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for energy consumers

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Date: 27 February 2015

Dear Steve

Approval of the modified Capacity Methodology Statements including a direction to make some further amendments pursuant to paragraph 8 of Special Licence Condition 9A of the gas transporter licence

Thank you¹ for submitting proposed modifications to the Capacity Methodology Statements (the "modified Capacity Methodology Statements") together with an Independent Examiner's report to us² for approval on 30 January 2015.

These were submitted pursuant to Special Condition 9A of your gas transporter licence. The Capacity Methodology Statements set out the methodologies you apply for National Transmission System (NTS) users to obtain access to NTS capacity.

This letter contains a direction to make further typographical amendments to the proposed modified Capacity Methodology Statements and (subject to those amendments having been made), a decision to approve the proposed modified Capacity Methodology Statements and sets out the background and reasons for our approval under section 38A of the Gas Act 1986 (the Gas Act).

Background

Paragraph 6 of Special Condition 9A of your gas transporter licence states you must review the current methodologies and Capacity Methodology Statements if directed by us, and in any event at least once in every two calendar years, to ensure that they achieve the capacity objectives better.

The main proposed changes to the Capacity Methodology Statements were to incorporate the Planning and Advanced Reservation of Capacity Agreement (PARCA) process into the methodologies. You also proposed some typographical corrections.

Consistent with paragraph 8 of Special Condition 9A, you submitted the proposed modified Capacity Methodology Statements, the consultation responses, changes proposed to the proposed modified Capacity Methodology Statements and a statement from an Independent Examiner confirming they have carried out an Examination.

A copy of the consultation responses you received and a summary of those responses can be found on your website.³

¹ The terms "the licensee", and "you" are used to refer to National Grid Gas plc in this letter.

² The terms "the Authority", "Ofgem", "we" and "us" are used interchangeably in this letter.

Independent Examiner statement

An Independent Examiner statement was submitted alongside the proposed modified Capacity Methodology Statements as required by paragraph 7 of Special Condition 9A. As required by paragraph 7 of Special Condition 9A of the NGG gas transporter licence, the examination is to confirm that you have developed the proposed modified Capacity Methodology Statements consistent with your duties under the Gas Act and obligations under the licence.

We note the Independent Examiner has confirmed that you have developed the proposed modified Capacity Methodology Statements in line with your obligations under the Gas Act and in your licence. This satisfies the requirements of paragraph 7 of Special Condition 9A.

The Independent Examiner also made a number of comments and suggested recommendations about the proposed modified Capacity Methodology Statements and capacity release processes more generally. These include -

- reviewing the structure of each statement
- Uniform Network Code (UNC) changes to fix potential issues with the capacity release process
- changes to ensure there is consistency between the methodology statements and UNC or gas transporter licence
- considering if the PARCA process makes the right assessment of the full economic value of reserved capacity which could also be used as substituted capacity
- changes to clarify the capacity substitution process.

Many of the comments made by the Independent Examiner are about wider capacity release issues and processes. We expect you to reflect on all the comments made by the Independent Examiner and consider whether any of these changes would be required in order to facilitate better the achievement of the capacity objectives. We would like your views on the Independent Examiner's statement within the next two months.

The capacity methodology statements

Pursuant to your obligations under paragraph 6 of Special Condition 9A of the gas transporter licence, you submitted proposed modifications to the four Capacity Methodology Statements below -

- The Entry Capacity Release Methodology Statement
- The Exit Capacity Release Methodology Statement
- The Entry Capacity Substitution Methodology Statement
- The Exit Capacity Substitution Statement.

You propose to amend these Capacity Methodology Statements to reflect the introduction of the PARCA capacity release arrangements.⁴ This will facilitate better the achievement of the capacity objectives by ensuring the Capacity Methodology Statements properly reflect the capacity release process, consistent with the your licence duties. In particular, the changes will help ensure the Capacity Methodology Statements are in line with the licence changes we approved on the 8 December 2014. They will also continue to ensure you operate an efficient pipeline system by making capacity available through the PARCA process.

