



**Review of the  
NTS Exit Capacity Release  
Methodology Statement  
in respect of the  
Interim and Transitional Periods.  
Consultation Conclusions Report**

**20<sup>th</sup> March 2008**

## Executive Summary

### Introduction

Special Condition C18 of National Grid's Gas Transporter Licence in respect of the NTS (the "Licence") sets out obligations to prepare and submit for approval by the Authority an NTS Exit Capacity Release (ExCR) Methodology Statement setting out the methodology by which National Grid NTS "NG NTS" will determine whether to release NTS Exit Capacity to gas shippers or DN operators. In addition, NG NTS is obliged to review the statement on an annual basis in consultation with gas shippers and other interested persons.

The Gas and Electricity Market Authority (the "Authority") decision that allowed the sale of gas distribution networks by National Grid in May 2005 concluded that NTS offtake arrangements required reform to be introduced in two phases:

- "Interim Arrangements" to establish the new commercial framework recognising the new NTS/DN interface; and
- "Enduring Arrangements" (by September 2005) to introduce more market based arrangements effective from Gas Year 2008/09.

On 24 June 2005 the Authority announced a delay to the implementation of the Enduring Arrangements until 2007 for release of NTS Exit Capacity and NTS Offtake Capacity rights from Gas Year 2010/11 to permit more time to consider and refine the detail of the new arrangements. Transitional Arrangements were therefore developed to cover the two intervening years between the end of the Interim Arrangements and the commencement of the Enduring Arrangements. Subsequently the Authority, in its decision letter on UNC Modification Proposal 0116V (and alternates) "Reform of the NTS Offtake Arrangements", delayed implementation of the Enduring Arrangements until April 2008 in respect of capacity made available from October 2011. The Authority's decision to implement Proposal 116V was subsequently appealed and the appeal upheld by the Competition Commission. Consequently the Authority is now reconsidering the Proposals raised in relation to Reform of the NTS Offtake Arrangements.

In light of these developments, NG NTS has raised UNC Modification Proposal 0198 ("Extension of the Current Sunset Clauses for Registration of Capacity at NTS Exit Points") in order to extend the relevant sunset clauses for a further one year thereby extending the Transitional Arrangements until September 2012.

In response to these two phases of regime development NG NTS has developed its NTS Exit Capacity Release Methodology Statement in respect of the Interim and Transitional Periods (the "IExCR") and will be developing a NTS Exit Capacity Release Methodology Statement in respect of the Enduring Period ("ExCR") separately.

On 31<sup>st</sup> January 2008 NG NTS initiated its consultation as part of the annual review of the IExCR. The principle changes proposed to the existing IExCR were:

- updating the statement for the additional year which is now covered by the Transitional Period,
- removal of the table of Initial Volume Allocations (IVA). There is now no reference to IVAs in the Licence,
- the inclusion of processes for the release of "existing" capacity. The Special Condition C18 licence obligation no longer refers to an "incremental" exit capacity release methodology statement, and
- inclusion of a summary table and definitions section.

NG NTS invited views in respect of the proposed revised IExCR to be made by 14<sup>th</sup> March 2008.

This document sets out NG NTS's conclusions on its consultation on the proposed IExCR. It provides a summary of the representations received from the above organisations, NG NTS's response and an indication of whether, as a result of such representations, any changes have been made to the proposed revised statement.

## Responses

Representations were received from the three respondents listed below.

National Grid Distribution (NGD)  
Scotia Gas Networks (SGN)  
RWE npower (RWE)

The main responses received relate to:

