

Issue	Revision
10.10	<u>For Consultation</u> Approved



Entry Capacity Substitution Methodology Statement

Effective from dd mm ~~24th July 2021~~19

ENTRY CAPACITY SUBSTITUTION METHODOLOGY STATEMENT

Document Revision History

Version/ Revision Number	Date of Issue	Notes
0.1	17 May 2007	Draft for consultation
0.2	4 July 2008	Revised draft updated following Substitution Workshops. Issued as a discussion document.
0.3	15 May 2009	Informal consultation Major changes to reflect workshop output.
0.3C	15 May 2009	Drafted for Option Approach
0.4	24 July 2009	Further detail added for formal consultation.
0.5	7 September 2009	Revised following comments received to formal consultation. Scope for refund of retainer charges extended to allow capacity allocated at Y+5 and Y+6 to trigger refund. Retainer requests to be acknowledged. Individual User retainers granted to be notified to the relevant User. Full and partial refunds of retainer charges will now be made in the year they are triggered. Revisions to zones will now be notified before the retainer window. Minor amendments to aid clarity.
1.0	8 December 2009	V0.5 approved by the Authority.
1.1	6 August 2010	Annual Review – Consultation Draft
1.2	23 September 2010	Revision to appendix 1 following comments received to formal consultation. Submitted for Approval
2.0	21 October 2010	Authority Approval
2.1	04 August 2011	Annual review – Consultation Draft
2.2	14 September 2011	Correction to footnote to appendix 1 changed from the QSEC invitation letter to the Retainer invitation letter. Submitted for Approval
3.0	12 October 2011	Authority Approval
3.1	28th September 2012	Annual Review Consultation Draft.
3.2	9 November 2012	No further changes following consultation. Submitted for Approval
4.0	5 TH December 2012	Authority Approval

4.1	June 2013	Updated for RIIO-T1 New terminology and Licence references
4.2	September 2013	Minor amendments to correct editing issues and improve clarity. Paragraph 87 added: Facilitates possible veto of substitution proposals at Interconnection Points. Submitted for Approval. Submitted for Approval
5.0	October 2013	Authority Approval
5.1	September 2013	Annual Review (informal consultation) Updated to align to Modification 0452: Introduction of the Planning and Advanced Reservation Capacity Agreement (PARCA)
5.2	December 2014	Annual Review (formal consultation) Minor 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. Footnote 7 added to recognise the potential implementation of UNC Modification 0501, 0501A, 0501B or 0501C.
5.3	January 2015	Minor changes following industry consultation to improve clarity. Submitted for Approval
6.0	February 2015	Authority Approval subject to a number of minor clarifications.

6.1	December 2014	<p>Informal consultation</p> <p>Clarifications arising from development of EU Modifications:</p> <p style="padding-left: 40px;">0500: EU Capacity Regulations - Capacity Allocation Mechanisms with Congestion Management Procedures and</p> <p style="padding-left: 40px;">0501: Treatment of Existing Entry Capacity Rights at the Bacton ASEP to comply with EU Capacity Regulations or</p> <p style="padding-left: 40px;">0501A: Treatment of Existing Entry Capacity Rights at the Bacton ASEP to comply with EU Capacity Regulations, including capacity return option or</p> <p style="padding-left: 40px;">0501B: Treatment of Existing Entry Capacity Rights at the Bacton ASEP to comply with EU Capacity Regulations, including a restricted capacity return option or</p> <p style="padding-left: 40px;">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</p> <p style="text-align: center;">and the draft revised licence arrangement</p>
6.2	July 2015	<p>Annual Review (formal consultation)</p> <p>Updates following informal consultation.</p> <p>Minor updates based on recommendations from 2015 Examination.</p> <p>Further review to align to Modification 0501V: 'Treatment of Existing Entry Capacity Rights at the Bacton ASEP to comply with EU Capacity Regulations'.</p>
6.3	August 2015	<p>No further changes following consultation. Submitted for Approval</p>
7.0	October 2015	<p>Authority Approval subject to a number of minor clarifications.</p>
7.1	October 2016	<p>Formal Consultation</p> <p>Updates to substitution lead time and utilisation of unsold capacity at disconnected ASEPs.</p>

7.2	November 2016	No further changes following consultation. Submitted for approval.
8.0	January 2017	Authority Approval
8.1	April 2017	Industry consultation: Update to align to UNC Modifications 0597: Rules for the release of incremental capacity at Interconnection Points; and 0598S: Amendments to Capacity Allocations Mechanisms to comply with EU Capacity Regulations.
8.2	May 2017	No changes proposed following consultation. Submitted for approval.
9.0	July 2017	Authority Approval
9.1	January 2019	Preliminary Consultation. Housekeeping.
9.2	March 2019	Formal Consultation. No further changes.
9.3	May 2019	Ofgem submission. No further changes.
10.0	July 2019	Authority Approval
<u>10.1</u>	<u>March 2021</u>	<u>Formal Consultation:</u> <u>Update Licence references to align with RIIO2 changes going live from 1st April 2021</u> <u>Amendment to prioritise substitution from disconnected sites</u> <u>Change substitution increment size from 0.01 to 0.1 GWh/d.</u>

ABOUT THIS STATEMENT

This Entry Capacity Substitution Methodology Statement (the “Statement”)¹ describes the methodology that National Grid Gas plc (“National Grid”) in its role as holder of the Gas Transporter Licence in respect of the NTS² (“the Licence”) will utilise to determine proposals for Entry Capacity Substitution, i.e:

- the substitution of unsold **Non-incremental Obligated Entry Capacity**³ from one Aggregate System Entry Point (“ASEP”)⁴ to another ASEP in response to demand for **Incremental Obligated Entry Capacity**.

In particular, it defines:

- under what circumstances National Grid will consider such substitutions; and
- the process to be undertaken by National Grid to determine its proposals to substitute capacity and revise baseline quantities.

This Statement is one of a suite of documents that describe the release of NTS capacity by National Grid and the methodologies behind them. The other documents are available on the National Grid website at:

<https://www.nationalgridgas.com/capacity/capacity-methodology-statements>

This Statement contains terminology relating to entry capacity which is used in the Licence and in the Uniform Network Code (“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.

It should be noted that this Statement does not provide the methodology by which, and from when, **Entry Capacity** will be made available. The processes for Shipper Users to obtain, and for National Grid to release **Entry Capacity** can be found in the UNC and the Entry Capacity Release Methodology Statement (“ECR”).

This Statement applies in respect of **Incremental Obligated Entry Capacity**, released as a result of valid bids for **Quarterly NTS Entry Capacity, or released via a PARCA or IP PARCA**, made in accordance with the UNC and the ECR. The timing of the release of any **Incremental Obligated Entry Capacity** will be in accordance with the ECR. Where such **Incremental Obligated Entry Capacity** is to be made available as a result of Entry Capacity Substitution, capacity will be made available from a date consistent with this Statement.

If you require further details about any of the information contained within this Statement or have comments on how this Statement might be improved please contact our Future Markets team at box.transmissioncapacityandcharging@nationalgrid.com or at:

[Gas Market Change Delivery Future Markets \(Gas\)](#),

National Grid House, Warwick Technology Park, Gallows Hill, Warwick, CV34 6DA.

¹ This Statement is often abbreviated to the “ECS”.

² The gas National Transmission System

³ For the avoidance of doubt, references to **Obligated Entry Capacity** can be taken to also mean **Technical Interconnection Point Capacity** with regards to Interconnection Point ASEPs.

⁴ For the purpose of this Statement, references to ASEPs can be taken to also include Interconnection Point ASEPs (IP ASEPs) unless otherwise stated.

Contents

ABOUT THIS STATEMENT	6
GENERAL INTRODUCTION	8
Background	8
Capacity Terminology	8
National Grid's Licence Obligations	10
CHAPTER 1: PRINCIPLES	12
Purpose of the Methodology Statement	12
CHAPTER 2: METHODOLOGY	13
Introduction	13
Capacity Retainers	16
Capacity Retainer Windows	17
Provision of Retained Capacity Information	18
Capacity Retention Charges	18
Capacity Retention Charge Refunds	18
Capacity Allocations	20
Application of Zones	21
Recipient ASEP Order	21
Donor ASEP Order	22
Network Analysis for Capacity Substitution	<u>23</u> 22
Substitution Analysis (see Appendix 2)	23
Partial Substitution	<u>25</u> 24
Analysis Output	<u>25</u> 24
APPENDIX 1: ENTRY CAPACITY ZONES	<u>27</u>26
APPENDIX 2: PROCESS FOR SUBSTITUTION ANALYSIS	<u>28</u>27
APPENDIX 3: PARCA SUPPORTING INFORMATION	<u>29</u>28

GENERAL INTRODUCTION

Background

1. National Grid 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 substitution of Substitutable Capacity (as defined in paragraph 22) from one or more donor ASEPs to meet demand for **Incremental Obligated Entry Capacity** (i.e. capacity to be made available above the prevailing level of **Obligated Entry Capacity**) at other ASEPs, in response to signals received from Shipper Users and Reservation Parties through processes described in the UNC), thereby reducing the need for investment to meet that incremental demand for **Obligated Entry Capacity**. The methodology is applicable in respect of capacity released in the long-term, i.e. in the Quarterly System Entry Capacity (“QSEC”) auctions or pursuant to a PARCA and/or an IP PARCA⁵. For the avoidance of doubt the **Obligated Entry Capacity** at an IP, known as the **Technical Interconnection Point Capacity**, will be considered as Substitutable Capacity subject to paragraph ~~9389~~.
5. The methodology for moving **Entry Capacity** between ASEPs in the short-term can be found in the “Entry Capacity Transfer and Trade Methodology Statement”. Related processes have been introduced to the UNC.
6. Details of National Grid and its activities can be found on its internet site at <https://www.nationalgrid.com/>.
An electronic version of this Statement, along with the other related statements can be found on the following web page:
<https://www.nationalgridgas.com/capacity/capacity-methodology-statements>.

