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value for all customers*

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Date: 3 March 2008

Dear Chris

**Re: Delay to the NTS Entry Capacity Substitution Obligation**

Thank you for your letter dated 19 February 2008 in which you seek to delay introduction of the Entry Capacity Substitution (ECS) obligation as set out in paragraph 10 of Special Condition C8D of National Grid Gas's (NGG) Gas Transporter licence (GT licence).

In this letter you propose a possible timetable for introduction of the ECS obligation, whereby the ECS methodology is approved by 1 February 2009. This timetable outlines a number of steps, including the following:

Ofgem conducts impact assessment on indicative proposals	Aug/Sep-08
NGG informally submits the ECS methodology to Ofgem	1-Dec-08
NGG formally submits the ECS methodology to Ofgem	Late Jan-09
Ofgem makes decision on whether to approval ECS methodology	1-Feb-09
NGG holds Quarterly System Entry Capacity (QSEC) auction	Apr-09
NGG releases incremental obligated entry capacity from April 2009 QSEC	1-Oct-12

However, we find a couple of issues with this proposed timetable which would not make it feasible. The first is that the Authority would want to conduct an impact assessment on final proposals that are submitted, not indicative proposals.

The second issue we have with the timetable is that an April 2009 QSEC auction would release incremental obligated entry capacity on 1 January 2013, not 1 October as desired. The incremental entry capacity release methodology statement states that 'it is anticipated that the application of the default 42 month lead time be as outlined with the GT licence. However, where this is not specified, the lead time will apply following completion of the capacity allocation process... As capacity is sold in quarterly units, capacity will be made available from the commencement of the nearest quarter following expiry of the 42 month period.'

Paragraph 3(g) in Special Condition C8D of the GT licence states that the default lead time for delivery of incremental obligated entry capacity is 42 months from the 1<sup>st</sup> day of the month following the end of the Annual Invitation Period (defined in the UNC as the ten consecutive business days over which the QSEC auction is held). Therefore, an April QSEC auction would result in the 42 month lead time beginning on 1 May 2009 and ending on 1 November 2012 and as capacity is released in quarterly units this capacity would only be released on 1 January 2013.


We consider that in order to release incremental obligated entry capacity in alignment with the start of the gas year on 1 October 2012 that a March 2009 QSEC auction is more appropriate.

We have therefore published a direction to delay introduction of the entry capacity substitution (ECS) obligation in National Grid Gas's (NGG) GT licence according to the following timetable:

NGG submits the ECS methodology to Ofgem	6-Jan-09
Ofgem conducts impact assessment on ECS methodology	Jan/Feb-09
NGG holds Quarterly System Entry Capacity (QSEC) auction	Mar-09
Ofgem makes decision on whether to approval ECS methodology	6-Apr-09
NGG releases incremental obligated entry capacity from April 2009 QSEC	1-Oct-12

Please find the direction attached to this letter.

**Yours sincerely,**



**Robert Hull – Director, Transmission**