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for energy consumers

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Date: 30 June 2021

Dear Chris,

**Decision on the Capacity Methodology Statements and Capacity Release
Methodology Statements (Special Conditions 9.17 and 9.18 of National Grid Gas
plc ('NGG') Gas Transporter Licence¹ (the 'licence'))**

Thank you for submitting the proposed modifications to the Capacity Methodology Statements and the Capacity Release Methodology Statements to us² for approval on 5 May 2021.³ The proposed revisions were submitted in your consultation report⁴ alongside a statement from the Independent Examiner.

We have decided to approve the proposed revisions to the Methodology Statements. However, there is a discrepancy in the drafting of the Entry and Exit Capacity Release Methodology Statements ('ECR' and 'ExCR' respectively), which we have set out in this letter. This discrepancy needs to be fixed and we set out next steps later in this letter.

¹ The link to the National Grid Gas Plc ('NGG') Gas Transporter Licence is here:
<https://epr.ofgem.gov.uk/Content/Documents/National%20Grid%20Gas%20Plc%20-%20Special%20Conditions%20Consolidated%20-%20Current%20Version.pdf>

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

³ This includes NGG's consultation report received on 30 April 2021 and a statement from an Independent Examiner received on 5 May 2021.

⁴ The consultation with relevant stakeholders ran between 19 March and 16 April 2021, and two responses were received. The responses and the revisions proposed (pursuant to Special Conditions 9.17.11(c) and 9.18.11(c)) are available at the following link: <https://www.nationalgrid.com/uk/gas-transmission/capacity/capacity-methodology-statements>

Approval of revisions to the Capacity Methodology Statements in accordance with Special Condition 9.17.12(a)

The three 'Capacity Methodology Statements', developed pursuant to Special Condition 9.17 of your licence, are:

- The Entry Capacity Substitution Methodology Statement (the 'ECS')
- The Exit Capacity Substitution and Exit Capacity Revision Methodology Statement (the 'ExCS')
- The Entry Capacity Transfer and Entry Capacity Trade Methodology Statement (the 'ECTT')

Special Condition 9.17.10 of your licence provides that you must, if so directed by the Authority, and in any event not less than once in every period of two regulatory years, review the Capacity Methodology Statements.⁵ As part of this review, you have proposed to prioritise disconnected sites in your substitution analysis for entry and exit capacity in both the ECS and ExCS respectively. You have said that this is limited to a small number of sites and the proposed changes have received support from industry (as part of the UNC705R 'Capacity Access Review' workgroup).⁶ You have also proposed a change in the ExCS to *not* consider capacity identified as required through demand forecasts (as part of the Exit Capacity Planning ('ECP') guidance)⁷ as capacity that is substitutable. The joint Gas Distribution Networks (GDNs) consultation response supported this change to the ExCS, saying it provides reassurance around capacity that is signalled as required through demand forecasts.

We consider that the proposed amendments to the ECS, ExCS and ECTT better meet the capacity objectives set out in Special Condition 9.17.9, and so approve these modifications.⁸

Approval of revisions to the Capacity Release Methodology Statements in accordance with Special Condition 9.18.12(a)

The two 'Capacity Release Methodology Statements', developed pursuant to Special Condition 9.18 of your licence, are:

⁵ These Methodology Statements were last reviewed in July 2019, and so NGG initiated this review of all of the Methodology Statements as part of the two Regulatory Year cycle.

⁶ See UNC705R: 'Capacity Access Review', at the link here: <https://www.gasgovernance.co.uk/0705>

⁷ The Exit Capacity Planning ('ECP') guidance document was published on 19 March 2021 at the link here: <https://www.ofgem.gov.uk/publications-and-updates/exit-capacity-planning-guidance>

⁸ The changes proposed to the ECTT were minor housekeeping changes, largely related to licence updates, and we approve these revisions. Further minor, housekeeping changes were also made to the ECS and ExCS, including licence updates and a change to the substitution increment size to align with the minimum Gemini capacity amount, which we also approve.

- The Entry Capacity Release Methodology Statement (the 'ECR')
- The Exit Capacity Release Methodology Statement (the 'ExCR')

Special Condition 9.18.10 of your licence provides that you must, if so directed by the Authority, and in any event not less than once in every period of two regulatory years, review the Capacity Release Methodology Statements. As part of this review, you have proposed changes to entry and exit user commitment in both the ECR and ExCR. We agree that the reduction of the PARCA minimum duration quantity for incremental capacity from 16 quarters to 4 quarters in the ECR will bring benefits to parties requesting incremental capacity. There was one consultation response received on the ECR, suggesting minor wording changes, which you accepted.

