONTEXT

45. **NTS Entry Capacity** is made available to Shipper Users via the PARCA Application process or through a series of capacity auctions. This Part A identifies the processes by which the prevailing level of **Obligated Entry Capacity** will be made available to Shipper Users via capacity auctions. These processes are detailed in UNC TPD Section B. Reference should be made to UNC for further information. Note: Obligated Entry Capacity has essentially the same meaning in UNC and in the Licence.
46. The prevailing level of **Obligated Entry Capacity** in respect of any auction excludes:
- **Non-obligated Entry Capacity** (see Chapter 8 / paragraph 164 released in previous auctions); and
  - any **Incremental Obligated Entry Capacity** that might be released pursuant to Part B of this Statement in that auction.
47. Dependent upon the specific auction, **Entry Capacity** may be made available as **Firm NTS Entry Capacity** or **Interruptible NTS Entry Capacity**.

The **Obligated Entry Capacity** level will be published for each ASEP at least once per year in the “entry capacity release obligation summary report”. This report is published pursuant to Special Condition 9.17 of the Licence and is incorporated within the Long-Term Summary report (see also paragraphs 57 to 65 which can be found on National Gas Transmission’s Data Portal at <https://data.nationalgas.com/reports/capacity>).

48. The quantity of **Obligated Entry Capacity** to be made available at each ASEP in each capacity release auction will be specified in the appropriate auction invitation notice from National Gas Transmission (excluding daily or weekly auctions for which an invitation is not provided). Chapter 3 of this Statement details how these quantities are determined.

## CHAPTER 3: AUCTION PROCESSES FOR THE RELEASE OF OBLIGATED ENTRY CAPACITY.

49. **Obligated Entry Capacity** is a finite quantity and therefore National Gas Transmission makes it available to all Shipper Users and allocates it in descending price order<sup>21</sup>, i.e. to those who value it most. Hence National Gas Transmission runs a variety of annual, monthly, weekly and daily auctions which are detailed in UNC TPD Section B. National Gas Transmission will release capacity consistent with the processes and obligations defined in UNC.
50. These capacity auctions make available daily capacity (i.e. a daily right to deliver gas into the NTS at an ASEP on a particular Gas Flow Day) in quarterly, monthly, weekly and single daily strips. In respect of daily auctions only, capacity may be available as either **Firm NTS Entry Capacity** and/or as **Interruptible NTS Entry Capacity**.
51. Each auction has a reserve price. The Reserve Price calculation is determined in line with the reserve price setting methodology outlined in TPD Section Y. Reserve Prices are set to recover Allowed Revenues in line with the methodology with payable prices (with some exceptions) updated each Gas year. For more details on the reserve prices for each auction and their calculation, please see National Gas Transmission's Statement of Gas Transmission Transportation Charges and UNC TPD Section Y.
52. At least one auction will result in a clearing allocation<sup>22</sup> in which National Gas Transmission will use reasonable endeavours to make available all the available **Obligated Entry Capacity** at each ASEP, subject to paragraph 74. This auction will have a reserve price in line with the UNC TPD Section B and Section Y, unless otherwise stated within the prevailing Gas Transmission Transportation Charging Statement. The clearing auction will be a Daily NTS Entry Capacity (DSEC) auction held on same Day ("D") for which capacity is made available.
53. There are seven main auction mechanisms through which Shipper Users can obtain **NTS Entry Capacity**<sup>23</sup>. These are:
  - The NTS Entry Capacity auction for **Quarterly NTS Entry Capacity** (the QSEC auction) is normally held on an **Annual** basis. In the annual (currently held in March) long term capacity auctions National Gas Transmission sells **Firm NTS Entry Capacity** for Gas Years Y+2 to Y+16 (i.e. an auction held in March 2024 will be for capacity release over the period October 2025 to

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<sup>21</sup> Apart from the QSEC auction which utilises a clearing price arrangement.

<sup>22</sup> In respect of an ASEP and period, an allocation of **Entry Capacity** which either:

(a) results in all the Entry Capacity offered for sale being sold; or  
(b) has a reserve price in line with UNC Section B and Section Y.

<sup>23</sup> Please note **Obligated Entry Capacity** is released through all auction mechanisms described apart from the Daily Interruptible NTS Entry Capacity Auction which releases **Interruptible Entry Capacity** only.

## Entry Capacity Release Methodology Statement

September 2041). Capacity made available in these auctions will be sold as **Quarterly NTS Entry Capacity**, i.e. it will be registered to the Shipper User for each Day in a particular calendar quarter.

This is the only auction in which both the prevailing **Obligated Entry Capacity** and **Incremental Obligated Entry Capacity** are released, subject to paragraph 115. (Note **Incremental Entry Capacity**, in the form of **Non-obligated Entry Capacity**, may be released in any auction<sup>24</sup>).

- Additional NTS Entry Capacity auctions for **Quarterly NTS Entry Capacity** (Ad-hoc QSEC auctions) can be held following the acceptance of a competent PARCA Application in respect of an ASEP. In these auctions National Gas Transmission sells **Firm NTS Entry Capacity** for Gas Years Y+2 to Y+16 (i.e. an Ad-hoc QSEC auction held in August 2024 will be for capacity release over the period October 2025 to September 2041) at all ASEPs where there is **Unsold NTS Entry Capacity**. Capacity made available in these auctions will be sold as **Quarterly NTS Entry Capacity**, i.e. it will be registered to the Shipper User for each Day in a particular calendar quarter.

In the Ad-hoc QSEC auction only **Unsold NTS Entry Capacity** will be available to Shipper Users. **Incremental Obligated Entry Capacity** will not be released.

These long term capacity auctions will only be run following the acceptance of a competent PARCA Application in respect of an ASEP and the initiation of the Phase 1 PARCA Works.

Prior to an Ad-hoc QSEC auction, National Gas Transmission will notify Shipper Users of the acceptance of a competent PARCA Application(s), an indicative range for the quantity of capacity proposed to be reserved, the geographic area (or the ASEP if known) and the indicative effective date.

The Ad-hoc QSEC auction will be held in accordance with UNC TPD Section B.

- To ensure that an Ad-hoc QSEC auction does not overlap with the March QSEC auction process, the Ad-hoc QSEC auction will not be run on the dates 1<sup>st</sup> February to 31<sup>st</sup> May inclusive.
- An Ad-hoc QSEC auction invitation will not be issued in respect of a PARCA where initiation of the Phase 1 PARCA Works for that PARCA occurs after 31<sup>st</sup> January and before the final bid window of the March QSEC Auction in the same Gas Year closes.
- A second, or subsequent, competent PARCA Application in respect of any ASEP will not trigger an Ad-hoc QSEC auction if the notice of that PARCA Application has been published prior to the final bid window of the March QSEC auction or the previous Ad-hoc QSEC auction as applicable.

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<sup>24</sup> Except the Daily Interruptible NTS Entry Capacity (DISEC)



## Entry Capacity Release Methodology Statement

- The Annual NTS Entry Capacity auction for **Monthly NTS Entry Capacity** (the AMSEC auction). In these annual (currently held in February) capacity auctions National Gas Transmission sells **Firm NTS Entry Capacity** for months M+2 to M+19 (i.e. an auction held in February 2024 will be for capacity release over the period April 2024 to September 2025). Capacity made available in these auctions will be sold as **Monthly NTS Entry Capacity** (i.e. it will be registered to the Shipper User for each Day in a particular calendar month).
- The Rolling Monthly NTS Entry Capacity auction (the RMTNTSEC auction). In this capacity auction held every month National Gas Transmission sells **Firm NTS Entry Capacity** for every day in the following month. Capacity made available in these auctions will be sold as **Monthly NTS Entry Capacity** (i.e. it will be registered to the Shipper User for each Day in the relevant calendar month).

In order to make available additional quantities of capacity at ASEPs that sell out, it is possible in this auction to transfer unsold capacity and/or trade<sup>25</sup> sold capacity from other ASEPs. The Transfer and Trade of capacity shall be in accordance with further provisions of UNC TPD Section B and the Entry Capacity Transfer and Trade Methodology Statement which can be found at: <https://www.nationalgas.com/our-businesses/system-operation/capacity-methodology-statements>

- The **Weekly NTS Entry Capacity** (WSEC) auctions. In these short term capacity auctions Shipper User can bid for **Firm NTS Entry Capacity** on D-10 (D Gas Day always being a Monday, D+6 being a Sunday) for a period of 7 days. Subject to availability, capacity will be allocated on D-9 (i.e. it will be registered to the Shipper User for each Day of the relevant calendar week).
- Daily NTS Entry Capacity (DSEC) auctions. In these short term capacity auctions Shipper Users can bid for **Firm NTS Entry Capacity** from Gas Flow Days D-7 to within Gas Flow Day D (e.g. capacity can be bid for on any day over the period 1<sup>st</sup> to 8<sup>th</sup> of the month for use on the 8<sup>th</sup>). Subject to availability, capacity will be allocated on D-1 and within Day D. It will be sold as **Daily NTS Entry Capacity** (i.e. it will be registered to the Shipper User for the relevant Day only). This auction allows capacity to be bought in advance and/or on the Day of use.
- Daily Interruptible NTS Entry Capacity (DISEC) auctions. In these short term capacity auctions Shipper Users can bid for **Interruptible NTS Entry Capacity** from Gas Flow Days D-7 to D-1 (e.g. capacity bids can be placed on any day over the period 1<sup>st</sup> to 7<sup>th</sup> of the month for use on the 8<sup>th</sup>). Capacity will be allocated on D-1. It will be sold as **Daily Interruptible NTS Entry Capacity** (i.e. it will be registered to the Shipper User for the relevant Day only and may be subject to curtailment pursuant to UNC TPD Section B2.9). **Daily Interruptible NTS Entry Capacity** cannot be bought “on-the-Day”.

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<sup>25</sup> Note: Trading of **NTS Entry Capacity** at the same ASEP is possible between Shipper Users at any time.

## Entry Capacity Release Methodology Statement

54. A PARCA (see chapter 5 for more details) can be used by Shipper Users and Reservation Parties to reserve existing **Obligated Entry Capacity** as well as **Incremental Obligated Entry Capacity**. Any capacity applied for through a PARCA will only be reserved where the capacity application can be satisfied:
- From any **Available NTS Entry Capacity** at the point in question then the **PARCA minimum duration quantity** shall be as per UNC TPD Section B 1.17.7(c)(ii)<sup>26</sup>, or
  - By entry capacity substitution, in which case the PARCA minimum duration quantity shall be the application amount signalled in 4 quarters of a 32-quarter period, where quarter 1 of the 32-quarter period is the first quarter capacity is requested for, with those 4 quarters being in 4 different years; or
  - By the release of **Incremental Obligated Entry Capacity** then the **PARCA minimum duration quantity** shall be as per the rule above for substitution, paragraph 54(b).
55. In addition, National Gas Transmission may, at its sole discretion, sell **Firm NTS Entry Capacity** at additional times. This will be via separate processes, detailed in UNC TPD Section B2.1.14, and will normally be run in response to specific Shipper User requests. Such capacity is referred to as **Discretionary NTS Entry Capacity** and shall be available for a maximum period of one Capacity Year. This auction will make available **Non-obligated Entry Capacity** and may include some unsold **Obligated Entry Capacity**.
56. In addition, Shipper Users may also obtain **NTS Entry Capacity** by secondary trades, otherwise known as System Capacity Transfers (details can be found in UNC TPD Section B5).

## Long Term Summary Report

57. The maximum quantity of capacity to be made available in any auction process (excluding any **Incremental Entry Capacity** made available pursuant to Part B of this Statement) will be the **Obligated Entry Capacity**. Pursuant to Special Condition 9.1 of the Licence, the **Obligated Entry Capacity** is stated for each ASEP, for each month (or quarter) (on a forward-looking basis) in an obligation summary report. This report will also detail the **Reserved Entry Capacity** at each ASEP. The obligation summary report is provided within the Long-Term Summary report.
58. The Long-Term Summary report can be found on National Gas Data Portal at: <https://data.nationalgas.com/reports/capacity>

The following search details should be selected and the relevant date range entered:

- Auction Type: Long Term Summary

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<sup>26</sup> At the time of the last update to this statement, then the minimum duration rule in the UNC is for at least 16 quarters.

## Entry Capacity Release Methodology Statement

- Report Type: Summary Report.

59. The Long-Term Summary report is updated monthly. For each ASEP there are two sets of data:

- the level of **Obligated Entry Capacity** (the obligation summary report). This quantity is broken down into the different Licence classifications of capacity). These quantities vary according to the release of incremental capacity (in the current and previous regulatory periods) so are not subject to frequent change; and
- the quantity of **Firm NTS Entry Capacity** sold and the available unsold quantity (taking into account **Reserved Entry Capacity**).

Examples are shown below.

60. Table 1: shows the **Obligated Entry Capacity** for example ASEPs.

61. This table shows the 'Total Obligated' capacity (the total amount of **Obligated Entry Capacity**), which is the maximum quantity that National Gas Transmission has an obligation to release at the ASEP for the relevant month. For dates beyond the release period of the AMSEC auction the monthly quantities for all three months of each quarter will be identical as capacity can only be obtained in quarterly quantities beyond this timeframe. **Reserved Entry Capacity** is not taken into account in this report.

62. For Licence purposes it is necessary to identify the **Obligated Entry Capacity** in its constituent parts. Consistent with the diagram in paragraph 26:

- Non-Incremental is the **Non-incremental Obligated Entry Capacity**, being the **Licence Baseline Entry Capacity** quantity (as set out in Special Condition 9.13 of the Licence) as may be adjusted by any entry capacity substitution (quantities and effective dates of approved substitutions are provided in Table 5 of the same Licence condition).
- Funded Incremental is **Funded Incremental Obligated Entry Capacity** means Incremental Obligated Entry Capacity, the release of which has been funded under Special Condition 3.13 (Funded incremental obligated capacity Re-opener and Price Control Deliverable).



Entry Capacity Release Methodology Statement

63. Generally, the actual quantity made available in each auction, for each ASEP will be less than the **Obligated Entry Capacity** stated in the obligation summary report. The quantity made available will take account of any capacity sold and reserved (and not already returned to the market, e.g. by way of Shipper User ceasing to be a User) in previous auctions.
64. Table 2 from the Obligation Summary report (published within the Long-Term Summary report) shows the Obligated Quantity Unsold, i.e. the quantity available, which is referred to in UNC as **Unsold NTS Entry Capacity**. This is derived from the 'Monthly Release Obligation' (the total amount of **Obligated Entry Capacity**) less any sold **Firm NTS Entry Capacity** less any **Reserved Entry Capacity**. An example is shown below.

Table 2: Obligated Quantity Sold and Unsold (for illustrative purposes only)

Month	ASEP A					ASEP B				
	A					B				
	Monthly Release Obligation	Obligated Firm Quantity Sold	Quantity Reserved	Obligated Quantity Unsold and not Reserved	Non-Obligated Sold	Monthly Release Obligation	Obligated Firm Quantity Sold	Quantity Reserved	Obligated Quantity Unsold and not Reserved	Non-Obligated Sold
kWh/d	kWh/d	kWh/d	kWh/d	kWh/d	kWh/d	kWh/d	kWh/d	kWh/d	kWh/d	kWh/d
May-16	110,000,000	5,000,000	0	105,000,000	0	850,000,000	850,000,000	0	0	0
Jun-16	110,000,000	5,000,000	0	105,000,000	0	850,000,000	850,000,000	0	0	0
Jul-16	110,000,000	5,000,000	0	105,000,000	0	850,000,000	850,000,000	0	0	0
Aug-16	110,000,000	5,000,000	0	105,000,000	0	850,000,000	850,000,000	0	0	0
Sep-16	110,000,000	5,000,000	0	105,000,000	0	850,000,000	850,000,000	0	0	0
Oct-16	110,000,000	110,000,000	0	0	2,000,000	850,000,000	850,000,000	0	0	0
Nov-16	110,000,000	110,000,000	0	0	2,000,000	850,000,000	850,000,000	0	0	0
Dec-16	110,000,000	110,000,000	0	0	2,000,000	850,000,000	850,000,000	0	0	0
Jan-17	110,000,000	110,000,000	0	0	2,000,000	850,000,000	850,000,000	0	0	0
Feb-17	110,000,000	110,000,000	0	0	2,000,000	850,000,000	850,000,000	0	0	0
Mar-17	110,000,000	110,000,000	0	0	2,000,000	850,000,000	850,000,000	0	0	0
Apr-17	110,000,000	5,000,000	0	105,000,000	0	850,000,000	850,000,000	0	0	0
May-17	110,000,000	5,000,000	0	105,000,000	0	850,000,000	850,000,000	0	0	0
Jun-17	110,000,000	5,000,000	0	105,000,000	0	850,000,000	850,000,000	0	0	0
Jul-17	110,000,000	5,000,000	0	105,000,000	0	850,000,000	850,000,000	0	0	0
Aug-17	110,000,000	5,000,000	0	105,000,000	0	850,000,000	850,000,000	0	0	0
Sep-17	110,000,000	5,000,000	0	105,000,000	0	850,000,000	850,000,000	0	0	0
Oct-17	110,000,000	10,000,000	0	100,000,000	0	850,000,000	100,000,000	0	750,000,000	0
Nov-17	110,000,000	10,000,000	0	100,000,000	0	850,000,000	100,000,000	0	750,000,000	0
Dec-17	110,000,000	10,000,000	0	100,000,000	0	850,000,000	100,000,000	0	750,000,000	0
Jan-18	110,000,000	5,000,000	0	105,000,000	0	850,000,000	300,000,000	350,000,000	200,000,000	0
Feb-18	110,000,000	5,000,000	0	105,000,000	0	850,000,000	300,000,000	350,000,000	200,000,000	0
Mar-18	110,000,000	5,000,000	0	105,000,000	0	850,000,000	300,000,000	350,000,000	200,000,000	0
Apr-18	110,000,000	5,000,000	0	105,000,000	0	850,000,000	300,000,000	350,000,000	200,000,000	0
May-18	110,000,000	5,000,000	0	105,000,000	0	850,000,000	300,000,000	350,000,000	200,000,000	0
Jun-18	110,000,000	5,000,000	0	105,000,000	0	850,000,000	300,000,000	350,000,000	200,000,000	0
Jul-18	110,000,000	5,000,000	0	105,000,000	0	850,000,000	300,000,000	350,000,000	200,000,000	0
Aug-18	110,000,000	5,000,000	0	105,000,000	0	850,000,000	300,000,000	350,000,000	200,000,000	0
Sep-18	110,000,000	5,000,000	0	105,000,000	0	850,000,000	300,000,000	350,000,000	200,000,000	0
Oct-18	110,000,000	5,000,000	20,000,000	85,000,000	0	850,000,000	300,000,000	350,000,000	200,000,000	0
Nov-18	110,000,000	5,000,000	20,000,000	85,000,000	0	850,000,000	300,000,000	350,000,000	200,000,000	0
Dec-18	110,000,000	5,000,000	20,000,000	85,000,000	0	850,000,000	300,000,000	350,000,000	200,000,000	0
Jan-19	110,000,000	5,000,000	20,000,000	85,000,000	0	850,000,000	300,000,000	350,000,000	200,000,000	0
Feb-19	110,000,000	5,000,000	20,000,000	85,000,000	0	850,000,000	300,000,000	350,000,000	200,000,000	0
Mar-19	110,000,000	5,000,000	20,000,000	85,000,000	0	850,000,000	300,000,000	350,000,000	200,000,000	0

65. National Gas Transmission is obliged to make available the unsold quantity in each auction as determined below in paragraphs 68 to 76.
66. In addition to the quantities determined below, National Gas Transmission may make available additional quantities of capacity, including ***Non-obligated Entry Capacity*** (see Part B).