The changes will also ensure that capacity substitution is effected in a manner which further facilitates the capacity objectives by reducing the costs associated with Funded Incremental Capacity. The changes to the Capacity Methodology Statements will continue

³ <http://www2.nationalgrid.com/UK/Industry-information/Gas-capacity-methodologies/>

⁴ We approved UNC and licence changes to implement the PARCA arrangements on 8 December 2014. A copy of our decision letters, which contain an explanation of the PARCA process, can be found on our website: <https://www.ofgem.gov.uk/gas/transmission-networks/entry-and-exit-capacity>

to make sure that capacity substitution can be undertaken where possible in the place of the release of Funded Incremental Capacity. This will reduce the need to make new NTS investments and, ultimately, costs for NTS users and consumers.

We also consider the modifications will avoid increases in capacity constraint management costs by incorporating the PARCA process into the Capacity Methodology Statements. This will allow you to apply the PARCA process, with its benefits of matching capacity release to planning process requirements, as part of the methodologies when dealing with requests for incremental NTS capacity.

As required by paragraph 8 of Special Condition 9A, you consulted on the proposed modified Capacity Methodology Statements.

Respondents to your consultation suggested additional changes to the proposed modified Capacity Methodology Statements, including -

- to clarify when the capacity notice requesting capacity substitution will be submitted to us, and
- to make it clear that signing a PARCA does not guarantee capacity release.

Respondents also suggested other minor text changes to the proposed modified Capacity Methodology Statements.

We have reviewed the proposed modified Capacity Methodology Statements, the consultation responses and the further amendments to the proposed modified Capacity Methodology Statements you have made following respondents' comments.

After reviewing the proposed modified Capacity Methodology Statements, we also consider a number of other changes should be made to them before they can be approved. These are minor changes to correct cross-references to the gas transporter licence and improve the clarity of the text of the proposed modified Capacity Methodology Statements.

Subject to the further changes to the proposed Capacity Methodology Statements set out in the direction annexed to this letter having been made, we have decided to approve the proposed modified Capacity Methodology Statements on the grounds that the proposed amendments better meet the capacity objectives set out at paragraph 5 of Special Condition 9A.

If you have any questions about the content of this letter, please contact James Thomson on 0141 331 6012 or james.thomson@ofgem.gov.uk.

Yours sincerely



Andy Burgess
Associate Partner, Transmission and Distribution Policy

ANNEX 1

Direction issued to National Grid Gas plc (NGG) pursuant to paragraph 8 of Special Licence Condition 9A (Entry Capacity and Exit Capacity Obligations and Methodology Statements)

1. This Direction is issued by the Gas and Electricity Markets Authority (the "Authority")⁵ pursuant to paragraph 8 of Special Licence Condition 9A of the gas transporter licence (the "Licence") granted or treated as granted under section 7 of the Gas Act 1986 to National Grid Gas plc (the "Licensee").
2. Special Licence Condition 9A provides that the Licensee shall prepare and submit for approval by us a statement setting out each of the methodologies referred to in Special Licence Condition 9A (the "Capacity Methodology Statements").
3. Special Licence Condition 9A paragraph 5 requires the Licensee to use reasonable endeavours to ensure that the methodologies will facilitate achievement of the capacity objectives set out in that paragraph.
4. Special Licence Condition 9A paragraph 6 requires the Licensee to review the current methodologies and the Capacity Methodology Statements if so directed by us and in any event at least once in every two years and to seek to make such modifications to the methodologies and the Capacity Methodology Statements as it considers reasonably necessary to better facilitate the achievement of the capacity objectives.
5. Special Licence Condition 9A paragraph 6 requires that the Licensee review its current methodologies and the Capacity Methodology Statements at least once every two years or where we so request. In accordance with paragraph 6 the Licensee conducted such review to incorporate the Planning and Advanced Reservation of Capacity Agreement process into the methodologies.
6. Special Licence Condition 9A paragraph 8, requires the Licensee to take all reasonable steps to consult with Relevant Shippers, interested parties and in case of Exit Capacity Substitution or Exit Capacity Revision, also with Distribution Network Operators and allow them a period of not less than 28 days within which to make representations. The Licensee must also provide to us a report setting out the modifications originally proposed, the representations, if any, made by interested persons and any changes to the modifications proposed as a result of such representations.
7. In accordance with Special Licence Condition 9A paragraph 8, on 30 January 2015 the Licensee provided us with a report setting out the terms originally proposed in its capacity statement modification including changes as result of the public consultation and the report by the Independent Examiner.
8. Having regard to the capacity objectives and to its principal objective and general duties, we have decided to approve the NGG capacity methodologies subject to the amendments set out in the Schedule to this Direction having been made. We consider that the proposed modified NGG capacity methodologies better meet the capacity objectives.
9. Paragraph 8 of Special Condition 9A allows us to direct that sub-paragraphs (a), (b) and (c) of paragraph 8 shall not apply and direct the Licensee to comply with such other reasonable requirements as are specified in that direction. We hereby direct that sub-paragraphs (a), (b) and (c) shall apply subject to the additional