You have also proposed a reduction of exit user commitment for capacity within baseline from four years to two years in the ExCR. You have suggested that four year user commitment "may lead to sterilising capacity, increased costs to GDNs and inefficient and uneconomic decisions based on inaccurate capacity bookings". We agree this change will bring benefits to GDNs, and other users booking exit capacity, with increased flexibility to amend bookings when forecasts change. Following your consultation, on 18 June 2021 you informed us that the drafting of the revision to user commitment in the ExCR that you consulted on was inaccurate.⁹ We are extremely disappointed with this error. However, you have told us that you have now carried out full checks with the relevant stakeholders that were originally consulted with, and you have confirmed that no issues have been raised with the interpretation of the drafting.¹⁰ So we approve the updated version of the ExCR as of 24 June 2021. It is important that we do not delay approval of the updated version of the ExCR beyond 30 June 2021 as doing so would delay the introduction of changes to user commitment within baseline for the upcoming July booking window.

As required by Special Condition 9.18.11, you have submitted a statement from the Independent Examiner confirming that the proposed ExCR is consistent with your obligations under the licence and your duties under the Gas Act 1986.¹¹ We note that the

⁹ NGG contacted us on 18 June 2021 with proposed amendments to the text to outline that the reduction of the user commitment period from 4 to 2 years only applied to Licence Baseline NTS Exit Capacity purchased through the Enduring Annual NTS Exit (Flat) Capacity product mechanism. The wording of NGG's proposed revisions in the version of the ExCR consulted on in accordance with Special Condition 9.18.10 (between 19 March and 16 April 2021), erroneously reflected a reduction of exit user commitment for Incremental NTS Exit Capacity as well as Baseline Exit Capacity.

¹⁰ NGG received one response to a short consultation that we directed to be run from Monday 21 June to Thursday 24 June, to clarify the policy intent with stakeholders and previously consulted parties. The one response was a joint response from all GDNs that did not present any concerns on misinterpretation of the original policy intent, but did more widely question the need for user commitment for Incremental Capacity requests where the underpinning investment on the NTS cannot be demonstrated.

¹¹ We made a decision to grant an exemption from Independent Examination for all other Methodology Statements on 26 March 2021. Our derogation decision can be found here: https://www.ofgem.gov.uk/system/files/docs/2021/03/decision_on_consent_to_derogate_from_independent_examination_of_methodology_statements_0.pdf

Independent Examiner, and the joint consultation response from GDNs, supported lowering user commitment within baseline further to zero for GDNs. We consider this to be a separate issue and have recently held an informal consultation on this,¹² the responses to which will be made available online.

Accordingly, we are content to approve the changes you propose to the ECR and ExCR.¹³

Issues with the ECR and ExCR

We have carefully considered the revisions proposed in the Methodology Statements, as well as the consultation responses and the Independent Examiner's report. Whilst we approve the changes proposed following your review, we are also disappointed to discover further issues within the ECR and ExCR. There is a discrepancy with how the process of acquiring incremental capacity at Interconnection Points (IPs) is currently outlined in both the ECR and the ExCR.

Previously, the Generic Revenue Driver Methodology (GRDM) was used to determine the estimated project cost in incremental capacity applications. However, this has been replaced in RIIO-2 by the Funded Incremental Obligated Capacity Re-opener, and no equivalent process has been established for requesting incremental capacity at IPs. This leaves you in the position of not having an agreed upon method of estimating project costs at IPs, leaving users without a process to follow for requesting incremental capacity at these sites and you without a formal process to fulfil any such requests.

We consider this to be a significant oversight and one which requires a swift solution. We will engage with you on how to proceed in rectifying these errors within the ECR and ExCR.

Our Decision

Following consideration of the documentation you have provided pursuant to Special Conditions 9.17 and 9.18 of the licence, we have decided to approve the proposed revisions to the ECS, ExCS and ECTT in accordance with Special Condition 9.17.12.

We have also decided to approve the proposed revisions to the ECR and ExCR in accordance with Special Condition 9.18.12. We have however highlighted in this letter that

¹² The link to this informal consultation, which ran from 14 May 2021 to 11 June 2021, can be found here: <https://www.ofgem.gov.uk/publications-and-updates/informal-consultation-removing-user-commitment-gas-distribution-networks-gdns-booking-exit-capacity-and-including-baseline>

¹³ Further minor, housekeeping changes were also made to the ECR and ExCR, including licence updates and a change to clarify a project costing reference node, which we also approve.

you will need to rectify the issues identified with incremental IP capacity release in these Capacity Release Methodology Statements.

This letter has been made available on our website. You can contact Joseph Glews at joseph.glews@ofgem.gov.uk if you have any further questions about this decision.

Yours sincerely,

David O'Neill
Head of Gas Markets and Systems