**QSEC auction and the Ad-hoc QSEC auction**

67. In order to ensure some capacity is available for later auctions a proportion, 10%, of the ***Non-incremental Obligated Entry Capacity*** is with-held from both the QSEC auction and the Ad-hoc QSEC auction. For the avoidance of doubt this will also be applied when calculating the **Available NTS Entry Capacity** proposed for reservation for a PARCA Application.
68. For each ASEP for each quarter the quantity of **Firm NTS Entry Capacity** that National Gas Transmission is obliged to make available for sale<sup>27</sup> is:
- 0.9 \* ***Non-incremental Obligated Entry Capacity***; plus
  - ***Funded Incremental Obligated Entry Capacity***; minus
  - All sold **Firm NTS Entry Capacity** (but excluding any previously sold ***Non-obligated Entry Capacity***) minus
  - All **Reserved**<sup>28</sup> **Entry Capacity**

**AMSEC auction**

69. For each ASEP for each month the quantity of **Firm NTS Entry Capacity** that National Gas Transmission is obliged to make available for sale is:
- ***Non-incremental Obligated Entry Capacity***; plus
  - ***Funded Incremental Obligated Entry Capacity***; minus
  - All sold **Firm NTS Entry Capacity** (but excluding any previously sold ***Non-obligated Entry Capacity***) minus

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<sup>27</sup> Due to the 10% withheld, the unsold quantity may be greater than the quantity made available in the QSEC auction. Note that 10% of new baseline is not withheld for the NPV test or from PARCA allocation.

<sup>28</sup> For the avoidance of doubt this will include capacity has been identified in the project proposal as being available for reservation under an IP PARCA in accordance with UNC EID E Section 7.

## Entry Capacity Release Methodology Statement

- All **Reserved<sup>29</sup> Entry Capacity**

### RMTNTSEC auction

70. For each ASEP for the relevant month the quantity of **Firm NTS Entry Capacity** that National Gas Transmission is obliged to make available for sale is:

- **Non-incremental Obligated Entry Capacity** plus
- **Funded Incremental Obligated Entry Capacity**; minus
- All previously sold **Firm NTS Entry Capacity** (but excluding any previously sold **Non-obligated Entry Capacity**)

71. In accordance with UNC TPD Section B2.3, capacity is also made available by the transferring of unsold, or trading of sold, capacity from other ASEPs. A Shipper User may also surrender unwanted capacity which may be utilised at the same ASEP to meet a request for capacity from another Shipper User. Such quantities will be determined pursuant to National Gas Transmission's Entry Capacity Transfer and Trade Methodology Statement which can be found at: <https://www.nationalgas.com/our-businesses/system-operation/capacity-methodology-statements>

### WSEC auction

72. For each ASEP for the relevant week the quantity of **Firm NTS Entry Capacity** that National Gas Transmission is obliged to make available for sale is

- **Non-incremental Obligated Entry Capacity** plus
- **Funded Incremental Obligated Entry Capacity**; minus
- All previously sold **Firm NTS Entry Capacity** (but excluding any previously sold **Non-obligated Entry Capacity**)

### DSEC auction

73. Without prejudice to paragraph 74, for each ASEP, for the relevant Gas Flow Day, the quantity of **Firm NTS Entry Capacity** that National Gas Transmission is obliged to make available for sale is:

- **Non-incremental Obligated Entry Capacity**; plus
- **Funded Incremental Obligated Entry Capacity**; minus
- All previously sold **Firm NTS Entry Capacity** (but excluding any previously sold **Non-obligated Entry Capacity**)

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<sup>29</sup> For the avoidance of doubt this will include capacity has been identified in the project proposal as being available for reservation under an IP PARCA in accordance with UNC EID E Section 7.

## Entry Capacity Release Methodology Statement

74. Where, in respect of any given Gas Flow Day, circumstances arise in which National Gas Transmission foresees a capacity constraint occurring at an ASEP, National Gas Transmission may withhold capacity from sale for that ASEP in DSEC auction. In all cases the quantity withheld will be limited to that which National Gas Transmission considers necessary to avoid the constraint or to avoid increasing the extent of the constraint, and hence to avoid, or limit, the cost of any actions needed to manage the constraint.
75. Where the circumstances referred to in paragraph 74 cease to exist or become less severe, National Gas Transmission may reduce the quantity withheld accordingly.

### **DISEC auction**

76. For each ASEP for the relevant Gas Flow Day the quantity of **Interruptible NTS Entry Capacity** that National Gas Transmission is obliged to make available for sale will be determined as:
- the Use It or Lose It quantity; which is:
    - The average amount by which the **Firm NTS Entry Capacity** held by Shipper Users in aggregate exceeds the energy allocated to Shipper Users for each day over a 30 day period up to (and including) the day falling seven days before the first day of the relevant period, as determined in accordance with UNC TPD Section B2.5.11; plus
  - an additional quantity (if any) determined at the sole discretion of National Gas Transmission.

### **Discretionary NTS Entry Capacity auction**

77. The ASEPs where **Discretionary NTS Entry Capacity** is to be made available, and the quantity, will be determined on a case-by-case basis at the sole discretion of National Gas Transmission. Such release will be consistent with the overriding obligations in paragraph 16.
78. **The Discretionary NTS Entry Capacity** auction may make available unsold **Obligated Entry Capacity** and /or **Non-obligated Entry Capacity**.



## PART B: INCREMENTAL ENTRY CAPACITY RELEASE

### CHAPTER 4: CONTEXT

79. Part B of this Statement details how, and under what circumstances, Shipper Users can obtain **Firm NTS Entry Capacity** in excess of the prevailing **Obligated Entry Capacity** level. Such excess capacity is classed for regulatory purposes as **Incremental Entry Capacity**.

80. **Incremental Entry Capacity** is further classified as:

- **Non-obligated Entry Capacity** (see chapter 8), where **Incremental Entry Capacity** is released at the discretion of National Gas Transmission; or
- **Incremental Obligated Entry Capacity**, where, provided that the requirements of this Part B are satisfied, National Gas Transmission is obliged to make **Incremental Entry Capacity** available.

81. **Incremental Obligated Entry Capacity** (see chapters 5 to 7) is made available through:

- investment in additional pipeline infrastructure<sup>30</sup> for which additional funding is normally provided (i.e. it is **Funded Incremental Obligated Entry Capacity**); or
- substitution of unsold **Non-incremental Obligated Entry Capacity** from other ASEPs. Hence the **Non-incremental Obligated Entry Capacity** will increase at one ASEP and decrease at one or more other ASEPs, and National Gas Transmission will receive no additional funding.
- Use of existing infrastructure.

82. Entry capacity substitution will only be considered if the requirements of this Statement are satisfied for the release of **Incremental Obligated Entry Capacity**. Entry capacity substitution shall be carried out in accordance with the ECS (see paragraph 34).

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<sup>30</sup> National Gas Transmission may identify contractual alternatives to investment.

## CHAPTER 5: INCREMENTAL OBLIGATED ENTRY CAPACITY

83. Shipper Users may apply for **Firm NTS Entry Capacity** above the prevailing level of **Obligated Entry Capacity** via any of the two processes which are detailed in the UNC TPD Section B2. These processes allow requests for capacity:
- At any time, by entering into a PARCA. This is the only way that **Firm NTS Entry Capacity** above the prevailing level of **Obligated Entry Capacity** will be available to Shipper Users, where the allocation of that capacity would result in the release of **Funded Incremental Obligated Entry Capacity**. National Gas Transmission will not release **Funded Incremental Obligated Entry Capacity** by any other process; and
  - Within the Annual QSEC Auction (subject to paragraph 113), held in March of each year. A **Re-opener** is not required for capacity to be released through this process.
84. A non-User (“Reservation Party”) will only be able to reserve **Firm NTS Entry Capacity** via the PARCA process.
85. Any relevant information provided to National Gas Transmission in advance of a formal bid (or in advance of a PARCA Application) will not be binding on the applicant. Subject to any requirement for industry consultation and industry notifications under UNC or the Licence; any information provided to National Gas Transmission will be treated in confidence.
86. The default lead-time for the release of **Funded Incremental Obligated Entry Capacity** of 24 months is from the first day of the next month (see paragraphs 118 to 121) following allocation of that capacity<sup>31</sup>. By entering into a PARCA, National Gas Transmission and the customer can undertake a significant proportion of the necessary Works, e.g. planning, environmental and design activities, before the Shipper User (or Nominated User) is required to commit to being allocated the reserved **Quarterly NTS Entry Capacity**. This will minimise the risk of:
- a Shipper User being required to make a significant commitment before their project is ready;
  - physical capacity, to make **Funded Incremental Obligated Entry Capacity** available, being delivered after it is required by the Shipper User<sup>32</sup>; and
  - National Gas Transmission undertaking unnecessary Works.
87. Each ASEP must be included in the Licence by the appropriate date before **NTS Entry Capacity** can be offered for release or allocated under a PARCA.
88. The appropriate date for an ASEP to be included in the Licence as required by paragraph 87 is:

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<sup>31</sup> Please note that lead-times for capacity release where demand for Funded Incremental Obligated Entry Capacity is to be satisfied via substitution of Non-Incremental Obligated Entry Capacity from another ASEP are detailed in the ECS.

<sup>32</sup> Alternative capacity products may be available for use between capacity being required and the physical delivery date.

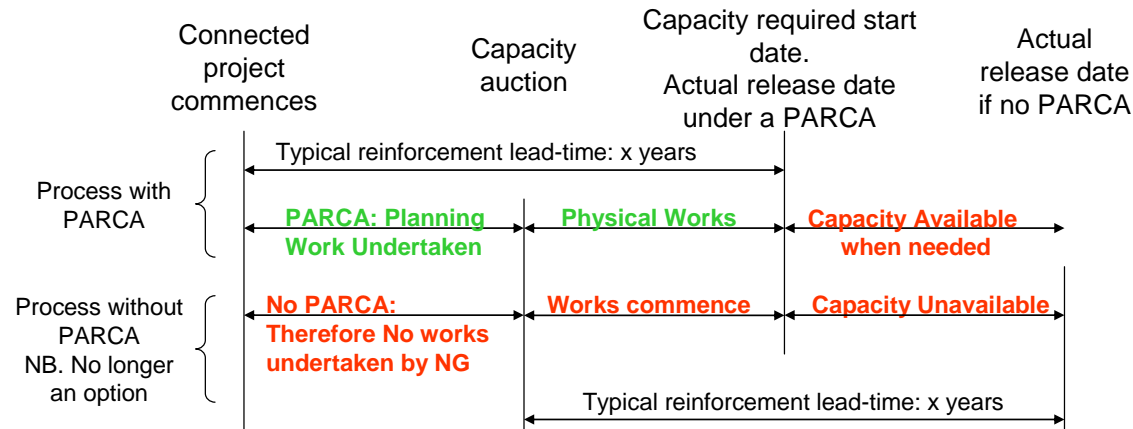
Entry Capacity Release Methodology Statement

- (a) the day before the relevant QSEC auction invitation letter is issued; or
  - (b) in respect of a PARCA, the date a **Funded Incremental Obligated Capacity (FIOC) Re-opener** and associated outputs are required to be included in the Licence in accordance with the Special Condition 3.13 and the **FIOC Guidance and Submissions Requirement Document**; or
  - (c) in respect of a PARCA, where (b) does not apply, the day before any **Reserved Entry Capacity** is due to be allocated.
- This process may take several months so it is important that potential customers contact National Gas Transmission as early as possible.

**Planning and Advanced Reservation of Capacity Agreements**

- 89. To enable National Gas Transmission project timelines for the delivery of new NTS pipeline infrastructure to better align to the timeline of customers’ projects, National Gas Transmission shall (at the request of the Shipper User or Reservation Party) enter into a PARCA in advance of the potential allocation of **Firm NTS Entry Capacity**. (See diagram below)
- 90. Shipper Users are not obliged to enter into a PARCA and this does not exclude Shipper Users from bidding for capacity in the QSEC auction with the objective of obtaining the release of **Incremental NTS Entry Capacity**. However, any such bids may be rejected (see paragraph 115).

Illustration of the Purpose and Benefits of the PARCA



- 91. A PARCA can also be used by Shipper Users and Reservation Parties to reserve **Quarterly NTS Entry Capacity** where such applications are not expected to require the release of **Funded Incremental Obligated Entry Capacity**, i.e. where the capacity request can be satisfied:
  - (a) From any **Unsold NTS Entry Capacity**: and/or
  - (b) By entry capacity substitution; and/or
  - (c) From the use of existing infrastructure.

## Entry Capacity Release Methodology Statement

92. A PARCA is the only way that a Reservation Party can access **Firm NTS Entry Capacity** for subsequent allocation to a Nominated User(s).
93. By entering into a PARCA Shipper Users and Reservation Parties are guaranteed, subject to the terms and conditions of the PARCA, the release of **Firm NTS Entry Capacity**. Prior to agreeing a PARCA, the Shipper User or Reservation Party is required to:
- (a) provide National Gas Transmission's Gas Customer Contract Team<sup>33</sup> with a PARCA Application, which will include information on, for example, location, required quantity of capacity, first gas date; and
  - (b) commit to paying a non-refundable Phase 1 PARCA Fee<sup>34</sup>, calculated in accordance with the Gas Transmission Connection Charging Methodology (UNC TPD Section Y); and
  - (c) Obtain an indicative capacity indicator from National Gas Transmission. The indicator will be green, amber or red.
94. Upon a PARCA Application being deemed competent, National Gas Transmission will commence the initial works under the PARCA Application (the "Phase 1 PARCA Works")<sup>35</sup>. In accordance with the terms of the PARCA, a direct payment will not be required for subsequent phases of work. However, a termination fee maybe payable, in the event of termination, for the reservation of capacity under Phase 2 of the PARCA.
95. Following receipt of a competent PARCA Application, National Gas Transmission will confirm the capacity indicator to the applicant
- (a) Within ten (10) business days where the indicator is green or red;
  - (b) within twenty (20) business days where the indicator is amber.
- The capacity indicator may be reassigned by National Gas Transmission if for reasons outside its control the completion of Phase 1 PARCA Works will be delayed, and/or if there are further PARCAs received during the PARCA window.
96. In accordance with UNC TPD Section B1.16, a competent PARCA Application for **NTS Entry Capacity** may trigger the opening of a PARCA Entry window. The PARCA Entry Window is a period of time where any competent PARCA Applications for **NTS Entry Capacity** received are guaranteed to be considered together with and alongside the original PARCA Application in determining how and when the **NTS Entry Capacity** requested will be reserved. Additionally, a competent PARCA Application for **NTS Entry Capacity** may trigger an invitation to Users to participate in an Ad-hoc QSEC Auction for **Unsold NTS Entry Capacity** in accordance with paragraph 53.
97. The information provided in the PARCA Application is necessary so that Phase 1 PARCA Works processes can be completed, in particular,

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<sup>33</sup> Contact can be made with the team via e-mail to: [box.ukt.customerlifecycle@nationalgas.com](mailto:box.ukt.customerlifecycle@nationalgas.com)

<sup>34</sup> This will be reconciled such that only actual costs incurred are paid.

<sup>35</sup> UNC TPD Section B1.16.4 includes provisions that provide an option for the initialisation of the Phase 1 PARCA works to be delayed by National Gas Transmission until the outcomes / impacts of the annual application process are known. This allows any interactions of the PARCA and Application processes to be assessed and considered on a case by case basis.

## Entry Capacity Release Methodology Statement

- identification of likely PARCA timescales and/or any opportunities for substitution of capacity from other ASEPs; and
- the ASEP must be recognised by the Licence in accordance with the requirements of Special Condition 9.13.