⁵ The terms "the Authority", "Ofgem", "we" and "us" are used interchangeably

requirement that the Licensee shall make such further clarificatory changes to the capacity methodologies are specified in the Schedule to this Direction.

10. We hereby direct, pursuant to paragraph 8 of Special Licence Condition 9A of the Licence, that the modified capacity methodologies shall incorporate the textual amendments set out in the Schedule to this Direction in order to correct cross-references to the Licence and improve the clarity of the text of the capacity methodology statements.
11. This Direction shall have immediate effect and shall remain in effect until such time as we may revoke or vary the Direction in writing upon reasonable notice.
12. This Direction constitutes notice of our reasons for the decision pursuant to section 38A of the Gas Act 1986.



Andy Burgess

Associate Partner, Transmission and Distribution Policy

Duly authorised on behalf of the Authority

Schedule to Direction - Methodology statement changes

Paragraph number	Comment	Text change (in red text)
The Entry Capacity Release Methodology Statement		
35	A slight addition is required to the first bullet point to refer to ASEPs where capacity has been requested.	"... 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, "
126	Cross references to Part A of Special Condition 5F are out of date. The reference should be to Part B.	"...submitted to the Authority pursuant to Special Condition 5F Part A B of the Licence or implicitly through the establishment and application of the methodology specified in this Statement."
147	This paragraph states that National Grid will made a proposal to the Authority before reserving Firm NTS Entry Capacity for the purposes of capacity substitution. Part A of Special Condition 5F states NGGT must publish such a notice for the benefit of stakeholders.	"...National Grid will make and publish a proposal to the Authority, subject to paragraph 22, to reserve that quantity..."
167	Cross references to Tables 6, 7 and 8 of Special Condition 5F are out of date. They should be updated to refer to Tables 4, 5 and 6 respectively.	"... Non-incremental Obligated Entry Capacity which comprises of <ul style="list-style-type: none"> • Licence Baseline Entry Capacity set out within Table 6 4 of Special Condition 5F of the Licence; plus • Legacy TO Entry Capacity set out within Table 8 6 of Special Condition 5F of the Licence, either of which may be adjusted by the quantities set out within Table 7 5 of Special Condition 5F of the Licence,..."
NTS Exit Capacity Release Methodology Statement		
19 to 21	These paragraphs outline the notices National Grid will submit to us as part of the capacity reservation process. In particular paragraph 19 outlines the Exit Capacity Notice and paragraph 20 the information published when capacity is reserved. We consider it would improve readability of paragraph 20 preceded paragraphs 19. This would be in keeping with the logical flow of actions and description in paragraph 21.	20 19. Under Special Condition 5G of the Licence, National Grid must publish information that provides details of the proposed reservation of Incremental Obligated Exit Capacity. This will state the volume quantity of Incremental Obligated Exit Capacity proposed to be treated as: <ul style="list-style-type: none"> • Funded Incremental Obligated Exit Capacity; or • Non-incremental Obligated Exit Capacity provided by Exit Capacity Substitution