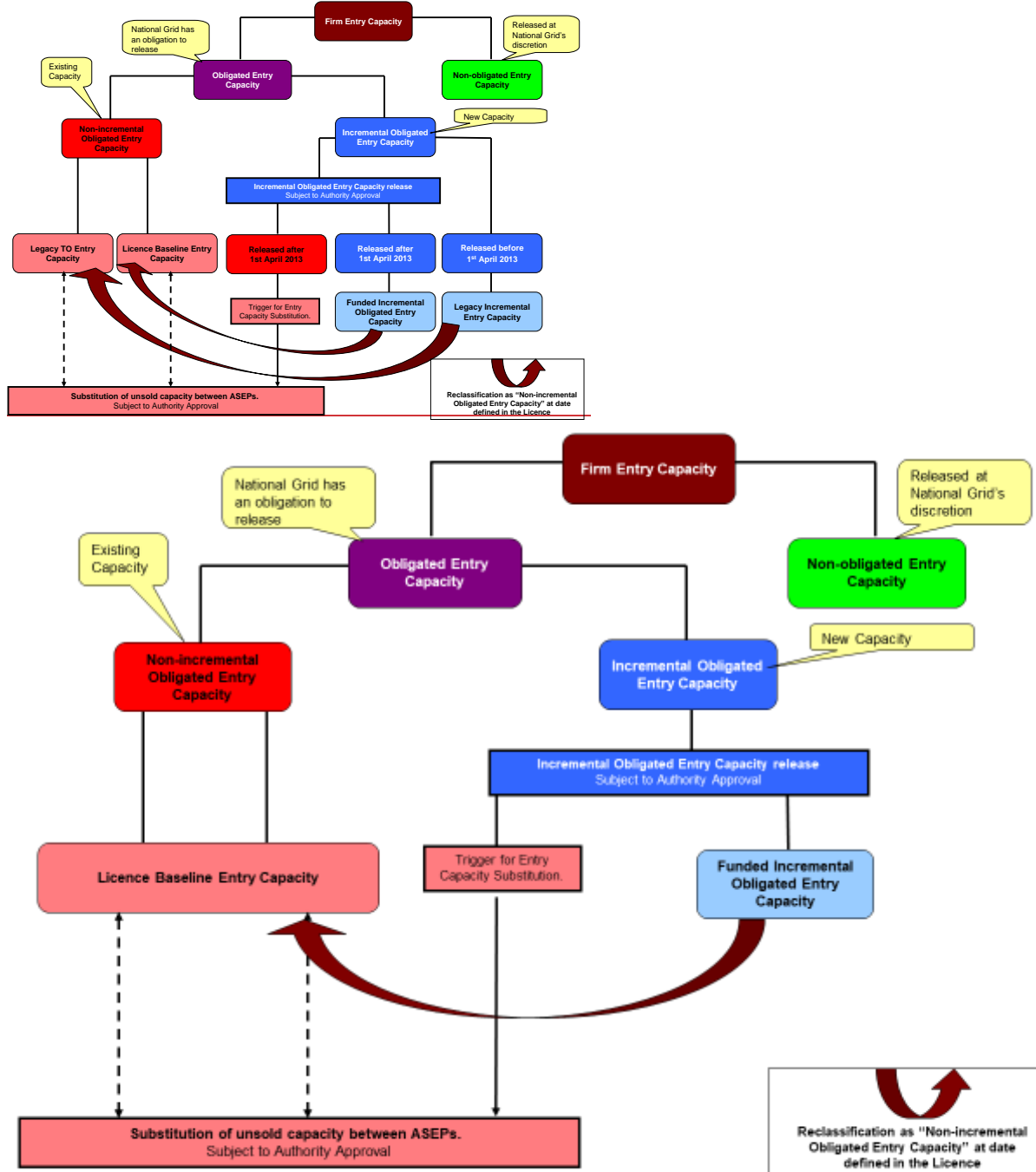
Capacity Terminology

7. This Statement contains terminology relating to **Entry Capacity** which is used in the Licence for the purposes of distinguishing between National Grid’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

⁵ A PARCA, a Planning and Advanced Reservation of Capacity Agreement 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). A Shipper User, or a Reservation Party, 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 in accordance with UNC EID E, is the method by which the Shipper User or Reservation Party can participate in the IP PARCA process. National Grid will not release Funded Incremental Obligated Entry Capacity, at an IP ASEP, by any other process.

established UNC processes e.g. **Firm NTS Entry Capacity** and **Interruptible NTS Entry Capacity**.

- The terminology and relationships relating to **Firm Entry Capacity** are provided below to assist the reader in interpreting this Statement.



- The actual definitions of these terms are contained within the Licence. Where any conflict arises between the Licence and this Statement the Licence shall prevail.
- Entry Capacity Substitution is therefore, the process of assigning **Non-incremental Obligated Entry Capacity** from one or more ASEP(s) to meet the requirement for **Incremental Obligated Entry Capacity** elsewhere. The substituted **Entry Capacity**

is assigned to the ASEP where additional capacity is demanded, in preference to creating additional capacity (**Funded Incremental Obligated Entry Capacity**) which may require investment in new infrastructure. The **Non-incremental Obligated Entry Capacity** at an ASEP is ~~the made up of Licence Baseline Entry Capacity as set out in the Licence for the ASEP plus any Legacy TO Entry Capacity.~~ The baseline is adjusted, plus (or minus), for any **Entry Capacity** that has been substituted to (or from) the ASEP. In addition, any **Funded Incremental Obligated Entry Capacity** ~~that has been released pursuant to long term auctions held after 1st April 2013~~ will be treated as **Non-incremental Obligated Entry Capacity (Licence Baseline Entry Capacity)** five years after this capacity is first released. Any incremental capacity that has been released pursuant to long term auctions held before 1st April 2013 ~~is will also be~~ treated as **Non-incremental Obligated Entry Capacity (Legacy TO Entry Capacity)** ~~from dates defined in Table 6 of Special Condition 5F of the Licence.~~

National Grid's Licence Obligations

11. New and existing Shipper Users of the NTS are able to request to purchase **NTS Entry Capacity** products defined in the UNC for any ASEP defined in the Licence. Such capacity requests will be considered against the provisions of National Grid's statutory and Licence obligations and in accordance with its published methodologies.
12. Overriding obligations applicable to this Statement are set out in the Gas Act and the Licence.
13. Specific obligations in respect of the release of **Entry Capacity** and relevant to this Statement are set out in Special Condition ~~9.189B~~ of the Licence. Under this condition, National Grid must prepare a capacity release methodology statement (the "ECR") setting out the methodology by which National Grid will determine whether to make **Entry Capacity** available for sale. The current ECR can be found on National Grid's website.
14. Specific obligations in respect of the substitution of **Entry Capacity** and applicable to this Statement are set out in Special Condition ~~9.179A~~ of the Licence and are:
 - a. ~~5(a) ensuring that—.....Entry Capacity Substitution....is effected in a manner consistent with National Grid's duties under the Act and, in particular, the duty to develop and maintain an efficient and economical pipeline system and its obligations under the Licence~~
 - b. ~~5(b) (i) in so far as is consistent with 5(a), to ensure that Entry Capacity Substitution is effected in a manner which seeks to minimise the reasonably expected costs associated with **Funded Incremental Obligated Entry Capacity**, taking into account the **Entry Capacity** that Shippers have indicated that they will require in the future through making a financial commitment to National Grid, to minimise the need to make an application under Special Condition 3.13 (Funded incremental obligated capacity Re-opener and Price Control Deliverable), taking into account the **Entry Capacity** that shippers and, where relevant DN Operators, have indicated that they will require in the future through making a financial commitment to the licensee.~~
15. Special Condition ~~9.179A~~ also sets out the capacity objectives that the methodologies should seek to meet. In addition to the criteria in paragraph 14 these objectives are:
 - o ~~5(c) in so far as is consistent with 5(a) to ensure that Entry Capacity Substitution, is effected in a manner which is compatible with the physical capability of the NTS;~~