98. The information provided in the PARCA Application may be used in a number of external processes, including **Funded Incremental Obligated Capacity Re-Opener** discussions with the Authority and shall inform planning applications so should not be misleading, but should be the Shipper User's or Reservation Party's best assessment of their future requirements. Where requirements change National Gas Transmission will endeavour to accommodate such changes in accordance with the terms of the PARCA.

99. Subject to, and in accordance with, the terms of the UNC and the PARCA Application, National Gas Transmission will:

- (a) Undertake such network analysis as is necessary to identify how the capacity request can be satisfied; e.g.
  - 1) From any **Unsold NTS Entry Capacity**;
  - 2) From the use of existing infrastructure;
  - 3) By entry capacity substitution;
  - 4) Through investment and/or contractual alternatives;
  - 5) A combination of the above.
- (b) Determine the date that the requested capacity will be registered from, which may or may not be the date originally requested by the applicant.

100. The phase 1 works report shall be completed within the following timescales:

- (a) Within 3 months where the capacity indicator is green and the PARCA window is closed within 20 business days.
- (b) Within 4 months where the capacity indicator is green and the PARCA window remains open after 20 business days.
- (c) Within 6 months where the capacity indicator is red.

Subject to, and in accordance with, the terms of a PARCA, National Gas Transmission will:

- (a) Reserve, on behalf of the Shipper User (or Reservation Party) the requested capacity from the determined date(s) and at the ASEP identified in the PARCA. Such date(s) may be amended pursuant to the PARCA.
- (b) Reserve any **Unsold NTS Entry Capacity** from suitable donor ASEPs for subsequent substitution to the ASEP identified in the PARCA. Any such capacity shall be identified in accordance with the ECS.
- (c) Publish relevant information relating to any capacity reservation, allocation, and/or substitution in accordance with UNC and pursuant to the PARCA. This is to facilitate transparency and aid Shipper User decision making.
- (d) Undertake such Works as are necessary to deliver **Incremental Obligated Entry Capacity** to facilitate the allocation of the requested **Firm NTS Entry Capacity**.
- (e) Allocate, on behalf of the Shipper User (or Nominated User) the **Reserved Entry Capacity** from the date(s) identified in the PARCA. Such date(s) may be amended pursuant to the PARCA.
- (f) Substitute previously reserved capacity from suitable ASEPs to the ASEP identified in the PARCA. Any such capacity shall be identified in accordance with the ECS and the substitution will be subject to non-veto by the Authority.

## Entry Capacity Release Methodology Statement

101. Subject to, and in accordance with, the terms of the UNC, the counterparty:
- (a) shall pay the Phase 1 PARCA Fee; and
  - (b) may, at the completion of the Phase 1 PARCA Works, sign a PARCA under which capacity will be reserved.
102. Subject to, and in accordance with, the terms of the PARCA, the counterparty:
- (a) shall provide security in respect of capacity reservation; and
  - (b) shall provide such information, (the demonstration information) to National Gas Transmission by the Demonstration Date(s). National Gas Transmission may not proceed with the next phase of Works under the PARCA until receipt of the demonstration information. Any delay in providing the demonstration information may result in the capacity release date being deferred or in termination of the PARCA; and
  - (c) may, in the event of termination of the PARCA, be invoiced for the PARCA Termination Amount pursuant to the PARCA. This will be calculated in accordance with the Gas Transmission Connection Charging Methodology (UNC TPD Section Y).
  - (d) may, upon completion of the Phase 2 PARCA Works, request that capacity is allocated (if a Reservation Party this must be via a Nominated User).
  - (e) may, at any time, terminate the PARCA subject to the payment of any outstanding amounts under the PARCA.
- Where the PARCA is terminated and National Gas Transmission determine that any **Reserved Entry Capacity** cannot be used for another PARCA currently in progression, any unsold **Reserved Entry Capacity** shall be made available to the market as Unsold NTS Entry Capacity through existing processes.
103. Subject to, and in accordance with the terms of the PARCA, the counterparty, where the counterparty is a Reservation Party:
- a) shall nominate one or more Shipper Users to be allocated and registered as holding the entire quantity of **Firm NTS Entry Capacity**, at the location, and from the date(s) determined and reserved pursuant to the PARCA. The nomination must be received from the Reservation Party by the date determined pursuant to the PARCA and the notice of nomination shall be consistent with the terms of the PARCA.
- After nomination of such Shipper User(s) (assuming the nominations are not rejected in accordance with the terms of the PARCA and/or UNC) and acceptance by the Nominated User(s), and at a time determined in accordance with the PARCA, the Nominated User(s) will be Registered as holding such amounts of **Firm NTS Entry Capacity** as if they had initially bid for the capacity in accordance with paragraph 83 above.
104. In accordance with UNC TPD Section B, **Reserved Entry Capacity** does not constitute part of a **User's Available Firm NTS Entry Capacity** until it has been registered to that Shipper User, pursuant to a PARCA.
105. National Gas Transmission will require Authority approval of a **Funded Incremental Obligated Capacity (FIOC) Project Direction**, specifying an output, delivery date and associated allowances as per Special Condition 3.13 Part C and published for the

## Entry Capacity Release Methodology Statement

ASEP before progressing beyond the Phase 2 PARCA Works if it is to release **Incremental Obligated Entry Capacity** at that ASEP. This is necessary to ensure adequate funding of any works that may result from a PARCA.

106. National Gas Transmission will make a **FIOC Project Direction** submission, as detailed in **FIOC Guidance and Submissions Requirements Document**.
107. After calculating the **Re-opener**, National Gas Transmission will identify if there is a material change in residual capacity constraint risk, arising from the proposed investment/contract solution, and hence may propose changes to the Constraint Management target as per Special Condition 5.5 of the Licence.

### Requests from Reservation Parties.

108. Non-Users (Reservation Parties) may reserve **Firm NTS Entry Capacity** for subsequent allocation to a Shipper User(s) (a Nominated User(s)) via the process which is detailed in UNC TPD Section B. This process allows reservation at any time, by entering into a PARCA. This is the only way that **Firm NTS Entry Capacity** will be available for allocation to a Nominated User.
109. A Nominated User will not be registered as holding any **Reserved Entry Capacity** until all the capacity reserved is designated by the Reservation Party to one or more Nominated Users.
110. The PARCA process for Reservation Parties will be, subject to the nomination process, consistent with the UNC PARCA process for Shipper Users.
111. A Reservation Party shall:
  - consistent with paragraph 102(a) provide security; and
  - consistent with paragraph 93(b), pay the Phase 1 PARCA Fee.These will be calculated in accordance with the Gas Transmission Connection Charging Methodology (UNC TPD Section Y).
112. National Gas Transmission may not undertake any construction activities to reinforce the NTS until all the capacity reserved is allocated to one or more Nominated Users.

## QSEC Auction



## Entry Capacity Release Methodology Statement

113. Subject to paragraph 115, and in accordance with UNC (TPD Section B2), Shipper Users may bid for additional **Firm NTS Entry Capacity** at each ASEP in the annual QSEC Auction (see paragraph 68 for more details on this auction).
114. All bids for **Firm NTS Entry Capacity** shall be made on Gemini.
115. Where Shipper Users' bids for additional **Firm NTS Entry Capacity** at any ASEP exceed, in aggregate, the unsold **Available NTS Entry Capacity** such bids shall be rejected except that bids shall be accepted to the extent that they can be satisfied:
- a) Through any **Unsold Available NTS Entry Capacity**;
  - b) By entry capacity substitution; or
  - c) From the release of **Non-obligated Entry Capacity** in accordance with paragraph 117.
116. **Funded Incremental Obligated Capacity Re-opener** will not be needed in respect of **Firm NTS Entry Capacity** made available through the QSEC Auction.
117. National Gas Transmission may make available **Firm NTS Entry Capacity** at ASEPs in excess of the **Obligated Entry Capacity**. This will be in accordance with incentives and obligations in the Licence. Any capacity so released will be **Non-obligated Entry Capacity**. Consistent with paragraph 46, release of **Non-obligated Entry Capacity** will not create an on-going obligation to make that level of capacity available in future auctions.

## Capacity Release Lead Times

118. Subject to paragraph 34, following reservations and allocations pursuant to a PARCA for increases in **Firm NTS Entry Capacity**, National Gas Transmission will undertake such Works as it considers necessary to make such increases available.
119. A request for **Firm NTS Entry Capacity** which requires the release of **Funded Incremental Obligated Entry Capacity** will only be progressed if pursuant to a PARCA. Where a PARCA has been entered into National Gas Transmission shall, on the allocation date specified in the PARCA, allocate the **Firm NTS Entry Capacity** effective from the registration date specified in the PARCA.
120. Where paragraph 119 applies subject to the terms of the PARCA, the allocation shall be confirmed with an effective date no earlier than 24 months from the first day of the next month following allocation, once all of the following have been satisfied:
- National Gas Transmission has received formal notification of the granting of all necessary planning consents; and

## Entry Capacity Release Methodology Statement

- All relevant Shipper Users have notified National Gas Transmission, pursuant to the PARCA, that they wish to progress with the allocation; and
- All Demonstration Information has been provided to National Gas Transmission.

Hence National Gas Transmission shall apply a default lead-time for the release of **Funded Incremental Obligated Entry Capacity** of 24 months commencing from the first day of the next month following allocation.

121. Notwithstanding paragraph 120, National Gas Transmission shall use reasonable endeavours to meet an earlier delivery date where requested. For the avoidance of doubt, requests can be for 1<sup>st</sup> of months October, January, April or July. Additionally, the date agreed for delivery or, in the absence of such date, the default lead-time may be extended subject to agreement between National Gas Transmission and the PARCA signatory.
122. Consistent with paragraph 119, in the absence of a PARCA, National Gas Transmission will reject any applications for increases in **Quarterly NTS Entry Capacity** where this requires the release of **Funded Incremental Obligated Entry Capacity**. Therefore, without a PARCA, **Quarterly NTS Entry Capacity** will only be made available through the QSEC auction in accordance with paragraph 53.

## Entry Capacity Notice

123. Where National Gas Transmission believes, pursuant to the application of the methodology detailed in this Statement (except where paragraph 33 applies), that there is, or will be, demand for **Incremental NTS Entry Capacity**, National Gas Transmission will make a proposal (in an Entry Capacity notice consistent with paragraph 23 and pursuant to Special Condition 9.13 of the Licence) to the Authority to release **Incremental Obligated Entry Capacity**, detailing the volumes to be treated as:
- **Non-incremental Obligated Entry Capacity** where the demand for additional capacity can be satisfied in whole or in part through entry capacity substitution (in accordance with Special Condition 9.17 of the Licence); and/or
  - **Funded Incremental Obligated Entry Capacity**.
124. Consistent with the Licence and the UNC, the release of **Firm NTS Entry Capacity** is a firm commercial capacity right that may be offered on a daily basis or multiples thereof: it does not reflect a commitment or obligation upon National Gas Transmission to undertake any investment on its network.

## Remuneration for Release of Incremental Obligated Entry Capacity.

## Entry Capacity Release Methodology Statement

125. This Statement has been developed in good faith reflecting National Gas Transmission's understanding of the statutory obligations attached to both National Gas Transmission and the Authority, and its understanding of the regulatory framework which ensures continued remuneration of properly incurred expenditure on regulated assets.
126. For the avoidance of doubt, National Gas Transmission believes that any release of **Incremental Obligated Entry Capacity** is subject to approval by the Authority, whether explicitly in response to a specific proposal contained in an Entry Capacity notice submitted to the Authority pursuant to Special Condition 9.13 of the Licence or implicitly through the establishment and application of the methodology specified in this Statement.
127. National Gas Transmission believes that, by giving that approval, the Authority accepts that the implications of applying the methodology, including subsequent investment undertaken by National Gas Transmission with a view to physically meeting the demand for **Funded Incremental Obligated Entry Capacity**, should be reflected in subsequent regulatory decisions, notably regarding proposals to modify the price controls and incentives defined within the Licence.
128. In this context, National Gas Transmission believes that any such approval should be regarded as establishing an expectation that associated investment should be reflected in its assumed regulatory asset value<sup>36</sup>; that any proposals for revising the quantities of **Obligated Entry Capacity** should be demonstrably consistent with the entry capacity incentive structure (such that the terms on which capacity may have previously been released will not be significantly altered for either National Gas Transmission or Shipper Users); and that proposals for revising the Entry Capacity Constraint Management incentive parameters should demonstrably allow for the level of **Incremental Obligated Entry Capacity** released. National Gas Transmission believes this is consistent with the Authority's duty to ensure National Gas Transmission is able to finance its functions.

## Methodology Objective

129. The primary purpose of the methodology, detailed in Part B of this Statement, for determining **Incremental Obligated Entry Capacity** volumes is to indicate the way in which National Gas Transmission will interpret the results of long term entry capacity auctions in terms of whether or not to seek to allocate **Incremental NTS Entry Capacity** to Shipper Users. In considering this, National Gas Transmission believes it is appropriate to consider the financial incentives it faces under conditions of the Licence. However, National Gas Transmission also believes it is important for the assessment to be set in the context of its wider obligations. The methodology set out in Part B of this Statement therefore seeks to describe the circumstances in which National Gas Transmission believes there would (or would not) be a sufficient signal from entry capacity auctions to create a presumption in favour of releasing **Incremental Obligated Entry Capacity**.

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<sup>36</sup> National Gas Transmission understands that, as with the approach to price controls to date, Ofgem would wish to assure itself that any such capital expenditure had been efficiently incurred.

## CHAPTER 6: Net Present Value (NPV) Test

130. Information for considering whether or not to release **Incremental Obligated Entry Capacity** will be based on indications of Shipper Users' (or Reservation Parties') demand for **Incremental NTS Entry Capacity** as revealed by the relevant processes referred to in paragraph 83.
131. In a QSEC auction Shipper Users will be invited to indicate, for each of a set of prices, the quantity of **Quarterly NTS Entry Capacity** they wish to acquire (if any) at each ASEP, in each available period. These prices will be published in National Gas Transmission's Statement of the Gas Transmission Transportation Charges. In a PARCA, Shipper Users will submit the quantity of Quarterly NTS Entry Capacity they wish to acquire as per paragraph 54. Any premium to be applied in addition to the reserve price will be determined on a project specific basis. Any premium is treated as a fixed cost.
132. The  $P_0$  price is the reserve price at which National Gas Transmission would release **Obligated Entry Capacity**, in response to valid bids (or pursuant to a PARCA). All bids will be accepted so long as the available quantity is not exhausted. This minimum available quantity will be calculated in accordance with paragraph 69 and Special Condition 9.13 of the Licence, and will be published in the invitation referred to in paragraph 131. Reserve prices are variable.

### Estimated Project Cost & Premium

133. For the purposes of determining the required commitment from PARCA signatories to trigger the release of **Incremental Obligated Entry Capacity**, an estimated project cost will be calculated for the requested amount of **Incremental Obligated Entry Capacity**.
- For the **Incremental Obligated Entry Capacity** amount signalled under paragraph 140, an initial estimated project cost will be provided to the applicant prior to the reservation of capacity. The initial estimated project cost shall be calculated in accordance with the methodology in appendix 1 of this statement.
134. The final estimated project cost will be provided to the applicant prior to the allocation of capacity, and shall be calculated by annually applying inflation, to the initial estimated project cost, each year that has passed. This applies from the capacity reservation at

## Entry Capacity Release Methodology Statement

the end of PARCA phase 1 through to the Allocation date at the end of PARCA phase 2. (Inflation will be taken from Ofgem's Price Control Financial Model, which is updated annually, hence not referenced here).

135. For any PARCAs that have progressed into PARCA phase 2, then the initial estimated project cost shall be the prevailing Estimated Project Value at the time of implementation of version 5.0 of this Statement, and the final estimated project cost will be determined by applying inflation annually from the date of implementation of v5.0 of this Statement.
136. The methodology for proposing that ***Incremental Obligated Entry Capacity*** should be released (described below) compares the strength of market signals for ***Incremental Entry Capacity*** against the estimated project cost for providing that level of ***Incremental Obligated Entry Capacity***.

## Procedure for Releasing and Allocating Incremental Obligated Entry Capacity

### Qualifying Bids

137. In accordance with UNC processes, all **Quarterly NTS Entry Capacity** (QSEC) bids posted by the end of the bid process will be assessed. Only bids that satisfy the relevant Shipper User credit and security requirements as specified in UNC will be considered in this procedure.

### QSEC Auction Obligated Entry Capacity Allocation

138. Where the aggregate quantity specified in valid bids at the  $P_0$  price is less than or equal to the available quantity of **Unsold NTS Entry Capacity** (less any capacity reserved pursuant to a PARCA) then capacity will be allocated to satisfy all requests in full (see Part A). The "available quantity" will be determined in accordance with Chapter 3 and specifically paragraph 69.

### Incremental Obligated Entry Capacity Release and Allocation

139. In respect of any ASEP where a minimum quantity of **Firm NTS Entry Capacity** is demanded (whether by bids placed in the QSEC auction or through agreement of a PARCA) in excess of the **Unsold NTS Entry Capacity** (minus that reserved pursuant to any PARCAs), National Gas Transmission will consider releasing ***Incremental Obligated Entry Capacity*** via a PARCA or ***Non-obligated Entry Capacity*** via a QSEC Auction to meet that demand.

