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The Statement of the Constraint Management Cost Allocation Rules

Effective from 1st April 2013.

national**grid**

Document Revision History

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1	31 st May 2013	First release

About this Document

This document describes the rules that National Grid Gas plc's NTS business ("National Grid") will apply in attributing constraint management costs incurred by National Grid between the following terms:

- i) the entry capacity operational constraint management cost term (EnCMOpC_t);
- ii) the exit capacity operational constraint management cost term (ExCMOpC_t);
- iii) the entry capacity constraint management investment cost term (EnCMInvC_t);
- iv) the exit capacity constraint management investment cost term (ExCMInvC_t);

This document is one of a suite of documents that describe the management and operation of the National Transmission System ("NTS"). Other documents are available on our Operational Documents website at:

<http://www.nationalgrid.com/uk/Gas/OperationalInfo/operationaldocuments/>

This statement is effective from 1 April 2013.

This document has been published by National Grid in accordance with Special Condition 3B Part L of National Grid's Gas Transporter Licence in respect of the NTS (the "Licence"). National Grid believes the content is consistent with its duties under the Gas Act and is consistent with the Standard Conditions, Standard Special Conditions and Special Conditions of the Licence.

If you require further details about any of the information contained within this document or have comments on how this document might be improved please contact the Capacity Team on **01926 654057** or capacityauctions@nationalgrid.com or by writing to:

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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 is a network of pipelines, presently operated at pressures of up to 94 bar, 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 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. In 2012/13, 959 TWh of Gas was transported to these consumers.
4. This publication sets out the rules that National Grid will apply in attributing certain operating costs (the “constraint management costs”) to the specific cost terms contained within the Licence.
5. Details of National Grid and its activities can be found on the company’s internet site at www.nationalgrid.com. An electronic version of this publication, along with the other related statements can be found at the following internet page: <http://www.nationalgrid.com/uk/Gas/OperationalInfo/operationaldocuments/>.

National Grid’s Licence Obligations

6. Overriding obligations applicable to this statement set out in the Licence in respect of the operation of the NTS are that it must:
 - be conducted in an efficient, economic and co-ordinated manner – (see Special Condition 8A); and
 - not prejudice the safe and efficient operation of National Grid’s or any other relevant gas transporter’s pipe-line system (see Standard Special Condition A17).
7. Specific obligations in respect of attributing constraint management costs applicable to this statement are set out in Special Condition 3B of the Licence and are:
 - a) The constraint management costs incurred by National Grid shall be attributed between the following licence terms (Parts D and E, paragraphs 3B.17 and 3B.18):
 - i) the entry capacity operational constraint management cost term (EnCMOpC_t);
 - ii) the exit capacity operational constraint management cost term (ExCMOpC_t);
 - iii) the entry capacity constraint management investment cost term (EnCMInvC_t);
 - iv) the exit capacity constraint management investment cost term (ExCMInvC_t);
 - b) National Grid shall prepare and submit for approval by the Authority a statement of constraint management cost allocation rules, setting out the rules that it shall apply in attributing constraint management costs for the purposes of paragraphs 3B.17 and 3B.18 of Special Condition 3B.

- 8 National Grid also has a Licence obligation to use reasonable endeavours to ensure it does not pay more than 0.52p/kWh/Day in respect of Entry Capacity and Exit Capacity Constraint Management costs in respect of Funded Incremental Obligated Entry Capacity and Funded Incremental Obligated Exit Capacity, (Special Condition 3B, paragraph 3B.19) and this obligation will apply until that Funded Incremental Obligated Entry Capacity and Funded Incremental Obligated Exit Capacity has been physically delivered.