- ~~5~~(d) in so far as is consistent with 5(a) to avoid material increases in costs including:
 - Entry Capacity and Exit Capacity Constraint Management costs in respect of **Obligated Entry Capacity** and **Obligated Exit Capacity** previously allocated by the Licensee to Relevant Shippers and; where relevant; to DN Operatorsthat are reasonably expected to be incurred by the Licensee as a result of Entry Capacity Substitution;
 - 5(e) in so far as is consistent with 5(a), (and where relevant) (b), (c) and (d) above, to facilitate effective competition between relevant Shippers, DN Operators and relevant Suppliers.
16. This Statement has been produced to meet the requirements of Special Condition 9.179A of the Licence in respect of the preparation of Capacity Methodology Statements setting out the methodologies by which National Grid will determine its proposals for the substitution of **Non-incremental Obligated Entry Capacity** pursuant to the obligation in paragraph 142(a) of the above stated condition. National Grid believes the content is consistent with its duties under the Gas Act and is consistent with the Licence. National Grid will, through entry capacity substitution:
- Make additional **Obligated Entry Capacity** available at the recipient ASEP; and
 - Reduce the quantity of **Obligated Entry Capacity** available at the donor ASEP
- in quantities determined in accordance with this Statement. The obligation to provide **Entry Capacity** at the donor ASEP is reduced by the quantity determined, and such substituted capacity will not be available for sale in future auctions at the donor ASEP. This will be achieved by moving unsold **Non-incremental Entry Capacity** from one or more ASEPs to meet the demand for **Incremental Obligated Entry Capacity** at another ASEP in order to minimise the need for **Funded Incremental Obligated Entry Capacity**. The methodology encompasses this obligation and National Grid's wider obligations to develop and maintain an efficient and economic system.

CHAPTER 1: PRINCIPLES

Purpose of the Methodology Statement

17. The methodology detailed in this Statement is intended to promote the economic and efficient development of the NTS. For the purposes of this methodology this objective is achieved by seeking to minimise the amount of investment that is required to satisfy incremental demand for **Entry Capacity**. Specifically, the methodology describes
- how capacity could be identified as suitable for substitution from locations where there is no long term demand for capacity (as defined by the availability of **Non-incremental Obligated Entry Capacity** that has not been sold, or reserved pursuant to a PARCA or IP PARCA, and by the absence of retainers⁶) to other locations where **Funded Incremental Obligated Entry Capacity** would otherwise be required to be released as a result of accepted bids for **Incremental NTS Entry Capacity** made in long term auctions or to satisfy request for capacity through a PARCA or IP PARCA. Subject to the further provisions of this Statement, any available unsold **Non-incremental Obligated Entry Capacity** that is not allocated, or reserved, or subject to a retainer, will be deemed available for substitution.
18. The methodology described in this Statement seeks to ensure that the NTS is efficiently sized by avoiding or minimising investments by the development of proposals for consideration by the Authority to substitute **Non-incremental Obligated Entry Capacity** levels. This may occur under the following circumstances:
- where Shipper Users at an ASEP have requested additional **Firm NTS Entry Capacity**
 - where PARCA Applicants at an ASEP have requested additional **Firm NTS Entry Capacity** pursuant to a PARCA
 - where IP PARCA applicants at an Interconnection Point have requested Interconnection Point Capacity pursuant to an IP PARCA.
- in accordance with UNC processes that in aggregate exceed the existing **Obligated Entry Capacity** level, National Grid will consider whether it would be efficient and economic to seek to release the additional **Entry Capacity** required at that ASEP by the substitution of unsold **Non-incremental Obligated Entry Capacity** from other ASEPs. This is described in Chapter 2;
19. Consistent with the Licence and UNC, **NTS Entry Capacity** is a commercial right that may be offered on a daily basis or in, monthly or quarterly multiples thereof; it does not reflect a commitment or obligation upon National Grid to undertake any investment on its network, including, but not limited to the provision of a physical connection to the NTS.

⁶ Retainers provide Users with an alternative to buying capacity in order to prevent capacity from being substituted away from an ASEP and are defined in detail below, particularly in the section "Capacity Retainers".

CHAPTER 2: METHODOLOGY

Introduction

20. This section explains the step by step approach that National Grid will undertake in order to develop proposals for submission to, and approval by, the Authority to reduce the level of **Non-incremental Obligated Entry Capacity** at one or more ASEPs to facilitate an increase to the level of **Non-incremental Obligated Entry Capacity** elsewhere so as to avoid the need to release **Funded Incremental Obligated Entry Capacity** and hence to minimise the need for investment in the NTS.
21. Before application of the methodology set out in this Statement demand for **Incremental Obligated Entry Capacity** must satisfy the tests for release of **Incremental Obligated Entry Capacity** as set out in the ECR.
22. In applying the methodology for substitution set out in this Statement the following rules will be applied to determine the quantity of **Entry Capacity** that will be made available for substitution, the “Substitutable Capacity”. Subject to the following rules, Substitutable Capacity at an ASEP shall be equal to the unsold quantity of **Non-incremental Obligated Entry Capacity** (as defined in the Licence):
- a) Capacity that is not offered for release in the QSEC auctions, i.e. capacity that is held-back for MSEC auctions will not be available for substitution between ASEPs. Currently this is 10% of **Non-incremental Obligated Entry Capacity** at each ASEP. Hence the Substitutable Capacity at an ASEP will be equal to 90% **Non-incremental Obligated Entry Capacity** subject to the following adjustments, c) to k).
 - b) Capacity that is withheld from the Annual Yearly auctions⁷, will not be available for substitution between ASEPs⁸. Currently this is 10% of **Technical Interconnection Point Capacity** at each IP ASEP with respect to **Yearly Interconnection Point Capacity** for gas years Y+1 to Y+5 and 20% for **Yearly Interconnection Point Capacity** for gas years Y+6 to Y+15. Hence the Substitutable Capacity at an IP ASEP will be equal to 80% of the **Technical Interconnection Point Capacity** subject to the following adjustments, c) to k).
 - c) Capacity currently reserved under a PARCA or an IP PARCA will not be Substitutable Capacity.
Where a PARCA or IP PARCA is terminated prior to the allocation of capacity, the **Reserved Entry Capacity** may become Substitutable Capacity if that capacity is **Non-incremental Obligated Entry Capacity**⁹.

Where the **Reserved Entry Capacity** is from a different ASEP to where the PARCA or IP PARCA has indicated the need for additional capacity (i.e. reserved pending substitution), the **Reserved Entry Capacity** will revert to Substitutable Capacity at the donor ASEP if it is no longer required to satisfy a PARCA or IP PARCA.

⁷ The Annual Yearly Auctions and Annual Quarterly Auctions are applicable at Interconnection Points only.

⁸ For the avoidance of doubt this includes any Incremental Technical IP Capacity.

⁹ This previously reserved capacity will also be available for reservation pursuant to another PARCA or IP PARCA (if any) and/or allocation to Users through other auction mechanisms.

- d) Capacity that has previously been substituted from an ASEP (i.e. from a donor ASEP) will not be available as Substitutable Capacity in respect of the donor ASEP.
- e) Except where the further provisions of this paragraph 22 apply, capacity that has previously been substituted to an ASEP will be Substitutable Capacity from the date where future quantities of that capacity are unsold, are not reserved, and are not retained, at that recipient ASEP.
- f) Subject to the further provisions of this paragraph, any **Funded Incremental Obligated Entry Capacity** released as a result of QSEC auctions held from 1 April 2013 onwards will not be Substitutable Capacity until after a period of five years has elapsed from the initial release date (when it is re-classified as **Licence Baseline Entry Capacity** for the purposes of capacity release obligations). Where **Incremental Obligated Entry Capacity** release is profiled, this will apply to each tranche of capacity. The 10% held back for shorter term auctions applies to this type of capacity from the date of re-classification.
- g) ~~Subject to the further provisions of this paragraph, any **Incremental Obligated Entry Capacity** released as a result of QSEC auctions held prior to 1 April 2013 (i.e. **Legacy Incremental Entry Capacity**) will not be Substitutable Capacity until the date specified in the Licence (when it is re-classified as **Legacy TO Entry Capacity** for the purposes of capacity release obligations).~~ Where **Incremental Obligated Entry Capacity** release was profiled, this will apply to each tranche of capacity. The 10% held back for shorter term auctions applies to this type of capacity from the date of re-classification.
- h) Capacity allocated in previous QSEC or Annual Yearly auctions will not be Substitutable Capacity¹⁰. Capacity allocated in previous QSEC auctions, or reserved pursuant to a PARCA or IP PARCA, will be assumed to have been allocated or reserved in the sequence **Licence Baseline Entry Capacity** first, followed by **Incremental Entry Capacity**. This means that capacity available for substitution at ASEPs where incremental capacity signals have previously been seen is likely to be limited (for at least the first five years from the initial release date).
- i) Any **Non-incremental Obligated Entry Capacity** that is unsold after 1st October Y+2¹¹ is Substitutable Capacity with respect to demand signalled either via a QSEC Auction or via a PARCA or IP PARCA. For clarity unsold capacity does not include **Reserved Entry Capacity** and the Y is the year where either Capacity has been bid for or capacity has been first reserved via a PARCA or IP PARCA.
- j) Sub-paragraphs a) and c) limit Substitutable Capacity to 90% of the **Non-incremental Obligated Entry Capacity** quantity (10% being held back for MSEC auctions); or in the case of IP ASEPs, sub-paragraph b) limits Substitutable Capacity to 80% of **Technical Interconnection Point Capacity**; plus or minus any quantities identified in sub-paragraphs c), to h) and minus any capacity sold. This Statement incorporates a mechanism that allows

¹⁰ For the avoidance of doubt, where capacity has been allocated and subsequently recalled it will be considered as substitutable, pursuant to the other clauses of this paragraph 22.