## Entry Capacity Release Methodology Statement

140. The amount of ***Incremental Obligated Entry Capacity*** signalled for release will be the lesser of:
- (a) the highest common amount requested in excess of the **Unsold NTS Entry Capacity** in 4 different gas years; and
  - (b) the highest amount that satisfies a duration equal to the **PARCA minimum duration quantity**.
141. National Gas Transmission will, for the quarter in question plus the subsequent thirty-one quarters (or less where this would be beyond the period for which capacity has been offered) determine the net present value (NPV) of the revenue from the sum of:
- (a) the requested amount of ***Incremental Obligated Entry Capacity*** multiplied by the combined Reserve Price plus premium price (if any);
  - (b) the requested amount of **Unsold NTS Entry Capacity** multiplied by the premium price (if any).

The unsold baseline revenue is not included in the NPV. It is only the premium price applied to the Unsold capacity that is included. For avoidance of doubt, no step pricing is included in the revenue or used for any PARCA calculations.

142. The “quarter in question” will normally be the first quarter following the lead time referred to in paragraph 120 where the aggregate volume of valid bids received and/or capacity quantity/profile requested first exceeds or equals the **Unsold NTS Entry Capacity** (minus that reserved pursuant to any PARCAs) plus the quantity of ***Incremental Obligated Entry Capacity*** that is being considered. However, in respect of the QSEC auction, at any given ASEP more than one quantity of ***Incremental Obligated Entry Capacity*** may be considered in which case the quantity duration test in paragraph 140 may be applied from more than one quarter. The test will be applied to each incremental quantity / quarter independently, i.e. to the extent that quantities / quarters overlap, some bids may be considered in more than one test. In all cases, all values will be discounted by the social time preference rate that is published in accordance with “The Green Book: Central Government Guidance on Appraisal and Evaluation” as amended from time to time. The discount will apply from the allocation of capacity (allocation date) at the end of phase 2 PARCA through to the date the capacity is effective from (registration date). The discount will apply to both the value of the capacity and the premium.
143. For QSEC, where an Incremental Entry Capacity quantity has been identified under paragraph 140, and
- (a) the ***Incremental Entry Capacity*** can be made available through Entry Capacity Substitution, then National Gas Transmission would make a proposal to the Authority to release that quantity of **Firm NTS Entry Capacity** as ***Non-incremental Obligated Entry Capacity*** under the terms of the Licence as detailed in paragraph 123 with a corresponding decrease in the quantity of ***Non-incremental Obligated Entry Capacity*** at one or more donor ASEPs. There would be a presumption that such ***Non-incremental Obligated Entry Capacity*** should be released and allocated to Shipper Users.
  - (b) Where the ***Incremental Entry Capacity*** cannot be made available through Entry Capacity Substitution then National Gas Transmission would not make a proposal to the Authority to release that quantity of **Firm NTS Entry Capacity** as ***Non-incremental Obligated Entry Capacity***. ***Incremental Obligated Entry Capacity*** would not be released and would not be allocated to Shipper

## Entry Capacity Release Methodology Statement

Users. However, **Firm NTS Entry Capacity** may be made available through the release of **Non-obligated Entry Capacity** pursuant to Chapter 8.

144. For PARCA applications, the NPV test will be applied, using the capacity quantity information provided by the Shipper User or Reservation Party, at two stages:

- (a) After Phase 1 PARCA Works, to inform the applicant of the indicative premium payable (if any) before capacity is reserved and the project progresses to phase 2; and
- (b) After Phase 2 PARCA Works, to inform the applicant of the premium payable prior to capacity being allocated to the Shipper User (or Nominated User).

145. Where the Phase 1 PARCA Works identifies that the requirement for **Obligated Entry Capacity** can be satisfied, in part or whole, through Entry Capacity Substitution, National Gas Transmission will publish a notice, subject to paragraph 22, of the intention to reserve that quantity of **Firm NTS Entry Capacity** as **Non-incremental Obligated Entry Capacity** with a corresponding reduction of existing **Non-incremental Obligated Entry Capacity** at one or more donor ASEPs, pursuant to the ECS. There would be a presumption that such **Non-incremental Obligated Entry Capacity** should be reserved at the recipient ASEP for later substitution and allocation to Shipper Users.

146. Throughout the duration of the PARCA up to the end of the Phase 2 PARCA Works, National Gas Transmission will assess whether the requested **Firm NTS Entry Capacity** can be met, in part or whole, through Entry Capacity Substitution. Where such an assessment identifies that Substitutable Capacity (as defined in the Entry Capacity Substitution Methodology Statement) has become available, compared to that identified through the Phase 1 PARCA Works a further proposal will be made to the Authority.

147. Before the end of phase 2, National Gas Transmission will submit a proposal to the Authority for the release of that quantity of **Firm NTS Entry Capacity** as either:

- **Funded Incremental Obligated Entry Capacity** which will be released and allocated to Shipper Users: and/or
- **Non-incremental Obligated Entry Capacity** with a corresponding decrease in the quantity of **Non-incremental Obligated Entry Capacity** at one of more donor ASEPs. The additional **Non-incremental Obligated Entry Capacity** at the recipient ASEP will be released and allocated to Shipper Users.

In the case of **Funded Incremental Obligated Entry Capacity** release the Licence Baseline Entry Capacity increases from the effective date of the capacity allocation on an enduring basis. Any capacity required to be obtained outside of the period of capacity allocated would be **Non-Obligated Entry Capacity** which National Gas Transmission may, at its sole discretion, release in accordance with chapter 8.

148. Where, for the given incremental signal, not enough incremental user revenue is generated at the Reserve price, then a premium can be added. The premium will be the lowest price (to 4 decimal places) that can be added to the Reserve Price to allow 50% of the estimated project cost to be recovered.

## Entry Capacity Release Methodology Statement

149. It should be noted that the estimated project cost will be reduced proportionally by the amount of the incremental signal that can be satisfied via substitution. This means that in the event that the solution is 100% substitution then the financial element of the NPV test is considered to automatically be met and no premium will be required.
150. In the event that the NPV test is not passed and capacity (excluding ***Non-obligated Entry Capacity***) is not allocated, the PARCA will be terminated and paragraph 102(c) will apply.

### Timing of Release of Incremental Obligated Entry Capacity

151. Following satisfactory capacity/price profiles being agreed pursuant to a PARCA (i.e. that pass the NPV test) and a proposal for the release and allocation of ***Incremental Obligated Entry Capacity***<sup>37</sup> not being vetoed by the Authority, National Gas Transmission has obligations to make that capacity available from a point in the future. In order to deliver against these obligations, National Gas Transmission may undertake such system reinforcements as it considers necessary.
152. In the event that National Gas Transmission's proposals are vetoed by the Authority, National Gas Transmission will not release ***Incremental Obligated Entry Capacity*** and may remove any associated **Firm NTS Entry Capacity** allocated to Shipper Users, but may alternatively, at its sole discretion, release ***Non-Obligated Entry Capacity*** in accordance with chapter 8.

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<sup>37</sup> QSEC bids above the Obligated levels at an ASEP can only be allocated via Entry Capacity Substitution or the release of ***Non-obligated Entry Capacity***. Any release met by Entry Capacity Substitution will be in accordance with the ECS.



## CHAPTER 7: INCREMENTAL STEP SIZES FOR QSEC

### Incremental Step Sizes for Existing ASEPs

153. UNC TPD Section B2.1.5 defines **Incremental NTS Entry Capacity** as the amount of **Firm NTS Entry Capacity** (if any) in excess of the **Unsold NTS Entry Capacity** for which National Gas Transmission may (but shall not be required to) invite applications.
154. Subject to paragraph 153, the incremental step sizes to be offered at auction are dependent upon the prevailing level of **Obligated Entry Capacity** at each ASEP. In accordance with the UNC (Section B – 2.2.3 (c) & (d)), twenty increments will be offered.
155. For the avoidance of doubt, at any given time, the prevailing **Obligated Entry Capacity** level incorporates **Non-incremental Obligated Entry Capacity** which comprises of **Licence Baseline Entry Capacity** as set out in Special Condition 9.13 of the Licence which may be adjusted as a result of capacity substitution to and from the ASEP as a result of National Gas Transmission's Entry Capacity Substitution methodology and **Funded Incremental Obligated Entry Capacity** that has previously been released pursuant to Part B of this Statement during the RIIO-T1 regulatory period (i.e. in QSEC auctions held in or after April 2013).
156. Not used
157. Price steps will usually be based on releasing capacity increments equal to 2.5% of the prevailing **Obligated Entry Capacity** level at the relevant ASEP.
158. Fewer increments will be specified at the smallest ASEPs. At ASEPs that have a prevailing **Obligated Entry Capacity** level that is less than 300GWh per day then the following will apply;
- In the first instance National Gas Transmission will determine the number of 15GWh increments required to offer no less than 50% of the **Obligated Entry Capacity** level. The chosen increment size approximates to the increment that would be required if 300GWh is offered in 20 equal sized increments.
  - No less than five increments are permitted. In instances where the application of a 15GWh increment infers that less than five increments will be required then a quantity that is equivalent to no less than 50% of the prevailing **Obligated Entry Capacity** level at the relevant ASEP will be divided into five equal sized increments.

## Entry Capacity Release Methodology Statement

159. Additional price steps might be required in circumstances where demand is expected to exceed 150% of the prevailing **Obligated Entry Capacity** level. Broadly this circumstance can arise at locations that have previously experienced high demand and at new ASEPs where no **Obligated Entry Capacity** has previously been released. This may be informed by a PARCA.
160. At ASEPs where the planning process has signalled to National Gas Transmission's satisfaction that more than 50% capacity above the prevailing **Obligated Entry Capacity** level may be demanded in a given year, National Gas Transmission would set price steps on the basis of quantities which were expected to exceed the indicated demand.
161. The quantity of **Incremental Obligated Entry Capacity** proposed to be released pursuant to a PARCA is not required to equal an incremental quantity determined by the above methodology.

### Incremental Step Sizes for New ASEPs

Steps will continue to be produced for the purposes of the QSEC auction.

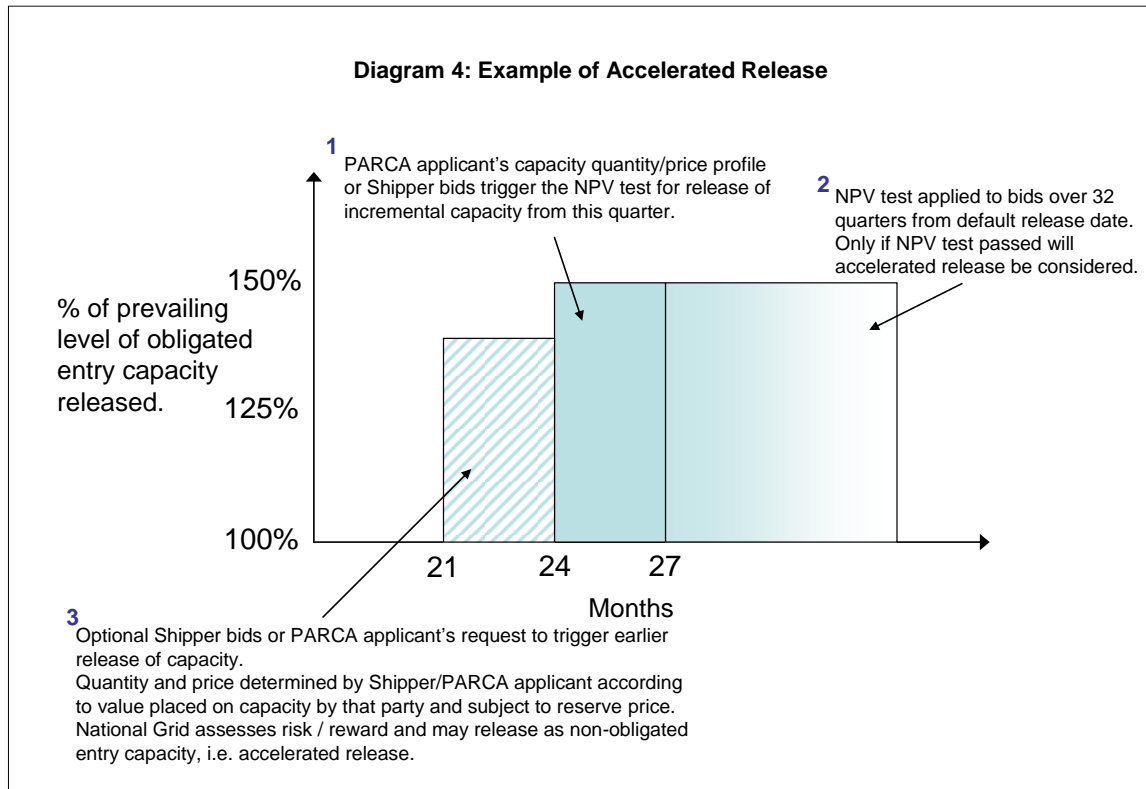
162. For new ASEPs the number of incremental price steps will be fixed at 20 steps of equal size. The incremental step size will be;
- One twentieth of 150% of the capacity requirement signalled to National Gas Transmission through its planning process and/or the PARCA, subject to:
  - A minimum incremental step size of 5GWh.
163. Where a new ASEP is required to be established, National Gas Transmission will initiate the process necessary for the Licence to recognise the new ASEP in accordance with the requirements of Special Condition 9.13. Until the necessary Licence work is complete, National Gas Transmission will not include the proposed new ASEP in any QSEC auctions (or any other capacity auction) and **Entry Capacity** will not be available for release at the proposed new ASEP.

## CHAPTER 8: NON-OBLIGATED ENTRY CAPACITY RELEASE

164. In any of the processes identified in paragraphs 53 (excluding DISEC), 54 and 115 c National Gas Transmission may, at its sole discretion, release additional quantities of **Firm NTS Entry Capacity** in excess of the prevailing **Obligated Entry Capacity**. Such capacity is referred to as **Non-obligated Entry Capacity**.
165. **Non-obligated Entry Capacity** may be released in response to bids placed by Shipper Users in the relevant entry capacity auctions and/or through the PARCA process. National Gas Transmission will assess the risks and rewards associated with releasing the quantity of **Firm NTS Entry Capacity** requested in order to determine the quantity to be released and allocated to Shipper Users.

### Accelerated Release Incentive

166. The Licence (Special Condition 5.5) establishes an incentive mechanism which encourages National Gas Transmission to make **Incremental Obligated Entry Capacity** available to Shipper Users in advance of the default lead time in certain circumstances, known as 'accelerated release'. For Licence purposes this capacity is classified as **Non-obligated Entry Capacity** but is still **Firm NTS Entry Capacity** for Shipper User purposes.
167. As stated in paragraph 8, it is important that Shipper Users (or Reservation Parties) discuss potential new projects and increased requirements at existing ASEPs with National Gas Transmission at an early stage and, where possible, enter into a PARCA.
168. National Gas Transmission may release **Non-obligated Entry Capacity** under the accelerated release incentive as shown in diagram 4 below. Such release will be subject to satisfaction of the following two criteria:
- PARCA capacity/price profiles satisfying the NPV test. For the avoidance of doubt, the test shall be applied from the default lead time, unless otherwise agreed as per paragraph 121; and
  - Satisfactory assessment by National Gas Transmission of the associated risks and rewards.



Note: 2. NPV test applied to bids over 32 quarters unless otherwise agreed as per paragraph 121.

## Entry Capacity Release Methodology Statement

169. PARCA Applicants can signal their requirement for the release of ***Non-obligated Entry Capacity*** under the accelerated release incentive at any ASEP (provided that National Gas Transmission has indicated in the QSEC auction invitation letter that it may, consistent with UNC TPD Section B2.1.5(b), release ***Incremental NTS Entry Capacity***), irrespective of whether discussions have taken place in accordance with paragraph 167, by placing, in the QSEC auction, appropriate bids ahead of the lead time. In all cases National Gas Transmission shall undertake the risk / reward assessment, and hence decide whether to release ***Non-obligated Entry Capacity***, after completion of the QSEC auction.
170. Capacity will only be released under the accelerated release incentive to satisfy (in whole or part) actual bids received. This means, for example, that if Shipper Users signal a requirement for a quantity of ***Incremental NTS Entry Capacity*** as identified below:
- Months 25 to 27: quantity Q which can be met through accelerated release (***Non-obligated Entry Capacity***)
  - Months 28 to 30: no bids
  - Months 31 onwards: quantity Q which will be met through release of ***Incremental Obligated Entry Capacity***
- then National Gas Transmission will have no obligation to release any ***Non-obligated Entry Capacity*** for months 28 to 30 in any future auction, including monthly auctions.
171. In accordance with paragraph 33 National Gas Transmission may also release ***Non-obligated Entry Capacity***, with or without the need for investment, in the absence of an unambiguous auction signal.

## PART C: INTERCONNECTION POINT CAPACITY

IPs  
Only

### CHAPTER 9: CONTEXT

172. **Interconnection Point Capacity** is **NTS Entry Capacity** made available to Shipper Users at an Interconnection Point ASEP (IP ASEP) through a series of capacity auctions. This Part C identifies the processes by which the prevailing level of **Obligated Entry Capacity**, the **Technical Interconnection Point Capacity**, will be made available to Shipper Users via Interconnection Point capacity auctions (IP auctions) and via Interconnection Point Planning and Advanced Reservation of Capacity Agreements (IP PARCAs). These processes are detailed in UNC EID Section B and E. Reference should be made to UNC for further information.
173. The prevailing level of **Technical Interconnection Point Capacity**, in respect of any auction excludes any **Non-obligated Entry Capacity** (see Chapter 13 paragraph 240) released in previous auctions.
174. Dependent upon the specific auction, **Entry Capacity** may be made available as **Firm Interconnection Point Capacity** or **Interruptible Interconnection Point Capacity**.
175. The **Technical Interconnection Point Capacity** level will be published for each IP ASEP at least once per year in the “entry capacity release obligation summary report”. This report is published pursuant to Special Condition 9.17 of the Licence and is incorporated within the Long-Term Summary report (see also paragraphs 57 to 64) which can be found on National Gas Transmission’s Data Portal at <https://data.nationalgas.com/reports/capacity>. Note that ‘Technical Capacity’ is referred to as ‘release obligation’ within the report.
176. The quantity of **Technical Interconnection Point Capacity** to be made available at each Interconnection Point ASEP in each IP auction will be published by the Capacity Platform Operator<sup>38</sup>. Chapter 10 of this Statement details how these quantities are determined.

