



# **Consultation on Capacity Methodology Statements**

## **Conclusions Report**

**30<sup>th</sup> May 2017**

## Executive Summary

### Introduction

National Grid Gas plc's ("National Grid") Gas Transporter Licence in respect of the NTS ("the Licence") sets out obligations to develop and modify the:

- Entry Capacity Release Methodology Statement ("ECR"); and
  - Exit Capacity Release Methodology Statement ("ExCR");
- together, the capacity release methodology statements defined in Special Condition 9B, and
- Entry Capacity Substitution Methodology Statement ("ECS");
  - Exit Capacity Substitution Methodology Statement ("ExCS"); and
  - Entry Capacity Transfer & Trade Methodology Statement ("ECTT");
- together, the Capacity Methodology Statements defined in Special Condition 9A.

National Grid has been working closely with industry to develop the processes for the release of Incremental capacity at Interconnection Points to facilitate compliance with EU Regulation 2017/459 repealing Regulation 984/2013 Capacity Allocation Mechanisms (CAM). This has resulted in the Authority decision to implement UNC Modification:

- 0597: "Rules for the release of incremental capacity at Interconnection Points";

Additionally changes have been made to the auction calendar and the current Annual Quarterly Auction has been replaced with four Annual Quarterly Capacity Auctions. This has resulted in the UNC Modification Panel decision to implement UNC Modification:

0598S: "Amendments to Capacity Allocations Mechanisms to comply with EU Capacity Regulations";

On the 13<sup>th</sup> April 2017 National Grid invited all interested parties to comment on the potential revisions to the methodology statements through the consultation process. In addition to the changes resulting from the aforementioned Modifications, minor additional changes have been proposed e.g. removal of obsolete transitional arrangements and general housekeeping and date related amendments.

This document sets out National Grid's conclusions on the consultation for the potential methodology statements. It provides a summary of the representations received, National Grid's response to those representations and an indication of whether, as a result of such representations, any changes have been made to the proposed statements.

### Responses

Representations were received from two respondents listed below:

- |                          |     |                        |
|--------------------------|-----|------------------------|
| • Centrica               | CEN | Comments on ECR & ExCR |
| • Wales & West Utilities | WWU | Comments on ExCR       |

Comments from respondents and National Grid Transmission's responses are provided in the following table. In order to keep this report to a manageable length, responses may have been edited. Interested parties are advised to read the full responses found on National Grid's web site at:

[www2.nationalgrid.com/uk/industry-information/gas-capacity-methodologies/](http://www2.nationalgrid.com/uk/industry-information/gas-capacity-methodologies/)

**Responses**

Document	Response Quotes	National Grid Response	Proposed changes
<b>1- Entry Capacity Release Comments (amendments have been made to the ExCR where the comments apply to both methodologies)</b>			
ECR	<b>Para 14</b> - Would it be helpful to spell out the acronym “DIA” in this para? Also, for completeness, would it be helpful to note that the fee will be returned if the applicant passes the economic test?	Happy to provide this clarification.	Amend
ECR	<b>Para 73</b> – Although there is no proposal to change this paragraph we believe that the ability for National Grid to withhold capacity from DSEC auctions should be reviewed, especially in the light of this option having been exercised by National Grid last year	National Grid welcomes industry views on potential changes to this section.	No change at this point
ECR	<b>Para 198, 2nd Bullet</b> – The drafting of this paragraph could be clearer. As written it is wrong in that it states that capacity for each quarter in Gas Year Y+1 will be offered in each of the 4 auctions. This could be remedied by saying that the capacity will be sold for “each <b>remaining</b> quarter of Gas Year Y+1”.	Agree – thank you for providing suggested wording.	Change as suggested
ECR & ExCR	<b>Para 221</b> – the term “joint notice” at the end of the paragraph should be defined or better described. Presumably this refers to the form of notice that could arise under para 228?	The link to 228 is correct and there is a cross reference to EID which we will add in.	To be amended to include references. Also add to ExCR para 213.
ECR	<b>Para 227</b> - UNC EID 4.1.4(d) states the PV of the increase in NGGT’s allowed revenue and the f factor will also be included as information submitted to the Authority. Should this be included in para 227?	These are part of the economic test so will be included in the information submitted to the Authority.	No change
ECR & ExCR	<b>Footnote 48 ECR and 64 ExCR</b> – This is an important treatment of capacity and should be more fully explained in the main body of the document. For example, presumably withheld capacity will only apply to Funded Incremental Capacity and not to any capacity that has been substituted to meet the applicant’s needs? The IP PARCA would need to explicitly set out how much capacity the applicant (or Nominated user) would receive at the end of the process. Also, how the provision of the withheld capacity impacts on the economic test and how the cost of providing it will be recovered from Users should be stated.	The CAM requirement to withhold incremental capacity will only apply to funded Incremental Capacity. The IP PARCA, submitted as part of the project proposal, will explicitly set out the quantity to be allocated under the Alternative Allocation Mechanism and that allocation quantity will be used for the Economic Test.	Amend para 227 and 241 of ECR and 219 & 233 of ExCR
ECR	<b>Para 232</b> – should sub-paragraph (c) make clear the IP PARCA	Agree further words will be provided within the text in line	Add text