¹¹ References in this document to years "Y+2" etc relate to capacity years, e.g. year Y is the year of the relevant auction bid or the year of reservation via a PARCA. E.g. for a March QSEC in 2020 (Y), capacity release would be October 2021 to September 2022 (Y+2).

Shipper Users to take out a “retainer” that would reduce the quantity of Substitutable Capacity by placing an additional restriction on the availability of capacity for substitution. Further details are given in the Capacity Retainers section below.

- k) For each ASEP the quantity of Substitutable Capacity will be the lowest value, determined in accordance with this paragraph, for any quarter following the default lead time¹² for the release of **Incremental Entry Capacity**. Irrespective of the date of release of **Incremental Entry Capacity** (which may be later than the default period) capacity will not be substituted from an ASEP in quantities greater than the Substitutable Capacity. This is illustrated in Diagram 1 below.

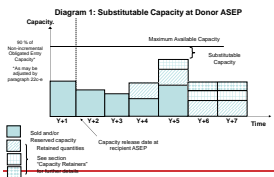
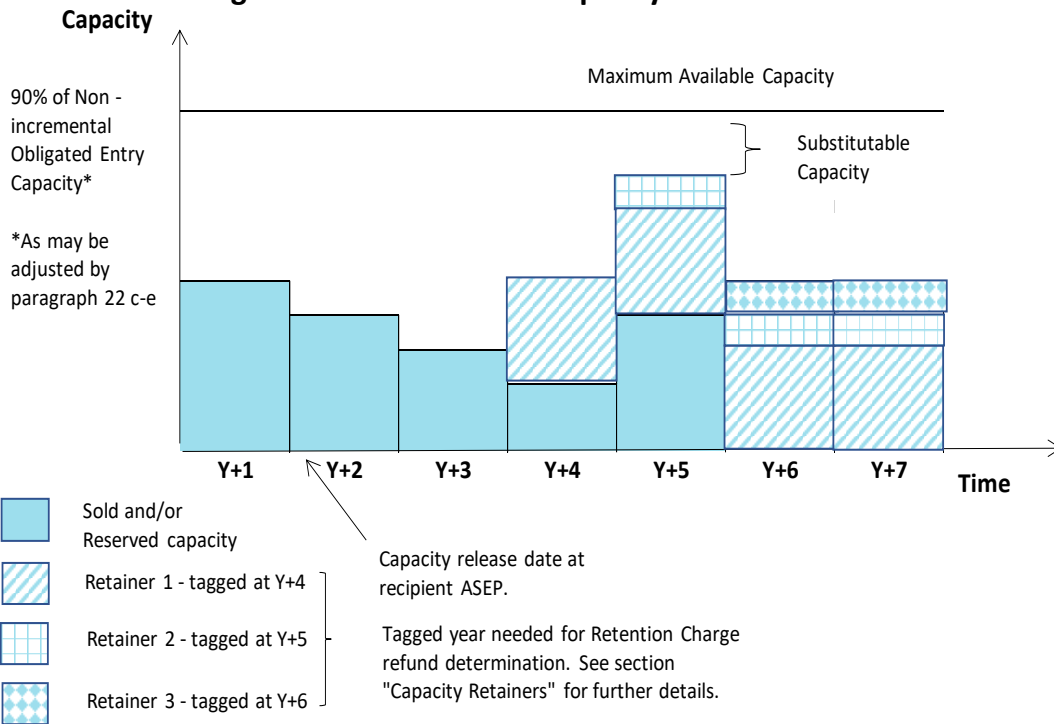


Diagram 1 : Substitutable Capacity at Donor ASEP



- 23. Following each QSEC auction, or following a PARCA or IP PARCA being agreed, demand for **Incremental Obligated Entry Capacity** will be identified. If **Incremental Obligated Entry Capacity** is not released then no further action need be taken by National Grid.
- 24. If, in accordance with the ECR, National Grid considers that it is appropriate to release **Incremental Obligated Entry Capacity** then the methodology in this Statement shall

¹² In the event that incremental capacity is released in advance of the default lead time, it will be necessary, to determine the Substitutable Capacity, to consider relevant earlier quarters.

be applied to see whether the quantity of **Incremental Obligated Entry Capacity** required to be released can be reduced through Entry Capacity Substitution.

25. In respect of any QSEC or Annual Yearly auction, capacity will only be considered available for substitution after all qualifying bids for existing capacity have been satisfied, i.e. capacity will be allocated at the ASEP where bids are placed before being substituted to another ASEP. For the avoidance of doubt in the event that an incremental signal is received and substitution analysis is undertaken prior to the completion of the Annual Yearly auction for an IP ASEP, capacity at that IP ASEP will not be considered as available for substitution.
26. In respect of any PARCA or IP PARCA, capacity will only be considered available for reservation pending substitution after all bids for existing unsold¹³ capacity placed via the (Ad-hoc) QSEC or Annual Yearly Auction have been satisfied, i.e. capacity will be allocated at the ASEP where bids are placed before being reserved pending substitution to, another ASEP. Notwithstanding paragraph 22.c), once capacity has been substituted or reserved pending substitution it will not be available to satisfy bids for capacity at that ASEP in future QSEC or Annual Yearly auctions.¹⁴
27. Capacity will only be available to be substituted from an ASEP in the quantity determined in accordance with paragraph 22.
28. Where Entry Capacity Substitution is applied the **Non-incremental Obligated Entry Capacity** at the donor ASEP shall be reduced by the quantity, determined in accordance with this Statement, from the date when **Incremental Obligated Entry Capacity** is available for use at the recipient ASEP. In the period prior to this date the capacity will be available to Shipper Users at the donor ASEP.

Capacity Retainers

29. Shipper Users will be able to exclude capacity at potential donor ASEPs from being treated as Substitutable Capacity without having to buy and be allocated the capacity and without having to enter into a PARCA or IP PARCA. To do this they will be able to take out a “retainer”.
30. For the purpose of determining whether a refund of Retention Charges is due each retainer is “tagged” to a specific year. The default year is Y+4, i.e. for a retainer taken out in January 2020 the tagged year is Oct 2023 to Sept 2024. Alternatively a Shipper User may tag their retainer to year Y+5 or Y+6. For a refund to be made capacity must be allocated for the tagged year in accordance with rules defined in the section “Capacity Retention Charge Refunds” of this Statement.
31. If more than one retainer is taken out at an ASEP, within the same retainer window, then they shall be aggregated from the tagged year for the purposes of determining the Substitutable Capacity, i.e. retainers tagged to year Y+5 shall not be aggregated to Y+4 and retainers tagged to Y+6 shall not be aggregated to Y+4 and Y+5. This is illustrated in Diagram 1.

¹³ Nb existing unsold capacity may be withheld from an auction if is identified as substitutable capacity that could potentially be used to satisfy capacity demand via an IP PARCA. If this is the case it would be identified in the relevant auction letter.

¹⁴ UNC TPD Section B2.2.18 includes provisions that provide an option for the initialisation of the Phase 1 PARCA works to be delayed by National Grid 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.

32. The retainer will be valid for one year commencing 1st of March of that year, covering all QSEC and Annual Yearly auctions¹⁵ and all PARCAs¹⁶ or IP PARCAs held in this period. National Grid will exclude the relevant quantity from the substitution process, but the retainer will not:
- create any rights to the Shipper User to be allocated or to use the capacity. The Shipper User must bid for, and be allocated, capacity in accordance with UNC to obtain any rights over capacity;
 - prevent Shipper Users (including the Shipper User taking out the retainer) from buying that capacity at the ASEP in question in the period covered by the retainer.
33. For the avoidance of doubt, a retainer will prevent capacity
- a) from being substituted away from an ASEP for any quarter, for which capacity may be released, in any QSEC auction held; and
 - b) from being reserved pending substitution from an ASEP for any quarter (for IP ASEPs for any year), for which capacity may be reserved, pursuant to any PARCA or IP PARCA where the relevant substitution analysis work is undertaken;
- in the year for which the retainer is valid.
34. Retainers will only be available to Shipper Users, i.e. parties who have acceded to the Network Code produced in accordance with Standard Special Condition A11(3) of the Licence.