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<sup>38</sup> At the implementation date of the regulation on Capacity Allocation Mechanisms, PRISMA European Capacity Platform GmbH is designated as Capacity Platform Operator in relation to all Interconnection Points.

## CHAPTER 10: AUCTION PROCESSES FOR THE RELEASE OF INTERCONNECTION POINT CAPACITY.

177. **Interconnection Point Capacity** at an IP ASEP will be made available in a variety of yearly, quarterly, monthly and daily auctions. The long term auctions use an 'ascending clock' mechanism, and the short term auctions use a 'uniform price' mechanism to allocate capacity. Further information on the auctions is detailed in UNC EID Section B. National Gas Transmission will release capacity consistent with the processes and obligations defined in UNC.
178. These IP auctions make available daily capacity (i.e. a daily right to deliver gas into the NTS at an IP ASEP on a particular Gas Flow Day) in yearly, quarterly, monthly and single daily strips. In respect of daily auctions only, capacity may be available as either **Firm Interconnection Point Capacity** and/or as **Interruptible Interconnection Point Capacity**.
179. Each IP auction has a reserve price. The Reserve Price calculation is determined in line with the reserve price setting methodology outlined in UNC TPD Section Y. Reserve Prices are set to recover Allowed Revenues in line with the methodology with payable prices (with some exceptions) updated each Gas Year. For more details on the reserve prices for each auction and their calculation, please see National Gas Transmission's Statement of Gas Transmission Transportation Charges and UNC TPD Section Y.
180. The ascending clock auctions also make use of large and small price steps. The reserve price, large price step and small price step, are all produced in accordance with the Gas Transmission Transportation Charging Methodology.
181. At least one IP auction will result in a clearing allocation<sup>39</sup> in which National Gas Transmission will use reasonable endeavours to make available all the available **Technical Interconnection Point Capacity** at each IP ASEP, subject to paragraph 197. This auction will have a reserve price<sup>40</sup> in line with UNC TPD Section B and Section Y, unless otherwise stated in the prevailing Gas Transmission Transportation Charging Statement. The Within-Day Auction of **Daily Firm Interconnection Point Capacity** is the clearing auction.
182. **Firm Interconnection Point Capacity** may be made available as either:
- (a) **Bundled Interconnection Point Capacity**, consisting of **NTS Entry Capacity** allocated in combination with an adjacent Transmission System Operator's (TSO's) Interconnection Point exit capacity for an equal quantity and duration; or
  - (b) **Unbundled Interconnection Point Capacity**, consisting of **NTS Entry Capacity** only.

<sup>39</sup> In respect of an IP ASEP and period, an allocation of **Entry Capacity** which either:

- (a) results in all the Entry Capacity offered for sale being sold; or
- (b) has a reserve price in line with UNC Section B and Section Y

<sup>40</sup> Please note that if capacity is bundled the Adjacent transporter component of the price will be added to the reserve price

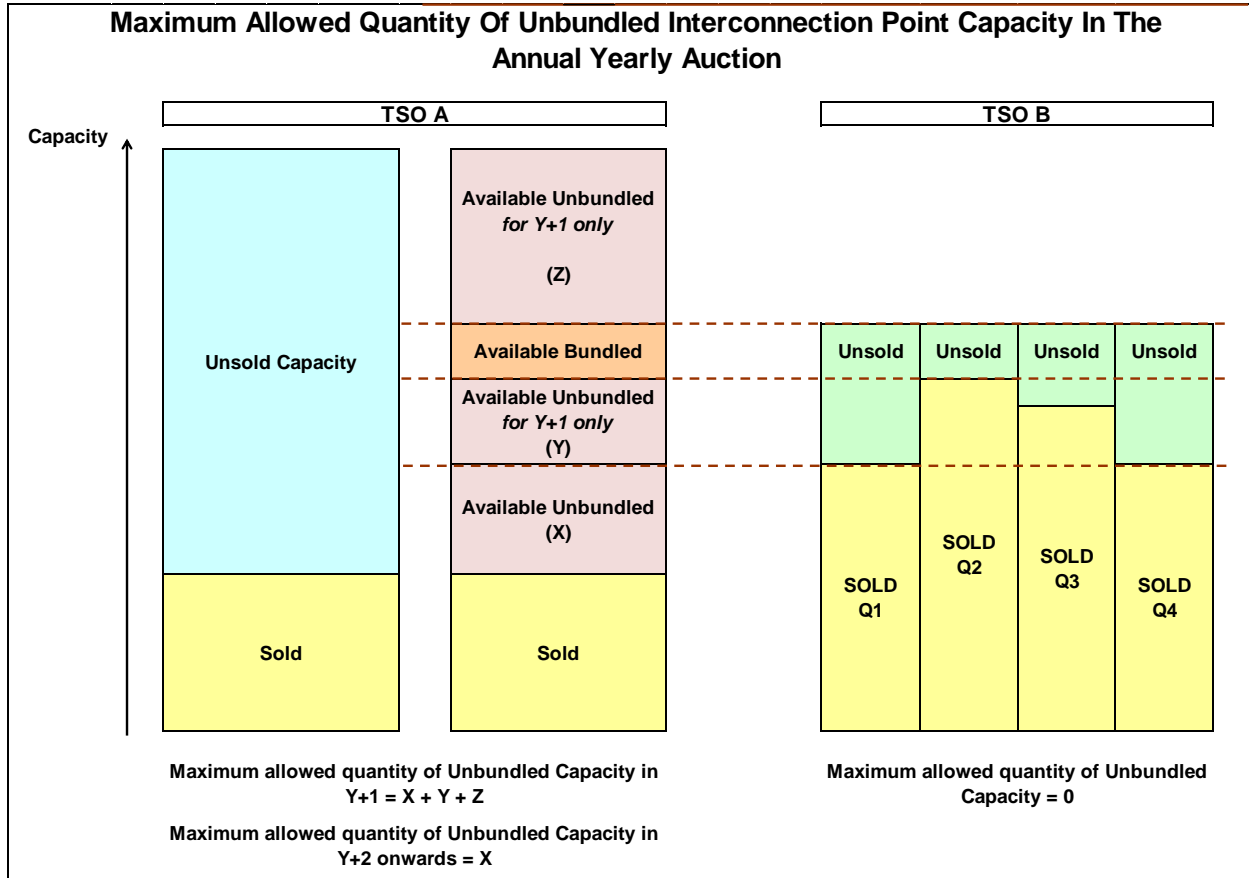
183. In any auction of **Firm Interconnection Point Capacity**, the quantity of capacity that shall be designated as Bundled shall be the lesser of:
- (a) the total quantity of **Firm Interconnection Point Capacity** which is available for allocation in that auction (subject to paragraphs 191 to 196 and Chapter 13 paragraph 240); and
  - (b) the total quantity of Interconnection Point exit capacity at an adjacent TSO available for allocation in that auction or, where there are two adjacent transporters in the interconnected system, the sum of the exit capacities available for allocation in that auction for both adjacent transporter Interconnection Points.
184. Where there are two adjacent TSO's at a designated point and rule 183(a) applies (i.e. National Gas Transmission has insufficient available capacity to bundle with all the capacity offered by the 2 adjacent TSOs in aggregate), then the 2 auctions of bundled capacity may be competing with each other. In competing auctions then the 2 bundled auctions are linked and where there is overdemand for capacity across these 2 auctions, then economic criteria are applied to establish which auction bids from the 2 auctions will be allocated the capacity. Bundled auctions that are competing are marked as such on PRISMA.
185. Where there is available **Firm Interconnection Point Capacity** in excess of the bundled quantity it will be made available as **Unbundled Interconnection Point Capacity** subject to the maximum allowed quantity. The maximum allowed quantity of **Unbundled Interconnection Point Capacity** that will be made available at an IP ASEP in the Annual Yearly Auction (held in Gas Year Y) will be:
- For Gas Year Y+1:
    - All Unsold Technical Interconnection Point Capacity that is available throughout the Gas Year and has not been designated as bundled
  - For Gas Year Y+2 onwards, either:
    - the amount by which the smallest quantity of interconnected system exit capacity allocated to Users at any adjacent transport Interconnection Point<sup>41</sup> for within the relevant Gas Year exceeds the greatest amount of **Interconnection Point Capacity** sold at the relevant IP ASEP for the Gas Year; or
    - 0, if the quantity of **Interconnection Point Capacity** sold at the adjacent Interconnection Point for the Gas Year is less than or equal to the quantity sold at the relevant IP ASEP.

This is illustrated in the diagram below:

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<sup>41</sup> For the avoidance of doubt where there are two adjacent Transporter IPs, the sum of the unbundled interconnected system exit capacity allocated to Users at both adjacent Interconnection Points will be considered.





186. There are six standard IP Auctions, held in accordance with the ENTSOG Auction Calendar<sup>42</sup>, through which Shipper Users can obtain **Interconnection Point Capacity**<sup>43</sup>. These are:

- The Annual Yearly Auction for **Yearly Interconnection Point Capacity** is held on an **Annual** basis. In the Annual Yearly Interconnection Point Capacity Auction (currently held in July) National Gas Transmission sells **Firm Interconnection Point**

<sup>42</sup> Published on an annual basis by ENTSOG for each Auction Year.

<sup>43</sup> Each of the IP Auctions for **Firm Interconnection Point Capacity** shall comprise of separate auctions for Bundled and Unbundled capacity. The Bundled and Unbundled auctions will run in parallel.

## Entry Capacity Release Methodology Statement

**Capacity** for Gas Years Y+1 to Y+15 (i.e. an auction held in July 2024 will be for capacity release over the period October 2024 to September 2039). Capacity made available in these auctions will be sold as **Yearly Interconnection Point Capacity**, i.e. it will be registered to the Shipper User for each Day in a particular Gas Year.

- The Annual Quarterly Auctions for **Quarterly Interconnection Point Capacity**. In these annual capacity auctions held in August, November, February and May National Gas Transmission sells **Firm Interconnection Point Capacity** for each remaining quarter of Gas Year Y+1 (e.g. an auction held in August 2024 will be for capacity release for quarters October 2024 to December 2024, January 2025 to March 2025, April 2025 to June 2025 and July 2025 to September 2025). Capacity made available in these auctions will be sold as **Quarterly Interconnection Point Capacity** (i.e. it will be registered to the Shipper User for each Day in a particular calendar quarter).
- The Rolling Monthly Auction for **Monthly Interconnection Point Capacity**. In this capacity auction held every month National Gas Transmission sells **Firm Interconnection Point Capacity** for every day in the following month. Capacity made available in these auctions will be sold as **Monthly Interconnection Point Capacity** (i.e. it will be registered to the Shipper User for each Day in the relevant calendar month).
- Rolling Day-Ahead Auctions for **Daily Firm Interconnection Point Capacity**. In these short term capacity auctions Shipper Users can bid for **Firm Interconnection Point Capacity** on Gas Flow Day D-1 (e.g. capacity can be bid for on 1<sup>st</sup> of the month for use on the 2<sup>nd</sup>). Capacity will be allocated on D-1. It will be sold as **Daily Firm Interconnection Point Capacity** (i.e. it will be registered to the Shipper User for the relevant Day only). This auction allows Daily firm capacity to be bought in advance of the Day of use.
- Within-Day Auctions for **Daily Firm Interconnection Point Capacity**. In these short term capacity auctions Shipper Users can bid for **Firm Interconnection Point Capacity** on an hourly basis from D-1 to within Gas Flow Day D. Subject to availability, capacity will be allocated hourly from 1:30am on Day D-1. It will be sold as **Daily Firm Interconnection Point Capacity** (i.e. it will be registered to the Shipper User for the relevant Day only). This auction allows capacity to be bought on the Day of use.
- Interruptible Rolling Day-Ahead Auctions for **Daily Interruptible Interconnection Point Capacity**. In these short term capacity auctions Shipper Users can bid for **Daily Interruptible Interconnection Point Capacity** on Gas Flow Day D-1 (e.g. capacity can be bid for on 1<sup>st</sup> of the month for use on the 2<sup>nd</sup>). Capacity will be allocated on D-1. It will be sold as **Daily Interruptible Interconnection Point** (i.e. it will be registered to the Shipper User for the relevant Day only and may be subject to curtailment pursuant to UNC TPD Section B2.9 and EID Section B10.6.1). **Daily Interruptible Interconnection Point Capacity** cannot be bought “on-the-Day”. For the avoidance of doubt, **Interruptible Interconnection Point Capacity** will only be offered as Unbundled Capacity.

## Entry Capacity Release Methodology Statement

187. In addition, Shipper Users may also obtain **Interconnection Point Capacity** by secondary trades, otherwise known as a System Capacity Transfers (details can be found in UNC EID Section B9 and UNC TPD Section B5). For the avoidance of doubt, where a Shipper User holds **Bundled Interconnection Point Capacity** this should only be transferred to another Shipper User as **Bundled Interconnection Point Capacity**.

## Long Term Summary Report

188. Subject to paragraphs 190 and 191, the maximum quantity of capacity to be made available in any auction process will be the **Obligated Entry Capacity**. The **Obligated Entry Capacity** is stated for each ASEP (including IP ASEPs), for each month (or quarter) (on a forward looking basis) in the obligation summary report. The obligation summary report is provided within the Long-Term Summary report (details can be found paragraphs 57 to 63).

189. National Gas Transmission is obliged to make available the unsold quantity in each auction as determined below in paragraphs 191 to 196. For the purpose of these calculations the **Unsold Technical Interconnection Point Capacity** shall be considered to be the **Technical Interconnection Point Capacity** minus all previously sold **Firm NTS Entry Capacity** (but excluding any previously sold **Non-obligated Entry Capacity**). Please note that where the **Unsold Technical Interconnection Point Capacity** is not constant across the relevant period for an auction, the highest quantity that is available for the entire period will be made available.

190. In addition to the quantities determined below, National Gas Transmission may make available additional quantities of capacity, including **Non-obligated Entry Capacity** (see Part C Chapter 13).

## Annual Yearly Auction

191. In order to ensure some capacity is available for later auctions some **Technical Interconnection Point Capacity** will be withheld from the Annual Yearly Auctions:

- (a) For auctions of **Yearly Interconnection Point Capacity** for gas years Y+1 to Y+5, 10%, of the **Technical Interconnection Point Capacity** is withheld.
- (b) For auctions of **Yearly Interconnection Point Capacity** for gas years Y+6 to Y+15, 20%, of the **Technical Interconnection Point Capacity** is withheld.
- (c) In the event that the quantity of **Unsold Technical Interconnection Point Capacity** is less than that proposed to be withheld for the relevant Gas Year, all **Unsold Technical Interconnection Point Capacity** will be withheld.

192. For each IP ASEP for each Gas Year between Y+1 and Y+5 the quantity of **Yearly Interconnection Point Capacity** that National Gas Transmission is obliged to make available for sale is:

## Entry Capacity Release Methodology Statement

- Aggregate conversion quantity for the period;
- **Unsold Technical Interconnection Point Capacity**; minus
- Minimum [0.1\* **Technical Interconnection Point Capacity, Unsold Technical Interconnection Point Capacity**]; minus
- All **Reserved Entry Capacity**; plus
- Aggregate Surrender Quantity for the capacity period (see paragraphs 234-235); plus
- Aggregate Withdrawal Quantity for the capacity period (see paragraphs 236-237).

193. For each IP ASEP for each Gas Year between Y+6 and Y+15 the quantity of **Yearly Interconnection Point Capacity** that National Gas Transmission is obliged to make available for sale is:

- Aggregate conversion quantity for the period;
- **Unsold Technical Interconnection Point Capacity**; minus
- Minimum [0.2\* **Technical Interconnection Point Capacity, Unsold Technical Interconnection Point Capacity**]; minus
- All **Reserved<sup>44</sup> Entry Capacity**; plus
- Aggregate Surrender Quantity for the capacity period; plus
- Aggregate Withdrawal Quantity for the capacity period.

## Annual Quarterly Auctions

194. For each IP ASEP for each quarter the quantity of **Quarterly Interconnection Point Capacity** that National Gas Transmission is obliged to make available for sale is:

- Aggregate conversion quantity for the period;
- **Unsold Technical Interconnection Point Capacity**; plus
- Aggregate Surrender Quantity for the capacity period; plus
- Aggregate Withdrawal Quantity for the capacity period.

## Rolling Monthly Auction

195. For each IP ASEP for the relevant month the quantity of **Monthly Interconnection Point Capacity** that National Gas Transmission is obliged to make available for sale is:

- Aggregate conversion quantity for the period;
- **Unsold Technical Interconnection Point Capacity**; plus

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<sup>44</sup> For the avoidance of doubt this will include capacity has been identified in the project proposal as being available for reservation under an IP PARCA in accordance with UNC EID E Section 7.

## Entry Capacity Release Methodology Statement

- Aggregate Surrender Quantity for the capacity period; plus
- Aggregate Withdrawal Quantity for the capacity period.

### Rolling Day-Ahead and Within-Day Auctions

196. Without prejudice to paragraph 197, for each IP ASEP, for the relevant Gas Flow Day, the quantity of **Daily Interconnection Point Capacity** that National Gas Transmission is obliged to make available for sale is:

- Aggregate conversion quantity for the period;
- **Unsold Technical Interconnection Point Capacity**

Please note that where **Firm Interconnection Point Capacity** is sold in any auction in kWh/h, the available capacity offered shall be the value available for that Gas Flow Day divided by 24<sup>45</sup>.

