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National Grid NTS and other
interested parties

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7 July 2006

Dear Colleague,

Approval of the Incremental Entry Capacity Release ("IECR") Methodology Statement

Ofgem¹ has considered the findings of the auditor statement along with the submission of the IECR methodology statement by National Grid National Transmission System (NTS) on 20 June for approval by the Authority pursuant to Special Condition C15(2) of National Grid Gas plc's ("NGG") NTS Gas Transporter's Licence. Having regard to the principal objective and statutory duties of the Authority², and for the reasons set out in this letter, Ofgem has decided that it will approve the IECR methodology statement.

This letter outlines the background to NGG's submission of the IECR methodology statement for approval by the Authority and gives the reasons for the decision.

Background

The IECR methodology statement describes the process by which sales of entry capacity to the NTS may be triggered from information resulting from the Quarterly System Entry Capacity (QSEC) auctions.

On 6 April 2006 NGG initiated a consultation pursuant to Special Condition C15(7)(a) and as a result are proposing a number of revisions to the IECR methodology statement. The proposed changes were to include the methodology used by NGG for calculating the investment costs for new pipelines in the IECR methodology statement and substituting references to 'Transco' to that of 'National Grid'.

On 11 May 2006, following the close of National Grid NTS's consultation on the proposed revision of the IECR methodology statement, NGG submitted the IECR annual review consultation report to Ofgem consistent with the provisions of Special Condition C15(7)(b)(i).

¹ Ofgem is the Office of the Gas and Electricity Markets Authority. The terms 'Ofgem' and 'the Authority' are used interchangeably in this letter.

² Set out in Section 4AA of the Gas Act 1986, as amended.



On 6 June 2006 Ofgem gave consent to the proposed revisions after considering the responses to the consultation process.

On 30 June 2006 NGG submitted the IECR methodology statement along with an auditor statement to the Authority in order to seek approval of the IECR methodology statement pursuant to Special Conditions C15(2) and C15(3).

Auditors' views

The auditors reviewed the model which was developed and is maintained by NGG for the purpose of calculating incremental price steps. The auditors noted no exceptions except that no baseline volumes were published in NGG's NTS Gas Transporter's Licence for the four new entry points of Burton Agnes (Caythorpe), Winkfield, Blyborough (Welton) and Tatsfield.

Ofgem's view

As noted above, Ofgem gave consent to NGG on 6 June 2006 for the revisions to the IECR methodology statement in terms of the name change from 'Transco' to that of 'National Grid' and for inclusion of the methodology used by NGG for calculating the investment costs for new pipelines.

As there are no changes to the IECR methodology statement which NGG submitted for approval on 30 June 2006, compared to the version submitted by NGG on 11 May 2006 to which Ofgem gave consent, Ofgem is still content with the IECR methodology statement.

In response to the auditors' note that no baseline volumes for the four new entry points were published Ofgem considers this to be in line with the IECR methodology statement which states that new terminals have zero baseline quantity and price steps at these will commence at an initial price of zero.

Ofgem's decision

Following consideration of the documentation provided by NGG pursuant to Special Condition C15(2) and having regard to the Authority's principal objective and statutory duties and for the reasons set out above, Ofgem has decided that it will approve the IECR methodology statement.

Any proposals to revise the IECR methodology statement which may arise outside the annual review process, as described in Special Condition C15(7), such as the consultation on setting Unit Cost Allowances (UCAs) for large new entry points³, can be made pursuant to Special Licence Condition C15(5).

If you wish to discuss any aspect of this letter, Richard Miller (telephone 0141 331 6013) would be pleased to assist.

³ For further information on this read 'Adjusting National Grid's revenue allowances when large new entry points connect to the gas transmission system' published on www.ofgem.gov.uk on 29 March 2006

Yours sincerely

A handwritten signature in black ink, appearing to read "Robert Hull". The signature is fluid and cursive, with a long horizontal stroke at the end.

Robert Hull
Director, Transmission