CHAPTER 1: PRINCIPLES

Constraint Cost Management

- 9 National Grid will undertake actions to manage Entry Capacity and Exit Capacity constraints in accordance with the System Management Principles Statements which can be found at:
<http://www.nationalgrid.com/uk/Gas/OperationalInfo/operationaldocuments/ProcurementSystemManagementServicesStatementsReports/>

Cost Allocation Rules

- 10 Constraint Management costs will be allocated between Entry Capacity Constraint Management costs (EnCMC) and Exit Capacity Constraint Management costs (ExCMC).
- 11 Entry Capacity Constraint Management costs will consist of:
- the costs incurred in respect of any Constraint Management actions taken in relation to Entry Capacity (including those related to capacity management relating to the surrender of Firm Entry Capacity); and
 - the costs incurred in respect of any payments made to gas shippers or DN Operators in exchange for agreeing to offtake gas from the NTS at National Grid's request and in respect of any costs incurred undertaking any other commercial or physical action to manage Entry Capacity, including the costs of any Locational Actions.
- 12 Where all of the following conditions are satisfied, Entry Capacity Constraint Management costs shall be allocated to the entry capacity constraint management investment cost term (EnCMInvC_i):
- the constraint management action is in respect of Funded Incremental Obligated Entry Capacity released for sale after 31st March 2013, i.e. in response to User signals provided in accordance with the IECR or other methodology approved by the Authority in an auction held on or after 1st April 2013. This may be in respect of a new ASEP or an existing ASEP;
 - the constraint management action is not in respect of non-obligated entry capacity;
 - the constraint management action is not taken in respect of a Day before the entry capacity release date i.e. the date on which the incremental capacity was first due to be contractually delivered; and
 - the incremental obligated entry capacity has not been physically delivered.
- 13 Any Entry Capacity Constraint Management costs which are not allocated to the entry capacity constraint management investment cost term shall be allocated to the entry capacity operational constraint management cost term (EnCMOpC_i).
- 14 Exit Capacity Constraint Management costs will consist of:
- the costs incurred in respect of accepted offtake reduction offers (as defined in the Network Code); and

- the costs incurred in respect of any Exit Capacity Constraint Management actions taken (including those related to Exit Constraint Management Charges and NTS Exit Capacity surrender charges) (as defined in the Network Code) and in respect of any costs incurred in undertaking any other commercial or physical action to manage Exit Capacity.
- 15 Where all of the following conditions are satisfied, Exit Capacity Constraint Management costs shall be allocated to the exit capacity constraint management investment cost term (ExCMIInvC_t):
- the constraint management action is in respect of Funded Incremental Obligated Exit Capacity released for sale after 31st March 2013, i.e. in response to User signals provided in accordance with the ExCR or other methodology approved by the Authority in an allocation held on or after 1st April 2013. This may be in respect of a new exit point or an existing exit point;
 - the constraint management action is not in respect of non-obligated exit capacity;
 - the constraint management action is not taken in respect of a Day before the exit capacity release date i.e. the date on which the incremental capacity was first due to be contractually delivered; and
 - the incremental obligated exit capacity has not been physically delivered.
- 16 Any Exit Capacity Constraint Management costs which are not allocated to the exit capacity constraint management investment cost term shall be allocated to the exit capacity operational constraint management cost term (ExCMOpC_t).
- 17 For the avoidance of doubt, the costs allocated to ExCMOpC_t in accordance with paragraph 16 will include those Exit Capacity buyback costs which are included in the ExBBCNLR_t term, namely those which:
- arise as a result of the rate of offtake by a User at a particular NTS Exit Point exceeding the maximum permitted offtake rate for that NTS Exit Point;
 - arise as a result of an Aggregate Overrun of Exit Capacity at an NTS Exit Point;
 - arise in respect of any NTS Exit Point in respect of which the Licensee has notified a planned maintenance Day in accordance with the Network Code; and/or
 - Users are liable to reimburse to the Licensee in accordance with the Network Code.
- 18 For the avoidance of doubt, the costs incurred in acquiring NTS Transportation Support Services (as described in Special Condition 3C) will not be allocated to any of the above terms.