197. Where, in respect of any given Gas Flow Day, circumstances arise in which National Gas Transmission foresees a capacity constraint occurring at an IP ASEP, National Gas Transmission may withhold capacity from sale for that IP ASEP in the Rolling Day-Ahead and Within-Day Auctions. The quantity withheld will be limited to that which National Gas Transmission considers necessary to avoid the constraint or to avoid increasing the extent of the constraint, and hence to avoid, or limit, the cost of any actions needed to manage the constraint.

198. Where the circumstances referred to in paragraph 197 cease to exist or become less severe, National Gas Transmission may reduce the quantity withheld accordingly.

### Interruptible Rolling Day-Ahead Auctions

199. For each IP ASEP for the relevant Gas Flow Day the quantity of **Daily Interruptible Interconnection Point Capacity** that National Gas Transmission is obliged to make available for sale will be determined as:

- the Use It or Lose It quantity; which is:
  - The average amount by which the **Firm Interconnection Point Capacity** held by Shipper Users exceeds the energy allocated to those Shipper Users for each day over a 30 day period up to (and including) the day falling seven days before the relevant Gas Flow Day; plus
- an additional quantity (if any) determined at the sole discretion of National Gas Transmission.

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<sup>45</sup> For the avoidance of doubt, when a clock change occurs the value for **Daily Interconnection Point Capacity** shall be the value available for that Gas Flow Day divided by 23 or 25 as appropriate.

## CHAPTER 11: INCREMENTAL CAPACITY RELEASE AT INTERCONNECTION POINTS.

200. A Shipper User, or a Reservation Party<sup>46</sup>, may apply for **Firm Interconnection Point Capacity** above the prevailing level of **Technical Interconnection Point Capacity**, at an IP ASEP, by entering into an IP PARCA. Provision of a demand indication pursuant to paragraph 204, is the method by which the Shipper User or Reservation Party can participate in the IP PARCA process. National Gas Transmission will not release **Funded Incremental Obligated Entry Capacity**, at an IP ASEP, by any other process.
201. The Licence defines a default lead-time for the release of **Funded Incremental Obligated Entry Capacity** at an IP ASEP, of 24 months from the first day of the next month (see paragraphs 119 to 122) following allocation of that capacity<sup>47</sup>. By entering into an IP PARCA, National Gas Transmission and the customer can undertake a significant proportion of the necessary Works, e.g. planning, environmental and design activities, before the Shipper User (or Nominated User) is required to commit to being allocated the reserved **Interconnection Point Capacity**. This will minimise the risk of:
- (a) a Shipper User being required to make a significant commitment before their project is ready;
  - (b) physical capacity, to make **Funded Incremental Obligated Entry Capacity** available, being delivered after it is required by the Shipper User<sup>48</sup>; and
  - (c) National Gas Transmission undertaking unnecessary Works.
202. Each IP ASEP must be recognised by the Licence, in accordance with the requirements of Special Condition 9.13 by the appropriate date before **Interconnection Point Capacity** can be reserved or allocated pursuant to an IP PARCA.
203. The appropriate date for an IP ASEP to be recognised by the Licence, as required by paragraph 199 is
- (a) in respect of an IP PARCA, the date in accordance with the **Funded Incremental Obligated Capacity Re-opener** as per licence Special Condition 3.13
  - or
  - (b) in respect of an IP PARCA, where (a) does not apply, the day before any **Reserved Entry Capacity** is due to be allocated.
- This process may take several months so it is important that potential customers contact National Gas Transmission as early as possible.

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<sup>46</sup> Entering into an IP PARCA is the only way that any interested party can access Incremental **Interconnection Point Capacity** at an IP ASEP and it cannot be obtained via any of the auction processes.

<sup>47</sup> Please note that lead-times for capacity release where demand for **Funded Incremental Obligated Entry Capacity** at an IP ASEP is to be satisfied via substitution of **Non-Incremental Obligated Entry Capacity** from another ASEP are detailed in the ECS.

<sup>48</sup> Alternative capacity products may be available for use between capacity being required and the physical delivery date.

### Incremental Demand Assessment

204. In accordance with UNC EID Section E2, in each odd-numbered year, National Gas Transmission will open a demand indication window for a period of eight weeks starting from the date that the Annual Yearly Auction opens. Any Shipper User or Reservation Party may submit a non-binding demand indication during this demand indication window. Alternatively, an adhoc demand indication may be submitted at any other time; these will be progressed subject to paragraph 210.
205. Any relevant information provided to National Gas Transmission in advance of the provision of a demand indication will not be binding.
206. Notwithstanding any confidentiality obligations which National Gas Transmission might otherwise have, it may share information provided on demand indications with other relevant TSOs.
207. National Gas Transmission will confirm receipt of a demand indication within 2 business days and shall respond, within 16 weeks of the start of the Annual Yearly Auction or within 8 weeks for ad-hoc demand indications.
208. A demand indication shall be considered competent if it includes the information detailed in UNC EID section E2.1.4 and the Demand Indication Application Fee (DIA Fee) has been paid.
209. The DIA Fee is equivalent in value to the PARCA Application Fee (also known as the Phase 1 PARCA Fee) which is calculated in accordance with the Gas Transmission Transportation Charging Methodology (UNC TPD Section Y). The DIA Fee will:
  - (a) be repaid in full if an incremental project is not initiated following publication of the demand assessment report or if the economic test (described in paragraphs 228 to 239) is positive.
  - (b) be retained if the result of the economic test is negative (including circumstances where parties do not submit a signed IP PARCA and security deposit that could be considered in the economic test or if the applicant withdraws prior to publication of the joint notice referred to in paragraph 216). Where it is retained it will be reconciled against actual costs incurred by National Gas Transmission between the publication of the demand assessment report and the publication of the joint notice (see paragraph 216).
210. For demand indications received outside of the demand indication window (ad-hoc demand indications) National Gas Transmission shall:
  - (a) Where possible incorporate the demand into an existing incremental project at the relevant IP ASEP; or

## Entry Capacity Release Methodology Statement

- (b) Provided that it is of the opinion that the economic test can be completed prior to the start of the next biennial demand assessment; open an 8 week (unless otherwise stated) ad-hoc demand indication window, within 5 days, subject to agreement from other relevant TSO(s); and
- (c) Inform the applicant when its demand can be considered with justification.

## Demand Assessment Report

211. National Gas Transmission will publish a demand assessment report, within 16 weeks of the start of the Annual Yearly Auction or for an ad-hoc demand indication within 8 weeks of the closure of the ad-hoc demand indication window. The report, which will follow the standard template as provided by ENTSOG or any other format which National Gas Transmission may publish from time to time, will conclude whether any incremental capacity project will progress to the design phase.

## Design Phase & Authority Approval

212. National Gas Transmission will conduct a public consultation on its proposals to deliver incremental capacity by no later than 12 weeks from publication of the demand assessment report. The consultation will be open for at least 1 month but no longer than 2 months. This consultation will be conducted jointly with the relevant Adjacent TSO(s) where appropriate.
213. The consultation shall cover the elements detailed in UNC EID E 3.1.4 and shall include the general rules and conditions, included within the IP PARCA contract, to allow reservation of capacity and subsequent allocation to a Shipper User.
214. No later than 3 months, or the earliest time acceptable to the relevant TSO(s), following the end of the consultation process National Gas Transmission will submit a project proposal to the Authority for approval. It will include the responses to the consultation, which have not been marked as confidential. Where relevant this will be coordinated with the relevant TSO(s) and other relevant national regulatory authorities.
215. The project proposal will state the proposed allocation mechanism which, subject to Authority approval, will be via the IP PARCA process and include the information detailed in UNC EID E 4.1.4. including but not limited to:
- (a) the parameters to be used in the economic test;
  - (b) offer levels of capacity, reflecting the range of expected demand;
  - (c) project timescales;



## Entry Capacity Release Methodology Statement

(d) IP PARCA contract including, if applicable, the quantity of funded incremental capacity which may be withheld<sup>49</sup>

216. Following a decision on the incremental capacity project by the Authority, and no later than 2 months before the offer of incremental capacity in the Annual Yearly Auction, National Gas Transmission shall prepare and publish a notice of such decision. Where relevant this will be coordinated with the relevant TSO(s) (a joint notice in accordance with UNC EID E 4.2) and other relevant national regulatory authority. Where the incremental capacity project has been approved the notice shall contain the following information:
- (a) the information contained in the project proposal;
  - (b) the contract(s) relating to the capacity offered;
  - (c) the actual costs incurred by National Gas Transmission in completing the design work and whether there is any corresponding adjustment in the DIA Fee; and whether there is a need for reinforcement works.

## Reservation and Allocation of Capacity

217. Subject to the Alternative Allocation Mechanism which is part of the project proposal and within the timescales<sup>50</sup> set out the counterparty may sign an IP PARCA contract under which capacity will be reserved.
218. Subject to, and in accordance with, the terms of the UNC and the IP PARCA, National Gas Transmission will:
- (a) Review such network analysis (initially undertaken in the design phase), to confirm how the capacity request can be satisfied; e.g.
    - i. From any **Unsold Technical Interconnection Point Capacity**;
    - ii. From the use of existing infrastructure;
    - iii. By entry capacity substitution;
    - iv. Through investment and/or contractual alternatives;
    - v. A combination of the above.
  - (b) Determine the date that the requested capacity will be registered from, which may or may not be the date originally requested by the applicant.
219. Subject to, and in accordance with, the terms of an IP PARCA, National Gas Transmission will:
- (a) Reserve, on behalf of the Shipper User (or Reservation Party) the requested capacity from the determined date(s) and at the IP ASEP identified in the IP PARCA. Such date(s) may be amended pursuant to the IP PARCA.
  - (b) Reserve any **Unsold Technical Interconnection Point Capacity** from suitable donor ASEPs for subsequent substitution to the IP ASEP identified in the IP PARCA. Any such capacity shall be identified in accordance with the ECS.

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<sup>49</sup> The Incremental Capacity Element of EU Regulation establishing a Network Code on Capacity Allocation Mechanisms (CAM) requires that an amount at least equal to 10% of the incremental technical capacity at the concerned interconnection point shall be set aside and offered at a later date. Where such capacity is to be withheld it will form part of the project proposal and will be included within the IP PARCA.

<sup>50</sup> This shall be 20 business days but may be varied to align with other national regulatory authorities.

## Entry Capacity Release Methodology Statement

- (c) Publish relevant information relating to any capacity reservation, allocation, and/or substitution in accordance with UNC and pursuant to the IP PARCA. This is to facilitate transparency and aid Shipper User decision making.
- (d) Undertake such Works as are necessary to deliver funded **Incremental Obligated Entry Capacity** to facilitate the allocation of the requested **Interconnection Point Capacity**.
- (e) Allocate, on behalf of the Shipper User (or Nominated User) the **Reserved Entry Capacity** from the date(s) identified in the IP PARCA. Such date(s) may be amended pursuant to the IP PARCA.
- (f) Substitute previously reserved capacity from suitable ASEPs to the IP ASEP identified in the IP PARCA. Any such capacity shall be identified in accordance with the ECS and the substitution will be subject to non-veto by the Authority.

220. Subject to, and in accordance with, the terms of the IP PARCA, the counterparty:

- (a) shall provide security in respect of capacity reservation; and
- (b) shall provide such information, (the demonstration information) to National Gas Transmission by the Demonstration Date(s). National Gas Transmission may not proceed with work under the IP PARCA until receipt of the demonstration information. Any delay in providing the demonstration information may result in the capacity release date being deferred or in termination of the IP PARCA; and
- (c) may, in the event of termination of the IP PARCA, be invoiced for the IP PARCA Termination Amount pursuant to the PARCA.
  - i. This will be calculated in accordance with the PARCA Termination Amount set out in the Gas Transmission Transportation Charging Methodology (UNC TPD Section Y).
- (d) may, upon reaching the allocation date, request that capacity is allocated (if a Reservation Party this must be via a Nominated User).
- (e) may, at any time, terminate the IP PARCA subject to the terms of the IP PARCA and the payment of any outstanding amounts under the IP PARCA.

Where the IP PARCA is terminated and National Gas Transmission determine that any **Reserved Entry Capacity** cannot be used for another PARCA or IP PARCA currently in progression, any unsold **Technical Interconnection Point Capacity** shall be made available to the market as Unsold **Interconnection Point Capacity** through existing processes.

221. Subject to, and in accordance with the terms of the IP PARCA, the counterparty, where the counterparty is a Reservation Party:

- (a) shall nominate one or more Shipper Users to be allocated and registered as holding the entire quantity of **Interconnection Point Capacity**, at the location, and from the date(s) determined and reserved pursuant to the IP PARCA. The nomination must be received from the Reservation Party by the date determined pursuant to the IP PARCA and the notice of nomination shall be consistent with the terms of the IP PARCA.
- (b) After nomination of such Shipper User(s) (assuming the nominations are not rejected in accordance with the terms of the IP PARCA and/or UNC) and acceptance by the Nominated User(s), and at a time determined in accordance with the IP PARCA, the Nominated User(s) will be Registered as holding such amounts of **Interconnection Point Capacity** as if they had initially applied for the capacity in accordance with paragraph 200.

## Entry Capacity Release Methodology Statement

222. In accordance with UNC TPD Section B, **Reserved Entry Capacity** does not constitute part of a **User's Available Firm NTS Entry Capacity at an IP ASEP** until it has been registered to that Shipper User, pursuant to an IP PARCA.
223. National Gas Transmission will require Authority approval of a **Funded Incremental Obligated Capacity (FIOC) Project Direction**, specifying an output, delivery date and associated allowance as per Special Condition 3.13 Part C published for the IP ASEP before progressing to the allocation stage if it is to release **Incremental Obligated Entry Capacity** at that IP ASEP as per Special Condition 3.13. This is necessary to ensure adequate funding of any works that may result from an IP PARCA.
224. National Gas Transmission will make a **FIOC Project Direction** submission, as detailed in the **FIOC Guidance and Submissions Requirements Document**. This will facilitate the determination of funding, where required, for the incremental quantity to be released.
225. During the development of the **FIOC Project Direction** submission, National Gas Transmission will identify if there is a material change in residual capacity constraint risk, arising from the proposed investment/contract solution, and hence may propose changes to the Constraint Management target as per Special Condition 5.5 of the Licence.

## Impact on other long term processes

226. In relation to the scenarios envisaged in UNC EID E 7 and in accordance with the rules set out there, where capacity has been identified in the project proposal as being available for reservation it will be prioritised for such reservation and will not be released into any other long term process.

## Economic Test

227. The methodology for proposing that Incremental **Interconnection Point Capacity** should be released, will compare the net present value<sup>51</sup> of proposed capacity commitments against the estimated project cost for providing that level of Incremental Obligated Entry Capacity.
228. National Gas Transmission will, for the capacity profile agreed, determine the following parameters:

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<sup>51</sup> Discounted by the social time preference rate that is published in accordance with "The Green Book: Central Government Guidance on Appraisal and Evaluation" as amended from time to time

Entry Capacity Release Methodology Statement

- (a) The net present value of the capacity commitments, calculated as the quantity of proposed incremental **Interconnection Point Capacity** x estimated reserve price (subject to paragraph 239);
- (b) the net present value of the estimated increase in allowed revenue, calculated in accordance with appendix 1 of this methodology statement. This value will be provided as an estimate in the project proposal.

229. The economic test is considered to have been passed if:

$$\frac{R}{AR} \geq f$$

where:

$R$  = the estimated present value of the allocation quantity, calculated in accordance with paragraphs 228(a) and 239;

$AR$  = the estimated increase in allowed revenue, described in paragraph 229(b);

$f$  = the f-factor; this shall be set to 0.5, unless otherwise directed by the Authority.

The economic test is considered to have failed where  $\frac{R}{AR} < f$ , in this case a Mandatory Minimum Premium shall be calculated pursuant to paragraph 239. Please note that if the estimated increase in allowed revenue is zero the test will be considered to have passed.

230. The Mandatory Minimum Premium is an additional quantity that may be added to the applicable payable price, calculated to be the minimum value required to allow the Economic Test to be passed in the case where the allocation of all offered incremental capacity at the estimated reference price would not generate sufficient revenues for a positive economic test outcome. An estimate of the mandatory minimum premium will be provided as part of the project proposal. Where a Mandatory Minimum Premium is applied it shall be applied to all capacity allocated via the Alternative Allocation mechanism and shall not be applied to any subsequent capacity release, additionally where it is to be applied the present value of the capacity commitments shall be calculated as the sum of:
- i. The quantity of proposed incremental **Interconnection Point Capacity** x (estimated reserve price + Mandatory minimum Premium);
  - ii. The quantity of unsold **Technical Interconnection Point Capacity** x Mandatory Minimum Premium.

231. In the event that the Economic Test is not passed and capacity (excluding **Non-obligated Entry Capacity**) is not reserved, the IP PARCA will be terminated.

### Timing of Release of Incremental Interconnection Point Capacity

232. Following a positive Economic test and a proposal for the release and allocation of Incremental **Interconnection Point Capacity** not being vetoed by the Authority, National Gas Transmission has obligations to make that capacity available from a point in the future. In order to deliver against these obligations, National Gas Transmission may undertake such system reinforcements as it considers necessary.
233. In the event that National Gas Transmission's proposals are vetoed by the Authority, National Gas Transmission will not release Incremental **Interconnection Point Capacity** and may remove any associated **Interconnection Point Capacity** reserved allocated to Shipper Users, but may, at its sole discretion, release **Non-Obligated Entry Capacity** in accordance with chapter 13.