Capacity Retainer Windows

35. In January each year National Grid will open a retainer window allowing Shipper Users to identify the quantity of capacity that they wish to exclude from substitution for specific ASEPs.
36. The retainer window will be open for retainer requests to be submitted on two discrete business days from 8am to 5pm. There will be one business day between the two retainer bid days.
37. No less than 28 days before the first day of the retainer window National Grid shall issue an invitation to Shipper Users to partake in the retainer window. This invitation shall specify, for each ASEP, the maximum available retainer quantity, being the maximum quantity for which retainers may be granted for each of years Y+4, Y+5 and Y+6, i.e. the quantity determined under paragraph 22.
38. Retainers shall be requested via fax using a proforma provided by National Grid.
39. Retainer requests shall be considered as received. Requests cannot be removed or amended except where National Grid identifies a blatant error and such removal or amendment is agreed with the Shipper User before 5pm on the day the request is submitted. National Grid shall use reasonable endeavours to provide confirmation of receipt of a retainer request by no later than one hour after the relevant retainer window closes and, where practicable, by no later than one hour before the relevant retainer window closes.

¹⁵ In accordance with the ECS Incremental capacity and therefore substitution, cannot currently be triggered via an Annual Yearly auction

¹⁶ The relevant aspect of a PARCA, is the identification, under the Phase 1 PARCA Works, of the possibility (or not) of capacity substitution satisfying the incremental demand, i.e. this activity must fall inside the relevant year for the retainer to have an impact. The date of signature of the PARCA is not relevant. The relevant aspect of the IP PARCA process is the project proposal.

40. On the first day of the retainer window Shipper Users shall be able to take out retainers which, in aggregate, when added to the sold capacity shall not exceed the Maximum Available Capacity (see Diagram 1). Where Shipper Users request retainers for a greater quantity such requests shall be reduced (in the case of a single Shipper User request) or pro-rated (in the case of multiple Shipper User requests) in proportion to the quantities requested.
41. Retainer requests made on the second day of the retainer window shall be allocated up to a maximum quantity as determined in paragraph 40 minus the retainers granted on the first day.
42. Where reduction or pro-rating of retainer requests is required this will be carried out in the sequence Y+4 retainers, then Y+5 and finally Y+6.
43. Retainers shall be rejected where they have no effect on the Substitutable Capacity; e.g. where Y+4 retainers plus previously sold capacity are equal to the Maximum Available Capacity the Substitutable Capacity will be zero. Hence any Y+5 and Y+6 retainers will have no effect and shall be rejected.

Provision of Retained Capacity Information

44. By 8pm on the day of each retainer window National Grid shall publish on its website, for each ASEP where one or more retainers has been granted, the aggregate quantity covered by those retainers and the adjusted maximum retainer quantity.
45. By 8pm on the day of each retainer window National Grid shall notify individual Shipper Users granted retainers of the relevant ASEPs and quantities.

Capacity Retention Charges

46. The retainer will be subject to a one-off charge calculated in accordance with the Gas Transmission Transportation Charging Statement and will be payable via an ad-hoc invoice raised within 2 months of the QSEC auction allocations being confirmed; i.e. in July for a March auction. If a Shipper User wishes to protect capacity for more than one year then a further retainer must be obtained each year and a charge will be payable each year for which a further retainer is taken out.

Capacity Retention Charge Refunds

47. The retainer is intended to ensure that capacity remains at an ASEP for Shipper Users to obtain at a later date. In the event that the capacity is not obtained later the retention of capacity may have resulted in unnecessary investment as a result of lost substitution opportunities. Conversely, if capacity is booked at the ASEP where the retainer was taken out, the retainer will have represented genuine future requirements so it is appropriate that the retention charge is refunded in this case.
48. As the retainer ensures that capacity remains at an ASEP for any Shipper User to obtain; the retainer does not create any rights over the capacity; the Shipper User granted the retainer shall receive a refund (other than in the circumstances defined in paragraph 52) regardless of which Shipper User is subsequently allocated the retained capacity.
49. Except as defined in paragraph 51 below, for the purposes of triggering refunds the retainer will apply for a default period of 12 months commencing 42 months after the

- QSEC and 38 months after the start of the Annual Yearly auction that follows the retainer window in which the retainer is granted. For a refund to apply in respect of a retainer taken out in January 202~~19~~ capacity must, subject to paragraphs 51 and 52, be allocated at the relevant ASEP for at least one month or quarter in the period Oct 202~~43~~ to Sept 202~~54~~.
50. Where any capacity covered by a retainer with the default Y+4 tag, is allocated to any Shipper User in a QSEC or AMSEC auction, allocated pursuant to a PARCA or IP PARCA, or allocated to any Shipper User in an Annual Yearly or Quarterly Auction, a refund of the retention fee will be made. For example, a retainer taken out in January 202~~19~~ would result in a refund where an allocation at the relevant ASEP is made pursuant to QSEC in 202~~19~~¹⁷, 202~~24~~ or 202~~32~~, or AMSEC in 202~~43~~ or 202~~54~~ or allocated pursuant to a PARCA or IP PARCA. Similarly, a retainer taken out at an IP ASEP in January 202~~19~~ would result in a refund where an allocation at the relevant IP ASEP is made pursuant to an Annual Yearly Auction in 202~~19~~¹⁷, 202~~24~~, 202~~32~~ or 202~~43~~ or an Annual Quarterly Auction in 202~~43~~/2~~54~~.
51. Where, in accordance with paragraph 30, a retainer is tagged to Y+5 or Y+6, for the purposes of triggering refunds the retainer will apply for a period of 12 months commencing 54 or 66 months (see Diagram 1), respectively, after the QSEC auction (50 or 62 months after the Annual yearly auction) that follows the retainer window in which the retainer is granted. Hence for a refund to apply in respect of a Y+6 “tagged” retainer taken out in January 202~~19~~ capacity must be allocated at the relevant ASEP for at least one quarter in year Y+6 i.e. in the period Oct 202~~65~~ to Sept 202~~76~~.
52. Where any capacity covered by a retainer, as defined in paragraph 51 above, is allocated, a refund will only be made if the retained capacity is allocated:
- In the year the retainer is taken out; to any other Shipper User;
 - In the year following that defined in (a); to the relevant Shipper User; or
 - In the case of a retainer with a Y+6 tag, in the year following that defined in (b); to the relevant Shipper User.
- Hence for a Y+6 tagged retainer taken out in January 202~~19~~ a refund can only be triggered by:
- an allocation at the relevant ASEP made pursuant to QSEC in 202~~19~~ (to any other Shipper User), or 202~~24~~ and 202~~32~~ (to the relevant Shipper) User; or
 - an allocation at the relevant IP ASEP made pursuant to the Annual Yearly Auction in 202~~19~~ (to any other Shipper User), or 202~~24~~ and 202~~32~~ (to the relevant Shipper) User; or
 - a PARCA or IP PARCA in respect of the relevant ASEP for which capacity allocation takes place in the period (where the PARCA or IP PARCA is agreed with any other Shipper User or Reservation Party) March 202~~19~~ to February 202~~24~~, or (where the PARCA or IP PARCA is agreed with the relevant Shipper User) at any time from March 202~~24~~ for the relevant period.
53. The refund will be calculated annually after the March QSEC allocations (taking account, as appropriate, of February AMSEC allocations), or for a retainer taken out at an IP ASEP after the May Annual Quarterly Auctions (taking into account, as appropriate, the previous July Annual Yearly Auctions), from the difference in the peak allocated quantity for any month or quarter, in the relevant year (see paragraphs 49 and 51) minus the peak allocated quantity for any month or quarter, in the same year, before the retainer is taken out and then comparing this quantity to the retained