	Termination amount will be calculated “in accordance with the <u>PARCA Termination Amount set out in the Gas Transmission Transportation Methodology (UNC TPD Section Y)</u> ”? Section Y does not contain references to IP PARCAs or IP PARCA Termination Amounts. Clearly, the PARCA obligations explained in Section Y are meant to apply at IPs. However, given the slightly different terminology being used in Section Y and methodologies, should the application of the Section Y terms be better explained?	with your suggestions.	
ECR ExCR	<b>&amp; Economic Test, Paras 240 (a) and 241</b> – it would be helpful to clarify whether the applicant/ Nominated User’s binding revenue commitments include any contribution towards the provision of withheld capacity.	Applicants will be responsible for contributing a percentage, equivalent to the f-factor, of the increase in allowed revenue for the increase (including (where relevant) any quantity to be withheld)) in Funded Incremental Capacity. If capacity is to be withheld the details of this and any User contribution will be set out in the project proposal.	Text added to ECR & ExCR
ECR	<b>Para 242</b> – It would be helpful to have an explanation of how the Mandatory Minimum Premium will apply in practice. For example, will the premium be attached only to that capacity provided for under the IP PARCA (and to neither any sold Technical Interconnection Point Capacity or any withheld capacity)?	The MMP would be applied to all capacity allocated via the alternative allocation mechanism. It would not be applied to any subsequent release e.g. unsold existing, unsold incremental or any capacity “withheld” from the initial incremental release	Amend
<b>2- Exit Capacity Release Comments</b>			
ExCR	<b>Para 15</b> – it would help to better describe the purpose of the DIA Fee and to include it as a definition in Appendix 3.	Agree	Amend
ExCR	<b>Para 191, 2nd Bullet</b> - The drafting of this paragraph could be clearer. As written it is wrong in that it states that capacity for each quarter in Gas Year Y+1 will be offered in each of the 4 auctions. This could be remedied by saying that the capacity will be sold for “each <b>remaining</b> quarter of Gas Year Y+1”.	Agree – thank you for providing suggested wording.	Change as suggested
ExCR	<b>Para 208</b> –Can you clarify whether incremental capacity can be provided by capacity substitution via the normal auction processes (this would probably be limited to unbundled capacity)?	Incremental capacity at an Interconnection Point cannot be obtained via an auction.	Clarify and also add to ECR
ExCR	<b>Para 213 (a)</b> – what happens if the applicant withdraws from the process, resulting in the incremental project not proceeding – is the fee repaid? Maybe this paragraph needs to be more descriptive	The fee would be retained and reconciled against actual costs incurred. EID E6.	Add and add to ECR
ExCR	<b>Para 224</b> – as per comment for ECR para 232	Agree	Clarify
ExCR	<b>Para 234</b> – It would be helpful to have an explanation of how the Mandatory Minimum Premium will apply in practice. For example, will the premium be attached only to that capacity provided for under the IP PARCA (and to neither any sold Technical Interconnection Point Capacity or any withheld capacity)?	(as per ECR para 242 above) The MMP would be applied to all capacity allocated via the alternative allocation mechanism. It would not be applied to any subsequent release e.g. unsold existing, unsold incremental or any capacity “withheld” from the initial incremental release	Amend