## CHAPTER 12: CONGESTION MANAGEMENT PROCEDURES

IPs  
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### Surrender of Capacity

234. A Shipper User may offer to surrender **Firm Interconnection Point Capacity** which may be utilised in an IP auction at the same IP ASEP to meet a request for capacity from another Shipper User. Such offers will only be accepted subject to the Shipper User having sufficient Available Firm Interconnection Point Capacity after taking account of any existing Surrender or withdrawal offers that can be re-allocated and pursuant to UNC EID Section B7.2 and will only be utilised if the surrendered capacity is subsequently allocated to a Shipper User in the relevant Annual Yearly, Annual Quarterly or Rolling Monthly auction.
235. When allocating **Yearly Interconnection Point Capacity, Quarterly Interconnection Point Capacity** or **Monthly Interconnection Point Capacity** following an Annual Yearly, Annual Quarterly or Rolling Monthly auction, surrendered capacity will only be used to meet demand for additional capacity above the prevailing **Technical Interconnection Point Capacity** level. Capacity will be allocated in the following sequence:
- Converted **Interconnection Point Capacity**;
  - Unsold **Technical Interconnection Point Capacity**
  - Surrendered **Interconnection Point Capacity**
  - Withdrawn **Interconnection Point Capacity**
  - **Non-obligated Entry Capacity**

### Withdrawal of Capacity

236. Where a written direction has been received from the Authority, National Gas Transmission NTS will submit a withdrawal offer on behalf of the relevant Shipper User for the duration specified. The withdrawal offer quantity will be subject to the Shipper User having sufficient Available Firm Interconnection Point Capacity after taking account of any existing Surrender or withdrawal offers that can be re-allocated.
237. Withdrawal Offers will be entered into the next available Annual Yearly, Annual Quarterly or Rolling Monthly auction and will be used to satisfy demand for **Yearly Interconnection Point Capacity**, **Quarterly Interconnection Point Capacity** or **Monthly Interconnection Point Capacity** once Unsold **Technical Interconnection Point Capacity** and available Surrendered **Interconnection Point Capacity** have been allocated (in accordance with paragraph 235).
238. If some or all of the offered withdrawal quantity remains unsold following the auction, the remaining quantity shall be entered into the next relevant yearly, quarterly or monthly auction(s) (subject to paragraph 236).

### Capacity Conversion

239. A Shipper User may request to convert their unbundled Interconnection Point Capacity following a bundled auction. Such requests should be considered in accordance with UNC EID Section B10.2.2. the quantity converted shall be offered in all auctions subsequent to the completion of the conversion.

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## CHAPTER 13: NON-OBLIGATED ENTRY CAPACITY RELEASE AT INTERCONNECTION POINTS

240. In any of the processes identified in paragraph 186 or through the IP PARCA process, National Gas Transmission may, at its sole discretion, release additional quantities of **Firm Interconnection Point Capacity** in excess of the prevailing **Obligated Entry Capacity**. Such capacity is referred to as **Non-obligated Entry Capacity**.
241. **Non-obligated Entry Capacity** may be released in advance of the entry capacity Interconnection Point auctions and/or via the IP PARCA process. National Gas Transmission will assess the risks and rewards associated with releasing the quantity of **Firm Interconnection Point Capacity** requested in order to determine the quantity to be released and allocated to Shipper Users.

### Accelerated Release Incentive

242. The Licence (Special Condition 5.5) establishes an incentive mechanism which encourages National Gas Transmission to make **Incremental Obligated Entry Capacity** available to Shipper Users in advance of the default lead time in certain circumstances, known as 'accelerated release'. For Licence purposes this capacity is classified as **Non-obligated Entry Capacity** but is still **Firm NTS Entry Capacity** for Shipper User purposes.
243. As stated in paragraph 8, it is important that Shipper Users (or Reservation Parties) discuss potential new projects and increased requirements at existing IP ASEPs with National Gas Transmission at an early stage and, where possible, enter into an IP PARCA.
244. National Gas Transmission may release **Non-obligated Entry Capacity** at an Interconnection Point under the accelerated release incentive as shown in diagram 4. Such release will be subject to satisfaction of the following two criteria:
- IP PARCA capacity/price profiles satisfying the Economic Test referred to in paragraph 229. For the avoidance of doubt Accelerated Release does not count towards the economic test.
  - Satisfactory assessment by National Gas Transmission of the associated risks and rewards.
245. Having undertaken a risk /reward assessment National Gas Transmission may release **Incremental NTS Entry Capacity** as **Non-obligated Entry Capacity** under the accelerated release incentive, by placing it in an Annual Yearly auction provided that National Gas Transmission has indicated that it may (consistent with UNC EID Section B 4.3.3). This may allow the IP PARCA applicant (or indeed any Shipper User) to obtain capacity earlier than the IP PARCA lead time.
246. If National Gas Transmission offers **Non-obligated Entry Capacity** into an Annual Yearly auction, then it is under no obligation to release it in any subsequent auctions

## Appendix 1: Estimated Project Cost methodology

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### The Estimated Project Cost Model

#### Model Input Data

- (a) The model calculates the marginal costs of investment required in the National Transmission System as a consequence of an increase in demand for gas or supply of gas at each System Point or node on the National Transmission System. Such calculation is based upon analysis of peak conditions on the National Transmission System and the costs of investment which are expressed in £/GWhkm. Where there is an increase in demand for gas or supply of gas at a System Point, the marginal changes in flow distances (measured in GWhkm) for a small energy injection to the System (measured in GWh) shall be estimated initially by reference to the increases or decreases in units of kilometres of the National Transmission System.
- (b) The model requires a set of inputs which are consistent with the costs incurred by National Gas Transmission NTS in making NTS Exit (Flat) Capacity available on the National Transmission System:
  - (i) Nodal supply and demand data (GWh)
    - (A) Demand data shall be derived in relation to each System Exit Point as the lesser of:
      - (1) the National Gas Transmission NTS forecast undiversified 1-in-20 peak day demand at the relevant NTS Exit Point, provided that:
        - (aa) for any NTS Connected Offtake System which is a Storage Facility or a pipeline interconnector and which has a physical Entry capability, demand at the relevant NTS Connected System Exit Point (CSEP) shall be deemed to be zero;
        - (bb) for NTS/LDZ Offtakes, the National Gas Transmission NTS forecast undiversified 1-in-20 peak day demand in the relevant LDZ shall be prorated between the relevant NTS/LDZ Offtakes on the basis of the amount of NTS Exit (Flat) Capacity registered at each of the relevant NTS/LDZ Offtakes;

For the purposes of this paragraph, “National Gas Transmission NTS forecast undiversified 1-in-20 peak day demand” means the 1-in-20 peak day demand for the National Transmission System that is derived from the summation of the forecast peak demands and load duration curves for each NTS Supply Point, NTS CSEP and NTS/LDZ Offtake; and
    - (2) the aggregate of the Baseline NTS Exit (Flat) Capacity and incremental NTS Exit (Flat) Capacity in respect of the relevant NTS Exit Point,

provided that paragraph (2) above shall be ignored for the purposes of setting or determining any indicative NTS Exit (Flat) Capacity Charges;
  - (B) Aggregate System Entry Point supplies:



## Entry Capacity Release Methodology Statement

- (ii) Transmission pipelines between each node (measured in km) and calculated by reference to;
  - (1) Existing pipelines
  - (2) New pipelines expected to be operational on or before the start of the Gas Year under analysis
- (iii) Identification of a reference node. The reference node used in the model is Peterborough Tee.

## Model Inputs

- (c) The nodal supply data for the model shall be derived from the supply/demand data set out in the most recent Gas Ten Year Statement for each Gas Year for which prices are being determined. The aggregate supply flow shall be adjusted to ensure that the values for supply and demand are equal. This adjustment shall be carried out by reducing supplies in the following order to the point at which supplies equal the forecast demand:
  - (i) short range Storage Facilities, embedded generation, biomass;
  - (ii) mid range Storage Facilities;
  - (iii) LNG Importation Facilities;
  - (iv) long range Storage Facilities;
  - (v) pipeline interconnectors; and
  - (vi) beach terminals.

The supply figures for Individual System Entry Points at Storage Facilities and/or pipeline interconnectors may be set at a level that is less than or equal to the expected Entry Point capability.

- (d) Nodal demand data for the model shall be derived from a range of different data sources as more particularly described in paragraph (b)(i).
- (e) National Transmission System network data for the charging year will be based on data taken from National Gas Transmission NTS's most recent Gas Ten Year Statement.

## Model Outputs

The model is an optimisation model that calculates the minimum total network flow distance (in GWhkm) given a set of supply and demand flows i.e. it takes the inputs described above and uses a transport algorithm to derive the pattern of balanced network flows that minimises distances travelled by these flows from a supply node or to a demand node, assuming every network section has sufficient capacity.

The marginal cost values are expressed solely in km as they are flow gradients i.e. they represent the sensitivity of the total network flow distance value to a change in supply or demand at any node.

Sum of flow times distance (GWh x km) divided by Change in Nodal flow (GWh) equals marginal cost (km)

## Entry Capacity Release Methodology Statement

The model computes a marginal cost for supply at each node (which may be positive or negative in relation to the reference node). The marginal cost for demand at each node is then the equal and opposite of the nodal marginal cost for supply. A negative marginal cost represents a marginal benefit or avoided cost at that point.

### The Initial Nodal Marginal Distances

The marginal costs of supply and the marginal costs of demand are then used to set the Initial Nodal Marginal Distances (InitialNMkm):

$$InitialNMkm_{Si} = LPMC_{Si} \quad \text{and} \quad InitialNMkm_{Dj} = -LPMC_{Dj}$$

Where

$InitialNMkm_{Si}$  = Initial nodal marginal distance for supply  $i$  (km)

$InitialNMkm_{Dj}$  = Initial nodal marginal distance for demand  $j$  (km)

$LPMC_{Si}$  = Long run marginal cost of flow to reference node from supply  $i$  (km)

$LPMC_{Dji}$  = Long run marginal cost of flow to reference node from demand  $j$  (km)

The marginal distances are converted into unit costs (£/GWh) by multiplying by the expansion constant (see below). For Entry prices, an adjustment to reflect the calorific value at the ASEP is also applied.

### The Expansion Constant

The expansion constant, expressed in £/GWhkm, represents the capital cost of the transmission infrastructure investment required to transport 1 GWh over 1 km. Its magnitude is derived from the projected cost of an 85bar pipeline and compression for a 100km NTS network section. The 100km distance was selected as this represents the typical compressor spacing on the NTS.

Calculated from first principles, the steps taken to derive the expansion constant are as follows:

- a) National Gas Transmission determines the projected £/GWhkm cost of expansion of 85bar gauge pressure pipelines and compression facilities, based on manufacturers' budgetary prices and historical costs inflated to present values.
- b) An average expansion constant is calculated from the largest three pipeline diameter/compressor sections  $D_1$ ,  $D_2$ ,  $D_3$  (network sections  $n = 1, 2, \text{ and } 3$ ). The selection of expansion constants calculated from these three network sections is based on recent and expected future projects on the transmission system. The pipe diameters used are:
 

mm	$D_1$	=	900
1200 mm	$D_2$	=	1050 mm
			$D_3$ =
- c) The maximum daily flow that can be facilitated through each of the three network sections is calculated. This is based on assumptions of an 85bar<sub>g</sub> inlet pressure and a minimum outlet pressure of 38bar<sub>g</sub> and is calculated from the Panhandle A pipe flow equation (a standard flow equation used within the gas industry).

Entry Capacity Release Methodology Statement

$$Q_n = K_{flow} \times \left( \frac{T_{std}}{P_{std}} \right) \times D_n^{2.6182} \times \left( \frac{P_1^2 - P_{2,n}^2}{G^{0.8538} \times T_{av} \times L \times Z_{av}} \right)^{0.5394}$$

Where

- $Q_n$  = Flow for network section  $n$  (mscmd)
- $K_{flow}$  = Constant (0.0045965)
- $T_{std}$  = Standard temperature (291.4°K)
- $P_{std}$  = Standard pressure (1.01325 bar<sub>a</sub>)
- $D_n$  = Diameter for network section  $n$  (mm)
- $P_1$  = Pipe absolute inlet pressure (86.01325 bar<sub>a</sub> = 85 bar<sub>g</sub>)
- $P_{2,n}$  = Pipe absolute outlet pressure for network section  $n$  (bar<sub>a</sub> greater than or = 38 bar<sub>g</sub>)
- $G$  = Gas specific gravity (0.6)
- $T_{av}$  = Pipeline average temperature (285.4°K)
- $L$  = Pipe length (100 km)
- $Z_{av}$  = Average gas compressibility (0.85)

- d) The maximum daily energy flow is calculated from the volumetric flow using a standard planning CV of 39 MJ/m<sup>3</sup> and the planning flow margin of 5%.

$$Capacity_n = \frac{Q_n \times CV}{((1 + FM) \times 3.6)}$$

Where

- $Capacity_n$  = Daily capacity for network section  $n$  (GWh)
- $Q_n$  = Flow for network section  $n$  (mscmd)
- $CV$  = Calorific Value (39 MJ/m<sup>3</sup>)
- $FM$  = Flow margin (5%)
- 3.6 = Converts 10<sup>6</sup> MJ to GWh

## Entry Capacity Release Methodology Statement

- e) The compressor power requirement to recompress back to 85 bar<sub>g</sub> is calculated from the flow and the inlet and outlet pressures. The inlet pressure for the compressor is the outlet pressure of the pipe section for each pipe diameter D.

$$Power_n = \left( \frac{\gamma}{\gamma - 1} \right) \frac{K_{power} \times Z_{av} \times T_{av} \times Q_n}{\eta} \left[ \left( \frac{P_{out}}{P_{in,n}} \right)^{\frac{\gamma-1}{\gamma}} - 1 \right] (1 + FM)$$

Where

- $Power_n$  = Compressor power for network section n (MW)  
 $P_{in,n}$  = Compressor absolute inlet pressure for network section n (bar<sub>a</sub>)  
 $P_{out}$  = Compressor absolute outlet pressure (86.10325 bar<sub>a</sub>)  
 $K_{power}$  = Constant (0.0040639)  
 $Z_{av}$  = Compressibility (0.85)  
 $T_{av}$  = Average gas temperature (285.4°K)  
 $Q_n$  = Flow for network section n (mscmd)  
 $\gamma$  = Isentropic index (1.363)  
 $\eta$  = Compressor adiabatic efficiency (80%)  
 $FM$  = Flow margin (5%)

- f) The capital cost of the pipe for each network section is calculated from the pipe cost equation, the pipe diameter and the pipe length of 100km.

$$Pipe\_Cost_n = L \times (D_n \times Pipecost\_diameter\_factor + Pipecost\_constant\_factor)$$

Where

- $Pipe\_Cost_n$  = Capital cost for pipe in network section n (£m)  
 $L$  = Length (100 km)  
 $D_n$  = Diameter for network section n (mm)  
 $Pipecost\_diameter\_factor$  = Capital cost factor (£m/km/mm)  
 $Pipecost\_constant\_factor$  = Capital cost factor (£m/km)

## Entry Capacity Release Methodology Statement

- g) The capital cost of recompression from the minimum pressure up to 85bar<sub>g</sub> is calculated from the compressor power requirements

$$Compressor\_Cost_n = Power_n \times Power\_Unit\_Cost$$

Where

$Compressor\_Cost_n$  = Capital cost for compression in network section n (£m)

$Power_n$  = Compression power for network section n (MW)

$Power\_Unit\_Cost$  = Unit cost for additional power at existing stations (£m/MW)

- h) An allowance for engineering and project planning costs is included at 15%.

$$Project\_Cost_n = Project\_Factor * (Pipe\_Cost_n + Compressor\_Cost_n)$$

Where

$Project\_Cost_n$  = Project costs for network section n (£m)

$Project\_Factor$  = 15%

$Pipe\_Cost_n$  = Capital cost for pipe in network section n (£m)

$Compressor\_Cost_n$  = Capital cost for compression in network section n (£m)

- i) The total cost is the pipe cost plus the compressor cost plus the project costs (£)

$$Total\_Cost_n = Pipe\_Cost_n + Compressor\_Cost_n + Project\_Cost_n$$

Where

$Total\_Cost_n$  = Total cost for network section n (£m)

$Pipe\_Cost_n$  = Capital cost for pipe in network section n (£m)

$Compressor\_Cost_n$  = Capital cost for compression in network section n (£m)

- j) The unit cost is the total cost divided by the maximum energy flow (£m/GWh)

$$Unit\_Cost_n = Total\_Cost_n / Capacity_n$$

Where

$Unit\_Cost_n$  = Total unit cost for network section n (£m/GWh)

$Total\_Cost_n$  = Total cost for network section n (£m)

## Entry Capacity Release Methodology Statement

$$Capacity_n = \text{Daily capacity for network section } n \text{ (GWh)}$$

k) The expansion constant is calculated by dividing the unit cost by the pipe section length of 100km (£/GWhkm).

$$Specific\_Expansion\_Constant_n = 10^6 \times Unit\_Cost_n / L$$

Where

$$Specific\_Expansion\_Constant_n = \text{Expansion constant for network section } n \text{ (£/GWhkm)}$$

$$L = \text{Length (100 km)}$$

$$10^6 = \text{Conversion factor from £m to £}$$

$$Unit\_Cost_n = \text{Total unit cost for network section } n \text{ (£/GWh)}$$

l) The final expansion constant is a simple average of the individual pipeline expansion constants

$$EC = \frac{\sum_{n=1}^3 Specific\_Expansion\_Constant_n}{3}$$

Where

$$EC = \text{Expansion constant (£/GWhkm)}$$

$$Specific\_Expansion\_Constant_n = \text{Expansion constant for network section } n \text{ (£/GWhkm)}$$

## Supply/Demand Scenario

Estimated Project Costs for each Gas Year are set on the basis of the relevant Gas Year's base case supply and 1-in-20 peak demand data and network model, but with adjustments to the supply flows to reflect the capacity level in question Demand flows remain unadjusted.