- **Confused understanding of “Existing Capacity”.** NG NTS agrees that the current drafting may lack clarity so is proposing to add / modify two definitions.
  - Existing System Exit Capability means the capacity determined in accordance with paragraphs 20 and 21 [by network analysis].
  - Incremental Exit Capacity means capacity (requested) to be made available in excess of the Existing System Exit Capacity.
- **Baseline Capacities.** NG NTS has an on-going obligation in respect of existing allocations irrespective of whether these are less than, equal to, or greater than, the baseline quantities. However, in accordance with TPCR: Final Proposals<sup>1</sup> the Licence only requires NG NTS to release baseline quantities for the Enduring Period but not for the Interim and Transitional Periods (Special Condition C8E 3 (a) and (b)).
- **Release of Offtake (Flexibility) Capacity.** Figure 2 shows that flexibility capacity is not released if specific reinforcement is required but may otherwise be released. This is consistent with the statement in paragraph 37. However, figure 1 is inconsistent with paragraph 27 which envisages release of flexibility capacity if this can be achieved efficiently and economically and whilst maintaining a safe operating System. NG NTS is proposing to amend figure 1 to ensure consistency.
- **Buy-back of NTS Offtake Flat and Flexibility Capacity as mitigating actions which might be considered to facilitate the release of incremental capacity.** The paragraph in question identifies mitigating actions that “may be explored”. This list is not exhaustive and NG NTS may consider innovative measures that could result in additional capacity being released. Under UNC Section B 3.8 the surrender of exit capacity at NTS Exit Points other than NTS/LDZ Offtakes is facilitated. It may be possible to extend similar arrangements to NTS/LDZ Offtakes. However, NG NTS accepts that, as this would require significant development and a UNC modification proposal before it can be introduced, it may be misleading to include reference to this as a potential mitigating action. NG NTS proposes to remove this reference.
- **Clarification of the costs that might be considered in assessing whether it is economical to release incremental flexibility capacity.** Infrastructure costs are of paramount importance, but other costs that would influence the release of flexibility capacity would include compressor operating costs and the potential cost of locational market actions to maintain/achieve line-pack requirements.
- **ARCA.** NG NTS proposes to make minor amendments to the statement to clarify lead times and processes where an ARCA is not agreed.

Detailed comments from respondents and NG NTS’s response to these comments are provided in the following table.

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Appendix 9 paragraph 1.10, TPCR 2007-2012 Final Proposals, Appendices, December 2006 (Ofgem ref No. 206/06b)

Party	Issue	Response Quotes	NG NTS Response	Proposed changes
<b>1 – Existing Capacity.</b>				
1.1 NGD	Inclusion of the processes for the release of existing capacity	Whilst we welcome in principle the inclusion of this new section on the allocation of existing capacity we feel that this would benefit further if there were reference to a definition of existing capacity, particularly at NTS/LDZ offtakes. We assume existing capacity means capacity allocated in a previous Offtake Capacity Statement process but we would welcome clarity on this point.	Existing Exit Capacity refers to the existing capability of the NTS. It is defined in paragraphs 20 and 21, i.e. determined by network analysis.  NG NTS accepts that the terminology used in the current draft may lack clarity so is proposing to amend references to Existing [Exit] Capacity and to add a definition of “Existing System Exit Capacity”	Amend references to “Existing [Exit] Capacity” to “Existing System Capacity”.  Add definition: “ <b>Existing System Exit Capacity</b> means the capacity determined in accordance with paragraphs 20 and 21 and is a measure of the capability of the NTS. It includes currently allocated and unallocated capacity. Unallocated capacity is not specific to any individual exit point.
1.2 SGN		SGN is unclear as to what the document is suggesting National Grid’s obligations are in relation to release of: <ul style="list-style-type: none"> <li>- baseline levels of capacity,</li> <li>- existing levels of capacity and</li> <li>- capacity allocated through UNC TPD Section G and Section B processes.</li> </ul> Chapter 1 sets out the high level principles applying to the release of all forms of NTS Exit Capacity for the interim and transitional periods. Paragraph 10 states that the methodology shall apply to “existing and incremental capacity”. There is no definition of existing capacity under Appendix 1. We believe such a definition is required to add clarity to the Statement. It is our understanding that within the context of Chapter 1 and Chapter 2, existing capacity is that capacity which can be made available without any incremental investment by NTS. Some of that capacity will already have been allocated to Shippers and DNO Users through UNC Section G and Section B processes. However there could be additional unallocated capacity that SGN believes should also be made available.	See above.  NG NTS agrees that any “additional unallocated capacity” should be made available. This is the purpose of chapter 2 “Procedure for Allocating Existing Exit Capacity”.	See above.