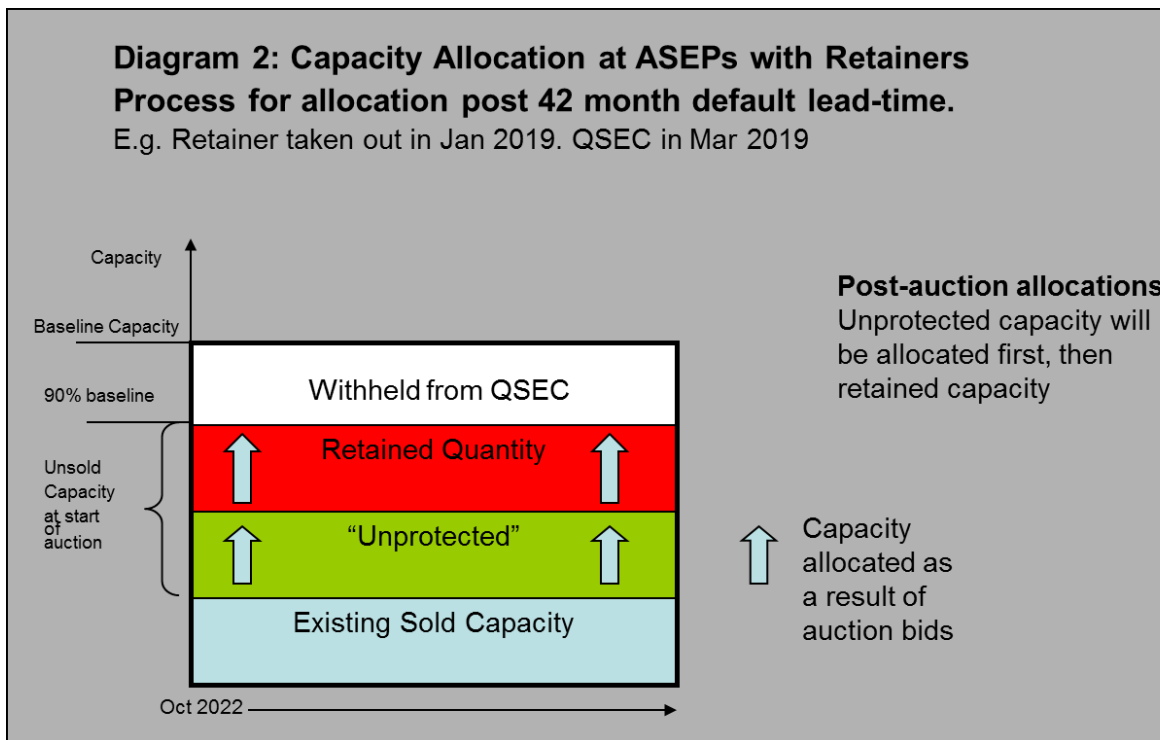
¹⁷ A refund following the QSEC Auction in the year in which a retainer is taken out will be effected by not raising an invoice for the retainer, or by issuing simultaneous invoice and refund.

quantity, if any. Where a full or partial refund is triggered this shall be paid in July following the relevant auction.

- 54. If only part of the capacity covered by the retainer is allocated the refund will be reduced in proportion to the amount allocated.
- 55. Where more than one Shipper User has been granted a retainer at an ASEP for the same period and some of the retained capacity is allocated, each Shipper User's refund shall be based on the proportion of their retained capacity at the relevant ASEP that has been allocated.

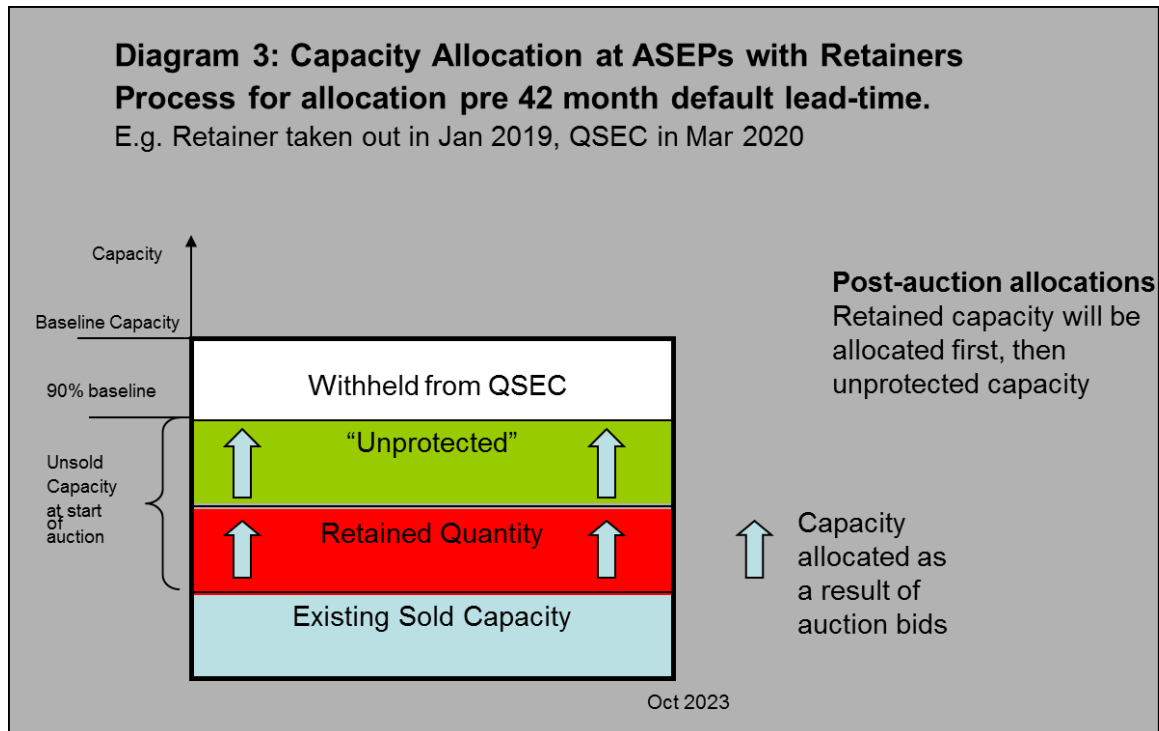
Capacity Allocations

- 56. To maximise the potential that capacity covered by a retainer is kept at an ASEP for allocation in future auctions, in the QSEC or Annual Yearly auction in the year in which the retainer is granted any unsold capacity that is allocated in respect of any quarter from and including Y+4 will be allocated in the sequence; unprotected capacity first, followed by retained capacity. This is illustrated in Diagram 2, below.



- 57. Except where paragraph 56 applies, in all QSEC, AMSEC and Annual Yearly auctions capacity will be allocated so as to maximise the potential for the refund of retention fees. This recognises that the capacity protected by the retainer was genuinely required even though it was not sold at the time the retainer was requested. In these auctions any unsold capacity that is allocated in respect of any quarter before year Y+4 will be allocated in the sequence; retained capacity first, followed by unprotected capacity. In respect of AMSEC auctions, the 10% withheld from QSEC shall be treated as unprotected. This is illustrated in Diagram 3, below.
- 58. Where, at any ASEP, retained capacity is allocated, any allocations made in respect of a Shipper User with a retainer at that ASEP will be made against the capacity

retained by the same Shipper User as defined by Shipper short codes on Gemini). Hence retainer charge refunds will be targeted towards Shipper Users allocated capacity before those not allocated capacity.



Application of Zones

59. Where ASEPs utilise common sections of NTS infrastructure and consequently are deemed to be 'interactive' in terms of utilising network capability National Grid will group the ASEPs into zones. Zones shall be used for the identification of potential donor ASEPs due to their interactivity with the recipient ASEP. For all other aspects of this methodology the use of zones is not a mandatory requirement.
60. The zones and the ASEPs that are included in each are provided as Appendix 1 to this Statement. Prior to each retainer window National Grid will publish any revisions to the zones. Appendix 1 also identifies the Potential Substitutable Capacity for each ASEP¹⁸.

Recipient ASEP Order

61. Where the QSEC auction and/or any PARCAs or IP PARCAs results in National Grid identifying the need to release **Incremental Obligated Entry Capacity** at more than one ASEP and they share the same potential donor ASEPs, analysis of substitution opportunities will be undertaken according to a ranking of recipient and donor ASEP pairings by their exchange rate for the first tranche of **Incremental Obligated Entry Capacity** identified (see paragraphs 63 to [7167](#)).

¹⁸ Please note that these values are for guidance only and Shippers should refer to the Retainer invitation letter for up to date information.

62. The substitution analysis will be assessed in accordance with the physical capability of the recipient ASEP local infrastructure. For example, where physical limits exist on the maximum flows that may be achieved from an entry point, no substitution that could take flows above this physical maximum will be allowed. This would also include the provision of a connecting pipeline from a new system entry point to the existing NTS.