To determine the Estimated Project Costs at the Obligated Entry Capacity level offered at an Entry Point, the supply scenario is adjusted for each Entry Point as follows:

- The supply flow is adjusted to the capacity level to be provided for the Entry Point in question.
- All other supply flows are adjusted up or down in order of merit to balance the network back to the peak 1 in 20 demand level in the base case data.

## Supply Merit Order

The supply merit order for each System Entry Point reflects the least beneficial alternate supply flow, in terms of enabling capacity provision at that Entry Point.

## Entry Capacity Release Methodology Statement

The supply merit order is determined by use of the model with the base case scenario to calculate pipeline distances from each System Entry Point to every other Entry Point.

For System Entry Points where flow needs to be added to the base case flow to align with the required capacity level, the remaining Entry Point flows are reduced in order of pipeline distance merit, starting with the furthest Entry Point ending with the Entry Point with the nearest Entry Point.

For System Entry Points where flow needs to be reduced from the base case flow to align with the required capacity level, the remaining Entry Point flows are increased in order of pipeline distance merit, starting with the nearest Entry Point and ending with the furthest Entry Point.

## Network Model

The appropriate network model for each period of capacity allocation is used i.e. the network model that includes sanctioned projects expected to be completed by the start of the Gas Year that is being modelled. All adopted connections that are fully depreciated are included at zero length.

There is a step to adjust the Initial Nodal Marginal Distances (InitialNMkm) such that the negative marginal distances are removed by collaring the Initial Nodal Marginal Distances at zero.

Long run incremental costs are calculated for an ASEP by determining the difference between adjusted nodal marginal distances for the relevant incremental capacity level and the Obligated Capacity level.

The differences in the adjusted marginal distances are converted into unit (incremental) costs (£/GWh) by multiplying it by the Expansion Constant. An adjustment to reflect the calorific value at the ASEP is also applied.

## Incremental Distances

The Nodal Marginal Distances for each Entry Point being considered at each incremental capacity level are converted to Nodal Incremental Distances by calculating the difference between the Nodal Marginal Distance at the incremental level and the Nodal Marginal Distance at the Obligated Capacity level.

$$NIkm_{x,EntryPoint} = NMkm_{x,EntryPoint} - NMkm_{Obligated,EntryPoint}$$

Where

$NIkm_{x,EntryPoint}$  = Nodal incremental distance for the entry point for incremental capacity level  $x$  (km)

$NMkm_{x,EntryPoint}$  = Nodal marginal distance for the entry point for incremental capacity level  $x$  (km)

$NMkm_{Obligated,EntryPoint}$  = Nodal marginal distance for the entry point at the obligated capacity level (km)

$EntryPoint$  = The entry point being analysed (a node in the set of supplies)

## Estimated Project Values

## Entry Capacity Release Methodology Statement

For the purposes of determining the required commitment from bidders that would normally trigger the release of incremental capacity an estimated project value is calculated for the incremental capacity level as follows:

$$ProjectValue_{x,EntryPoint} = \frac{(NMkm_{obligated} + Nlkm_{x,EntryPoint}) \times EC}{10^6} \times \frac{39}{CV_{entry}} \times IncCapacity_{x,EntryPoint}$$

Where

$ProjectValue_{x,EntryPoint}$  = Estimated project value for the entry point for the incremental level (£m)

$InitialPrice_{x,EntryPoint}$  = Initial Entry Price for the entry point for the incremental level x (p/kWh/day)

$Nlkm_{x,EntryPoint}$  = Nodal incremental distance for the entry point for incremental level x (km)

$NMkm_{obligated}$  = Nodal marginal distance for the entry point at the obligated level (km)

$EC$  = Expansion Constant (£/GWhkm)

$IncCapacity_{x,EntryPoint}$  = Incremental capacity level x for the entry point (GWh)

$EntryPoint$  = The entry point being analysed (a node in the set of supplies)



## APPENDIX 2: PARCA SUPPORTING INFORMATION

### PARCA Phases Overview:

PARCA Phase	Activities	Approximate Timescales	Activities and Outputs
0	Pre-PARCA Signature discussions		Bi-lateral discussions between National Gas Transmission and a customer before a PARCA has been agreed. <i>This is not technically a PARCA Phase however it has been included for completeness</i>
1	PARCA Application Window & ad-hoc QSEC Auction (if required)  Network Capability Assessment & Investment Options Identified	Up to 6 months	The PARCA Application Window would be opened and National Gas Transmission would undertake an Ad-hoc QSEC Auction if a PARCA Application requesting NTS Entry Capacity has been accepted.  We would undertake network analysis to determine how the requested level of capacity could be provided to the PARCA Applicant / Applicants given our existing capacity obligations and forecast future supply and demand patterns.  We would make best use of existing system capability and / or NTS Capacity substitution, before considering investing in increased system capability. If network investment is required, we would determine the different available investment options.  The outputs of the PARCA Phase 1 process would be issued to the PARCA Applicant in order that they can confirm whether they wish to proceed to PARCA Phase 2.
2	Capacity Reserved & Planning Submission Activities undertaken	Up to 60 months	Upon confirmation from the PARCA Applicant that they wish to proceed to PARCA Phase 2, the level of NTS Capacity identified in the PARCA Phase 1 outputs would be reserved at the appropriate NTS Exit and/or Entry Points for the PARCA Applicant.  National Gas Transmission would undertake the appropriate works, if required, and will progress investment design works and an appropriate planning application. PARCA Phase 2 would apply up to receipt of planning approval.  If no planning works are required to provide the NTS Capacity to the PARCA Applicant, it will be reserved until their respective capacity allocation date as identified in the PARCA Phase 1 outputs.
3	Capacity Allocation & Construction Activities	Up to 24 months	Following the completion of PARCA Phase 2 activities and upon confirmation from the PARCA Applicant, the reserved NTS Capacity will be allocated and construction activities (if required) would begin.  If a contractual or commercial solution can be agreed as an alternative to construction then it would also be finalised and agreed during PARCA Phase 3.  Upon allocation of any reserved NTS Capacity, UNC User Commitment applies.

## APPENDIX 3: DEFINITIONS

**DIA Fee** (Demand Indication Application Fee) equivalent to the PARCA Application Fee (also known as the Phase 1 PARCA Fee) detailed in UNC EID E 6.

**Incremental Capacity Signal** means, in respect of Entry Capacity, a bid for Quarterly NTS Entry Capacity that satisfies the Net Present Value test as described in National Gas Transmission's Entry Capacity Release Methodology Statement.

IP PARCA means Interconnection Point **Planning and Advanced Reservation of Capacity Agreement** and is a bilateral agreement which allows non-code parties (Reservation Parties) or Users (Reservation Users) to reserve Interconnection Point capacity ahead of its registration to the User or, as the case maybe, a Nominated User (nominated by the Reservation Party).

**PARCA** means **Planning and Advanced Reservation of Capacity Agreement** and is a bilateral agreement which allows non-code parties (Reservation Parties) or Users (Reservation Users) to reserve Quarterly NTS Entry Capacity and / or Enduring Annual NTS Exit (Flat) Capacity ahead of its registration to the User or, as the case maybe, a Nominated User (nominated by the Reservation Party).

The **PARCA (IP PARCA) Applicant** is a person who has entered into a PARCA (IP PARCA) with National Gas Transmission NTS and can be either a non-code party (Reservation Party) or a User (Reservation User).

The **PARCA Application** is an application form, published by National Gas Transmission NTS which must be completed and submitted to National Gas Transmission NTS by the PARCA Applicant in order to request that National Gas Transmission NTS enters into a PARCA.

**PARCA minimum duration quantity** is the minimum number of quarters that capacity shall be requested for under a PARCA.

**Phase 1 PARCA Fee** means the sum to be paid by the User or Reservation Party to ensure funding of the Phase 1 PARCA Works. National Gas Transmission will not commence the Phase 1 PARCA Works until the fee is paid.

**Phase 1 PARCA Works** are those works deemed necessary by National Gas Transmission NTS to process the PARCA Application and to produce and issue the Phase 1 PARCA Works Report.

**Phase 1 PARCA Works Report** means the report to be submitted by National Gas Transmission to the User or Reservation Party following completion of the Phase 1 PARCA Works.

**Phase 2 PARCA Works** has the meaning given to the same term in the generic PARCA.

**Registered capacity** is as defined in UNC TPD Section B.

**Reservation Party** means a party other than a User who is developing a project that will require the input of gas onto the NTS at a new or existing ASEP.

**Works** means works, in relation to reinforcement of the NTS, in order to make available Quarterly NTS Entry Capacity that requires the release of *Incremental Obligated Entry Capacity*. It includes (a) the provision of new or modified pipeline infrastructure to provide increased capability within the

## Entry Capacity Release Methodology Statement

NTS, and/or (b) contractual alternatives to infrastructure that provide a more economic and efficient means of matching the capability of the NTS to User requirements. Consequently, Works will normally incur costs, which will require funding via provision of a **Funded Incremental Obligated Capacity Re-opener**.

### **NTS Capacity Terminology Defined in the Licence:**

**Entry Capacity** is capacity in the NTS which a Relevant Shipper User is treated as utilising in delivering gas to the NTS at an ASEP.

**Firm Entry Capacity** means Entry Capacity that provides users with a contractual right to flow onto the NTS and has the meaning given to that term in UNC.

**Funded Incremental Obligated Capacity (FIOC) Project Direction** means a direction by the Authority, following a submission from the licensee in accordance with Special Condition 3.13 (Funded incremental obligated capacity Re-Opener and Price Control Deliverable) justifying its costs for releasing Funded Incremental Obligated Entry Capacity or Funded Incremental Obligated Exit Capacity, and specifying an output, delivery date and allowance.

**Funded Incremental Obligated Capacity (FIOC) Guidance and Submissions Requirements Document** means the document of that name issued by the Authority in accordance with Part G of Special Condition 3.13 (Funded incremental obligated capacity Re-Opener and Price Control Deliverable)

**Funded Incremental Obligated Entry Capacity** means Incremental Obligated Entry Capacity, the release of which has been funded under Special Condition 3.13 (Funded incremental obligated capacity Re-opener and Price Control Deliverable). The Funded Incremental Obligated Entry Capacity will be added to Licence Baseline Entry Capacity five years after the contractual delivery date.

**Incremental Entry Capacity** means Firm Entry Capacity other than Non-incremental Obligated Entry Capacity.

**Incremental Obligated Entry Capacity** means the volume of Firm Entry Capacity which the Licensee is required to offer for sale at an ASEP following implementation of a proposal made by the Licensee in accordance with Special Condition 3.13 (Funded incremental obligated capacity Re-opener and Price Control Deliverable) that is above the Non-incremental Obligated Entry Capacity which is derived in accordance with the obligations set out in Special Condition 9.18 (Methodology to determine the release of Entry Capacity and Entry Capacity Obligations volumes).

**Licence Baseline Entry Capacity** means the volume of Entry Capacity that the Licensee must offer for sale as of 1 April 2013 as set out in Special Condition 9.13 (Determination of Incremental Obligated Entry Capacity volumes and the appropriate revenue drivers to apply).

**Non-incremental Obligated Entry Capacity** is the sum of Licence Baseline Entry Capacity adjusted for Entry Capacity Substitution.

**Non-obligated Entry Capacity** means Firm Entry Capacity other than Obligated Entry Capacity.

**Obligated Entry Capacity** is the sum of Non-incremental Obligated Entry Capacity and Funded Incremental Obligated Entry Capacity.

**Interruptible Entry Capacity** shall have the meaning given to the term "Daily Interruptible NTS Entry Capacity" in UNC.

**Re-opener** means a funding mechanism created by Special Licence Condition 3.13 (Funded incremental obligated capacity Reopener and Price Control Deliverable)

### **NTS Capacity Terminology Defined in the UNC:**

References to paragraphs in these definitions are to UNC TPD Section B and EID Section B.

**Available NTS Entry Capacity** for an Aggregate System Entry Point is, in respect of:

- (a) a calendar month in Capacity Year Y and Capacity Year 1, not less than the sum of:
  - (i) Unsold NTS Entry Capacity (if any); and
  - (ii) Incremental NTS Entry Capacity (if any); and
- (b) a calendar quarter in Capacity Year + 2 to Capacity Year + 16 (inclusive), is not less than the sum of:
  - (i) Unsold NTS Entry Capacity (if any); and
  - (ii) Incremental NTS Entry Capacity (if any).

**Bundled Interconnection Point Capacity** is Firm Interconnection Point Capacity that is made available in an Auction together with Equivalent Interconnected System Exit Capacity (with respect to an IP ASEP).

**Daily Firm Interconnection Point Capacity** is Firm Interconnection Point Capacity which may be bid for and registered as held (in a given amount) by a User for a single Gas Flow Day.

**Daily Interruptible Interconnection Point Capacity** is Interruptible Interconnection Point Capacity which may be bid for and registered as held (in a given amount) by a User for a single Gas Flow Day.

**Daily Interruptible NTS Entry Capacity** is Interruptible NTS Entry Capacity which may be applied for and registered as held (in a given amount) by a Shipper User for a particular Day only.

**Daily NTS Entry Capacity** is Firm NTS Entry Capacity which may be applied for and registered as held (in a given amount) by a Shipper User for a particular Day only.

**Discretionary NTS Entry Capacity** is NTS Entry Capacity which National Gas Transmission NTS shall be entitled to invite applications for by such means as National Gas Transmission NTS may determine in its sole discretion. The timing of any such invitation, the quantities of NTS Entry Capacity included in such invitation, and the terms which shall apply to the offering of, application for, allocation of and use of such Discretionary NTS Entry Capacity shall also be determined by National Gas Transmission NTS in its sole discretion;

**Firm Interconnection Point Capacity** is Interconnection Point Capacity that is not subject to curtailment.

**Firm NTS Entry Capacity** means Quarterly NTS Entry Capacity, Monthly NTS Entry Capacity and Daily NTS Entry Capacity which (without prejudice to UNC TPD Section I3.7) is not subject to curtailment.

**Incremental NTS Entry Capacity** is the amount of Firm NTS Entry Capacity (if any) in excess of the Unsold NTS Entry Capacity which National Gas Transmission NTS may (but shall not be required to) invite applications for pursuant to UNC TPD Section B 2.2 and 2.3.

**Interconnection Point Capacity** means System Capacity at an Interconnection Point, comprising NTS Entry Capacity (in relation to the IP ASEP).

**Interruptible Interconnection Point Capacity** is Interconnection Point Capacity which is liable to be curtailed in accordance with UNC TPD Section B2.9 and EID Section B10.6.

**Interruptible NTS Entry Capacity** means Daily Interruptible NTS Entry Capacity which is liable to be curtailed pursuant to UNC TPD Section B 2.9;

**Monthly Interconnection Point Capacity** is Interconnection Point Capacity which may be bid for and registered as held (in a given amount) by a User for each Day in a calendar month.

**Monthly NTS Entry Capacity** is Firm NTS Entry Capacity which may be applied for and registered as held (in a given amount) by a Shipper User for each Day in a particular calendar month.

**NTS Entry Capacity** at an Aggregate System Entry Point is capacity in the NTS which a Shipper User is treated as utilising in delivering gas to the NTS (and the Total System) at that point.

**Quarterly Interconnection Point Capacity** is Interconnection Point Capacity which may be bid for and registered as held (in a given amount) by a User for each Day in a calendar quarter.

**Quarterly NTS Entry Capacity** is Firm NTS Entry Capacity which may be applied for and registered as held (in a given amount) by a Shipper User for each Day in a particular calendar quarter.

**Reserved Entry Capacity** means capacity that is reserved in accordance with a PARCA or IP PARCA (and specified in the Phase 1 PARCA Works Report) with the intent that it shall later be allocated to and registered with a User.

**Technical Interconnection Point Capacity** is the amount of Firm Interconnection Point Capacity which National Gas Transmission NTS is required to make available to Users pursuant to the Licence as NTS Entry Capacity as set out in National Gas Transmission's NTS Transportation Statement.

**Unbundled Interconnection Point Capacity** is Firm or Interruptible Interconnection Point Capacity that is made available in an Auction separately from capacity rights provided by any Adjacent Transporter.

**Unsold NTS Entry Capacity** is the amount of Firm NTS Entry Capacity that National Gas Transmission NTS has, for the purposes of:

- (i). UNC TPD Section B 2.2, in relation to each Day in a calendar quarter (in the case of QSEC) or in a month (in the case of AMSEC);
- (ii). UNC TPD Section B 2.3, in relation to each Day in a calendar month;
- (iii). UNC TPD Section B 2.4, in relation to a Day

an obligation to make available (in accordance with the procedures set out in UNC TPD Section B2) to Shipper Users pursuant to Special Condition 5F of National Gas Transmission's NTS Transporters Licence as, in the case of NTS Entry Capacity to be made available under UNC TPD Section B 2.2, 2.3 and 2.4 but not 2.5, set out in National Gas Transmission's NTS Transportation Statement.

**Unsold Technical Interconnection Point Capacity** is Technical Interconnection Point Capacity which is not allocated to and held by Users.

**Weekly NTS Entry Capacity** is Firm NTS Entry Capacity which may be applied for and registered as held (in a given amount) by a User for each Day in a particular calendar week.

**Yearly Interconnection Point Capacity** is Interconnection Point Capacity which may be bid for and registered as held (in a given amount) by a User for each Day in a Gas Year.