2 – ARCA Processes				
2.1 RWE	ARCA / Investment lead time	Paragraph 34 of the statement refers to instances where shippers require incremental exit capacity that requires NG to make investment, and as such is covered by an ARCA. Whilst shippers should be encouraged to apply for such capacity at least 38 months beforehand, to tie in with the typical investment lead times, we believe it should be made clear within this paragraph that NG will still use their reasonable endeavours to accommodate incremental capacity requests even if the investment is required within a shorter timescale. The typical investment lead time of 38 months, which has been recognised in National Grid's licence with effect from the start of the enduring period, simply reflects the typical timescale for undertaking investment in accordance with National Grid's annual investment planning and construction process. However there may be, and indeed have historically been, many occasions where National Grid is able to provide incremental capacity within shorter lead times than 38 months. Whilst National Grid are not financially incentivised to make incremental capacity available earlier during the transitional period (unlike during the enduring period), their wider licence and statutory obligations do, we believe, require them to use reasonable endeavours to make it available earlier if required and if reasonably possible.	NG NTS agrees that, where practicable, capacity should be made available earlier than the default lead times if required by the User.	Add at the end of paragraph 34: "Notwithstanding the lead times identified in this paragraph National Grid will consider the release of capacity in advance of these timescales where National Grid deems this to be practicable."
2.2 RWE	Definition of Specific reinforcement	Paragraph 34 <i>[should be 35]</i> uses a double negative and we believe the last section of this paragraph would be better expressed as "i.e. whether there is any NTS investment that would be required if the incremental capacity was supplied".	The definition of specific reinforcement has been taken from the SC4B statement. The suggested alternative would incorrectly capture investments triggered by multiple capacity requests.	None
2.3 RWE	Arrangements if ARCA is unsigned.	It is not clear whether Paragraph 40 relates to an ARCA that has been referred to Ofgem (paragraph 39) but is still not signed, or to any ARCA that is not signed. Also it is not clear whether a shipper would be allowed to reserve capacity up to the level which is available without investment if an ARCA remains unsigned, or whether they will only be allowed to book capacity up to that level 6 months prior to requiring it.	Paragraph 40 refers to both scenarios mentioned.  If an ARCA is not signed capacity can only be reserved 6 months prior to it being required (paragraph 38)	Paragraph 40 to be revised to give: ".....ARCA is not signed, <i>whether or not it has been referred to Ofgem</i> , then ..... <i>This would be in accordance with paragraph 38.</i> "

3- Baselines				
3.1 SGN		<p>SGN is unclear as to what the document is suggesting National Grid's obligations are in relation to release of:</p> <ul style="list-style-type: none"> <li>- baseline levels of capacity,</li> <li>- existing levels of capacity and</li> <li>- capacity allocated through UNC TPD Section G and Section B processes.</li> </ul> <p>.....</p> <p>It is also SGN's understanding that National Grid is obliged to release up to baseline, yet under the definition of NTS baseline capacity in Appendix 1, it states that in the absence of a full User commitment model for the interim and transitional periods, National Grid does not believe it has an obligation to offer NTS baseline capacity levels for sale. SGN does not agree with this position and would appreciate further clarification.</p>	<p>in accordance with TPCR: Final Proposals the Licence requires NG NTS to release baseline quantities for the Enduring Period but not the Interim and Transitional Periods (see Special Condition C8E 3 (a) and (b)).</p>	None
4 – Incremental Capacity				
4.1 NGD	Removal of the table of Initial Volume Allocations (IVAs)	<p>Whilst we understand that IVAs have been removed from the methodology because of the removal of the reference in the NTS Licence we feel that this has left incremental capacity to be ill-defined. Previously incremental capacity was understood to mean that level of capacity that was requested in excess of the IVAs. However in the document incremental capacity is now defined as meaning "capacity (requested) to be made available in excess of the existing level". If we assume our definition of existing capacity is correct then this meaning works for the years 2008/9, 2009/10 and 2010/11 because DNs have received allocations through the OCS process however we have not yet received an allocation for 2011/12 and therefore in our OCS application in 2008 DNs will not know if they are requesting incremental capacity. This could therefore lead to potentially inefficient investment in our networks. We would ask that this is addressed in the final document.</p>	<p>DNO Users request capacity through the OCS process. This may include a year on year increase.</p> <p>NG NTS will allocate Existing System Exit Capacity on a first come first served basis (accepting that DNOs effectively submit capacity requests simultaneously) and in accordance with OCS procedures. Where there is insufficient Existing System Exit Capacity, Incremental Exit Capacity will be considered for allocation in accordance with chapter 3.</p>	Revise definition: <b>"Incremental Exit Capacity</b> means capacity (requested) to be made available in excess of the Existing System Capacity".
4.2 SGN		<p>SGN is unclear as to what the document is suggesting National Grid's obligations are in relation to release of:</p> <ul style="list-style-type: none"> <li>- baseline levels of capacity,</li> <li>- existing levels of capacity and</li> </ul>	<p>NG NTS agrees that it has an on-going obligation in respect of existing capacity allocations whether these are less than,</p>	None