Donor ASEP Order

63. All within zone donor ASEPs will be considered before out of zone donor ASEPs.
- ~~64.~~ Substitutions from individual donor ASEPs will commence by reducing the capacity at the most favourable ASEP that has Substitutable Capacity and is in the same zone as the recipient ASEP. The most favourable ASEP will be the ASEP providing the lowest exchange rate and is selected in preference to other ASEPs as this will result in the most efficient outcome, i.e. the least aggregate loss of capacity. In the event of two or more donor ASEPs with exchange rates greater than 1:1 providing equal exchange rates, a disconnected ASEP would be prioritised, otherwise the donor ASEP will be selected on the basis of nearest according to pipeline distance from the recipient ASEP.
- ~~65.~~ A disconnected¹⁹ ASEP, which would provide reasonable sufficient benefit (i.e. there is a reasonable sufficient exchange rate) to a recipient NTS ASEP (to be determined at National Grid discretion) shall be considered before substitution from other NTS ASEPs. will be considered to be the most favourable choice if it has an exchange rate of 1:1 or lower. In the event of two or more donor ASEPs with exchange rates greater than 1:1 providing equal exchange rates, a disconnected ASEP would be prioritised, otherwise the donor ASEP will be selected on the basis of nearest according to pipeline distance from the recipient ASEP.
- ~~66.~~ National Grid will deem the benefit as reasonable and sufficient if the exchange rate of the disconnected site does not exceed 3:1. If the exchange rate is greater than 3:1, National Grid will proceed with the prioritisation of a disconnected site only in a scenario where it is reasonable to assume that no future Incremental Obligated Exit Capacity signal triggering a need for substitution will require capacity from this disconnected site in the future. National Grid will make that assessment based on e.g. forecast demand information and flow patterns in the area, indication of new future network connections (if available), pending PARCAs in the vicinity of the donor site. The list is not inclusive and further factors might be considered as a part of the assessment at National Grid's discretion.
- ~~67.~~ Substitution from a disconnected site is the only scenario in which exchange rate exceeding 3:1 might be used, subject to the assessment mentioned in para 66.
- ~~64-68.~~ Disconnected sites will only be considered to be prioritised when it falls within the entry zones considered within substitution analysis as outlined in paragraphs 76 and 79.
- ~~65-69.~~ Where there is insufficient capacity at the first donor ASEP to fully satisfy the **Incremental Obligated Entry Capacity** required at the recipient ASEP the quantity of capacity that can be substituted will be substituted and further within zone ASEPs will be considered in order of most favourable to least favourable exchange rate.

¹⁹ An ASEP shall be considered to have been disconnected if the connection to the NTS has been isolated and the associated connection agreement (e.g. Network Entry Agreement) has been terminated

~~66-70.~~ Where there is insufficient capacity at all within zone ASEPs to fully satisfy the **Incremental Obligated Entry Capacity** required at the recipient ASEP potential out of zone donor ASEPs will be considered individually on the basis of the most favourable ASEP that has spare capacity. The most favourable ASEP, for out of zone ASEPs, will be the nearest ASEP determined according to pipeline distance.

~~67-71.~~ The exchange rate for each donor ASEP, recipient ASEP pairing shall be determined. Where this exceeds 3:1 the substitution shall not be permitted. Substitution at 3:1 and below will be made.

Network Analysis for Capacity Substitution

~~68-72.~~ Potential capacity substitutions shall be validated through network analysis. The objective shall be to avoid incremental increase in risk²⁰. Hence National Grid will not propose capacity substitution where this results, under planning scenarios, in the capability of the NTS being reduced below that required.

~~69-73.~~ The capacity substitution objective is to minimise investment that would otherwise be required to satisfy demand for **Incremental Obligated Entry Capacity**. Substitution opportunities shall be assessed against criteria defined within the Transmission Planning Code which is the basis for National Grid's network development decisions. This shall include existing commitments, including capacities and pressures, on the network. Substitutions shall not be accepted if this puts at risk National Grid's ability to deliver its existing commitments (including capacity reservations pursuant to a PARCA or IP PARCA). These commitments will be taken from regulatory and commercial agreements and statutory instruments and are additional to the conditions set out in the Transmission Planning Code a copy of which can be found on the National Grid website at: <https://www.nationalgridgas.com/charging>.

~~70-74.~~ The supply and demand scenarios used for the analysis will be consistent with the Transmission Planning Code.

~~71-75.~~ The analysis shall primarily be undertaken at the peak 1 in 20 demand level supplemented by analysis for different demand conditions derived from the average load duration curve and be undertaken for a number of gas years starting with the proposed gas year for release of the **Incremental Obligated Entry Capacity**.

Substitution Analysis (see Appendix 2)

~~72-76.~~ Where an incremental signal has been received analysis is undertaken to determine what capacity exchange would be required to satisfy the incremental capacity request without the need for investment. Capacity substitution will be determined by assessing the flow patterns that can be accommodated by the NTS; i.e. without increasing the risk of capacity constraint management actions being required.

~~73-77.~~ Capacity substitution will firstly be considered within the relevant entry zone. If this cannot satisfy the increment at the recipient ASEP then substitutions outside the relevant entry zone will be considered.

²⁰ Substitution may affect system capability. National Grid will assess whether a potential substitution would result in an increased risk of a constraint on the network.

- Substitution analysis will commence by increasing the flow (in the assessment scenario) at the recipient ASEP to the prevailing **Obligated Entry Capacity** quantity plus any previously reserved capacity.

~~74-78.~~ Flow will be reduced at the least interactive ASEP(s) to the recipient ASEP to maintain a supply / demand balance.

~~75-79.~~ Substitution analysis will continue by increasing the flow (in the assessment scenario) at the recipient ASEP by the level of the **Incremental Obligated Entry Capacity**.

~~76-80.~~ The **Obligated Entry Capacity** will be reduced at the donor ASEP by the incremental quantity at the recipient ASEP. Where the Substitutable Capacity at the donor ASEP is less than the incremental capacity then further donor ASEPs will be used. These will be selected according to paragraphs 63 - ~~70~~66. Where this impacts on flow, rebalancing will be undertaken at the least interactive ASEP(s) to the recipient ASEP.

~~77-81.~~ The **Obligated Entry Capacity** at donor ASEPs will progressively be reduced until either:

- the **Incremental Obligated Entry Capacity** requirement request is satisfied; or
- all Substitutable Capacity (see paragraph 22) has been substituted; or
- further capacity cannot be substituted without exceeding an exchange rate of 3:1. In this case the process will move to the assessment of potential substitutions across zones.

~~78-82.~~ After all within zone assessments have been completed, i.e. as defined by the above paragraph, any unsatisfied incremental requests will be considered with donor ASEPs from alternative zones. Donor ASEPs will be considered in order of pipeline distance from the recipient ASEP (nearest first).

~~79-83.~~ At each stage of the process, e.g. when moving to an additional donor ASEP the individual donor ASEP to recipient ASEP exchange rate will be determined.

~~80-84.~~ All substitutions shall be subject to a limit on the maximum permitted exchange rate of 3:1. This means that where analysis shows that more than 3 units of capacity are required from a donor ASEP to create 1 unit at the recipient ASEP then the substitution shall be rejected above this limit. However, to the extent that some capacity can be substituted at, or lower than, 3:1, substitution will be permitted for that quantity of capacity.

~~81-85.~~ Notwithstanding paragraphs ~~84~~80 above, and ~~86~~82 below, when a donor ASEP exchange rate greater than 3:1 is encountered the process will cease with the previous donor ASEP; i.e. the last donor ASEP with an exchange rate no greater than 3:1.

~~82-86.~~ To validate results, National Grid may, at its sole discretion, consider further donor ASEPs. As ASEPs are considered in order of interactivity with the recipient ASEP it is unlikely that any subsequent donor ASEPs will satisfy the exchange rate cap.

~~83-87.~~ The obligations (and hence flows) for all potential capacity substitutions shall be verified by network analysis. Where such analysis is deemed to result in a "failed" network, the flow at the donor ASEP(s) (and hence the quantity of capacity substituted from the donor ASEP(s)) shall be adjusted until the network does not fail or there is no more capacity available to substitute. In this event the residual investment shall be identified.

Partial Substitution

~~84-88.~~ Where residual investment²¹ is identified and the associated cost of this investment does not, in National Grid's sole estimation, adequately cover the costs of, or return on, such investment potential capacity substitutions will be adjusted. The most economic solution will be proposed taking into account minimum economic investment and substitution quantities.

~~85-89.~~ The appropriate level and combinations of substitution and investment (considering all potential incremental capacity releases) will be confirmed by network analysis. This will be achieved by updating the network model for the revised, post-substitution, **Obligated Entry Capacity** (plus **Reserved Entry Capacity**) levels and residual investment. The final step in the substitution analysis shall then be reversed, by 2mcmd, (i.e. by increasing the **Obligated Entry Capacity** at the final donor ASEP and where this impacts on flow, rebalancing will be undertaken) and this shall be validated through network analysis.

- If the network fails, e.g. network pressures or plant operating conditions cannot be maintained then the proposed substitution is deemed to be appropriate.
- If the network passes further 2 mcmd increments shall be added to the donor ASEP flow until the network fails and the cut-off point is identified.

~~86-90.~~ Where partial substitution is proposed National Grid will make a **Funded Incremental Obligated Capacity** (FIOC) Project Direction Submission, as detailed in the **FIOC Guidance and Submissions Requirements Document** as per Licence Special Condition 9.13 a Revenue Driver will be calculated in accordance with the Generic Revenue Driver Methodology Statement. This will facilitate the determination of funding, where required, for the incremental quantity to be released.