		<ul style="list-style-type: none"> • in accordance with Special Condition 9A. <p>19 20. Under Special Condition 5G of the Licence, National Grid must provide the Authority with an Exit Capacity notice providing details of all proposed Incremental Obligated Exit Capacity. The notice will state the volume of Incremental Obligated Exit Capacity proposed to be treated as:</p> <ul style="list-style-type: none"> • Funded Incremental Obligated Exit Capacity; or • Non-incremental Obligated Exit Capacity provided by Exit Capacity • Substitution in accordance with Special Condition 9A. <p>Unless directed to the contrary within 28 days of the date of submission of this notice, National Grid shall implement the proposals, as set out within the Exit Capacity notice. In the event that the Authority vetoes such proposals for the release of Incremental Obligated Exit Capacity National Grid may not, pursuant to the PARCA, allocate Enduring Annual NTS Exit (Flat) Capacity to the User.</p> <p>20. Under Special Condition 5G of the Licence, National Grid must publish information that provides details of the proposed reservation of Incremental Obligated Exit Capacity. This will state the volume quantity of Incremental Obligated Exit Capacity proposed to be treated as:</p> <ul style="list-style-type: none"> • Funded Incremental Obligated Exit Capacity; or • Non-incremental Obligated Exit Capacity provided by Exit Capacity Substitution • in accordance with Special Condition 9A. <p>21. Pursuant to a PARCA, National Grid will reserve capacity from an NTS Exit Point (a donor NTS Exit Point) for subsequent substitution to another NTS Exit Point (a recipient NTS Exit</p>
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		<p>Point). Such reservation will be undertaken prior to the allocation of that Reserved Exit Capacity at the recipient NTS Exit Point. Any decision by National Grid to reserve capacity pending substitution (substitution shall be confirmed following ahead of allocation of capacity at the recipient NTS Exit Point) shall be published pursuant to paragraph 20 19. In the event that:</p> <ul style="list-style-type: none"> • the Reserved Exit Capacity is subsequently required to be substituted to the recipient NTS Exit Point and allocated to a User, National Grid will notify the Authority of the proposed substitution in the Exit Capacity notice referred to in paragraph 19 20. • the Authority vetoes such substitution proposals (and any feasible alternatives) for capacity substitution notified pursuant to paragraph 19 20, National Grid will not substitute capacity from the donor NTS Exit Point to the recipient NTS Exit Point. Any resulting allocation of capacity at the NTS Exit Point 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 by the circumstances applicable to each case. Consequently National Grid may reconsider alternative options for example investment/contractual options following discussion of the options between National Grid and the counterparty pursuant to the terms to the PARCA.
The Entry Capacity Substitution Methodology Statement		
4	Paragraph outlines that methodology will be applied in response to signals received from	"...in response to signals received from Shipper Users and Reservation Parties through processes described

	Shipper Users. Should be reworded as non-code users can request PARCAs which include capacity substitution.	in the UNC..."
10	Paragraph refers to Table 8 of Special Condition 5F. This should be revised to Table 6 of Special Condition 5F.	"...will also be treated as Non-incremental Obligated Entry Capacity (Legacy TO Entry Capacity) from dates defined in Table 8 6 of Special Condition 5F of the Licence."
90	Paragraph cross references paragraph 9 in Special Condition 5F. This should be revised to paragraph 13 of Special Condition 5F.	"...subject to the Authority not vetoing (or directing to modify) the proposal in accordance with Special Condition 5F(913) of the Licence."
The Exit Capacity Substitution and Revision Methodology Statement		
76	Paragraph discusses the notice National Grid will issue to us before substituted capacity is reserved. The licence obliges National Grid to ensure any such proposals are published more widely for stakeholders.	"...However, in respect of a PARCA, following ahead of the reservation of capacity pending substitution, National Grid will inform the Authority of that potential capacity substitution at the time of reservation and publish in accordance with Special Condition 5G Part A... "