		<p>- capacity allocated through UNC TPD Section G and Section B processes.</p> <p>.....</p> <p>We note that paragraph 11 states that existing NTS Exit Capacity does not necessarily equate to NTS baseline levels as specified in Annex A, table 1 of Special Condition C8E of the Licence. It is our understanding that in a number of locations, existing capacity allocated to Shippers and DNO Users through Section G and Section B processes, is greater than that set in baselines under Licence. For the avoidance of doubt, where capacity has been allocated under Section G and Section B, we believe there is a firm contractual commitment and obligation for National Grid NTS to make that capacity available, whether above or below baseline.</p>	<p>equal to, or greater than, the baseline quantity. However, the baseline values are not relevant for the purposes of the IExCR.</p>	
4.3 SGN	Mitigating actions	<p>We note that under paragraph 30, where an application for incremental exit capacity could be expected to impair safe operation of the System and / or result in additional infrastructure or operating costs, National Grid will consider what mitigating actions could be undertaken.</p> <p>It is suggested under paragraph 31 that mitigating actions that may be explored include the options of buying back NTS Offtake Flat and Flexibility Capacity from other DNO Users. SGN would appreciate some clarification of the circumstances under which buy back options would be considered and deemed to be economic or efficient. We would also appreciate clarification of the commercial process and arrangements by which buy back would be initiated and secured. We are not aware of any mechanisms which exist under the UNC. We are particularly interested in this option as a means of ensuring maximum use of capacity, in light of recent analysis presented by National Grid NTS suggesting NTS Offtake (Flexibility) Capacity could be likely to become increasingly constrained in coming years.</p>	<p>Paragraph 31 identifies mitigating actions that “may be explored”. This list is not an exhaustive list and NG NTS may consider other innovative measures that could result in additional capacity being released. Under UNC Section B 3.8 the surrender of exit capacity at NTS Exit Points (other than NTS/LDZ Offtakes) is facilitated. It may be possible to extend similar arrangements to NTS/LDZ Offtakes. However, NG NTS accepts that, as this would require significant development and a UNC modification proposal before it can be introduced, it may be misleading to include reference to this as a potential mitigating action.</p>	<p>Removal of reference to buy-back of NTS Offtake Capacity from paragraphs 31 and A6.</p>
4.4 SGN	Relevant costs	<p>We would also appreciate clarification on the extent by costs, particularly operating costs, might influence National Grid NTS’s decision to release incremental capacity, particularly in relation to</p>	<p>Infrastructure costs are of paramount importance, but other costs that would influence</p>	<p>None</p>

		NTS Offtake Flexibility Capacity to DNO Users. The focus previously has been on infrastructure costs. We understood that capacity would be released to the extent that it would be economic and efficient to do so. Paragraph 27 suggests capacity will be allocated where it is "economical to do so". However paragraph 29 explicitly states that NTS will only allocate incremental capacity if no costs are incurred.	the release of flexibility capacity would include compressor operating costs and, in the event that daily requirements may be not be known in advance, the potential cost of locational market actions to maintain/achieve line-pack requirements.	
<b>5 – Flow Charts</b>				
5.1 SGN	Flex capacity release	Figure 1 and Figure 2 of Appendix 3 both suggest that where a request for "Flex Capacity" is received this will automatically be rejected. As above, we would appreciate clarification on this point. We would expect that where incremental capacity is requested, it would be released to the extent it is available, and / or below baseline and safe, economic and efficient to do so. Both diagrams appear to be inconsistent with various sections of text in Chapter 2 and 3.	Figure 2 shows that flexibility capacity is not released if specific reinforcement is required but may otherwise be released. This is consistent with the statement in paragraph 37.  However, figure 1 is inconsistent with paragraph 27 which envisages release of flexibility capacity if this can be achieved efficiently and economically and whilst maintaining a safe operating System.	Amendment to figure 1 to ensure consistency with paragraph 27.
<b>6 - General</b>				
6.1 NGD	Updating the Statement for the additional year	With the further delay in the implementation of Enduring Exit Reform we understand why the Interim and Transitional IExCR has to be extended for a further year. Notwithstanding our comments made below <i>[copied above]</i> without it there would not be a methodology for the release of capacity for the Gas Year starting 1 October 2011.	Noted	None
6.2 NGD	Inclusion of a summary table and definitions section	We welcome these additions to the document. In general they add clarity to the description of the methodology, however we do have reservations in terms of the definitions of existing capacity and incremental capacity as described below <i>[copied above]</i> .	Noted.	See 1.1 and 4.1 above.