Analysis Output

~~87-91.~~ On completion of the above analysis the following effects of the entry capacity bids and accepted entry capacity substitutions will be recorded and proposed to the Authority in the Entry Capacity notice. This notice, outlined in paragraph ~~9288~~, will be submitted ahead of allocation of capacity to the requesting Shipper User. However, in respect of a PARCA, ahead of the reservation of capacity pending substitution, National Grid will inform the Authority and the industry of that potential capacity substitution and publish in accordance with Special Condition 5F Part A. This will be at the conclusion of the Phase 1 PARCA Works (or for an IP PARCA as part of the project proposal, after network analysis has identified entry capacity substitution opportunities, but before (potentially several years before) capacity is allocated to the PARCA signatory at the recipient ASEP. The formal Entry Capacity notice shall be submitted ahead of allocation in accordance with Licence Special Condition 5F, at a time deemed appropriate following discussions with the PARCA Signatory.

~~88-92.~~ Specifically National Grid shall submit an Entry Capacity notice setting out:

- the ASEPs where **Incremental Obligated Entry Capacity** is proposed to be released;
- the quantity of **Incremental Obligated Entry Capacity**; and the quantities proposed to be treated as;
 - **Funded Incremental Obligated Entry Capacity**, e.g. made available by investment; and

²¹ National Grid may consider alternatives to investment.

- **Non-incremental Obligated Entry Capacity**, e.g. made available through substitution;
 - the effective date for when the capacity is first made available for use;
 - the ASEPs to which entry capacity substitution proposals relate;
 - the proposed quantities by which National Grid is proposing the **Non-incremental Obligated Entry Capacity** shall be increased or decreased as a result of entry capacity substitution;
 - the effective date(s) where different to that above; and
 - any additional information required in accordance with Licence Special Condition 9.135F(8).

89-93. In the event that the application of the methodology detailed in this Statement results, in National Grid's opinion, in proposals to substitute **Non-incremental Obligated Entry Capacity** that may reasonably put National Grid in breach of its obligations with respect to EU Regulations (in particular the obligation to offer bundled capacity at Interconnection Points as required by the Capacity Allocation Mechanisms) National Grid will discuss with Ofgem whether it is appropriate for this element of its proposals to be vetoed by the Authority.

90-94. The proposed adjustments to **Obligated Entry Capacity** as a result of entry capacity substitution will be implemented subject to the Authority not vetoing (or directing to modify) the proposal in accordance with Special Condition 9.13.75F(13) of the Licence. In the event that the proposal is vetoed or agreement is not reached on any modification National Grid will not revise the **Obligated Entry Capacity** and may not release **Incremental Obligated Entry Capacity**. This may result in applications for **Quarterly NTS Entry Capacity** or yearly **Interconnection Point Capacity**, being rejected, delayed or allocated in a reduced quantity. Any resulting allocations will be determined following discussion of the options between National Grid and the counterparty pursuant to the terms of the PARCA or IP PARCA.

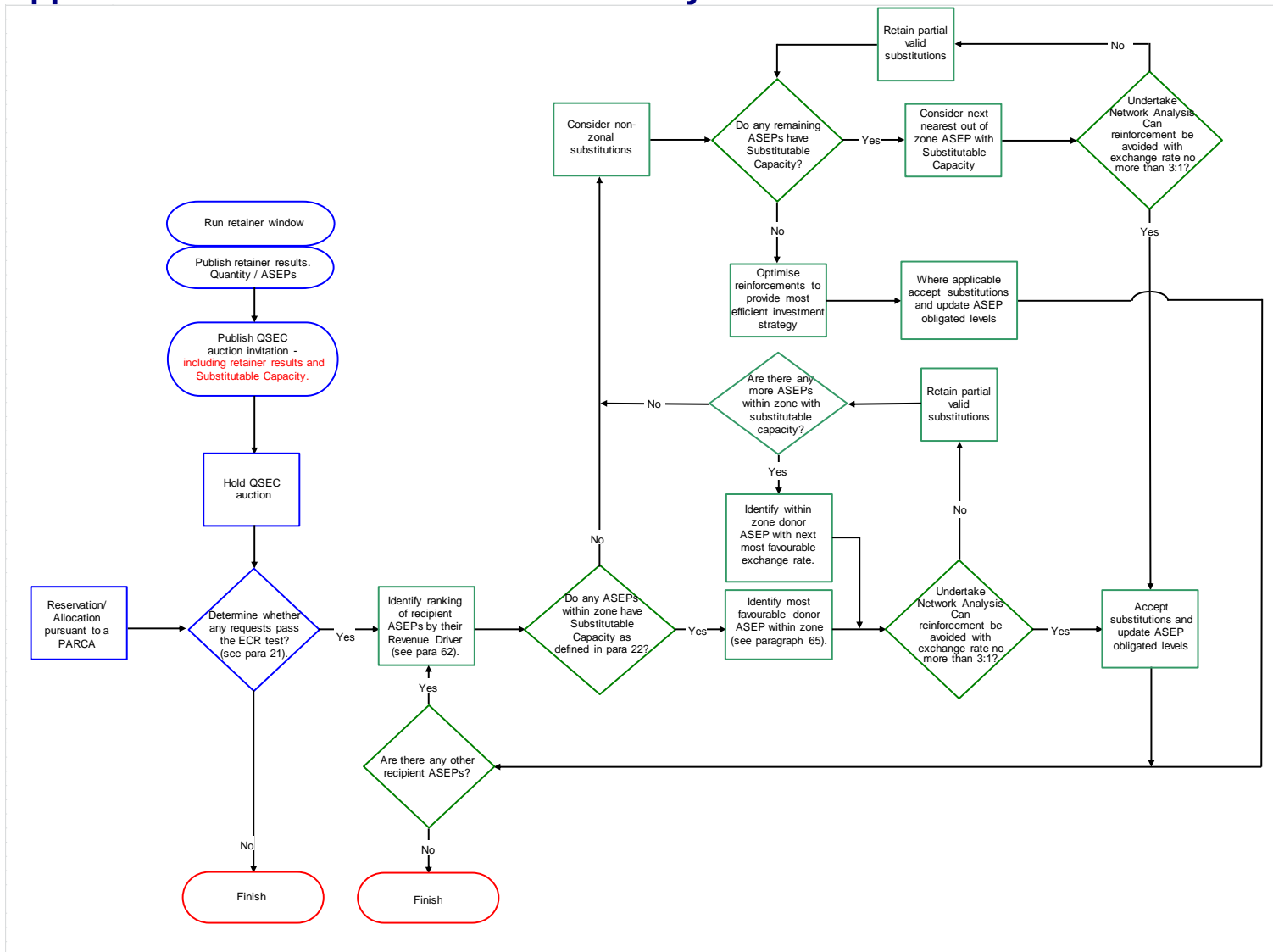
Appendix 1: Entry Capacity Zones

The current ASEPs that constitute each Entry Zone are provided below. There are seven zones.

Entry Zone	ASEP	Obligated Capacity GWh/day as at 01/10/2 20	Potential Substitutable Capacity * GWh/day as at 01/10/2 20
Easington Zone	Easington terminals (inc Rough)	1407	0
	Hornsea	233.1	4
	Garton / Aldborough	420	0
	Hatfield Moor (onshore)	0.3	0.27
	Hatfield Moor (storage)	25	0.5
	Burton Agnes (Caythorpe)	90	0
Theddlethorpe Zone	Theddlethorpe	610.7	549.63
	Blyborough (Welton)	0	0
South East Zone	Bacton UKCS	485.6	0
	Bacton IP	1297.8	883.62 21.94
	Grain LNG	699.7	0
	Winkfield	0	0
	Tatsfield	0	0
	Albury	0	0
	Palmers Wood	0	0
	Murrow	0	
Northern Triangle	Barrow terminals	340.0	246.46 31.89
	Teesside terminals	445.1	291.84 77.61
	St Fergus terminals	1670.7	1468.82 04.90
	Glenmavis	99	89.1
	Canonbie	0	0
	Moffat	0	0
North West Corridor	Fleetwood	350	0
	Partington	201.41 5	181.28
	Burton Point	73.5	66.15 77.77
	Hole House Farm	296.6	0
	Cheshire	542.7	0
West UK Zone	Milford Haven	950	0
	Dynevor Arms	49	44.10
South West UK Zone	Barton Stacey (Humbly Grove)	172.6	155.34 65.34
	Avonmouth	179.3	161.37
	Wytch Farm	3.3	2.97
	Portland	0	0

* Determined in accordance with paragraph 22 of this Statement. The values assume no additional capacity sales in March 20~~21~~19 QSEC or Annual Yearly Auction. These values are for guidance only and Shippers should refer to the Retainer invitation letter.

Appendix 2: Process for Substitution Analysis



Appendix 3: PARCA Supporting Information

PARCA Phases Overview²²:

PARCA Phase	Activities	Approximate Timescales	Activities and Outputs
0	Pre-PARCA Signature discussions		Bi-lateral discussions between National Grid 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 Grid 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 Grid 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.

PARCA Scenarios:

National Grid has produced a set of slides which describe examples of interacting projects which were presented at Transmission Workgroup. Please select the following link to access these slides:

<https://www.gasgovernance.co.uk/index.php/tx/310113>

²² Phases 2 & 3 are applicable to the IP PARCA process.