ExCR	<p><b>Para 84</b>, final sentence: On making such applications, Users are committing to the User Commitment                  We believe User Commitment should not be applied where the revised booking remains within the baseline                  Page 24, Paragraph 127 a) where a User has been allocated and registered as holding additional Enduring Annual NTS Exit (Flat) Capacity, the User must meet the associated User Commitment before reductions may be effective; and...                  We believe this should also only apply for additional Enduring Annual NTS Exit (Flat) Capacity above the baseline.                  As the above comments suggest, we have recently been looking at the costs associated with current Exit Arrangements and believe that the current arrangements are inflexible and require changing. The current arrangements prohibit Users substituting capacity from one offtake to a cheaper offtake within the same LDZ, unless they incur additional User Commitments, even where the new booking is within the Baseline. This results in increased costs for DNs and sub-optimal outcomes for utilization of the NTS both of which are likely to result in increased charges to customers. We are therefore considering whether to raise a UNC Modification to:                  1. Bring substitution methodology into the UNC and 2. To allow substitution between offtakes within an LDZ without incurring additional User Commitments in certain circumstances, for example increasing capacity to the baseline.</p>	<p>Thank you for your representation. A broad review of User commitment and substitution will have wider industry consequences and therefore significant stakeholder interest. As such an industry wide review, with any subsequent proposals being reflected within the methodology, or moved under the governance of the UNC arrangements, would appear to be the most appropriate approach.                  No changes to these particular rules can be proposed by National Grid as part of this representation process because they did not form part of any changes put forward for the consultation and would represent a significant change.</p>	No change
<b>3- Minor Drafting Errors and Corrections Identified ECR &amp; ExCR</b>			
ECR	Para 11 Should “a Interconnection Point” be “an Interconnection Point”?	Agree	change
ECR	Para 53 – In the first bullet point the number 8 from 2018 appears to be missing	Agree	Add
ECR	<b>Navigation of the Document</b> – It would help if you amended the headings of Part A and Part B to indicate that these sections only refer to non-Interconnection Point capacity (Part C covers Interconnection Point Capacity.) This would be further helped by making a similar distinction in paragraphs 41 to 43.	Agree	Change as suggested
ECR	Para 203 – sub paragraph numbering looks incorrect	Agree should be (a) (b) etc	change
ECR	<b>Para 231 (d)</b> – should this refer to <b>Funded</b> Incremental Obligated Entry Capacity?	Agree	Add “funded”
ECR	<b>Para 232 (e)</b> – Should this refer to “ <b>unsold Technical Interconnection Point Capacity</b> ” instead of “unsold Reserved Entry Capacity”?	Agree	Change as suggested

ExCR	<b>Part A Title</b> – would be useful to have this as “EXIT CAPACITY RELEASE AT NON-INTERCONNECTION POINTS”	Agree	Add
ExCR	<b>Chapter 8</b> – contains numerous references to “IP ASEP” which should be replaced with “ <i>IP Exit Point</i> ” or something similar).	Thank you for identifying this error. References to IP ASEP should read Exit IP.	Replace
ExCR	<b>Para 208</b> – should this refer to <b>Funded</b> Incremental Interconnection Point Capacity?	Agree	Add “funded”
ExCR	<b>Para 224 (e)</b> - Should this refer to “ <b>unsold Technical Interconnection Point Capacity</b> ” instead of “unsold Reserved Entry Capacity”?	Agree	Change as suggested

**Summary**

National Grid Gas Transmission is proposing any amendments detailed above which, in its opinion, do not revise the intent of the original consultation versions. Therefore National Grid is submitting, for approval by the Authority, each methodology statement.